

# The Political Economy of Philippine Rural Development Since the 1960s\*

**Arsenio M. Balisacan**

School of Economics, University of the Philippines

**Nobuhiko Fuwa**

Agricultural Economics Department, Chiba University

**Margarita H. Debuque**

School of Economics, University of the Philippines

This paper reviews the progress of rural development in the Philippines since the 1960s, identifies major government policies that affected rural development, and explores the political economy behind such policies.

Economic development in Southeast Asia during the last few decades has generally been quite impressive compared to developing countries in other regions such as South Asia and Africa. Compared to the other two countries of this study, however, the Philippines has lagged behind Indonesia and Thailand in its efforts to improve the welfare of its people. As of 1965, for example, real per capita GDP in the Philippines (using the 1995 PPP U.S. dollars) was highest among the three countries at more than twice that of Indonesia, with Thailand closely following the Philippines (Table 1). In the late 1960s, the Philippines had the smallest share of agricultural value added in GDP among the three countries (Table 1).

Furthermore, the Philippines tended to have the best human development indicators in the early 1960s — a longer life expectancy than in Indonesia (although roughly equal to that of Thailand), the lowest infant mortality rate at almost one-half of Indonesia's rate, the highest primary school enrollment ratio, and lowest illiteracy rate among the three countries (Table 2). During the subsequent few decades, both Indonesia and Thailand not

**Table 1. Per capita GDP and agricultural share of GDP in Thailand, Indonesia, and the Philippines**

Country	Real per capita GDP (1995 PPP dollars)		Agricultural share of GDP (percent)		
	1965	1995	1960	1980	1997
Thailand	1,570	6,723	40	23	11
Indonesia	817	3,346	54	24	16
Philippines	1,736	2,475	26	25	20

Source: Ahuja et al. (1997)

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**Table 2. Human development indicators in Thailand, the Philippines, and Indonesia, 1960-1996**

Human development indicator	Thailand	Indonesia	Philippines
<i>Life expectancy at birth (years)</i>			
1962	54.0	42.5	54.5
1970	58.4	47.9	57.2
1980	63.5	54.8	61.1
1996	69.1	64.6	66.0
<i>Infant mortality rate (per 1,000 live births)</i>			
1960	95	133	76
1970	73	118	90
1980	49	90	52
1996	34	49	37
<i>Gross primary school enrollment (percent)</i>			
1960	83	71	95
1970	83	80	108
1980	99	107	112
1996	99	115	116
<i>Adult illiteracy rate</i>			
1960	32.3	61.0	28.1
1970	21.4	43.4	17.4
1980	12.0	32.7	16.7
1996	6.2	16.2	5.4

Source: World Development Indicators, World Bank.

34 only caught up to the Philippines, but surpassed the country in many aspects of economic  
 35 development. Both Indonesia and Thailand had achieved higher income growth, more  
 36 dynamic structural transformation, and much more impressive poverty reduction by the  
 37 1990s (Tables 1, 2 and 3).

38 A natural question thus arises — relative to its Southeast Asian neighbors, why did  
 39 the Philippines fail to achieve its economic development goals despite a very favorable  
 40 initial position in the 1960s? We will review the last few decades drawing primarily on  
 41 the existing literature, and will examine government policies and the economic  
 42 development process in the rural  
 43 sector (where the bulk of the nation’s  
 44 poor are found). Starting with the  
 45 next section, we will briefly review  
 46 the aggregate Philippine economy  
 47 over the last three decades, and then  
 48 focus on the rural sector by reviewing  
 49 rural development outcomes such as  
 50 agricultural production and rural  
 51 poverty. We will then discuss  
 52 government policies that had major  
 53 effects on rural development,  
 54 followed by a discussion of the  
 55 background behind such policies, and  
 56 ask why such policies were adopted

**Table 3. Agriculture and gross domestic product growth in Thailand, Indonesia, and the Philippines, 1965 to 1997**

Country	Average annual growth rate (percent)					
	Agriculture			Gross domestic product		
	1965-80	1980-90	1990-97	1965-80	1980-90	1990-97
Thailand	4.6	4.0	3.6	7.2	7.6	7.5
Indonesia	4.3	3.4	2.8	8.0	6.1	7.5
Philippines	4.6	1.0	1.9	5.9	1.0	3.3

Source: World Development Report, World Bank (various issues); Asian Development Outlook, Asian Development Bank (various issues); and Food and Agriculture Organization (FAO) of the UN

57 in the context of political processes and policymaking. Finally we will offer a summary  
58 and some conclusions.

## 59 **A Macroeconomic Overview — 1960-1997**

60 During the 1960s and the 1970s, the Philippines experienced macroeconomic growth but  
61 relatively little structural transformation compared to Thailand or Indonesia (Tables 4 and  
62 5). The aggregate real GNP grew at annual average rate of 5.4 percent, and the real per  
63 capita GNP at 2.3 percent between 1960 and 1965. Inflation averaged about 5 percent  
64 during the 1960s. While the growth rate slipped slightly during the latter half of the 1960s  
65 to 4.3 percent (aggregate GNP) and 1.1 percent (per capita GNP), economic growth in the  
66 Philippines accelerated during the 1970s. The aggregate annual GNP growth rate  
67 averaged 6 percent and per capita GNP about 3.5 percent throughout the 1970s. The  
68 average inflation rate also accelerated in the 1970s, however, averaging between 9 and 10  
69 percent. During this period, the relative importance of exports in the national economy  
70 increased, with the share of exports in GDP increasing from 12 percent in 1961 to 23  
71 percent in 1981.

72 Despite relatively high aggregate growth rates during the 1960s and 1970s that were  
73 roughly comparable to those of its Asian neighbors, unlike its neighbors, the sectoral  
74 composition of the economy changed relatively little. The share of industry in GDP  
75 increased from 27 percent in the mid-1960s to 33 percent in the early 1970s.  
76 Industrialization proceeded moderately during the 1970s, when the share of industrial  
77 GDP grew from 32 to 39 percent. Similarly, the relative importance of agriculture in the  
78 national economy changed relatively little in the Philippines compared to its neighbors.  
79 The share of agricultural GDP remained stable at 26 percent between 1961 and 1966, but  
80 it then increased to 30 percent during the late 1960s and remained at that level through  
81 the early 1970s. Subsequently, the share declined to 24 percent by the early 1980s. The

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Table 4. Aggregate economic performance in the Philippines, 1960 to 1997<sup>a</sup>

Parameter	1961	1971	1981	1991	1996
Per capita GNP (constant 1995 US\$)	723	854	1174	1043	1131
Annual GNP growth rate (%)	5.8	4.9	3.6	1.9	5.8
Per capita annual GNP growth rate (%)	2.9	1.8	1.3	-0.5	3.4
Gross domestic investment (% of GDP)	17.3	21.0	28.1	21.9	23.8
Inflation (GDP deflator)	4.9	9.6	11.6	12.5	7.1
<i>Value added by sector (% of GDP)</i>					
Agriculture	25.6	29.8	24.5	21.6	20.3
Industry	27.7	32.4	38.9	33.8	32.1
Exports of goods and services (% of GDP)	12.3	20.8	22.6	28.8	42.0
<i>Share of merchandise exports (%)</i>					
Food	N.A.	48.3	34.4	18.3	10.5
Manufactured goods	N.A.	7.9	22.6	49.7	56.6
Agricultural labor force (% of total)	63.1	57.4	51.7	45.8	N.A.

a. Three-year averages with year indicated as middle year.

Source: World Bank, World Development Indicators

83 share of the labor force in agriculture, on the other  
 84 hand, did decline steadily from 63 percent in the  
 85 early 1960s to 57 percent in the early 1970s and  
 86 further to 52 percent by the early 1980s. Changes  
 87 in the sectoral composition of exports appear to be  
 88 relatively more pronounced. The share of food  
 89 exports declined from 54 percent in the mid-1960s  
 90 to 34 percent in the early 1980s, while that of  
 91 manufacturing exports rose from 6 to 23 percent  
 92 during the same period.

93 The sustained aggregate growth in the national  
 94 income failed not only to induce structural  
 95 transformation, but also to reduce the incidence of  
 96 poverty to a significant degree during the 1960s  
 97 and 1970s. The absolute poverty rate declined  
 98 somewhat (although consistently) through the  
 99 1960s and 1970s. The headcount poverty ratio fell  
 100 from 75 percent in 1961 to 62 percent in 1971 and  
 101 60 percent in 1985. The income inequality,  
 102 already at a quite high level by international  
 103 standards, increased slightly during the early  
 104 1960s (Gini index of nationwide income  
 105 inequality increased from 0.486 in 1961 to 0.491), but declined in the latter half of the  
 106 1960s (falling to 0.478 in 1971) and then through the 1970s (falling further to 0.446 in  
 107 1985), but the rate of such decline was quite modest (Balisacan, 1993). Throughout the  
 108 period, population continued to grow consistently at a relatively high rate of 2.9 percent  
 109 between 1965 and 1980. Such a high rate of population growth appears to have  
 110 contributed to the continuous increase of unemployment, the decline in real wages, and  
 111 the decline in average farm size.

112 After the growth period during the 1960s and 1970s, the Philippines went through a  
 113 major series of political and economic crises followed by macroeconomic stabilization  
 114 measures starting in the early 1980s. The economic crisis in the early 1980s was  
 115 precipitated in the 1970s by economic growth driven by foreign debt under President  
 116 Marcos, an unsuccessful expansionary and countercyclical policy in 1979-82, and the  
 117 heightened political crisis, especially after the assassination of the opposition leader  
 118 Benigno Aquino. The crisis triggered a series of stabilization measures including sharp  
 119 devaluations, a contraction of public investment (due to reduced tax revenues and  
 120 increased interest payments), massive monetary contraction, and high interest rates (Lim  
 121 and Montes, 2000). As a result, the economy fell into a depression, with the real GNP  
 122 growth rate turning negative between 1984 and 1985 — the average annual GNP growth  
 123 rate was negative 1.7 percent on aggregate and negative 4.1 percent on per capita basis  
 124 during the first half of the 1980s.

125 The relatively brief stabilization episode in 1983-85 was followed by (an equally  
 126 short-lived) recovery during the latter half of the 1980s. With inflation under control, the  
 127 balance of payments became positive, and under the new Aquino administration, the

**Table 5. Growth of gross national product in the Philippines**

Years	Average annual GNP growth (percent)	Average annual per capita GNP growth (percent)
1960-65	5.4	2.3
1965-70	4.3	1.1
1970-75	6.1	3.2
1975-80	6.1	3.7
1980-85	-1.7	-4.1
1985-90	5.2	3.0
1990-95	2.9	0.4
1995-97	6.2	3.9
1960-70	4.9	1.7
1970-80	6.1	3.5
1980-90	1.8	-0.5
1990-97	3.8	1.4

Source: World Bank, World Development Indicators

128 severe stabilization measures were relaxed and the Philippines underwent economic  
 129 recovery. In the latter half of the 1980s, GNP growth recovered to 5 percent on aggregate  
 130 and 2.4 percent on a per capita basis. Such recovery in the Philippine economy in the late  
 131 1980s was short-lived, however. The looming debt and government assumption of the  
 132 liabilities of the private and government sectors guaranteed a quick return to tight fiscal  
 133 constraints. An increasing import demand and heavy international interest payments also  
 134 made external constraints strongly binding again. Inflation soared again, approaching 15  
 135 percent in 1990 (Lim and Montes, 2000). Both fiscal and external constraints triggered an  
 136 another episode of macro stabilization — tight monetary and fiscal policies and currency  
 137 devaluation. The economy stagnated once again with negative per capita GNP growth  
 138 from 1991 to 1993. The relatively high rate of population growth continued at 2.5 percent  
 139 during the 1980s and 2.3 percent between 1990 and 1995.

140 It looks as though the industrialization process had virtually ended by the early 1980s  
 141 in the Philippines — the share of industrial GDP declined through the 1980s and 1990s  
 142 from 39 percent in 1981 to 32 percent in 1996. The share of agricultural GDP, on the  
 143 other hand, remained stable at 24 percent during the early 1980s and then declined  
 144 slightly during the late 1980s to 22 percent by the early 1990s. As of 1996, agriculture  
 145 still accounted for 20 percent of GDP. The share of the labor force in agriculture  
 146 continued to decline very slowly throughout the 1980s, from 52 percent in 1981 to 46  
 147 percent in 1991. The structural transformation of exports also continued. The share of  
 148 food exports fell further from 34 percent in the early 1980s to 11 percent in the mid-  
 149 1990s while the share of manufacturing exports jumped from 23 to 57 percent during the  
 150 same period. Despite such transformation in the composition of exports, manufactured  
 151 exports were characterized by a low local value-added such as garments and electronics  
 152 (e. g., semiconductors). Furthermore, the pattern of agricultural trade in the Philippines  
 153 hints at a loss of the country's competitive edge, particularly in light of generally slow  
 154 growth of the agricultural sector compared to that in other Asian countries, as well as the  
 155 sluggish pace of industry and manufacturing in recent decades. The ratio of agricultural  
 156 imports to agricultural exports increased dramatically from 32 percent in the mid-1960s  
 157 to 152 percent in the late 1990s, illustrating how the farm sector has shifted from being a  
 158 net foreign exchange earner to a net importer. Noticeable declines in measures of  
 159 comparative advantage for agriculture as a whole and for all major crops accompanied  
 160 this trend (David, 1999).

161 A more salient transformation, measured by the change in the share of agriculture in  
 162 GDP, occurred in other Southeast Asian countries between 1960 and 1997. While the  
 163 share in the Philippines decreased from 26 to 20 percent, reductions in other regional  
 164 countries were more impressive — Malaysia (37 to 13 percent), Thailand (40 to 11  
 165 percent), and Indonesia (54 to 16 percent). The slow drop of agriculture's share in total  
 166 employment, together with the sluggish absorption of labor in the industrial sector,  
 167 suggests an inability of the latter to create a sufficient number of jobs. Instead, additions  
 168 to the labor force over the years were mostly in agriculture and the informal service  
 169 sector where self-employment is more common and wages more flexible. Thus, the  
 170 process has merely served to limit the growth of labor productivity and real income in  
 171 these two areas (Balisacan, 1998b).

172 After the stabilization episode of 1990-92, with balance of payment and domestic  
173 inflation under control, monetary and fiscal policies were relaxed and the economy  
174 started to recover (Lim and Montes, 2000). The per capita real GNP finally started to  
175 grow in 1994 and the average annual GNP growth rate recovered to 3.8 percent on  
176 aggregate and 1.4 percent on per capita basis between 1990 and 1997. Nevertheless, the  
177 economic crisis during the 1980s and early 1990s was severe enough so that the country's  
178 real per capita income level in 1996 was still roughly equal to its pre-crisis 1981 level.

179 The devaluation of the Thai baht in July 1997 set off the Asian currency crisis, with  
180 the Malaysian ringgit, the Philippine peso, and the Indonesian rupiah also coming under  
181 attack. The Thai baht lost one-third of its value, and the rupiah and peso lost about one-  
182 fourth of their value within several weeks (Montes, 1998). As the effects of the crisis  
183 spread through the region, the GDP growth rate in the Philippines fell from 5.2 percent in  
184 1997 to negative 0.5 percent in 1998. Compared to its Southeast Asian neighbors,  
185 however, the negative effects of the 'crisis' were much smaller in the Philippines. For  
186 example, the annual GDP growth rate for Indonesia was 4.9 percent in 1997 and negative  
187 13.7 percent in 1998, while figures for Thailand were negative 0.4 percent in 1997 and  
188 negative 8.0 percent in 1998 (Asian Development Bank, 1999).<sup>1</sup> The Philippines, with a  
189 smaller pre-crisis expansion of its financial system, suffered relatively fewer  
190 macroeconomic setbacks from the Asian crisis than did its neighbors (Montes, 1998).

191 While the 'crisis' effects largely subsided at the macroeconomic level after the initial  
192 two years, there were important distributional effects from the negative shock during the  
193 crisis that could linger for a longer period. The negative effects tended to hit the poorest  
194 groups hardest, and that one of the notable responses among poor households was to  
195 withdraw their children from school (Balisacan, 1999b). Such issues are beyond the  
196 scope of this paper; we will focus on long-term rural development in the Philippines  
197 during the 30-year period prior to the outbreak of the Asian crisis in 1997.

## 198 **Agricultural and Rural Development in the Philippines,** 199 **1965-1997**

200 This section focuses on the outcome of economic development efforts in the rural  
201 Philippines over the last three decades. Based on secondary data sources and existing  
202 literature, our discussion will cover growth in agricultural production and its sources,  
203 changes in rural poverty and income distribution, and changes in human development  
204 indicators in rural households.

### 205 ***Regional diversity***

206 Most of the discussions that follow deal with the national aggregate. It is worth noting,  
207 however, that there is great diversity in the crops that are grown, as well as the production  
208 organizations and socioeconomic structure among regions. In fact, there is a major  
209 contrast between:

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1. It should be noted, however, that the contraction in 1998 was as much the result of the El Nino phenomenon that hit the agricultural sector.

- 210 • the rice-growing ‘old-settled areas’ (such as Luzon island) where the agrarian  
 211 structure can be broadly characterized by ‘peasant agriculture’ of small and medium  
 212 farms, and
- 213 • the ‘frontier areas’ (such as Negros Occidental and Mindanao) where large-scale  
 214 plantations grow cash crops for export (such as sugar, banana, and pineapple).

215 The latter are somewhat reminiscent of the typical Latin American mode of production.<sup>2</sup>  
 216 For example, as of 1980 the average size among the rice farms and among the ‘old’ sugar  
 217 areas on Luzon island was 2-3 hectares, while the average sugar farm in Negros  
 218 Occidental was 16 hectares and pineapple farms in Bukidnon and South Cotabato (on the  
 219 island of Mindanao) were 16-18 hectares (Census of Agriculture as cited in Hayami et al.,  
 220 1990). Among the traditional export crops such as sugar and coconut, production  
 221 organization differs between the areas dominated by the peasant production with share  
 222 tenancy (e.g., Laguna, Quezon, and Bicol) and the areas dominated by plantations with  
 223 central management and hired labor (e.g., South Cotabato and Davao Oriental). Even  
 224 within Luzon island, production organization varies between ‘inner Central Luzon’ where  
 225 rice and sugar haciendas are characterized by a combination of large-scale landlordism  
 226 and share tenancy, and the ‘coastal Luzon’ areas (including Southern Tagalog) where  
 227 small and scattered peasant farms dominate and hacienda type landlordism is absent.

### 228 ***Agricultural production***

229 The agricultural sector performed quite well in aggregate during the 1960s and 1970s,  
 230 with an average annual growth rate of 4.6 percent. This rate was substantially higher than  
 231 the norm for most developing Asian countries and compared favorably with those for  
 232 Thailand and Indonesia (Table 3). Growth among the major sub-sectors, however, was  
 233 far from uniform (Table 6). For example, fishing grew the fastest, averaging 5.2 percent  
 234 during the period and accounting for about a one-fifth of total agricultural growth. Its  
 235 share in the sectoral gross valued added (GVA) rose from 12 percent in the mid-1960s to  
 236 20 percent in the 1980s (Table 7). The growth of crop GVA, averaging 3 percent per year  
 237 during the period, also emerged as outstanding by historical standards. This sub-sector  
 238 contributed about four-fifths of the observed growth of agricultural output. Exceptional  
 239 increases were achieved in production of bananas (12 percent), maize (6 percent) and  
 240 ‘other crops’ (8 percent). These items contributed 5, 8, and 40 percent, respectively, to  
 241 total agricultural growth.

242 Growth in the share of ‘other crops’ in agricultural GVA — from 15 percent in the  
 243 mid-1960s to 20 percent in the mid-1980s — was mainly from the rapid expansion of  
 244 fruit and vegetable production, as well as non-traditional exports such as pineapple and  
 245 coffee.<sup>3</sup> On the other hand, the average growth of rice, the nation’s staple crop, was not  
 246 particularly high compared to the average for the entire agriculture sector, although its  
 247 share in total crop GVA remained substantial (at about 25 percent in the early 1980s).

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2. This paragraph draws heavily on: Hayami et al., 1990, Chap. 2.

3. This is an understatement because the share of ‘other crops’ in agricultural GVA might have actually doubled because agricultural activities and services were lumped under this classification in periods prior to 1980.

248 Despite such a large share of rice in total production, increases in production contributed  
 249 a modest share of 14 percent to the growth of agriculture during the period.

250 In the 1980s and the early half of the 1990s, production growth rates for virtually all  
 251 crops decelerated — the annual average growth rate fell to 0.68 percent during the crisis  
 252 period of the 1980s, and during the 1990s, the sector grew at an annual rate of 2.2  
 253 percent. Most of the country's main crops then experienced a slight resurgence in the  
 254 latter part of the 1990s, at least prior to the slump in 1998 when agricultural output fell by

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**Table 6. Average growth rate of gross value added (GVA) in agriculture, by sector, 1965-97, percent per year<sup>a</sup>**

	1965-80	1980-90	1990-97	1980-97
Agriculture	3.7 (100)	1.2 (100)	2.0 (100)	1.5 (100)
All crops	3.0 (80.4)	0.6 (29.7)	2.2 (55.7)	1.3 (46.5)
Rice	4.0 (14.2)	2.6 (24.0)	2.9 (20.5)	2.8 (23.0)
Maize	5.7 (8.0)	3.5 (13.4)	-0.7 (-2.0)	1.8 (6.0)
Coconut	3.8 (8.8)	-4.6 (-19.4)	0.5 (0.9)	-2.5 (-7.8)
Sugarcane	4.2 (4.7)	-1.6 (-2.9)	5.8 (7.0)	1.4 (2.2)
Banana	11.8 (4.8)	-3.5 (-5.0)	3.6 (2.7)	-0.6 (-0.6)
Other crops	7.5 (39.9)	1.5 (19.6)	2.6 (26.6)	1.9 (23.7)
Poultry & livestock	2.3 (7.6)	6.0 (53.6)	5.2 (46.7)	5.7 (52.9)
Agricultural activities and services	— <sup>b</sup>	4.1 (10.1)	0.6 (1.3)	2.7 (6.3)
Fishery	5.2 (20.8)	3.9 (45.3)	1.5 (13.2)	2.9 (30.7)
Forestry	-1.5 (-8.8)	-7.8 (-38.6)	-19.0 (-16.9)	-12.4 (-36.4)

a. Figures in parentheses are contributions of the indicated crop or sector to total agricultural growth.

b. Included in 'other crops' category.

Source: Philippine Statistical Yearbook (various issues), National Statistical Coordination Board (NSCB)

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**Table 7. Crop or sector share in gross value added to agriculture, 1965-97<sup>a</sup>**

Crop or sector	1965	1975	1985	1995	1997
Agriculture	100	100	100	100	100
All crops	45	56	56	54	54
Rice	13	13	15	16	16
Maize	4	6	6	6	6
Coconut	9	9	8	4	4
Sugarcane	4	5	3	3	3
Banana	1	2	3	2	2
Other crops	15	21	20	23	24
Poultry & livestock	14	12	14	21	22
Agricultural activities and services	— <sup>b</sup>	— <sup>b</sup>	4	4	4
Fishery	12	15	20	20	19
Forestry	30	18	7	2	1

a. Three-year averages centered on year shown. Figures may not tally due to rounding.

b. Included in 'other crops' category.

Source: Philippine Statistical Yearbook (various issues), National Statistical Coordination Board (NSCB)



257 almost 6.6 percent due to the drought brought on by the El Nino phenomenon. The  
 258 country suffered a brief rice crisis in 1995 when a drought-induced shortage (which also  
 259 plagued the country's other crops) sent food prices soaring and brought inflation to  
 260 double-digit levels largely due to policy missteps.<sup>4</sup> Crop production, however, still grew  
 261 by 3.5 percent yearly from 1995 to 1997 with the biggest recoveries posted in sugar and  
 262 banana production (where real GVA expanded by 10 and 7 percent, respectively). Output  
 263 of almost all crops grew 2-4 percent during the period with the exception of coconut.  
 264 Coconut production has been in decline for over a decade, and as a result, its contribution  
 265 to total agricultural GVA has fallen from 9 percent in the 1960s and 1970s to only 4  
 266 percent in the 1990s.

267 The poultry and livestock sub-sector has emerged as the only consistent performer  
 268 through the years, growing at an average of 6 percent annually in the 1980s, and about 5  
 269 percent for most of the succeeding decade. Its strong showing contrasts with the declining  
 270 performance of fishing and the diminished role of forestry (Tables 6 and 7). The share of  
 271 poultry and livestock output in agricultural GVA climbed steadily from 14 percent in the  
 272 mid-1960s to 22 percent by 1997. This robust performance partially explains why the  
 273 growth rate of maize, which doubles as animal feed, typically exceeded that of rice until  
 274 the 1980s. The macroeconomic difficulties of the 1980s and early 1990s did not prevent  
 275 poultry and livestock from reaching respectable growth rates. Their expansion rate was  
 276 the highest rate among all agricultural sub-sectors, contributing over 50 percent in the  
 277 1980s and 1990s. Growth in poultry production (mainly chicken) accounted for much of  
 278 the progress, which could be partially explained by the relatively high nominal protection  
 279 rate induced by domestic policy.

### 280 **Sources of crop growth**

281 Increases in land productivity became the major source of growth in food production  
 282 beginning the mid-1960s. At the height of the Green Revolution, yield increases  
 283 accounted for much of the growth in agriculture. These gains were brought about mainly  
 284 by expanded irrigation systems, increased fertilizer use, adoption of high-yielding  
 285 varieties, and investments in rural infrastructure and education.

286 More than 80 percent of production growth for rice (averaging 4.0 percent annually  
 287 from 1965 to 1980) can be attributed to yield growth. Output increases narrowed  
 288 significantly in the following decades as productivity growth declined, especially in the  
 289 latter part of the 1980s. The annual rate subsequently tapered to 2.8 percent from 1980 to  
 290 1997. Major reasons for a slowdown include the continued decline of world rice prices,  
 291 stagnation of public investments in irrigation, high-yielding varieties that had reached  
 292 their production potential, and degradation of the environment from monoculture  
 293 cultivation (especially in irrigated areas), and soil erosion from rapid deforestation  
 294 (Balisacan, 1998a). Harvested area also stagnated and even fell slightly in some years due  
 295 to a series of natural calamities and shifting land out of rice production.

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4. These include the government's failure to make quick import decisions and the imposition of ill-fated price ceilings. According to Abrenica et. al. (1996), the government predicted the rice shortage, but may have delayed imports because of possible effects on an upcoming election (in May 1995).

296 The area of irrigated rice expanded at 2.6 percent yearly from the mid-1960s to the  
297 early half of the 1990s, while the rain-fed area diminished at an annual rate of 1.4 percent  
298 (Balisacan, 1998a). Irrigated area thus increasingly accounted for a greater proportion of  
299 the harvested area, rising from 33 percent in 1965 to 61 percent at the start of the 1990s.  
300 Because adoption of modern varieties and fertilizer was more rapid in irrigated areas than  
301 in rain-fed areas, yield growth tended to be faster in those areas, at least during the early  
302 stage of the Green Revolution. Irrigated areas also increasingly accounted for a greater  
303 proportion of total rice production, rising from 43 percent in the mid-1960s to 71 percent  
304 in the early 1990s.<sup>5</sup> Even with an expansion in harvested area, growth of rice output  
305 continued to decelerate well into the decade as yield increases practically stopped.

306 Production of maize, the country's other main staple, grew at similarly robust rates  
307 beginning in the mid-1960s until the late 1980s, with strong growth averaging 5.7 percent  
308 annually from 1965 to 1980, with exceptionally rapid growth in harvested area in the  
309 early 1970s. However, the area dedicated to the crop virtually stopped expanding by the  
310 next decade, leading to a slight dip in output growth. Harvested area declined drastically  
311 in the first half of the 1990s, dropping by 6.5 percent annually from 1990 to 1995. On  
312 average, the area planted to maize contracted at a rate of 1 percent yearly from 1980 to  
313 1997, although output rose by 1.8 percent.

314 The country's main traditional export crops, coconut and sugar, exhibited similar  
315 growth patterns. Coconut production grew by 3.8 percent annually from 1965 to 1980  
316 even with declines in productivity as planted area expanded.. The sector saw outstanding  
317 growth in the early 1970s when output grew by about 10 percent yearly due to significant  
318 yield increases. Output growth slowed thereafter as a result of declines in both harvested  
319 area and yield increases, although a brief recovery was staged in the second half of the  
320 1980s when production grew by over 5 percent on average as yield expanded at about 6  
321 percent annually. The area planted to coconut declined beginning in the mid-1980s.

322 Sugar production followed virtually the same pattern as that of coconut, growing  
323 rather spectacularly between 1965 and 1980, and contracting in succeeding years. Output  
324 growth similarly started plunging in the mid-1970s but recovered in the late 1980s and  
325 the succeeding decade. The area planted to the crop began declining in the mid-1970s  
326 until the late 1980s, but rebounded in the succeeding decade. Overall, from 1980 to 1997,  
327 production rose by an average of only 1 percent yearly.

328 The coconut and sugar sectors share similar histories in that they were both subject to  
329 heavy government intervention in the 1970s (export taxes, production levies, and/or  
330 export monopolies) and negatively affected by a persistent overvaluation of the local  
331 currency (Intal and Power, 1990). The two industries were deregulated in the late 1980s,  
332 and trade in sugar, a highly protected crop, was partially liberalized in the mid-1990s.

333 As we have seen, production growth rates for virtually all crops decelerated in the  
334 1980s and the early half of the 1990s. One explanation is the decline in new area brought

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5. In addition, development of irrigated areas and the widespread adoption of high-yielding varieties contributed substantially to more intensive fertilizer use in the rice sector. Fertilizer use on rice rose from an average of only 9 kg/ha NPK in 1964 to 67 in 1990. Harvested area planted to modern varieties also soared, from barely 10 percent of total harvested area in the mid-1960s to about 90 percent at the turn of the 1990s.

335 into cultivation. While agricultural land increased at an annual rate of 3.6 percent in the  
 336 1970s (brought about primarily by deforestation), the rate dipped to only 0.8 percent per  
 337 year in later decades. Other exogenous factors also contributed to the deceleration in the  
 338 1980s, including a drop in world commodity prices that affected traditional export crops,  
 339 a series of droughts and other natural calamities, and the virtual completion of the Green  
 340 Revolution by the early 1980s. In addition, however, there were policy-related factors,  
 341 including uncertainty about the Comprehensive Agrarian Reform Program (CARP) and  
 342 the sharp decline in public investments in agriculture.

## 343 Rural Poverty

344 We now turn to the patterns of rural poverty in the Philippines during the last four  
 345 decades. Measured by real per capita income or expenditures, rural families generally do  
 346 not fare as well as their urban counterparts (Table 8). Moreover, at 52 percent of the total  
 347 population, the rural sector continues to account for roughly 70 percent of national  
 348 poverty using simple head count indicators.<sup>6</sup> The agricultural population is 63 percent of  
 349 the total rural population. The agricultural population accounted for 65 percent of the  
 350 total number of poor people nationwide, and had the highest poverty headcount (60  
 351 percent) in 1997, following the usual pattern. Available data further demonstrate that  
 352 agriculture typically registered the lowest rate of poverty reduction among all the  
 353 employment sectors while accounting for a majority of the poor in the country.

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**Table 8. Rural poverty estimates based on official measurements<sup>a</sup>**

Category	1985	1988	1991	1994	1997
<i>Rural</i>					
Population share (%)	61.3	62.0	49.9	50.2	52.4
Poverty incidence (%)	56.4	52.3	55.0	53.1	51.4
No. of poor persons ('000)	18,744	18,118	17,346	17,988	19,591
Share of total poverty (%)	70.2	71.4	60.8	65.7	72.2
<i>Agriculture (urban and rural)</i>					
Population share (%)	47.4	45.5	44.5	43.3	40.1
Poverty incidence (%)	63.7	61.7	63.7	62.0	60.3
No. of poor persons ('000)	16,344	15,552	17,910	18,103	17,561
Share of total poverty (%)	61.3	61.7	62.7	66.2	64.7

a. Official methodology uses region-specific poverty lines, differentiated by urban and rural areas and current income as a broad measure of household standard of living.

Source: Authors' estimates based on the Family Income and Expenditures Surveys (various issues).

6. Other poverty measures are more sensitive to income and expenditure distributions, e.g., poverty gap index (measures depth) and distribution-sensitive Foster-Greer-Thorbecke index (measures poverty severity), but the simple headcount index is sufficient for present purposes and does not change the general direction of results and conclusions.

357 **Characteristics of the rural poor**

358 In 1997, the rural poor accounted for about three-fifths of the total poor and their average  
 359 income was about 20 percent below the poverty line, a figure that had fallen, albeit not  
 360 dramatically, over the last decade. According to past studies, poverty incidence in rural  
 361 areas has been characteristically high among those engaged in farming and fishing, while  
 362 less so for households dependent on income earned outside of agriculture. Within the  
 363 agricultural sector, among the  
 364 poorest were farm workers in  
 365 sugarcane, rice, maize, coconut, and  
 366 forestry; maize, ‘other crop’, and  
 367 coconut farmers; and fishermen  
 368 (Balisacan, 1996b). Rice producers  
 369 normally have lower average income  
 370 shortfalls and fewer members below  
 371 the poverty threshold, but they  
 372 contribute the bulk of overall poverty  
 373 in the agriculture sector by sheer  
 374 numbers. The latest estimates show  
 375 that the self-employed in agriculture  
 376 account for a sizable number of the poor in the country (Table 9). Rural dwellers  
 377 supporting themselves from their own farm-based enterprises (primarily lessees, tenants,  
 378 and small owner-cultivators) contribute about 54 percent of total poverty based on the  
 379 headcount index.

**Table 9. Poverty by class of worker, 1997**

Income source	Population share	Incidence	Share in total poverty
<i>Wage earners</i>	52.7	17.6	37.2
Agriculture	7.8	43.8	13.7
Non-agriculture	44.9	13.1	23.5
<i>Self-employed</i>	46.7	33.5	62.6
Agriculture	32.0	42.1	53.9
Non-agriculture	14.7	14.8	8.7

Source: Authors' estimates based on the 1997 Family Income and Expenditures Survey

380 While the majority still earn their livelihood through entrepreneurial activities,  
 381 increasingly more families in the overall rural population rely on wages and salaries as  
 382 well as other sources of income (Table 10). While only about 5 percent of the total rural  
 383 families depended on other  
 384 sources of income in the 1960s,  
 385 the figure jumped to 16 percent in  
 386 1997. This trend coincides with  
 387 the substantial growth of overseas  
 388 employment (mainly contract  
 389 workers) beginning in the 1970s,  
 390 which yielded substantial transfer  
 391 income to rural households. The  
 392 country's poor still tend to be  
 393 young, have large families, and be  
 394 poorly educated (Balisacan,  
 395 1999b). In the agriculture  
 396 sector in particular, poor families  
 397 are characterized by a high level  
 398 of underemployment (partly  
 399 because of the monsoon-  
 400 dependent nature of agricultural  
 401 production), inadequate access to

**Table 10. Families by main source of income, 1985 to 1997**

Category	1961	1971	1991	1997
<i>National</i>				
Total families ('000)	4,426	6,347	11,975	14,192
Main source of income (percent of total families)				
Wages and salaries	36.0	43.0	44.1	47.9
Entrepreneurial activities	58.0	51.0	38.9	34.7
Other sources	5.9	6.0	17.0	17.5
<i>Rural</i>				
Total families ('000)	2,921	4,434	6,037	7,442
Main source of income (percent of total families)				
Wages and salaries	26.0	33.1	34.1	38.3
Entrepreneurial activities	68.7	61.7	50.2	45.3
Other sources	5.3	5.2	15.7	16.4

Source: Authors' estimates based on the Family Income and Expenditure Surveys (various issues)

402 or use of modern technology (mainly because of lack of credit), and weak access to social  
 403 services, including healthcare and family planning (Balisacan, 1996b). For the large  
 404 number of poor owner-cultivator farmers, farms are typically small and located in  
 405 unfavorable areas (for example, outside of irrigated areas).

406 Rural poverty is common in areas where agricultural productivity is typically low and  
 407 where droughts and typhoons occur frequently, such as the Bicol region and Eastern  
 408 Visayas. In these areas, rural non-farm employment, apart from transfers, forms an  
 409 important source of supplementary household income. In such cases, the poor are  
 410 concentrated in traditional industries with low skills and capital requirements and very  
 411 low labor productivity. Moreover, the pressure from brisk growth of the labor force in  
 412 rural areas (nearly 3 percent on average over the past three decades) has led to a decline  
 413 in real wages, especially for unskilled workers (Balisacan, 1996b). In areas such as  
 414 Central Luzon where growth of agricultural productivity is high, the substantial growth of  
 415 non-farm employment has slowed the decrease in real wages.

#### 416 ***Regional profiles of income poverty***

417 Poverty also varies considerably regionally.<sup>7</sup> Metro Manila accounted for about 14  
 418 percent of the population, had the lowest poverty level, and contributed merely 2 percent  
 419 of national poverty in 1997. On the other hand, Mindanao, the Visayas, and Bicol  
 420 contributed about 70 percent of national poverty. The latest statistical surveys identify  
 421 Eastern Visayas, Bicol, Western Mindanao, Central Visayas, and Central Mindanao (in  
 422 that order), which are agriculture-dependent provinces, as having the highest poverty  
 423 levels among all the regions.

#### 424 ***Rural poverty trends over time***

425 Table 11 summarizes estimated rural poverty measures<sup>8</sup> at various points between 1961  
 426 and 1991 based on the Family Income and Expenditures Surveys (FIES). Table 12  
 427 similarly shows estimates of changes in the welfare levels of the rural population using  
 428 the Labor Force Survey (LFS) conducted during the late 1970s and early 1980s, years not  
 429 adequately covered by FIES but which are nevertheless important for present purposes.  
 430 Table 13, meanwhile, compares poverty estimates between 1985 and 1997 using  
 431 alternative poverty lines including both the ‘official poverty lines’ as well as the  
 432 alternative approach using absolute cost-of-basic-needs (CBN) lines, which we refer to as  
 433 the ‘preferred’ approach.<sup>9</sup>

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7. While this paper would prefer to focus on poverty measures in the rural sector of the various regions of the country, such estimates present comparability problems similar to the discussion in Appendix I.
  8. Because definitions of ‘rural areas’ changed frequently among different rounds of FIES, we report here changes in rural poverty using both official definitions of rural areas (which changed over time) and rural areas as fixed physical areas identified as ‘rural’ by the 1970 population census (i.e., controlling for the problem of ‘shifting physical areas’ in the official definitions).
  9. The preferred approach differs from the official one in three ways: (a) it makes use of current consumption or expenditures rather than current income as the broad indicator of household/individual welfare; (b) it imposes consistency in the construction of absolute

**Table 11. Rural poverty, FIES and fixed physical areas, 1961-1991 (percent, except t-ratios)<sup>a</sup>**

	1961	1965	1971	1985	1988	1991
<i>FIES rural areas</i>						
Population share	64.5	68.7	69.6	61.4	62.1	50.4
Incidence	64.1	55.2 (-6.50)	57.3 (1.69)	59.4 (2.75)	50.2 (-12.46)	52.4 (2.48)
Depth	30.4	26.2 (-5.08)	27.1 (1.20)	23.5 (-8.05)	18.6 (-13.31)	19.0 (1.00)
Severity	18.0	16.1 (-2.97)	16.4 (0.46)	12.2 (-12.33)	9.0 (-12.53)	9.0 (-0.07)
<i>Fixed physical areas</i>						
Population share	68.5	68.4	68.0	65.3	64.6	64.2
Incidence	60.3	55.5 (-3.50)	58.7 (2.54)	55.9 (-3.51)	48.3 (-10.29)	41.1 (-8.07)
Depth	28.6	26.3 (-2.78)	27.7 (1.86)	22.1 (-12.64)	17.9 (-11.59)	14.9 (-7.29)
Severity	17.0	16.2 (-1.26)	16.7 (0.96)	11.5 (-15.70)	8.7 (-11.25)	7.1 (-6.16)

a. Figures in parentheses are t-ratios for poverty difference between the year indicated and preceding year. The test is based on Kakwani's (1990) methodology. Critical t-value at 5% significance level is 1.96; 1% level, 2.58. This table applies poverty lines estimated by the National Statistical Coordination Board for 1988 with real values held fixed for the period under study .

Source: Authors' estimates based on the Family Income and Expenditures Surveys (various issues).

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**Table 12. Rural poverty, labor force survey data, 1977-1983 (percent, except t-ratios)<sup>a</sup>**

	1977	1978	1980	1981	1982	1983
Incidence	56.2	55.7 (-0.65)	48.6 (-10.90)	49.4 (1.62)	57.1 (15.08)	60.6 (7.06)
Depth	28.1	28.4 (0.80)	24.3 (-12.40)	24.7 (1.60)	28.5 (15.10)	30.3 (7.08)
Severity	14.0	14.5 (2.51)	12.1 (-14.23)	12.4 (1.64)	14.3 (15.09)	15.2 (7.08)

a. No data available for 1979. Figures in parentheses are t-ratios for poverty difference between the year indicated and the preceding year. The test us based on Kakwani's (1990) methodology. Critical t-value at 5% significance level is 1.96; 1% level, 2.58. This table applies poverty lines estimated by the National Statistical Coordination Board for 1988 with real values held fixed for the period under study .

Source: Authors' estimates based on the Integrated Survey of Households Bulletin: Labor Force Survey, National Statistics Office (various issues).

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Figures 1 and 2 summarize long-term poverty trends. Before discussing poverty trends during the past four decades in the rural Philippines, we should note the severe limitations imposed by the available data. As noted above, the poverty data for the period between 1977 and 1983 (LFS) and those for all other data years (FIES) derive from different sources, meaning that income levels captured by different data collection instruments are not directly comparable. Furthermore, the poverty lines used for FIES and LFS data are not the same. For these reasons, the estimated poverty incidence levels from FIES and LFS are not necessarily comparable. Unfortunately, there is no data series on poverty in the Philippines that is comparable over the entire four decades. In the absence of such data, we will attempt to interpret poverty trends using all available data, but being mindful of the severe limitations to such an exercise.

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poverty lines to track progress in the reduction/increase in absolute poverty, and (c) it fixes the standard of living used for provincial comparison (although not the composition of goods) and does not depend on a food consumption survey (for food menu construction) independent of the household expenditure survey used to identify household welfare levels.

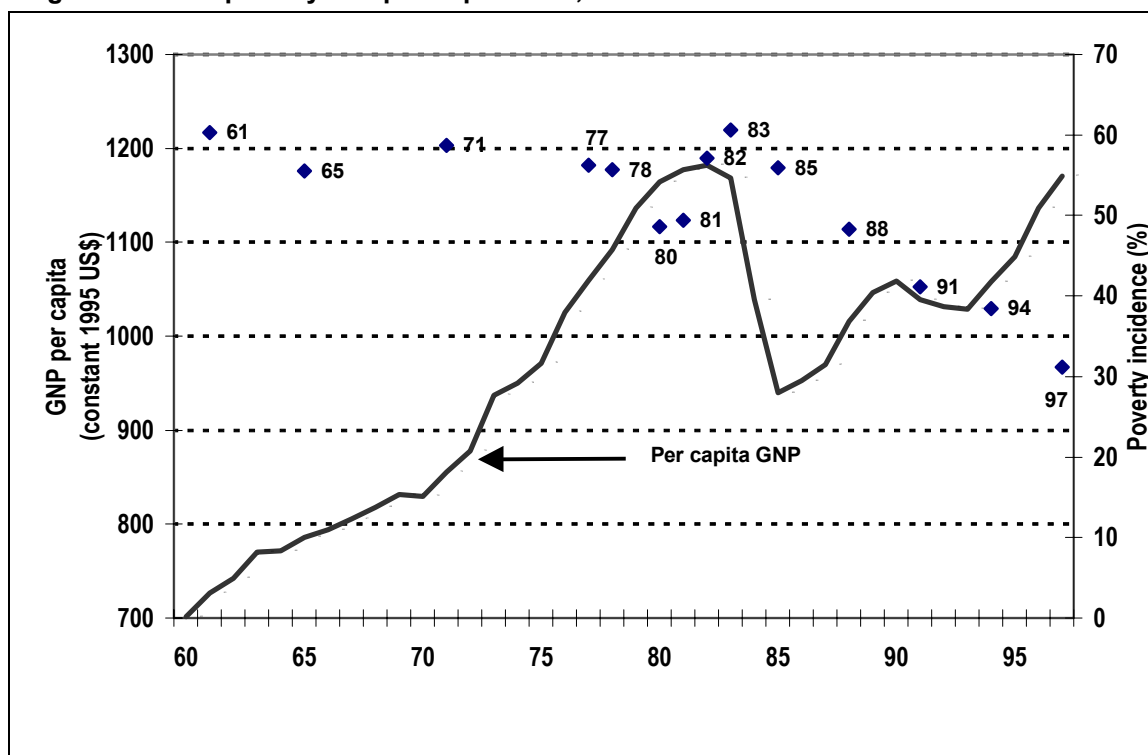
Table 13. Poverty estimates using official and preferred approaches, 1985-1997

Grouping and year	Population share	Poverty incidence		Share of total poverty	
		Official approach	Preferred approach	Official approach	Preferred approach
Philippines					
1985	100.0	49.2	40.9	100.0	100.0
1988	100.0	45.4	34.4	100.0	100.0
1991	100.0	45.2	34.3	100.0	100.0
1994	100.0	40.6	32.1	100.0	100.0
1997	100.0	37.4	25.0	100.0	100.0
Urban					
1985	38.7	37.8	21.7	29.8	20.5
1988	38.0	34.2	16.0	28.6	17.7
1991	50.1	35.4	20.1	39.2	29.4
1994	49.8	28.0	18.6	34.3	28.9
1997	47.6	21.9	11.9	27.8	22.6
Rural					
1985	61.3	56.4	53.1	70.2	79.5
1988	62.0	52.3	45.7	71.4	82.3
1991	49.9	55.0	48.6	60.8	70.6
1994	50.2	53.1	45.4	65.7	71.1
1997	52.4	51.4	36.9	72.2	77.4

Source: Authors' estimates based on the Family Income and Expenditures Surveys (various issues).

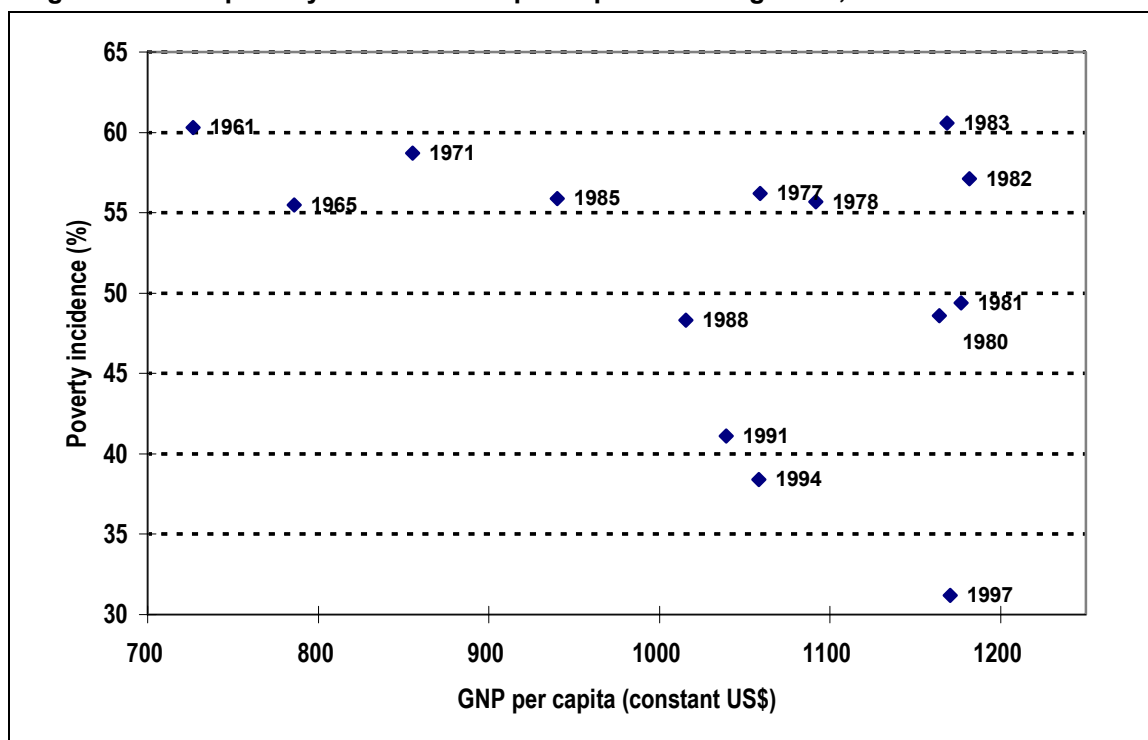
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Figure 1. Rural poverty and per-capita GNP, 1961-97\*



Source: FIES and LFS data

Figure 2. Rural poverty incidence and per-capita income growth, 1985-97



Source: FIES and LFS data

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449 After a notable decline during the first half of the 1960s, rural poverty remained  
 450 relatively stable at between 55 and 60 percent until 1978 (Figs. 1 and 2), which suggests  
 451 that despite the respectable performance of national income growth, the level of poverty  
 452 was hardly affected. Furthermore, poverty in rural areas was also relatively insensitive to  
 453 the aggregate growth in agriculture during most of the 1960s (with the possible exception  
 454 of the early 1960s when there was a significant reduction in poverty) through the late  
 455 1970s (Ranis and Stewart, 1993; Balisacan, 1993; Bautista and Lamberte, 1996). The  
 456 poverty estimates based on LFS data show that headcount poverty did finally fall sharply  
 457 between 1978 and 1980, but rural poverty increased rapidly again between 1980 and  
 458 1983 during the early period of the economic and political crises of the 1980s.

459 While rural poverty did finally decline rapidly between 1978 and 1980, the seeming  
 460 insensitivity of poverty reduction to economic growth from the mid-1960s until the late  
 461 1970s appears to be an anomaly, given the commonly observed pattern in developing  
 462 countries where agricultural growth serves as a powerful stimulus to increase rural  
 463 employment and income. In many developing countries where rapid agricultural  
 464 expansion occurred (e.g., Bangladesh, Colombia, Costa Rica, and the Punjab of India),  
 465 relatively strong farm and non-farm links induced increases in rural real wages,  
 466 reductions in rural poverty, and to some extent, a more egalitarian distribution of income.  
 467 The rural areas in the Philippines have a higher incidence of landlessness compared to its  
 468 Southeast Asian neighbors from a combination a plantation sector growing tropical cash  
 469 crops and the high incidence of tenancy within the peasant sector. Such characteristics, as  
 470 Hayami (this volume) argues, appear to be deeply rooted in both the ecological



471 conditions of the country and policy development during the colonial period.  
 472 Furthermore, there are numerous village level studies suggesting a rapid increase in the  
 473 proportion of landless households in the rural Philippines during the 1960s and 1970s  
 474 (Kirkvliet, 1990; Hayami and Kikuchi, 2000; Fuwa, 1999; Umehara, 1992).<sup>10</sup> Given a  
 475 high inequality in the distribution of land holdings and the increasing proportion of  
 476 landless population in rural areas, it is no surprise that even the substantial growth in  
 477 aggregate agricultural production barely benefited the rural poor.

478 Herdt (1987) and others have argued that the adoption of modern technologies in the  
 479 1960s and early 1970s tended to be initially concentrated among large-scale farmers, with  
 480 small-scale farmers catching up in later years. Finally, some observers have pointed out  
 481 that various policy measures during the period — including pricing and infrastructure  
 482 policies, foreign trade and payment restrictions, a low interest rate policy, and effective  
 483 credit rationing — tended to be biased against small- and medium-scale non-farm  
 484 enterprises in rural areas, weakening the response of the rural economy to agricultural  
 485 growth. (Balisacan, 1998a)

486 The LFS data show that rural poverty increased significantly during the period  
 487 between 1980 and 1983. This period signaled the beginning of the extreme economic  
 488 difficulty for the country precipitated by unfavorable domestic and global events  
 489 (political turmoil, current account and fiscal deficits, escalation of foreign debt amid an  
 490 emerging global debt crisis, and a second world oil price shock), which necessitated  
 491 severe economic stabilization measures. GDP contracted by over 7 percent in 1984 and  
 492 1985 which, until today, remains as the country's worst post-war performance.

493 The trends over time in both per-capita GNP and headcount poverty (Figs. 1 and 2)  
 494 suggest a notable shift in the responsiveness of poverty reduction to aggregate economic  
 495 growth around the mid-1980s. It appears that poverty reduction became somewhat more  
 496 sensitive to economic growth after the mid-1980s. Based on the FIES data, headcount  
 497 poverty declined rapidly from 53 percent in 1985 to 37 percent in 1997.<sup>11</sup> Both the very  
 498 sharp increase in poverty in the early 1980s in response to the economic crises and the  
 499 rapid poverty reduction in the 1990s (as well as between 1978 and 1980) are in contrast  
 500 to the relative stability in the level of rural poverty between the mid-1960s and the late  
 501 1970s, despite the sustained growth in national income and agricultural production.

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10. For example, in the Laguna village studied by Hayami and Kikuchi (2000) the share of 'agricultural laborer' households increased from 30 percent in 1966 to 61 percent in 1997.

11. In fact, the direction of change in rural poverty levels between 1988 and 1991 requires a closer examination given conflicting results depending on the definition of rural areas (Table 11). Rural poverty levels, as measured by headcount, worsened significantly during the period if the physical area of the rural sector is allowed to change in accordance with the shifting official definition of rural areas, although there was no significant change if poverty was measured by alternative poverty indices. In contrast, the same data show that rural poverty declined between 1988 and 1991 if poverty estimates were based on population distributions using the physically fixed rural areas (i.e., rural villages as defined under the 1970 census). The discrepancy arises mainly from 'shifting of physical areas' as rural villages become urbanized due to a rise in population and/or greater economic activity leading to the decline in poverty in fixed areas. The sharp contrast in the direction of rural poverty changes between poverty estimates apparently highlights the scale of this phenomenon (i.e., urbanization) during the period (see Appendix I).

502 We need to be quite careful in interpreting these data, however, because poverty  
503 estimates obtained from different data sources that are not necessarily comparable were  
504 combined. For example, there is a possibility that the estimated poverty levels based on  
505 the Labor Force Survey tend to be overestimated compared to those based on FIES. If  
506 this is the case, then the poverty rates comparable to the FIES estimates between 1977  
507 and 1983 might have been lower than as indicated in Figure 1, which in turn would mean  
508 that there was a significant decline in rural poverty in response to economic growth  
509 during the 1970s through the beginning of the 1980s. Such a scenario cannot be ruled out.  
510 On the other hand, there have been studies which argue that poverty remained unchanged  
511 or even worsened during the 1970s (ILO, 1974; Boyce, 1993). Given the absence of a  
512 consistent data series on poverty that is comparable throughout the 1970s and 1980s, it is  
513 very difficult to draw a definitive conclusion about whether and to what extent there was  
514 poverty reduction in the Philippines in response to aggregate growth during the 1970s  
515 through the early 1980s. Nevertheless, it is possible to conclude that poverty reduction  
516 was relatively more responsive to economic growth after the mid-1980s than during the  
517 1960s (and possibly the 1970s).

518 Based on their case study of a village in Laguna province, Hayami and Kikuchi  
519 (2000) argue that increase in income for the rural poor resulted from increased non-farm  
520 employment. The increase in non-farm income for the rural poor, in turn, resulted from  
521 both greater integration of rural into urban labor markets and the increase in non-farm  
522 income opportunities within rural areas (such as petty trading and local transportation  
523 services). In a larger context, the reduction of rural poverty arising from increased non-  
524 farm income opportunities for the poor can be seen as a part of widening industrialization  
525 that started in the mid-1980s in Southeast Asia where foreign direct investments moved  
526 toward lower wage countries (Hayami and Kikuchi, 2000).

527 In addition, as we will discuss later, substantial deregulation of agricultural markets,  
528 particularly in coconuts, sugarcane, and to some extent grains, was introduced during the  
529 early Aquino period. Some observers have thus noted that the significant reduction in  
530 rural poverty after the mid-1980s seems to suggest that policy measures for deregulation  
531 likely benefited small-scale farmers as well.

532 In sum, despite some fluctuations in the poverty level over relatively short horizons,  
533 there has clearly been a consistent trend in poverty reduction in rural areas after the mid-  
534 1980s. Overall, however, the pace of poverty reduction during the past four decades in  
535 the Philippines is a disappointment compared to poverty reduction in neighboring Asian  
536 countries. Using the internationally comparable ‘\$1 a day’ poverty line used by the World  
537 Bank, for example, headcount poverty at the national aggregate fell by 10 percentage  
538 points from 36 to 26 percent between 1975 and 1995 in the Philippines. During the same  
539 period, poverty reduction was far more impressive in Indonesia, where headcount poverty  
540 dropped from 64 percent to 11 percent and in Thailand where poverty fell from 8 percent  
541 to near zero (Table 1).

#### 542 **Non-income dimensions of rural poverty**

543 Changes in the welfare level of the rural population cannot be captured solely by changes  
544 in income and consumption. Equally important are access to the resources needed for the  
545 opportunity to lead a long and healthy life, and the ability to acquire and use knowledge.

546 Considerable improvement in life expectancy, literacy, and child health occurred between  
 547 the early 1960s and the 1980s, but as with income growth, these achievements paled in  
 548 comparison to those of neighboring Thailand and Indonesia (Table 2). The average  
 549 annual changes in these indicators outpaced those for the Philippines, although some  
 550 improvement occurred in the 1990s.

551 A little more than one-half of the entire rural population in the Philippines had access  
 552 to safe water and sanitation services in  
 553 the 1980s, but this situation  
 554 substantially improved by the next  
 555 decade (Table 14). The same is true  
 556 for access to sanitation services,  
 557 although the progress has not been as  
 558 distinct. Rural-urban disparities in  
 559 access to services have also narrowed  
 560 somewhat over time. Access to safe  
 561 water used to be available to a greater  
 562 proportion of the rural population than  
 563 it was for the urban population, while  
 564 the opposite was true for sanitation  
 565 services. Despite such developments,  
 566 however, rural households still have  
 567 much less access to sanitation  
 568 services.

569 From an international perspective,  
 570 a relatively large percentage of the  
 571 rural population in the Philippines has  
 572 access to basic services. On average,  
 573 only about 60 percent of rural  
 574 populations in developing Asia have  
 575 access to safe water. For sanitation  
 576 services, the corresponding figure is  
 577 even lower at slightly less than 40  
 578 percent.<sup>12</sup>

**Table 14. Access to water and sanitation, 1985 to 1993**

Parameter	Thailand	Indonesia	Philippines
Rural population (%)	78	73	62
<i>Rural population with access to services (%)</i>			
Water			
1985-1987	66	36	54
1988-1993	72	43	79
Sanitation			
1985-1987	46	38	56
1988-1993	72	36	62
<i>Urban population with access to services (%)</i>			
Water			
1985-1987	56	43	49
1988-1993	87	68	85
Sanitation			
1985-1987	78	33	83
1988-1993	80	64	79
<i>Rural-urban disparity (parity = 100)</i>			
Water			
1985-1987	118	84	110
1988-1993	83	63	93
Sanitation			
1985-1987	59	115	67
1988-1993	90	56	78

Source: UNDP, FAO database

## 579 **Government Policies Affecting Rural Development**

580 In this section we will review the evolution of government policies over the last four  
 581 decades. Instead of attempting a comprehensive review of different aspects of economic  
 582 policies, we will primarily focus on the policy measures that likely had major effects on  
 583 rural development, especially agricultural growth and rural poverty reduction. Given their  
 584 major effects on rural poverty, we will start with a discussion of development strategies  
 585 and economy-wide policies, and then look at agricultural policies and other policy  
 586 instruments that directly focus on rural areas.

12. These figures must of course be taken with extreme caution given the low quality of available data in many developing countries, including the Philippines.

587 The Philippines long maintained a development strategy oriented toward import  
588 substitution that heavily protected the industrial sector. Such industrial protection  
589 policies, however, tend to raise the price of protected industrial products relative to the  
590 price of agricultural products, and consequently, hinder agricultural and rural  
591 development. It is now widely accepted that depression of agricultural prices through  
592 industrial protection had major negative effects on the growth of agricultural production  
593 and thus rural development in many developing countries (Krueger, Schiff, and Valdez,  
594 1988). In the case of the Philippines, such negative ‘indirect protection’ against  
595 agriculture remained much larger in magnitude than the negative ‘direct protection’  
596 aimed at the agriculture sector. Furthermore, import substitution policies also encouraged  
597 capital intensive, rather than labor intensive, patterns of industrialization, thereby limiting  
598 absorptive capacity of the industrial sector for labor, and thus seriously hampering  
599 poverty reduction effects of industrialization and economic growth.

### 600 ***Development strategies and macroeconomic policies***

601 The Philippines failed to grow robustly on a sustainable basis and reduce poverty during  
602 the last half century because there was no ‘effective allocation mechanism’ that allowed  
603 the true comparative advantage of various industries to emerge (Bautista and Lamberte,  
604 1996; Power and Sicut, 1971; Bautista et al., 1979; Medalla, 1990). Instead, past  
605 governments introduced distortions in economic policies, which, in not a few cases, made  
606 socially undesirable investments attractive to private investors and desirable ones (i.e.,  
607 promising and efficient activities) relatively unprofitable (Power and Sicut, 1971;  
608 Bautista et al, 1979; Medalla et al, 1995). Such policies not only hampered economic  
609 growth at the national aggregate level, but also produced side effects deleterious to rural  
610 development. From the 1950s to the 1980s, an array of policies meant to push the country  
611 toward import substitution industrialization inadvertently stunted the development of the  
612 rural sector by creating a bias towards large-scale, capital-intensive manufacturing  
613 industries located in urban areas (especially Metro Manila). These policies were  
614 detrimental to rural enterprises that are inherently smaller, hire more labor, and make  
615 greater use of local materials (Medalla et al, 1995; Ranis and Stewart, 1987).

616 These policies also created an incentive structure that was significantly biased against  
617 agriculture — the economic backbone of the rural sector. Trade and exchange rate  
618 policies then distorted the relative prices of agricultural inputs and products, preventing  
619 efficient resource allocation, and tended to heavily favor the manufacturing sector over  
620 agriculture, non-tradable over tradable goods, and import-competing over export  
621 products. In the long run, resources moved away from agriculture and export sectors and  
622 new investment in these sectors was discouraged. Because agricultural production is  
623 more labor-intensive, less import-dependent, and more efficient in earning (or saving)  
624 foreign exchange than industrial production, the premature shift of resources away from  
625 agriculture dampened employment and product growth in rural areas.

626 The bias did not come largely from measures aimed directly at agricultural  
627 commodities, although government interventions in the form of taxes, customs duties,  
628 subsidies, quantitative trade restrictions, import prohibitions, price controls, and  
629 monopoly control in international trade had, up until the late 1980s and mid-1990s,  
630 affected agricultural incentives. It was rather the *indirect* effect of the overall

631 development strategy that accounted for a substantial part of the policy bias in the past  
632 (Intal and Power, 1990; Bautista, 1987; David, 1983). The primary channel had been an  
633 overvalued domestic currency traced to the industrial protection system and fiscal,  
634 monetary, and exchange rate policies, specifically those adopted to promote import  
635 substitution and accommodate current account imbalances.

### 636 **Marcos administration — 1965-1986**

637 By 1965, the Philippines had already been using an import substitution policy for  
638 industrialization for 15 years, characterized by a protective tariff system and an incentive  
639 scheme that favored (mostly capital-intensive) manufacturing at the expense of  
640 agriculture and exports. Under President Ferdinand Marcos, the government implemented  
641 the Investment Incentives Act of 1967, which provided a comprehensive approach to  
642 industrial development and created the Board of Investments (BOI). This law empowered  
643 the BOI to determine the preferred areas of investments and administer granting  
644 incentives — mainly tax exemptions and tax credits — to BOI-registered firms. The  
645 incentive scheme, however, remained strongly biased in favor of import-substituting  
646 firms, particularly in capital-intensive manufacturing. By the 1970s, strong efforts were  
647 made to adopt an outward-looking development policy such as a flexible exchange rate  
648 (partly in response to the foreign exchange crisis of late 1969) and broadening fiscal  
649 incentives granted to preferred firms through the Export Incentives Act of the same  
650 year.<sup>13</sup> Coupled with a (partial) peso devaluation, these fiscal incentives partly offset the  
651 anti-export bias of the country's protection system.

652 Nevertheless, these measures failed to substantially affect the structure of the  
653 economy. Despite the various laws providing fiscal incentives to the export sector, the  
654 industrial protection system still highly favored industrial consumer goods over capital  
655 goods and penalized export production relative to the other industries (Medalla et al,  
656 1995; Tan, 1979). The large nominal devaluation in 1970 and the subsequent (managed)  
657 floating of the peso also did not correct for overvaluation of the local currency. Intal and  
658 Power (1990) estimated the average overvaluation at 24 percent in 1970-74 and 32  
659 percent in 1975-79, which were higher than those derived for Thailand (16 and 24  
660 respectively), and Malaysia (2 and 0.4 percent) using the same estimating method  
661 (Medalla et al, 1995; Bautista, 1990).

662 As a result of continuing policies geared toward import-substitution industrialization,  
663 relative agricultural prices continued to be depressed, likely hampering agricultural  
664 development. While the agriculture sector recorded respectable growth during this period,  
665 such growth might have been even higher had it not been for the bias against agriculture  
666 in the pricing system. Without the policy bias against labor-intensive industries as a result  
667 of import substitution strategies that favored capital intensive industrialization, economic  
668 growth could have been more successful at reducing poverty in rural areas by employing  
669 more people in the industrial sector.

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13. Designed to complement the Investment Incentives Act of 1967, this law entitled BOI-registered firms with various kinds of tax exemptions (including exemptions from export taxes), deductions (of export revenues) from taxable income, and tax credits on raw materials used in export production. The combination of these benefits became a tax subsidy of about 15 percent of input value or a 5-16 percent increase in the rate of return for projects (Tan, 1979).

670 Several policy developments that can be considered either transitional or emergency  
671 measures marked the early 1980s. The pressure for reforms came from a confluence of  
672 factors, including the oil shock of 1979-80, the deep recession in the country's trading  
673 partners, the emerging global debt crisis that capped off with a debt moratorium in 1983,  
674 interest rates soaring to new heights, the sharp fall in the country's external terms of  
675 trade, and domestic political instability. Also as a result of these factors, the rural poverty  
676 situation worsened significantly in the early 1980s (Table 11), potentially contributing to  
677 the further deterioration in political stability. The Marcos government, in response to  
678 such pressures and with financial and technical support from the World Bank, initiated  
679 structural adjustments in the early 1980s that included rationalizing fiscal incentives,  
680 restructuring the tariff system, liberalizing imports and finances, and adjusting exchange  
681 rates.<sup>14</sup> The reforms had to be cut short, however, due to the external debt-related foreign  
682 exchange crisis in 1983. Deregulation measures would have been accompanied by import  
683 liberalization and agricultural pricing reform, but short-term considerations arising from  
684 the balance-of-payments (BOP) crisis that erupted in the latter part of 1983 led to a return  
685 of import and foreign exchange controls. These controls also rendered the ongoing tariff  
686 reform ineffective.

687 Given the situation, the government had to undertake a stabilization program,  
688 including fiscal and monetary restraints and devaluing the domestic currency. This meant  
689 a sharp fall in economic activity, particularly in the import-dependent manufacturing  
690 sector and overall government spending. The fall in government spending was  
691 proportionately greater for economic (particularly agriculture) and social services,  
692 thereby most severely affecting low-income households whose welfare depended on  
693 these services. Inflation also reached its highest post-war level (50 percent in 1984),  
694 which had the worst effect on fixed income, low-paid, blue-collar workers and landless  
695 rural farmers.

#### 696 **Aquino administration — 1986-1992**

697 The departure of the Marcos government from the political scene in 1986 presented the  
698 newly instituted Aquino government with an opportunity to undertake deep economic  
699 reforms. Given the economic and political circumstances at the time, the pronounced  
700 strategy of the Aquino government was designed to signal a complete break from the  
701 distortionary policies of the past with liberalization, privatization, and decentralization as  
702 the key elements. In essence, the reform package of the new government was a  
703 continuation of economic reforms initiated in the early 1980s that were postponed  
704 because of the crisis.

705 The Aquino government made greater headway in the import liberalization program  
706 that had failed to take off under the previous administration as the economy collapsed in  
707 the mid-1980s (Alburo, 1993). Non-tariff barriers and import quotas were removed,  
708 especially in the critical years of 1986 to 1988. The coverage of non-tariff measures in all

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14. The Investment Incentive Act of 1983 changed the character of BOI incentives from one that was predominantly capital-biased to one that depended more on performance. The 1981-85 tariff reform program reduced the spread of statutory rates from 0-100 percent to 10-50 percent. About 31 percent of the number of import items banned or requiring 'prior approval' by the Central Bank and other government agencies were liberalized.

709 sectors of the economy fell from 33 percent (of total product categories) in 1984 to a  
710 mere 8 percent in 1990 (Medalla, 1992). Reductions in the indicators of the extent of  
711 quantitative restrictions were substantial for the agriculture, fishing, and forestry sectors  
712 (from a coverage of 31 percent in 1984 to 5 percent in 1990) as well as the manufacturing  
713 sector (from 33 percent to 8 percent during the same period).

714 Although there had been some success in attempts to liberalize the economy, these  
715 left much to be desired. The continued failure to match ongoing liberalization efforts with  
716 appropriate macroeconomic policies was considered a serious flaw (Alburo, 1993). The  
717 exchange rate, which remained overvalued by over 20 percent, barely adjusted to trade  
718 policy requirements to prevent a dilution of the new policy's efficacy. Moreover, trade  
719 reforms of the early 1990s might have brought down the overall protection level of the  
720 economy, but studies later showed that these were not enough to completely remove the  
721 bias of the trade regime that continued to confer greater protection to import-competing  
722 rather than to export activities (Tan, 1994).

723 Furthermore, apart from the limited structural effects of the trade liberalization  
724 program, the industrial incentive scheme hardly improved as the Aquino administration  
725 opted to grant perks to favored firms and industries. The new industrial policy indeed  
726 proved even worse than that of the latter years of Marcos (Lim, 1996). Under the new  
727 investments code, fiscal incentives were to be given only to enterprises listed in the  
728 Investments Priorities Plan (IPP) or those exporting at least half of their output. While  
729 policy guidelines introduced some degree of neutrality between exporters and non-  
730 exporters, it tended to encourage capital-intensive over labor-intensive production  
731 because tax holidays and duty exemptions significantly brought down user costs (Medalla  
732 et al., 1995; Manasan, 1990). As a result, the Marcos-era policy bias against agricultural  
733 growth and poverty reduction in rural areas still continued, although to a somewhat lesser  
734 degree.

735 The Aquino government also undertook substantial fiscal reforms during its term. It  
736 immediately removed export taxes on all items except logs by July 1986 and issued  
737 several executive orders to launch its tax reform program. Vast improvements were made  
738 in direct and indirect taxation, especially in terms of simplifying the income tax system,  
739 unifying corporate taxes, applying a single ad valorem system, and enhancing revenue  
740 collection through a value-added system. According to some critics, however, the  
741 nation's tax system could have been substantially strengthened had the government been  
742 able to introduce property taxes, which it was not able to do (Montes, 1991). The focus  
743 on decentralization, meanwhile, sharpened in 1991 when Congress passed a law  
744 devolving the functions of government — mainly in social services and infrastructure  
745 development — to local government units.

746 Financial liberalization proceeded gradually from 1986 to 1992 as the Aquino  
747 government first had to grapple with a badly weakened financial system (Paderanga,  
748 1996). It was only in 1990 that monetary authorities lifted the freeze on the entry of new  
749 domestic banks and in 1991 that bank branching was liberalized. Foreign exchange  
750 transactions were partially liberalized in 1991 when the central bank lifted the 100  
751 percent surrender requirement and allowed foreign exchange earners to retain at most 2  
752 percent of their holdings in foreign currency (although with certain restrictions on use).  
753 Monetary authorities raised this retention limit to 40 percent in January 1992, allowing

754 unrestricted use of foreign exchange holdings by April. The intention was to abolish  
755 foreign exchange controls by December that year, but the succeeding government fast-  
756 tracked the plan and pushed through full liberalization in August 1992 — four months  
757 earlier than scheduled.

758 **Ramos administration — 1992-1998**

759 The Ramos government came to power during an economic recession due to an energy  
760 crisis and high interest rates that stifled local production. The first order of the day was to  
761 deal with the severe power shortage and continue to manage growing macroeconomic  
762 imbalances. The new administration, with a strong intention to continue the structural  
763 changes initiated during the previous two governments, was able to fast track at least one  
764 reform in its initial year — full liberalization of foreign exchange transactions. In  
765 addition, inroads were made in the tariff reform program with several executive orders in  
766 the mid-1990s that further reduced tariffs. These tariff cuts were scheduled to be phased  
767 out over a period of 10 years toward a uniform tariff level of 5 percent by 2004. The  
768 target was the same for agricultural products, a number of which were still subject to  
769 quantitative restrictions. The progress in trade liberalization owed much to the country's  
770 entry into various free trade agreements such as through the Asean Free Trade Agreement  
771 (AFTA), the World Trade Organization (WTO), and the Asia-Pacific Economic  
772 Cooperation (APEC). The conversion of all quantitative restrictions — including those on  
773 sensitive agricultural products except rice — into equivalent tariffs formed part of the  
774 country's commitment to the WTO.<sup>15</sup>

775 The country's industrial incentive system, however, continued to be governed largely  
776 by the Omnibus Investment Code of 1987, which gave firms registered with the Board of  
777 Investments blanket income tax holidays that lasted 8-10 years and allowed duty-free  
778 import of capital equipment. This approach retained some of the traditional bias against  
779 agriculture, but in favor of capital-intensive industrial products and import substitutes.

780 The real exchange rate continued to be highly overvalued, although this was largely  
781 brought about by a strong inflow of capital due to improved investor sentiment rather  
782 than by measures related to fiscal imbalance. The domestic currency appreciated sharply  
783 between 1993 and 1996 as foreign capital was lured by a perception of an improved  
784 domestic economy and encouraged by the deregulation of foreign exchange transactions.  
785 Tight monetary policies contributed to the strong capital inflow by keeping domestic  
786 interest rates attractively high. The stock market boomed and remained strong until 1996.  
787 The Export Development Act, which served to partly offset the policy bias against  
788 exports by granting fiscal incentives, was signed into law in 1995 under intense lobby by  
789 exporters for “a more competitive exchange rate”.

790 Overall, the Ramos government's main economic strategy was to foster competition  
791 and encourage private-sector participation in the domestic economy. Indeed, the biggest

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15. But some of the reforms were unilaterally adopted by the Philippine government over and above its trade commitments. A 'practical' reason for a relatively speedy schedule (i.e., uniform, low tariff rates by 2004) traces to the AFTA, under which imports from the Asean region will be charged tariffs up to 5 percent (Clarete, 1999). Adopting rates that are close to this structure makes tariff collection administratively simpler as well as discourages smuggling.



792 impact could be seen in the services sector where entry was liberalized and monopolies  
793 dismantled. The most visible improvements were in the telecommunications, banking,  
794 and transport industries. The privatization program was also given a big push by the  
795 Ramos administration, progressing more rapidly from 1992 to 1998 than during the  
796 Aquino term. Fiscal surpluses during the mid-1990s traced largely to the non-recurring  
797 privatization revenue, raising a concern over sustainability of the country's strong fiscal  
798 position. Greater private sector participation had similarly been encouraged in the  
799 provision of basic infrastructure and services such as power, roads and transportation, and  
800 utilities.

801 Between 1994 and 1997, aggregate national income grew at an annual average rate of  
802 5 percent, with the agricultural sector growing at a rate of 3 percent. Despite being  
803 incomplete, the sweeping reforms aimed at increasing competition in key sectors appear  
804 to have worked as a stimulus during the period. Furthermore, as a result of the robust  
805 economic growth, the nation's poverty incidence (in both urban and rural areas)  
806 continued to decline significantly between 1991 and 1997 (Table 12 and Fig. 1). Income  
807 inequality declined substantially between 1991 and 1994, but had returned to the 1991  
808 level by 1997.

809 While the privatization strategy certainly helped the country's fiscal position, there  
810 was a pressing need for reforms to improve long-term revenue generation. The Ramos  
811 government attempted to address this through the 1997 Comprehensive Tax Reform  
812 Program (CTRP). The program was meant to widen the revenue base, plug tax loopholes,  
813 and make the tariff structure more equitable. An earlier restructuring of the tax system  
814 expanded the valued-added system in 1993 to cover services as well as goods, which  
815 replaced various excise and indirect taxes and substantially improved government  
816 collection. The Ramos government, however, failed to substantially rationalize fiscal  
817 incentives as originally planned under the proposed tax reform package.

## 818 ***Sectoral policies***

### 819 **Agricultural policies under the Marcos presidency<sup>16</sup>**

820 Agriculture policies during the Marcos era are relatively well documented (David, 1983;  
821 Bautista, 1987; and Intal and Power, 1990). Government intervention increased to  
822 unprecedented levels in the early 1970s, while earlier, direct government intervention  
823 was usually limited to rice and maize. The primary form of intervention was import  
824 disbursements to consuming centers. For export crops, direct marketing and policy  
825 intervention were largely confined to sugar, and mainly involved allocation of the U.S.  
826 sugar import quota to local sugar producers. The import quota provided an export  
827 premium for Philippine sugar because the sugar price in the U.S. market was almost  
828 always higher than the world market (Intal and Power, 1990).

829 Intervention in the rice sector was precipitated by a crisis in 1971/72 resulting from  
830 local conditions (poor weather, pest infestation, and the great flood in Central Luzon) and  
831 a sharp price hike in the world market. The government responded by imposing price  
832 controls on rice and embarking on a massive program aimed at achieving rice self-

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16. This section draws largely from Balisacan (1989).

833 sufficiency. Dubbed *Masagana 99* and launched in 1974, the program called for  
834 government assistance in the form of credit, irrigation, extension services, and fertilizer  
835 subsidies. During its initial year, the program provided subsidized credit to 529,000 rice  
836 farmers in the wet season and 356,000 in the dry season, with coverage reaching 40  
837 percent of the rice area. The program soon faced serious repayment problems and  
838 coverage declined to 100,000 farmers per season with only about 10 percent coverage by  
839 the end of the 1970s.<sup>17</sup> Furthermore, the National Grains Authority (NGA), the state rice  
840 and maize agency, expanded its control of the food sector to include effective  
841 monopolization of wheat imports (beginning in 1975) and soya imports (beginning in  
842 1978).

843 Marketing controls included all food commodities by the early 1980s when the NGA  
844 was transformed into the National Food Authority (NFA), which became the  
845 government's food price stabilization arm. The NFA financed its expanded operations  
846 partly from price margins on its duty-free imports.<sup>18</sup> The Marcos administration's  
847 intervention in export crops shifted from its traditional role of allocating domestic sugar  
848 quotas, collecting minor export taxes, and undertaking research and extension in tandem  
849 with the private sector, to one of monopolizing domestic and export marketing. For  
850 example, the government mandated that the Philippine Exchange (Philex) — a subsidiary  
851 of the Philippine National Bank (PNB) and the primary financial institution serving the  
852 sugar industry at the time — to be the sole buyer of sugar from mills as well as the sole  
853 exporter.<sup>19</sup> In the coconut industry, the intervention broadened from a collection of minor  
854 export taxes to include direct control on production, processing, and international trade,  
855 including the collection of the Coconut Consumer Stabilization Fund (CCSF) levy and  
856 the export premium and taxes on coconut products. As with rice, the sharp rise in the  
857 world prices of coconut oil and copra in the early 1970s — the so-called 'cooking oil  
858 crisis' — provided a major impetus for the intervention.

859 In most cases, the government interventions were either ineffective or yielded results  
860 contrary to avowed intentions. In the case of rice, for example, while increased  
861 government intervention during the 1970s reduced seasonal fluctuations of paddy prices,  
862 the intervention was inadequate to maintain producer prices at the official floor price  
863 (Unnevehr, 1985). This meant that opportunities to sell at the official price had to be  
864 rationed, often to the disadvantage of small-scale farmers. In addition, because the  
865 difference between official ceiling and floor prices was insufficient to cover normal  
866 marketing margins, the intervention prevented the development of private trading and  
867 storage. Arguably, the government's objective of reducing marketing margins could have  
868 been achieved with non-price policy interventions such as investments in transport and  
869 communications infrastructure.

870 Yield gains from high-yielding varieties (HYV) of irrigated rice during the 1960s and  
871 1970s were impressive, and irrigation was the largest category of public spending on

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17. Lim (1986) as quoted in Boyce (1993, p. 94), and David (1979) as quoted in Fegan (1989).

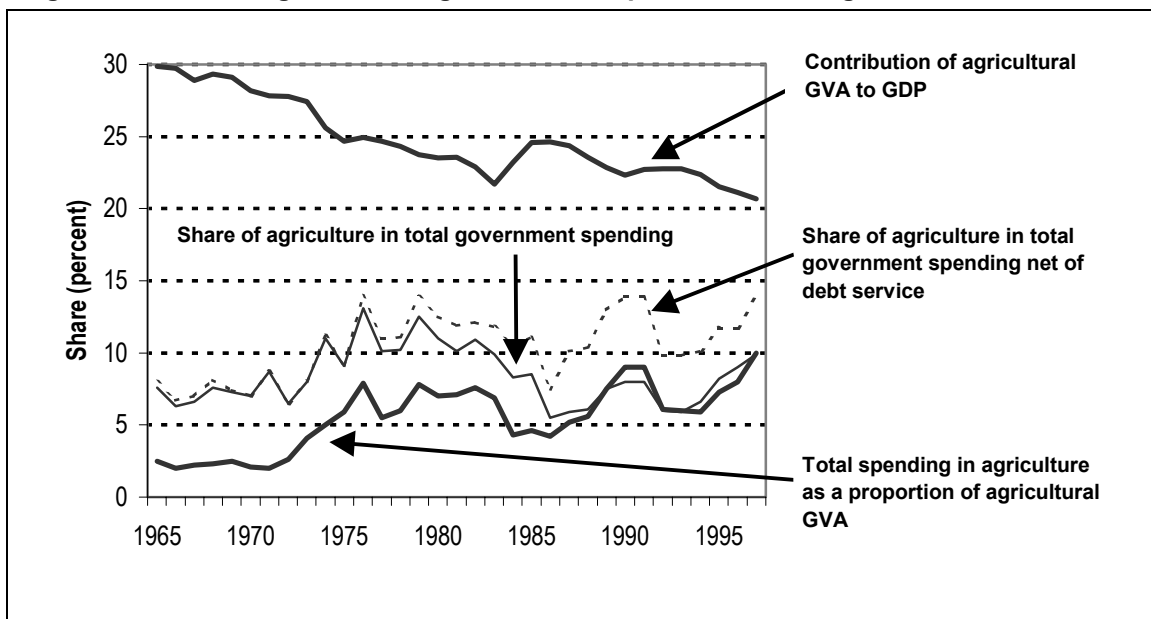
18. A more detailed discussion of NFA in conjunction with the political regime can be found in the chapter by Amelina and Pressmann (this volume).

19. In addition, the government further strengthened its hold on the industry by acquiring and operating leading transport and bulk storage enterprises. An additional discussion of the sugar sector policy can be found in the chapter by Amelina and Pressmann (this volume).

872 agriculture at that time (Fig. 3). Apparently the combination of Green Revolution  
 873 technologies and increased government spending in agriculture contributed to agricultural  
 874 growth in the 1970s, but critics have suggested that the patterns of public investment in  
 875 agricultural research, input and output subsidies, and infrastructure tended to  
 876 disproportionately benefit larger-scale farmers at the expense of small-scale farmers  
 877 (Balisacan 1998a). Small-scale farmers, along with landless laborers, are a significant  
 878 portion of the rural poor, thus such anti-poor biases in public investment patterns appear  
 879 to partially explain sluggish poverty reduction in rural areas (including the increased  
 880 poverty amid economic growth in the late 1960s), despite robust growth in aggregate  
 881 agricultural production.

882 The effectiveness of the *Masagana 99* program in facilitating the growth of rice  
 883 production in the 1970s, on the other hand, has been seriously questioned in the literature.  
 884 Observers argue that the growth would perhaps have occurred even without the program,  
 885 given use of HYV and increased investment in irrigation, and that the program was  
 886 expensive (Sacay et al, 1985). Furthermore, access to the program by intended  
 887 beneficiaries — small-scale farmers — was limited. For example, despite the substantial  
 888 resources devoted to subsidizing formal credit institutions, the amount that reached small-  
 889 scale farmers was small. Esguerra (1981) estimated that only one-third of the potential  
 890 credit subsidies reached farmer beneficiaries.<sup>20</sup> A number of studies have concluded that  
 891 unfavorable effects of the low interest rate policy and the effective rationing of  
 892 institutional credit, as well as foreign trade and payment restrictions, were often much  
 893 greater for small-scale farmers than for large-scale farmers (Bautista, 1987). Moreover,  
 894  
 895

**Figure 3. Share of agriculture in government expenditures and agricultural GVA**



Source: David and Inocencio, 2000

20. The potential credit subsidies were estimated as the difference between the market interest rates and the nominal interest rates under the Masagana 99 program multiplied by the total loan amount. (Esguerra, 1981)

896 the credit policy spurred lending (by formal commercial sources) away from agriculture,  
897 thereby reducing the overall flow of credit to the sector (Tolentino, 1986).

898 The huge fertilizer subsidies from 1973 to 1982 mainly benefited the few local  
899 fertilizer producers/importers and not farmers (Balisacan, 1990). Controls on fertilizer  
900 imports and distribution increased domestic prices to levels above those that would have  
901 prevailed in the absence of controls. Together with the traditional rural social structure  
902 characterized by high landlessness, policy biases against small-scale farmers and  
903 ineffective fertilizer subsidies appear to have contributed to the slow pace of poverty  
904 reduction in rural areas.

905 The domestic price of copra was on average 22 percent lower than export prices for  
906 the period 1973 to 1982, an effect of coconut policies (David, 1983). The attempt to  
907 influence the world price also proved futile since the country's exports of copra and  
908 coconut oil were only 5 percent of the world's fat and oil market. This attempt to exploit  
909 the world coconut oil market resulted in substitution of other oils, thus depressing the  
910 country's earnings from coconut exports.

911 Sugar interventions, on the other hand, led to payments from sugar producers to a  
912 select few close to the ruling elite.<sup>21</sup> In addition to heavy intervention by the government  
913 (through export taxes and production levies), the persistent overvaluation of the exchange  
914 rate during the 1970s also negatively affected export crops such as coconut and sugar.  
915 The negative impact of these policies appears to at least partially explain the rather  
916 unspectacular production growth, accompanied by low (in the case of sugar) or negative  
917 (in the case of coconut) productivity growth during the 1970s, which was followed by  
918 stagnation in the early 1980s. Honma and Hagino (this volume) show that raw sugar  
919 exports from the Philippines lost market share as world demand stagnated between the  
920 early 1970s and mid-1990s. Sugar exports from Thailand during the same period,  
921 however, increased because market share rose.

922 Finally, there was one other policy that was high on the agenda during the initial  
923 years of the Marcos martial law regime — land reform.<sup>22</sup> Land reform had continuously  
924 been on the political agenda in the Philippines at least since the early part of the 20th  
925 century. Just one month after the declaration of martial law in September 1972, President  
926 Marcos issued a decree that all rice and maize fields larger than 7 hectares were to be  
927 transferred to the tenants who tilled them at a price 2.5 times the value of the average  
928 annual production. In addition, all rice and maize fields smaller than 7 hectares under  
929 share tenancy were to be converted to fixed-rent leasehold with the official rental ceiling  
930 at 25 percent of the average output for the three 'normal' years prior to land reform.

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21. de Dios (1984) showed that the sugar trade monopoly resulted in:

- a loss to producers of between P11 billion and P14 billion;
- additions to the marketing chain that either increased mark-ups, redistributed income from actual traders to favored 'paper traders,' or both;
- a loss of foreign exchange due to financing through foreign loans; and
- a loss to the economy because from operating losses by the agencies, despite estimated gross profits enjoyed from the differential between export revenue and purchase price.

22. The following two paragraphs draw heavily on Hayami et al. (1990), Riedinger (1995), Putzel (1992), and Fuwa (2000).

931 Compared to earlier land reform legislation, this decree expanded the potential coverage  
932 of the reform program.

933 Land reform during the Aquino and Ramos administrations was much more effective  
934 than reform during the Marcos regime, despite his rhetoric and the increase in potential  
935 coverage. Of the total area potentially covered by programs in the three administrations,  
936 59 percent was redistributed during the Aquino administration, 27 percent during the  
937 Ramos presidency, and a mere 3 percent during the Marcos regime. Nonetheless, while  
938 implementation of the Marcos decree was limited to rather specific geographical regions  
939 (mainly for political reasons), many village-level studies found significant effects from  
940 land reform in target areas (such as Central Luzon).

941 The decree virtually eliminated the traditional rice hacienda system in much of inner  
942 Central Luzon, and also led to significant income transfer from former landowners to  
943 former share tenants because the large increase in land rent due to the Green Revolution  
944 was appropriated by the latter (Fegan, 1989; Hayami et al., 1990; Hayami and Kikuchi,  
945 2000; Otsuka, 1991; Umehara, 1997; Riedinger, 1995).

946 At the same time the decree adversely affected rural landless laborers because not  
947 only were they excluded as land reform beneficiaries, but their potential access to land  
948 through tenancy contracts was severely restricted as landowners became increasingly  
949 reluctant to rent their land because they feared confiscation. In addition, the reported  
950 incidence of tenant eviction as a response to the land reform program further crowded the  
951 rural labor markets (Hayami et. al., 1990; Otsuka, 1991).

### 952 **Agricultural policies under the Aquino presidency**

953 As noted previously, the 1970s under President Marcos saw unprecedented government  
954 intervention in agriculture with price and quantitative controls, levies and taxes, as well  
955 as entry into activities for which the public good argument was unjustified. The Aquino  
956 government promised to undo these policies and move toward a market-oriented  
957 agricultural economy. Deregulation began as soon as the new leadership stepped into  
958 power:

- 959 • The export ban on copra and export taxes on copra (10 percent) and coconut oil (5  
960 percent) were lifted.
- 961 • Sugar and coconut trading were reformed, and monopoly control over international  
962 trade in coconut oil, maize, soya, and soya meal were removed.
- 963 • Fertilizer distribution and import were liberalized.
- 964 • Price controls on rice, poultry products, and pork were removed.
- 965 • Imports of wheat, flour, and animal feeds were privatized.
- 966 • The National Food Authority (NFA) was removed from non-grain activities and  
967 reoriented to its primary function of price stabilization for rice and maize.
- 968 • Commodity-specific funds were consolidated into the Comprehensive Agricultural  
969 Loan Fund (CALF) to unify various agricultural lending programs and minimize  
970 government participation.

971 As we noted earlier, the national economy registered robust aggregate growth and  
972 rural poverty declined substantially through the latter half of the 1980s. The benefits to

973 small-scale farmers in rural areas appear to have derived from the swift and wide-ranging  
974 deregulation of agricultural markets during the early years of the Aquino administration  
975 (Balisacan 1998b).

976 Despite these reform measures, deregulation of agriculture was incomplete. Reforms  
977 did not include abolition of remaining restrictions, including:

- 978 • NFA monopoly of international trade and domestic market operations in rice and  
979 maize;
- 980 • import controls on sugar;
- 981 • import prohibitions on onions, potatoes, garlic, cabbage, coffee, and seeds;
- 982 • area controls on banana production;
- 983 • centralized import of ruminants (for breeding and/or slaughter) and beef;
- 984 • bans on buntal and ramie planting materials;
- 985 • export restrictions on animal and animal products; and
- 986 • licensing and/or registration of production and domestic trade for some agricultural  
987 goods.

988 Rather than expanding the scope of deregulation that would have benefited the rural  
989 population, the Aquino government instead strengthened agriculture regulations,  
990 especially for international trade. A few months prior to the 1992 national elections,  
991 Congress passed the Magna Carta of Small Farmers, which barred import of agricultural  
992 products that were produced domestically in sufficient quantities.<sup>23</sup>

993 Another major government program initiated during the Aquino regime with a  
994 potential for profound effects on agriculture was the Comprehensive Agrarian Reform  
995 Program (CARP). Unlike its predecessor land reform programs, this program covered all  
996 agricultural land regardless of commodity and tenurial arrangement, and included  
997 provision of support services for farmers. CARP intended to redistribute about 580,000  
998 hectares of rice and maize land (which had been covered under the old order), and more  
999 than 2 million hectares of privately-owned non-rice/maize land (which were newly  
1000 covered under CARP) over 10 years. The program budget was estimated to be P221  
1001 billion, roughly 30 percent of the 1987 national budget (Balisacan, 1995a), of which one-  
1002 quarter was initially allocated by the administration. The huge budgetary requirement of  
1003 the program, together with the limited capacity of agencies assigned to implement it,  
1004 stood in the way of swift implementation — 59 percent of the potential rice and maize  
1005 land and only 4 percent of non-rice/maize land were redistributed during the Aquino  
1006 administration. In the end, the Aquino administration spent P17 billion with an average  
1007 per beneficiary expenditure of P3,600 for land acquisition plus P10,000 for support  
1008 services.

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23. The implementing order issued by the succeeding administration specifically prohibited import of maize and its substitutes (including wheat used for feeds), poultry and poultry products, hogs and pork products, and meat and meat products (except beef and beef products), unless certified by the Department of Agriculture as necessary to meet an actual or anticipated shortage in local output. The order gave enormous regulatory power to the department, and practically swept away whatever gains were made from earlier trade deregulation.

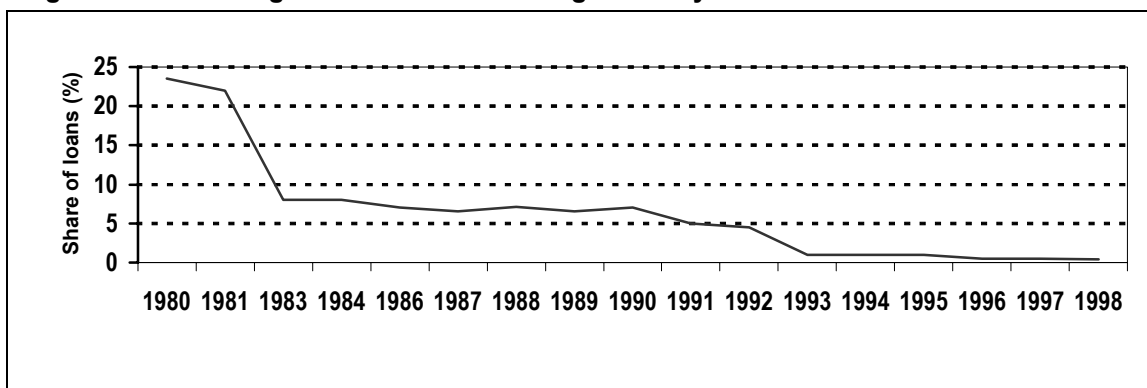
1009 Moreover, certain sectors (for example, prawn and sugar farms) constantly lobbied  
 1010 Congress for exclusion from the land reform coverage. As a result, the uncertainty  
 1011 surrounding program implementation discouraged the flow of private investments into  
 1012 agriculture as well as encouraged leaving land idle and premature conversion of  
 1013 agricultural land to non-agricultural uses. This trend was exacerbated by weak  
 1014 government monitoring and absence of a comprehensive land-use policy (Medalla and  
 1015 Centeno, 1994). Aside from dampening the flow of agricultural investments, CARP also  
 1016 diminished the collateral value of agricultural land by constraining private land sales.<sup>24</sup>  
 1017 This feature of the program caused the demise of private markets for agricultural land.  
 1018 Indeed, the size of loans (at constant prices) granted by private and government banks in  
 1019 the early 1990s was only one-half that of the early 1980s. Loans by private institutions,  
 1020 including private commercial banks, dropped by much more than loans by public  
 1021 institutions (Fig. 4). Loans per peso of agricultural value added fell from about 0.42 in  
 1022 1980-82 to 0.20 in 1985-87 and 0.16 in 1991-92 (Balisacan, 1998b).

1023 Production growth rates decelerated during the 1980s and early 1990s for most crops,  
 1024 a trend that can be attributed to a combination of some exogenous factors (such as price  
 1025 changes in world markets, natural calamities, and droughts) and government policies. The  
 1026 negative impact of a sharp fall in public investment in agriculture — especially rural  
 1027 roads, irrigation, and research — in the 1980s and early 1990s also contributed (David  
 1028 1999). Investments in agricultural research and development (R&D), the single most  
 1029 important source of long-term output growth, stagnated in the 1970s and then dropped in  
 1030 absolute value in the 1980s. The total spent on R&D in the early 1990s was a mere 60  
 1031 percent of that spent in the early 1970s.

1032 **Agricultural policies under the Ramos presidency**

1033 In order to open market competition, the Ramos administration embarked on major  
 1034 economic policy reforms. Although much was achieved in opening local industries to  
 1035 competition, the same cannot be said for agriculture, which seemed to have moved in the  
 1036 opposite direction (David, 1999; Bautista and Lamberte, 1996). Even in the beginning,  
 1037

**Figure 4. Share of agriculture in total loans granted by formal financial institutions**



Source: Llanto, 2000

24. If a farmer defaulted on a loan from a lending institution, the lender could only sell the land to the government, which had the sole right to set the price and timing of the sale, as well as decide who was eventually allowed to buy the land.

1038 the Ramos administration's agricultural policy was constrained by laws such as the newly  
1039 enacted Magna Carta of Small Farmers, which kept major commodities subject to  
1040 quantitative restrictions until early 1996.

1041 A change in the policy environment was anticipated with the country's 1995 entry in  
1042 the World Trade Organization (WTO). Local agricultural markets were required to be  
1043 open to competition and laws prescribed by the trade treaty were to be enacted.<sup>25</sup> Political  
1044 negotiations to win public support severely weakened the drive toward greater openness  
1045 in the farm sector. Rice, for instance, was exempted from the trade commitments for a  
1046 period of 10 years. In 1996, Congress passed a law that lifted all quantitative restrictions  
1047 on agricultural imports (except rice) but replaced non-tariff barriers with the highest  
1048 possible tariff protection of 100 percent (i.e., the ceiling or binding tariff rates).<sup>26</sup> The  
1049 'tarrification' resulted in tariff levels that exceeded the corresponding equivalent rates of  
1050 most products (Clarete, 1999). The tariff rate equivalent of quantitative restrictions on  
1051 maize, for example, was estimated to be only 60 percent, but the government set the  
1052 maximum rate of 100 percent.<sup>27</sup>

1053 The WTO allowed a provision that enabled consumers of major agricultural  
1054 commodities to take advantage of lower tariffs through a minimum access volume  
1055 (MAV) system. This provision was designed to lessen the effects of high tariffs and avoid  
1056 disrupting the flow of farm products in the world trading system as a result of apparent  
1057 overcompensation for lost protection levels. Under this scheme, lower (in-quota) tariffs  
1058 are applied to imports falling within an assigned quota, which comprises a small fraction  
1059 of domestic consumption, while higher (out-quota) tariffs are paid on imports exceeding  
1060 this limit. Despite some effort for greater transparency in the allocation of import quotas  
1061 and improved access to the MAV system, the incentive for rent-seeking remains high  
1062 given the size of these quotas. With the exception of live pork and poultry, allocated  
1063 volumes are typically lower than import demand at the in-quota tariff, creating a situation  
1064 where large quota rents cannot be controlled unless a reliable and fair bidding mechanism  
1065 is established (David, 1999). Aside from the resulting inequities, the MAV system has  
1066 been criticized for its high administrative cost, inefficiency in allocating government  
1067 revenue from imports (supposedly earmarked for agricultural support services), and for  
1068 prolonging government intervention in agricultural trade.

1069 After a decade of stagnation during the 1980s, production growth in the agriculture  
1070 sector recovered in the 1990s (Table 5). The combination of sweeping reforms in non-  
1071 agriculture sectors and increasing government protection for agriculture apparently led to  
1072 a rise in relative prices of agricultural products in the domestic market, which may  
1073 partially explain the upturn in agricultural growth (David, 1999).

---

25. Commitments included a prohibition on the use of (additional) non-tariff measures, conversion of all existing quantitative restrictions to tariff measures (except for rice, which has been deferred for 10 years), binding tariffs at ceiling rates, tariff reductions (average cut of 30 percent), and harmonization of sanitary and phytosanitary measures.

26. These binding (tariff) rates are slated to drop to 40-50 percent for the various crops in 2004 in accordance with the WTO agreement.

27. Binding rates on maize are scheduled to drop to 50 percent after a 10-year period. High tariff protection of maize, which is used as livestock feed, in turn spurred high tariff protection of hogs, poultry, and meat products as a compensatory measure.



1074 The Ramos government enacted the Agriculture and Fisheries Modernization Act  
 1075 (AFMA) in 1997 in response to opposition from farmer groups to WTO entry, which  
 1076 argued that their inability to compete in world market was partially caused by lack of  
 1077 infrastructure development. The AFMA prescribes a coordinated set of measures,  
 1078 including guidelines on the devolution of communal irrigation systems to local  
 1079 government units, simplified public bidding for irrigation projects, budgetary allocation  
 1080 for R&D projects, a phase-out of directed credit programs, and the creation of a council  
 1081 that can coordinate R&D and extension work.<sup>28</sup>

1082 While the Ramos administration persuaded the legislature to enact vital reforms,  
 1083 crucial restrictions remained such as the continued monopoly of the NFA over rice trade  
 1084 and area controls on banana production. In addition, profitability on sugar and maize was  
 1085 becoming artificially high as a result of increased protection afforded by the new tariff  
 1086 regime as well as regulatory barriers that reduced the competitiveness of allied industries.  
 1087 Yellow maize is the primary feed used by the livestock sector, while sugar is an essential  
 1088 ingredient for the food processing industry.

1089 The land reform program, meanwhile, could not be completed as scheduled by 1997,  
 1090 although relevant local agencies performed relatively well compared to their predecessors  
 1091 (Fig. 5). Only a little more than one-half the total coverage was achieved. Implementation  
 1092 was particularly slow for public alienable and disposable (A&D) lands and private  
 1093 agricultural lands (other than rice and maize lands). Of the total coverage under the  
 1094 program, the former constituted 45 percent and the latter 25 percent. For public land, the  
 1095 poor performance was mainly delays in land surveys, slow reconstitution of land records,  
 1096 and sluggish resolution of land conflicts among competing claimants (Balisacan, 1996a).  
 1097 For private agricultural land, the main problems included the time-consuming process of  
 1098 land acquisition and distribution, insufficient technical capacity of the implementing  
 1099 agencies, legal disputes over coverage and land valuation, landowner resistance,  
 1100 harassment, an unstable 'peace and order' condition, and budget constraints. The negative  
 1101 side effects of this slow and incomplete implementation and the uncertainty created as a  
 1102 result continue to be a serious problem for agricultural development.

### 1103 **Poverty reduction policies during the Ramos presidency**

1104 Unlike the Aquino government that constantly faced problems ranging from *coup de états*  
 1105 to volcanic eruptions, the Ramos administration was able to establish a program to  
 1106 alleviate poverty in the short term. In 1994, it launched the Social Reform Agenda  
 1107 (SRA), which mainly targeted 20 priority provinces, poor municipalities around the  
 1108 country, and special peace and development zones in Mindanao and Palawan.<sup>29</sup> The  
 1109 distinguishing feature of this effort was recognition of the government's limited resources

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28. The law also focused on food security and poverty alleviation and appropriated some P120 billion over a period of 7 years to fulfill the plan. This step to fund agricultural modernization follows similar initiatives to prepare the country for global free trade by setting aside resources to develop the agriculture sector. For example, the budget of the grains sector alone increased from P540 million in 1993 to P4 billion in 1997 (Clarete, 1999).

29. The program encompassed agricultural development; conservation, management, and development of fisheries and aquatic resources; protection of ancestral domains; delivery of social services; workers' welfare and protection; socialized housing; credit expansion; livelihood programs; and institution-building and political participation.

1110 and a focus on areas where the majority of the population failed to achieve even  
 1111 minimum basic needs (Collas-Monsod and Monsod, 1999). It also consolidated the  
 1112 various social reform programs of different government agencies and entrusted local  
 1113 government units (LGUs) with greater responsibility over poverty alleviation efforts. To  
 1114 ensure project implementation, poverty  
 1115 targets were included in the criteria used to  
 1116 appraise local officials and cabinet officers.  
 1117 Provincial governors and city mayors were  
 1118 held accountable for welfare improvements  
 1119 in their territories. Political concessions were  
 1120 not absent, however, because some of the  
 1121 chosen provinces were not necessarily the  
 1122 poorest. To date, there has been no rigorous  
 1123 empirical evidence about the impact of these  
 1124 policies.

1125 **Measuring policy consequences**

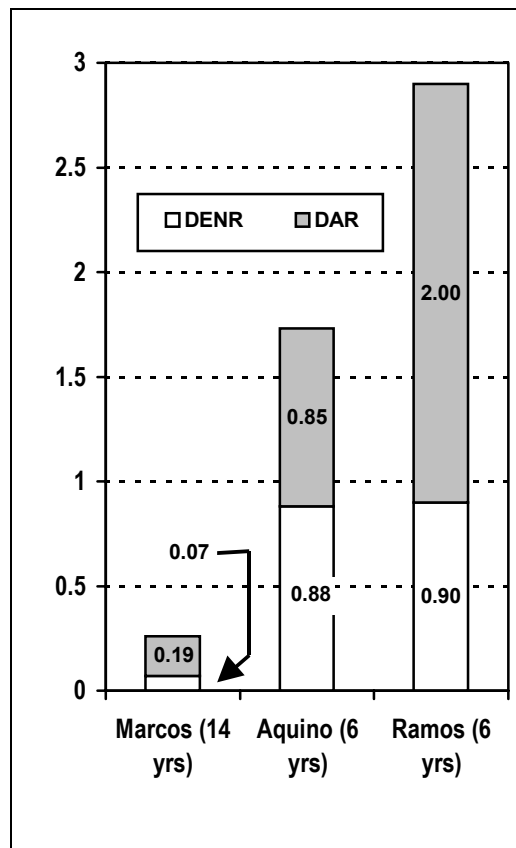
1126 **Nominal Protection Rates (NPR)**

1127 The effects of commodity-specific policies  
 1128 on agriculture can be summarized by the  
 1129 nominal protection rate (NPR), defined as the  
 1130 proportional difference between the domestic  
 1131 price and the comparable border price  
 1132 evaluated at the official exchange rate. NPR  
 1133 measures the effect of price controls, export  
 1134 taxes or quotas, and other such policies  
 1135 affecting the domestic (producer) price of a  
 1136 tradable agricultural product. A positive NPR  
 1137 value suggests that domestic policies confer  
 1138 protection to producers of the commodity  
 1139 while a negative figure indicates that policies  
 1140 penalize them.

1141 Figure 6 shows the trends in nominal protection for various agricultural commodities  
 1142 between the 1970s and the late 1990s. With the exception of a few (e.g., sugar, maize,  
 1143 and chicken), NPRs for most products were either negative or near zero until the mid-  
 1144 1980s, suggesting that price incentives provided to the agriculture sector were relatively  
 1145 weak during this period. NPRs for most products (including major import-competing  
 1146 goods such as sugar, maize, and rice), however, moved up in the late 1980s, which was a  
 1147 period of pervasive government intervention. NPRs in the early 1990s were similarly  
 1148 higher than those in the early 1980s, also a period of heavy regulation of agricultural  
 1149 markets. Reforms of distorted pricing policies instituted over the past two decades have  
 1150 evidently been favorable to agricultural producers.

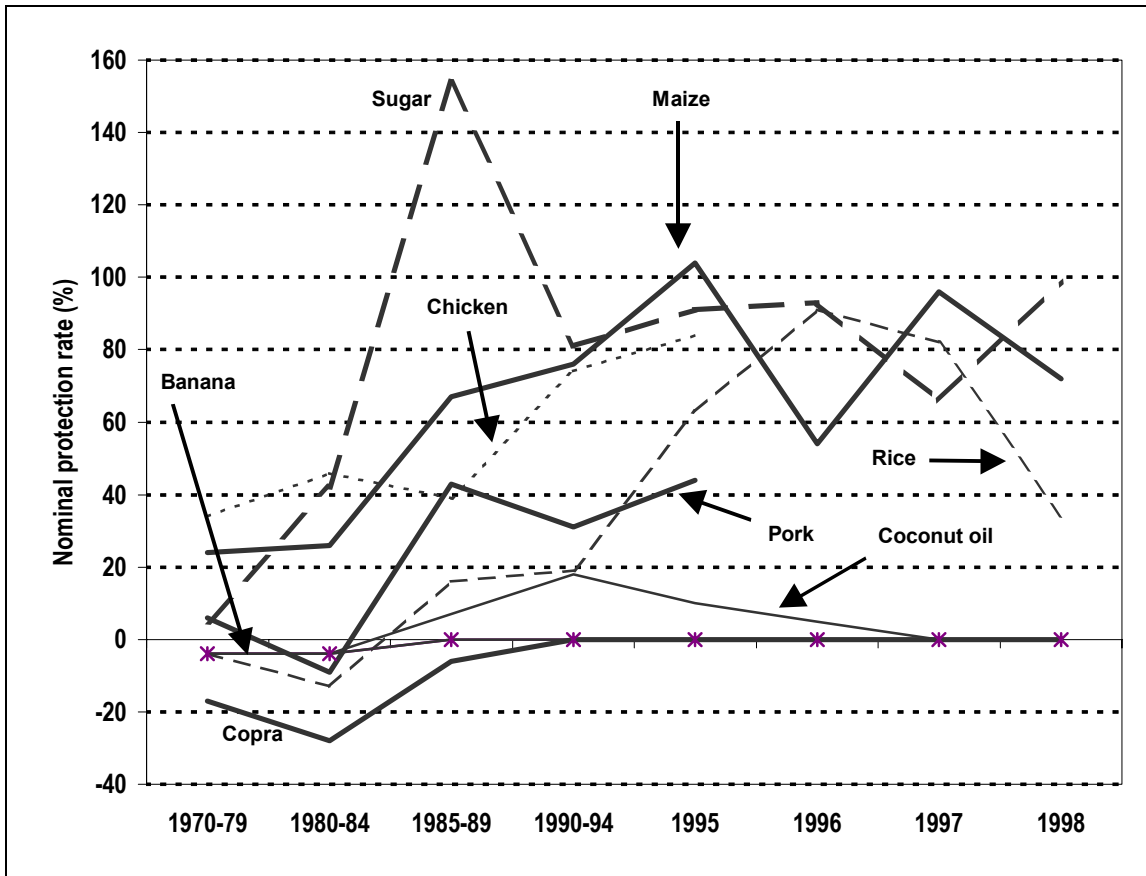
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**Figure 5. Titled lands distributed by administration, 1972-97 (million hectares)**



Source: Department of Agrarian Reform (from Abueva, 1998)

Figure 6. Nominal protection rate for various agricultural products, 1970-98 (percent)



Nominal protection rate (NPR) is the percentage difference between the domestic price and the comparable border price evaluated at the official exchange rate. Note:

- For exportable products, the border price is the FOB export value unit. For importable products, it is the world price adjusted by 15 percent to approximate the CIF import unit value. For pork and chicken, the CIF import unit value of Singapore was used.
- For sugar, figures are the weighted averages of NPR on sugar exported to the U.S. (ratio of export unit value to the border price) and NPR on sugar for domestic use (ratio of domestic wholesale price to the border price). Border price is the FOB world price of sugar adjusted by 15 percent to obtain CIF price.
- From 1995 to 1998, imports of rice, sugar, and recently, maize, did not pay either in-quota or out-quota tariffs except for sugar imports in late 1998, which paid out-quota tariffs.

Source: David, 1999; Intal and Power, 1990.

1153

1154 Among the major import-competing agricultural commodities, sugar continues to be  
 1155 the most highly protected. Historically, nominal protection of sugar was strong because  
 1156 of the quota system, which allowed sugar producers favored access to the U.S. market at  
 1157 premium prices. The sector experienced a period of low (even negative) nominal  
 1158 protection between the 1970s and early 1980s (the quota system was terminated in 1973),  
 1159 when the government attempted to control domestic sugar prices and taxed sugar exports  
 1160 in response to sharp increases in world sugar prices (Intal and Power, 1990). NPRs  
 1161 eventually resumed their upward trend in the late 1980s, and the domestic sugar price has  
 1162 been about equal to (and often greater than) export prices to the U.S. and much higher  
 1163 than CIF world prices.

1164 Maize received comparably high nominal protection over the past three decades  
1165 because import substitution remained a major government policy. It became a specific  
1166 concern in the 1970s, which was also the time when the nominal rate of protection from  
1167 direct price interventions noticeably increased. The commodity was briefly unprotected  
1168 in the mid-1970s when world maize prices soared, although it still enjoyed greater  
1169 protection than other major crops whose border prices also rose during the period. The  
1170 allied livestock industry received equally high nominal protection from the 1970s until  
1171 the mid-1990s. By 1995, the NPRs of chicken and pork had risen to a high of 84 and 44  
1172 percent, respectively.

1173 Nominal protection of rice was negative through the 1970s until the early 1980s when  
1174 rice self-sufficiency was achieved. Subsequently, it started to increase through the late  
1175 1980s and the mid-1990s, rising to about 65 percent above the world price in 1995 and  
1176 1996, which appears to be a reversal of rice policy, a switch from a historically pro-urban  
1177 to a pro-farm bias (David, 1999).<sup>30</sup>

1178 Nominal protection levels of import-competing commodities (except sugar) dipped  
1179 after a major devaluation in 1997 because relative prices fell when evaluated against the  
1180 (higher) official exchange rate. This trend is expected to continue given the government's  
1181 attempts to protect domestic consumers from sharp increases in food prices. David (1999)  
1182 reported that the nominal protection rates for rice and maize (and most likely pork and  
1183 chicken) predictably declined in 1998, an election year, when the government authorized  
1184 more imports to prevent domestic prices increases. In contrast, the NPR of sugar rose  
1185 substantially in 1998 to about 100 percent, indicative of a surge in domestic prices.

1186 In sum, exportable agricultural commodities entered a more neutral environment after  
1187 being penalized for a very long time from the 1970s through the early half of the 1980s  
1188 through various taxes and levies and monopsonistic control of quasi-government agencies  
1189 (particularly for coconut). NPR levels stabilized at zero toward the end of the 1990s for  
1190 coconut products, bananas, pineapple, tobacco, and abaca. In general, protection levels of  
1191 the various agricultural commodities have become more widely dispersed in recent years  
1192 than they were a couple of decades ago.

1193 Positive or negative protection of the agriculture sector can result from indirect  
1194 protection directed to non-agriculture sectors as well as from direct protection directed to  
1195 agriculture sectors. Indirect protection occurs from economy-wide measures such as  
1196 fiscal and exchange rate management and industrialization policy (including trade  
1197 interventions and domestic taxes and subsidies on non-agricultural products), which all  
1198 affect the relative price of agricultural commodities (Schiff and Valdes, 1992).

1199 The magnitude of the bias against agriculture (i.e., negative nominal total protection  
1200 rate) has consistently been higher in the Philippines than in Indonesia or Thailand except  
1201 in the 1960s when it was lowest in the Philippines (Akiyama and Kajisa, Table 2, this  
1202 volume, which extended the earlier study by Schiff and Valdes, 1992). The negative total

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30. For example, rice tended to be protected when imports occurred and less protected as self-sufficiency or an export surplus was achieved. Also, government tended to control domestic rice prices in the event of a sharp increase in the world price or a devaluation of the domestic currency (e.g., through price controls, anti-hoarding, and quantity rationing measures).

1203 protection rate declined dramatically in the 1980s and then the total protection rate turned  
 1204 positive in both Indonesia and in Thailand, whereas in the Philippines the negative  
 1205 protection rate remained quite sizable even in the early 1990s. Furthermore, in the  
 1206 Philippines (and in Indonesia as well, but not in Thailand), relatively large negative  
 1207 indirect protection rather than direct (negative) protection was the major source of the  
 1208 bias against agriculture. Indirect protection policies, but not direct protection policies, had  
 1209 significant negative effects on the competitiveness of agricultural exports from the  
 1210 Philippines (although the explanatory power of the regression model is quite low)  
 1211 (Honma and Hagino, this volume).

1212 The magnitude of negative indirect protection remained substantially larger in the  
 1213 Philippines than in the other two countries since the 1970s through the 1990s (Akiyama  
 1214 and Kajisa, Table 2, this volume). We can also see from the same table that there was a  
 1215 major policy shift in the 1980s from negative to positive nominal direct protection for  
 1216 agriculture in Indonesia and Thailand, but that a similar policy shift in the Philippines did  
 1217 not occur until the 1990s.

### 1218 **Effective Protection Rates (EPR)**

1219 Another convenient summary measure of the direct effects of trade and industrial policies  
 1220 is the effective rate of protection (ERP), defined as the percentage excess of protected  
 1221 value-added over non-protected value-added of a particular economic activity. This  
 1222 measure takes into account the changes in the domestic prices of *both* inputs and output  
 1223 arising from tariffs and import controls. Analogous to the NPR, a positive ERP implies  
 1224 that the sector is accorded protection by the system of tariffs and import controls while a  
 1225 negative ERP indicates that the system penalizes the activity of the sector.

1226 The primary and agriculture sectors typically had lower ERPs than manufacturing  
 1227 between 1965 and the early 1990s — most of the period under our review; thus the  
 1228 agriculture sector as a whole was penalized in terms of relative prices up to the early  
 1229 1990s compared to the manufacturing sector. Through the 1990s, however, such bias  
 1230 against agriculture (at least on aggregate) appears to have finally disappeared — the  
 1231 ERPs for agriculture became roughly equivalent to the ERPs for manufacturing. Such a  
 1232 result can largely be attributed to the substantial changes in the country's tariff structure  
 1233 over the last 10 years. Medalla (1992) indicates that the tariff reform program moved the  
 1234 country toward a lower, sector-neutral, and trade-neutral effective protection policy.<sup>31</sup>

1235 With the steady progression of the tariff reform program, the 1990s saw both  
 1236 declining protection rates for manufactured inputs (including agricultural inputs) and  
 1237 increased (tariff) protection for major agricultural commodities for which quantitative  
 1238 restrictions had been removed. Falling input prices (with the obvious exception of yellow  
 1239 maize for the livestock industry) imply that the *effective* protection level of agriculture  
 1240 afforded by domestic policy has outstripped the *nominal* protection level of the sector.

---

31. The problem, however, was that complementary adjustment in the exchange rate was not pursued. Imports rose substantially, while export supply response was very sluggish. Consequently, deficits in the government budget and current accounts rose to unsustainable levels in 1991, when another round of monetary and fiscal contraction occurred in 1992.

1241 **Exchange rate movements**

1242 One major source of the ‘indirect’ protection is the consequential overvaluation of the  
1243 domestic currency, which in turn results from protectionist policies. An overvalued  
1244 domestic currency acts as a tax on tradable goods, depressing their prices (in domestic  
1245 currency terms) relative to non-tradable goods. This distorts incentives and encourages  
1246 the movement of resources toward non-tradable or domestic production. Since domestic  
1247 goods form a larger part of non-agricultural than agricultural production, the effect of  
1248 exchange rate overvaluation on domestic relative prices shifts resources toward non-  
1249 agricultural production.

1250 Trade restrictions, movements in external terms of trade, and the balance of trade all  
1251 influence the real exchange rate. In the 1950s and 1960s, protectionist trade policies and  
1252 large trade deficits accounted for much of the overvaluation of the Philippine peso. In the  
1253 1970s and 1980s, however, deterioration of external terms of trade and an unsustainable  
1254 imbalance in the external accounts assumed greater importance.

1255 Several studies document the overwhelming negative influence of domestic currency  
1256 overvaluation on production incentives in the agriculture and export sectors (Bautista,  
1257 1987; Intal and Power, 1990). The overvaluation of the local currency (averaging 38  
1258 percent in the 1960s, 20 percent in the 1970s, and 25 percent in the 1980s) penalized  
1259 agriculture and labor-intensive exports. The figure was estimated at about 20 percent in  
1260 1992, which still represents a hefty penalty, especially to traded agricultural goods  
1261 (Medalla et al., 1995). The extent of peso overvaluation clearly increased between 1990  
1262 and 1996 (by about 28 percent for both RER and DARER), as the nominal exchange rate  
1263 fell and domestic inflation exceeded that of major trading partners during the period (Fig.  
1264 7). With the deregulation of foreign exchange transactions and increased investor  
1265 confidence in the economy, large amounts of foreign capital were attracted, which  
1266 allowed the country to accommodate a growing current account deficit and maintain a  
1267 strong domestic currency. The real exchange rate fell substantially with the (de facto)  
1268 devaluation of 1997<sup>32</sup> (depreciating by about 30 percent from 1996 to 1998), improving  
1269 the comparative (price) advantage of the tradable goods sector, both exportable and  
1270 import-competing agricultural commodities. Nevertheless, domestic terms of trade in  
1271 agriculture (i.e., agriculture/non-agriculture) declined slightly during the period since  
1272 government allowed greater imports of agricultural products, still (effectively) subject to  
1273 quantitative trade restrictions (David, 1999).

1274 **Incremental Output-Capital Ratios (IOCR)**

1275 Maintenance of many of the import substitution policies created distortions in the  
1276 incentive structure that made socially low-return investments attractive to private  
1277 investors and efficient activities relatively unprofitable. As a crude indicator of such a  
1278 policy consequence, we can examine the changes in the incremental output-capital ratios  
1279 (IOCR), defined as the ratio of increase in GDP to net fixed capital formation in the  
1280 current year (Boyce, 1993). The aggregate ratio of investment to income increased

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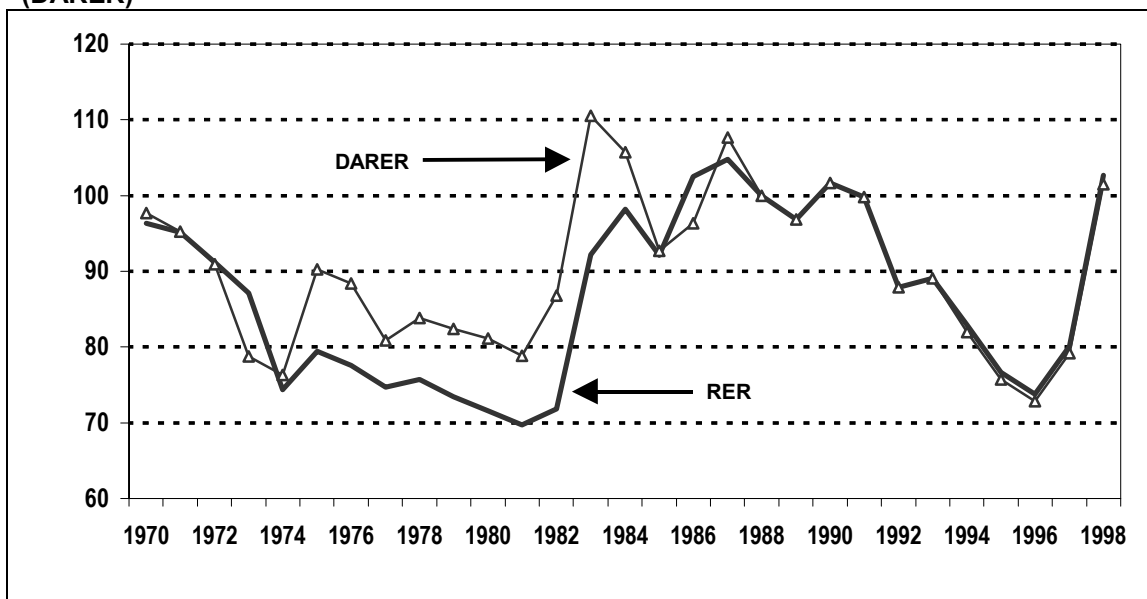
32. Monetary authorities allowed the peso to ‘trade on a wider band’ and ‘reflect the underlying market sentiment’ in July 1997, after a staunch defense of the domestic currency against speculators and after keeping the nominal exchange rate virtually fixed for three years despite the pronounced policy of a market-determined exchange rate.

1281 steadily during the 1960s and the 1970s. IOCR, on the other hand, indicates a somewhat  
 1282 upward trend until the early 1970s, but then declined rather sharply during the latter half  
 1283 of the 1970s through the early 1980s. A decline in investment returns, therefore, set in  
 1284 during the midst of the rapid and sustained economic growth in the 1970s, well before the  
 1285 debt crisis started in the early 1980s. This observation is consistent with our argument  
 1286 that distortions introduced with the industrial protection policies during the 1960s and  
 1287 1970s encouraged relatively inefficient economic activities at the expense of investment  
 1288 in activities where the Philippines had a comparative advantage.

1289 **Trends in real wage rates**

1290 The level of rural poverty remained relatively stable despite sustained economic growth  
 1291 in the 1970s. In contrast, after the mid-1980s poverty reduction appears to have become  
 1292 more sensitive to aggregate growth. One contrast between these two growth episodes can  
 1293 be found in the trend in real wage rates. Both skilled and unskilled urban wages declined  
 1294 consistently during the 1970s and early 1980s after relative stability during the 1960s  
 1295 (Table 15). The real wages of urban skilled and unskilled workers in the mid-1980s was  
 1296 nearly one-quarter of the wage level in the early 1960s. Given such a sharp decline in real  
 1297 wages, the slow reduction in poverty despite the aggregate growth is not surprising.  
 1298 Policies oriented toward import substitution adopted in the Philippines during the 1960s  
 1299 and 1970s tended to encourage capital-intensive industries at the expense of labor-  
 1300 intensive ones. As a result, the growth in labor demand in the industrial sector was slow  
 1301 and not able to absorb the rapidly increasing labor force in both urban and rural areas.  
 1302 While the high rate of population growth placed constant downward pressure on the wage  
 1303 rate, it is likely that slow growth in the labor-absorbing capacity of the economy as a  
 1304 result of government policies further exacerbated the decline in the real wage rate  
 1305 through the 1970s.  
 1306

1307 **Figure 7. Trends in real exchange rate (RER) and debt-adjusted real exchange rate (DARER)**



Source: Author calculations. DARER based on Fabella (1992)

1307 The real wage rate in agriculture (deflated by the consumer price index) fluctuated  
1308 widely, but the downward long-term trend is obvious — the real agricultural wage rate  
1309 declined from 41 pesos (in 1986 pesos) in the early 1960s to around 30 pesos in the mid-  
1310 1980s. Such decline in the agricultural wage rate appears to be the result of slow growth  
1311 in employment in rural and urban areas. In addition to slow growth in labor absorption in  
1312 the industrial sector, some observers have argued that farm mechanization during the  
1313 1970s partially contributed to the decline of rural wage rates. Adoption of modern  
1314 varieties, which tends to increase labor demand, was followed by adoption of labor-  
1315 saving technologies (such as the use of tractors, threshers, and direct seeding) during the  
1316 late 1970s, although it does not mean that the former causes (or requires) the latter (David  
1317 and Otsuka, 1994). Some observers have attributed, at least partially, the substitution of  
1318 machinery for labor amid stagnating agricultural wage rates to policy distortions such as  
1319 cheap credit and overvalued exchange rates, which made farm mechanization artificially  
1320 more profitable than its social return (Boyce, 1993; Barker, 1978).<sup>33</sup>

1321 In contrast, the trend in real wages appears to have turned upward at some point in the  
1322 early to mid-1980s. While consistent nationwide data on wages throughout the past four  
1323 decades is not available, the available data seem to indicate that real wages increased  
1324 between the mid-1980s and the 1990s. For example, Hayami and Kikuchi (2000) show  
1325 that real agricultural wages in a Laguna village declined during the 1970s by almost two-  
1326 thirds but then recovered after 1980, and that real wages in the mid-1990s were roughly  
1327 equivalent to those in the late 1960s. Industrial sector wages also increased after the mid-  
1328 1980s after a sharp downward trend during the 1960s and 1970s (Hayami and Kikuchi,  
1329 2000, p. 232). To the extent that policy reforms in the manufacturing and service sectors  
1330 after the mid-1980s encouraged expansion of the labor demand — as reflected in the rise  
1331 in real wages — these policy reforms may have contributed to a higher responsiveness of  
1332 poverty reduction to aggregate growth during the economic recovery in the late 1980s  
1333 and 1990s.

## 1334 **Political Economy of Delayed Economic Reforms**

1335 The adoption and maintenance of industrial protection policies appears to be a major  
1336 source of the sluggish performance in rural growth and rural poverty reduction in the  
1337 Philippines during the past several decades.<sup>34</sup> While import substitution industrialization

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33. Other than policy distortions, however, one of the main explanations for mechanization is the motivation to save supervision costs of hired labor, especially on larger farms (Boyce, 1993; David and Otsuka, 1994). On the other hand, Hayami and Kikuchi (2000) explain the adoption of labor-saving technologies in a Laguna village in the late 1970s in terms of the upturn in agricultural wages (relative to the price of outputs) that appears to have occurred around the same time.

34. A detailed discussion comparing government interventions in the rice and sugar sectors can be found in Amelina and Pressman (this volume). To the extent that their discussions point to different characteristics of Philippine politics than we do, such differences arise mainly because our discussions attempt to explain very different sets of policy outcomes. In particular, this discussion of ISI policies tends to emphasize the factors that did not change before, during, and after the Marcos dictatorship (despite the regime changes), while Amelina and Pressman highlight the differences between the Marcos era (authoritarian regime) and the period before and after that era to explain the rise and demise of the National Food Authority.



1338 (ISI) became a universally popular development strategy in the post-war period  
 1339 (especially in the 1950s), many developing countries shifted their development strategies  
 1340 away from ISI toward more export-oriented policies after the 1960s. The Philippines,  
 1341 however, maintained its policies oriented toward import substitution and depressing  
 1342 agricultural prices (mainly through negative indirect protection on agriculture via  
 1343 industrial protection) for a much longer period than did most of its Asian neighbors. A  
 1344 major policy shift toward reducing the bias against agriculture occurred in the 1980s in  
 1345 Indonesia and Thailand, whereas a similar policy shift in the Philippines would have to  
 1346 wait until the 1990s. In this section we examine the history of political dynamics behind  
 1347 such policies and address the question of why the Philippines retained a policy  
 1348 orientation toward import substitution longer than did many other developing countries.

1349

1350

**Table 15. Trends in real wages (1986 pesos, deflated by consumer price index as reported by the International Monetary Fund)**

Year	Agriculture <sup>a</sup>	Urban wage (unskilled) <sup>b</sup>	Urban wage (skilled) <sup>b</sup>
1962	41.31	89.50	126.74
1963	41.37	87.31	120.77
1964	36.16	80.92	112.94
1965	34.07	84.07	112.76
1966	38.68	86.02	112.90
1967	38.99	85.19	111.81
1968	39.04	92.95	118.38
1969	36.39	96.06	123.03
1970	31.36	92.42	113.37
1971	29.76	81.27	98.25
1972	30.68	79.61	95.27
1973	28.19	70.08	86.08
1974	22.40	56.42	70.12
1975	29.13	57.27	68.31
1976	37.17	55.11	65.01
1977	36.62	52.79	65.36
1978	36.20	51.23	68.40
1979	31.87	45.92	64.12
1980	27.18	40.37	57.69
1981	25.68	N.A.	N.A.
1982	26.84	N.A.	N.A.
1983	29.96	36.83	61.81
1984	25.51	27.29	43.42
1985	26.82	23.21	35.55
1986	29.20	23.04	35.28

a. Average of rice and maize daily wages (without meals) as reported by the Bureau of Agricultural Economics. Estimates for 1962-65 were derived seven-crop aggregates reported by Balagot and Librero (1975)

b. Daily wage data for 1962-80 as reported by the Central Bank. Wages estimates for 1983-86 were calculated from March 1983 data in World Bank (1985) and quarterly nominal wage growth rates for 1983-86 reported in Montes (1987)

Source: Boyce (1993)

1351

1352 ***Historical dominance of the ‘landed oligarchy’ and the weak state***

1353 In order to understand industrial protection policies it is necessary to start with the history  
1354 of Philippine politics that largely shapes today’s political economy. (See Hayami’s  
1355 chapter in this volume for a more detailed discussion of how geography and colonial  
1356 policies have historically interacted to form the different socioeconomic structures of  
1357 Indonesia, the Philippines, and Thailand.) The combination of the historical dominance of  
1358 politics by a ‘landed oligarchy’, the weak state bureaucracy vis-à-vis such family  
1359 enterprises, and the largely personal basis of politics without well-defined political parties  
1360 is the prominent theme in the literature on the Philippine political economy. Perhaps one  
1361 of the most notable features of Philippine politics is the historical dominance of the  
1362 initially land-based family enterprises, or the ‘landed oligarchy,’ and their rampant rent-  
1363 seeking (McCoy, 1994; Hutchcroft, 1998; Intal and Power, 1989; Putzel, 1992;  
1364 Riedinger, 1995). The origin of their dominance dates back to the Spanish colonial  
1365 period. The islands’ vast lands were initially held by the Catholic church, but the church  
1366 estates were later (especially in the 19th and 20th centuries) acquired (through lease,  
1367 purchase, and government transfer) by a small number of elite families. Opening the  
1368 colony to exports of tropical agricultural products in the late 18th century provided a  
1369 major impetus for land consolidation by the Filipino elite (Fegan, 1989; Hayami, et al.,  
1370 1990; Hayami and Kikuchi, 1982; Putzel, 1992). By the end of the 19th century, many of  
1371 the prominent family enterprises, such as Ayala (1834), Soriano (1890), Cojuangco  
1372 (1870), as well as sugar haciendas in Negros had been founded (Putzel, 1992).

1373 The U.S. colonial rule after the late 19th century introduced an elected legislature,  
1374 political parties, a strong presidency, and independent judiciary (Wurfel, 1988). Shortly  
1375 after the introduction of these institutions, government positions in the bureaucracy and  
1376 legislature were rapidly ‘Filipinized’ (mainly between 1913 and 1921) by the landowning  
1377 elite (Wurfel, 1988; Putzel, 1992). Thus the pattern was established by the early 20th  
1378 century that prominent family enterprises, initially based on vast land ownership, had  
1379 almost exclusive access to government policymaking and engaged in various rent-seeking  
1380 activities (Hutchcroft, 1998; McCoy, 1994). The dominance of the landed oligarchy has  
1381 been reflected in many aspects of economic policymaking in past decades, including the  
1382 extremely slow pace of legislating and implementing land reform (Hayami et. al., 1990;  
1383 Putzel, 1992; Riedinger, 1995).

1384 A relatively weak state bureaucracy reflects the dominance of the landed oligarchy in  
1385 Philippine politics. Political offices at the national level are won with the electoral  
1386 support of provincial elites and Manila’s oligarchs. During World War II, “the collapse of  
1387 central authority and the distribution of infantry weapons to anti-Japanese guerillas broke  
1388 Manila’s monopoly on firearms”, leading to the loss of central government control of the  
1389 countryside to regional politicians and the emergence of local ‘warlords’ and endemic  
1390 political violence. (McCoy, 1994, p. 14) The dependence of the president and members  
1391 of Congress on the provincial elite for votes and the loss of monopoly control of the  
1392 military to the same elite thus set the stage for a political economy characterized by a  
1393 weak state and powerful oligarchy throughout the post-war period.

1394 ***Origin of import substitution policies***

1395 As a result of reciprocal free trade with the United States during the colonial period, the  
 1396 Philippines became heavily dependent on the U. S. market for its exports of agricultural  
 1397 products such as sugar, copra, coconut oil, and abaca. Diversification was discouraged.  
 1398 The free trade regime continued after independence in 1946 together with limitations  
 1399 placed on economic policymaking under the Bell Trade Act, such as the requirement for  
 1400 permission from the American president before altering the peso/dollar exchange rate.

1401 After independence, the exchange rate was maintained at the pre-war level despite  
 1402 high inflation, which would presumably protect the interests of U.S. investors as well as  
 1403 U.S. agricultural producers. Even though U.S. aid was applied to the large trade deficits,  
 1404 the Philippines hit the first of numerous post-war balance of payments crises in 1949. In  
 1405 the face of the crisis, the newly founded Central Bank instituted import controls on  
 1406 foreign exchange while maintaining the overvalued local currency (Montes, 1991; Intal  
 1407 and Power, 1990; Hutchcroft, 1998). Given the prominence of the landed oligarchy in  
 1408 Philippine politics and their heavy dependence on primary exports to the U.S. at the time,  
 1409 there was strong domestic pressure, especially from the powerful sugar bloc, to devalue  
 1410 the peso. Despite such domestic political dynamics, however, the overvalued peso was  
 1411 maintained and import controls were imposed, apparently due to U.S. dominance over  
 1412 economic policymaking. (Hutchcroft, 1989; Intal and Power, 1991).<sup>35</sup> In this particular  
 1413 episode, external influence from the U.S. government weighed even heavier over  
 1414 policies, despite the overwhelming dominance of the landed oligarchy within the  
 1415 Philippine political arena. The system of import controls and an overvalued domestic  
 1416 currency — common ingredients of the ISI strategy — was initially introduced in the  
 1417 Philippines not as a conscious part of such a strategy, but rather as a response to the 1949  
 1418 balance of payments crisis (Hutchcroft, 1998; Intal and Power, 1990; Albuero, 1993).

1419 For many other developing countries, the explanation for the adoption of the ISI  
 1420 strategy could often be found in the prevailing political influence of a thin layer of mostly  
 1421 urban entrepreneurs over the rural population, as well as the rest of the urban population,  
 1422 “an uneasy alliance of sorts between the protected industries and the bureaucrats  
 1423 administering the protection” (Rodrik, 1996, 12).<sup>36</sup> In the case of the Philippines,  
 1424 however, we could argue that the main components of the ISI strategy were put in place  
 1425 *before* domestic interests for the industrial sector developed sufficiently. Instead, the ISI  
 1426 policies were instituted exogenously and domestic vested interests emerged in response  
 1427 to the new policy regime. This reflects the relative lack of competitive interest-group  
 1428 politics in economic policymaking, a defining characteristic of the Philippine political  
 1429 economy.

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35. The roots of economic protectionism can be traced further back to at least as early as the idea of economic nationalism pursued by President Quezon in the late 1930s (Gopinath, 1986)

36. For example, focusing on Latin America, de Janvry (1981, p. 198) argues that the adoption of the ISI strategy was “a concerted effort of all the dominant classes — commercial bourgeoisie, agrarian oligarchy, and emerging national industrial bourgeoisie,” under the condition of relative autonomy of the ‘peripheral’ states from external forces (from the ‘center’).

1430 ***Emerging vested interests under the ISI regime***

1431 The ISI strategy was the prevailing economic philosophy in many developing countries  
1432 during the 1950s, and the Philippines was no exception. As we have shown, however,  
1433 import controls were already in place and an overvalued domestic currency was  
1434 maintained *before* the Philippines entered what is commonly known as the import-  
1435 substitution industrialization (ISI) period. Most of the industrial infrastructure of the  
1436 country was established during this period starting in the 1950s (Montes, 1991). Once  
1437 instituted, ISI policies in turn induced the landed oligarchy to diversify their investment  
1438 portfolios into industrial sectors that were protected under ISI policies.

1439 For example, based on the description of the company history given by Yoshihara  
1440 (1985), about 15 percent of the 250 largest manufacturing firms as of the late 1960s could  
1441 be identified as originating from the landed oligarchy. If we restrict our attention to  
1442 Filipino firms by excluding foreign firms, roughly one-third of the largest Filipino  
1443 manufacturing sales was accounted for, at least initially, by land interests. If we further  
1444 restrict our attention to the non-Chinese Filipino (i.e., mainly Spanish mestizos and  
1445 Malay Filipinos) manufacturers, the share rises to more than one-half (56 percent).

1446 A bloc of vested interests resulting in a powerful ‘enduring coalition’ to perpetuate  
1447 the protectionist system was created (Hutchcroft, 1998, p. 76; Intal and Power 1990;  
1448 Albuero, 1993). As more of the landed oligarchy diversified their portfolios into ISI,  
1449 conflict of interest over economic policy (e.g., exchange rates) between export agriculture  
1450 (landed oligarch’s traditional sector) and the import substituting (IS) industry (landed  
1451 oligarch’s new investment portfolio) became increasingly blurred, and possible policy  
1452 conflicts were muted by family ties among the dominant economic elite. Thus a situation  
1453 emerged where economic policymaking was characterized by a bias toward the rich and  
1454 powerful, but interest group politics, such as agricultural versus non-agricultural, were  
1455 conspicuously absent. As a result, it is no surprise that agricultural pricing policies of the  
1456 past few decades cannot be explained in terms of interest groups based on any specific  
1457 sub-sector or crop (Intal and Power, 1991)

1458 ***Marcos regime and policy reform***

1459 In some aspects, the Marcos martial law regime broke from the traditional politics. By  
1460 suspending the Congress, martial law limited access by the traditional oligarchy, now  
1461 with fairly diversified economic interests, to state policymaking (Montes, 1991; Intal and  
1462 Power, 1991). On the other hand, the relative importance of the government bureaucracy  
1463 increased during martial law, allowing implementation of policy reforms advocated by  
1464 technocrats (as well as prescribed by international financial institutions such as IMF and  
1465 World Bank) independently of the interests of the traditional elite. In the end, however,  
1466 such departure from traditional politics did *not* lead to significant policy reforms as had  
1467 been hoped by some.

1468 To the extent that systematic access by the traditional landed oligarchy was limited,  
1469 its access was replaced by an increase in individual and ad hoc access by a new oligarchy  
1470 or cronies closely associated with the Marcos family. The Marcos authoritarian  
1471 government needed to create its own social base in order to sustain its political control  
1472 and bureaucratic machinery. President Marcos relied on a group of new elite mainly

1473 recruited from his own loyalists because they appeared to be the only reasonable  
 1474 constituency for his authoritarian regime (Montes, 1991). Creation of a new elite, in turn,  
 1475 required bending the rules by providing favors to specific individuals (Montes, 1991, p.  
 1476 44). Furthermore, after 1978 President Marcos “became increasingly reliant upon  
 1477 courtiers to deliver the blocs of provincial votes that he would need for a new mandate”  
 1478 (McCoy, 1994, p. 18). As a result, the Marcos martial law regime “rested upon a coalition  
 1479 of rent-seeking families not unlike those that had dominated electoral politics before  
 1480 martial law” (McCoy, 1994, p. 17)

1481 Despite initial hopes by some, authoritarian rule did not facilitate sweeping policy  
 1482 reforms. The survival imperative of the Marcos regime prevented implementation of  
 1483 sweeping and systematic policy reforms despite the apparent autonomy of the regime  
 1484 from interest groups. At least in the Philippines, authoritarianism (or other forms of  
 1485 concentrated executive power such as the initial Aquino presidency) proved to be no  
 1486 more conducive to policy reforms than were democratic regimes.<sup>37</sup>

1487 ***Restoration of democracy and return of the traditional oligarchy***

1488 In 1986, the ‘people power revolution’ forced President Marcos into exile and a broad but  
 1489 shallow anti-Marcos coalition brought Mrs. Corazon Cojuangco Aquino to the presidency  
 1490 “with a revolutionary mandate for change and few debts to any of the prominent political  
 1491 families allied with Marcos” (McCoy, 1994, p. 18). A significant number of policy  
 1492 reform measures during the Aquino administration were implemented during the first  
 1493 year of her presidency prior to the restoration of Congress, including elimination of the  
 1494 monopolies for sugar, coconut, beef, wheat, and fertilizer; rehabilitation of the rural  
 1495 banking system; and tax reform (Tolentino, 1994).

1496 Many observers contend, however, that the return to democracy under the Aquino  
 1497 presidency largely meant a return to pre-martial law politics dominated by the elite  
 1498 (Montes, 1991; Tolentino, 1994; Riedinger, 1995; McCoy, 1994). The protectionist  
 1499 interests of the traditional oligarchy were represented in the administration, for example,  
 1500 by the appointment of an entrepreneur in IS manufacturing as secretary of the  
 1501 Department of Trade and Industry (DTI), and more generally, access by the wealthy elite  
 1502 to policymaking was assured by a proliferation of government-private sector  
 1503 collaborative councils and other dialogue channels.<sup>38</sup> The DTI secretary “did his best to  
 1504 delay the implementation of the TRP [tariff reform program] and the ILP [import  
 1505 liberalization program] . . . and was quite successful” (Tolentino, 1994, p. 100).  
 1506 Industries that could be affected by liberalization also mounted aggressive and successful

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37. Similarly, a global literature review by Rodrik (1996) also failed to find support for the hypothesis that economic policy reforms conducive to growth (or the types of policy reforms implemented by the East Asian tigers) require authoritarianism.

38. For example, according to Tolentino (1994, p. 143), “[organized farmers’ and peasants’] groups would request to see the President to discuss issues affecting agriculture and agrarian reform. They would need to go through all the formal channels of protocol and appointments, and if lucky, would get to see the President about four to six weeks later. In sharp contrast, it was common for prominent businessmen and the representatives of the business groups to request for meetings with the President and get to see her within a day or two!”

1507 lobbying campaigns (Tolentino, 1994, p. 103-104). As a result, trade liberalization was  
1508 slow, an overvalued exchange rate was maintained, and industry-specific exemptions  
1509 (e.g., cars, phosphatic fertilizers, tinplate, appliances, etc.) were introduced. Recapturing  
1510 the policymaking process by the landed oligarchy also manifested itself in relative  
1511 inaction by President Aquino prior to reopening Congress and the substantial dilution of  
1512 land reform in the legislature, as well as massive delay in its implementation (Hayami et  
1513 al., 1990; Putzel, 1992; Riedinger, 1995).

#### 1514 ***Delay in departing from the ISI strategy***

1515 The ISI strategy was a popular development strategy in the 1950s (Rodrik, 1996), but  
1516 powerful vested interests in the Philippines prevailed upon the government to maintain  
1517 protectionist policies long after most other developing countries had abandoned them.

1518 One possible explanation for this difference could be the absence of a political  
1519 environment in which interest groups with distinct economic interests compete (Hara,  
1520 1994). After the landed oligarchy diversified its investments under an ISI regime, their  
1521 economic interests were not clearly defined by economic sectors. Because the interests of  
1522 the dominant elite encompassed a range of sectors, from export agriculture to IS  
1523 manufacturing to banking, there were not many opportunities for a powerful and coherent  
1524 economic interest group to emerge to challenge the dominance of the oligarchy. The  
1525 enduring influence of vested interests in IS oriented policies can be partially attributed to  
1526 the way the IS policies were initially introduced.

1527 Unlike in countries where the adoption of an ISI strategy was mainly due to political  
1528 pressures *in competition with* rural landlords, perhaps the (indigenous) pre-ISI industrial  
1529 sector was not a strong political force behind the adoption of the IS policies in the  
1530 Philippines.<sup>39</sup> Instead, a powerful coalition of landed oligarchy who were also IS  
1531 manufacturers *emerged in response to* the adoption of IS oriented policies that initially  
1532 were *externally imposed* by U.S. economic interests. As a result, a social force distinct  
1533 from the landed oligarchy never developed.

1534 Rodrik (1996) suggests that the East Asian tigers managed to adopt IS oriented  
1535 policies without inviting excessive rent-seeking because of the well-educated labor force  
1536 (which leads to a competent bureaucracy), and more importantly, the relatively  
1537 egalitarian distribution of wealth and income. Such a distribution prevents the emergence  
1538 of powerful interest groups, which reduces the need for government redistribution  
1539 policies.<sup>40</sup> In addition, a low incidence of income and wealth inequality may encourage  
1540 early adoption of policy reforms because it is easier for a government to convince its  
1541 constituency that the burden of economic adjustment will be evenly distributed and thus  
1542 build a consensus for reform among its constituency (Rodrik, 1996, p. 27). The

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39. There was some indigenous development in IS manufacturing in the pre-war period (Yoshihara, 1985).

40. These are likely to be only partial answers. Rodrik (1996, p. 19) notes that we do not really know why “the East Asian governments [were] able to avoid the rent-seeking activities that typically accompanied microeconomic interventions.” Nor has the link between high inequality and delayed reform through political channels yet been empirically and directly tested in the literature. (Rodrik, 1996, p. 21)

1543 Philippine example is apparently consistent with the general proposition that higher  
1544 inequality hinders good governance and policy reform.

1545 Comparing the Philippine political economy to its Southeast Asian neighbors,  
1546 Hutchcroft (1998) argues that the Philippine state can be characterized as a “patrimonial  
1547 *oligarchic* state” as opposed to its Indonesian (especially during the earlier Suharto  
1548 period) and Thai (especially in the years 1932-1973) counterparts that are characterized  
1549 as “patrimonial *bureaucratic* states.” In Hutchcroft’s terminology, a ‘patrimonial state’ is  
1550 a polity where rent-seeking is rampant. Among such patrimonial states he makes a further  
1551 distinction according to the relative strengths between the state apparatus (i.e., state  
1552 bureaucracy, or ‘political aristocracy’) and private business interests. In a ‘patrimonial  
1553 administrative state’ a bureaucratic elite tends to “extract privilege from a weak business  
1554 class,” while in a ‘patrimonial oligarchic state’ “a powerful business class extracts  
1555 privilege from a largely incoherent bureaucracy” (Hutchcroft, 1998, p. 20). He argues  
1556 that in an ‘oligarchic patrimonial state’ such in the Philippines, it is difficult for policy  
1557 reforms ‘from above’ to succeed given the relatively weak position of state bureaucracy  
1558 vis-à-vis private business interests. The absence of social forces challenging control by  
1559 the oligarchy led the ‘oligarchic patrimonial’ nature of the state to endure (Hutchcroft,  
1560 1998, pp. 52-54).

1561 ***Political behavior and rationality — some remaining puzzles***

1562 Hutchcroft’s argument is not without controversy. Some observers maintain that the  
1563 differences between the Philippine and Thai political economies may not be as large as  
1564 Hutchcroft claims. A veteran scholar of Philippine politics argues that “the two political  
1565 economies are converging — with Thai elections and political parties, for instance,  
1566 becoming more like their Philippine counterparts — in turn affecting the role of private  
1567 interests in state decisions on the economy, and thus reducing the strength of the  
1568 bureaucracy” (Wurfel, 2000, p. 893). Furthermore, no explanation is offered as to how  
1569 one type of the ‘patrimonial’ state emerges in some societies, but the other type emerges  
1570 elsewhere. In addition, if the bureaucrats in a ‘patrimonial bureaucratic state’ are rational,  
1571 it is not clear why they initiate policy reforms that eventually lead to the loss of their own  
1572 economic advantages. As Rodrik (1996) notes, political explanations for policy changes  
1573 often presume, implicitly or explicitly, myopic behavior by political actors. Economists,  
1574 however, have a strong tendency not to give up the assumption of rational (thus non-  
1575 myopic) agents “until they become older — wiser? — and distinguished” (Rodrik, 1996,  
1576 p. 23). Without maintaining the rationality assumption at some level, any ‘explanation’ of  
1577 past events would have little predictive power. Thus, such apparently *collective* irrational  
1578 behavior would still need to be explained in terms of rational behavior of *individual*  
1579 members.

1580 Among the policy instruments commonly associated with the ISI strategy, a  
1581 distinction can be made between unsustainable macroeconomic policies (such as  
1582 overvalued domestic currency or large fiscal deficits) and microeconomic policies that  
1583 lead to inefficient resource allocation but induce relatively limited effects on  
1584 macroeconomic stability (such as trade restrictions or industry-specific subsidies/taxes).  
1585 This distinction is often lost in policy discussions (Rodrik, 1996). In the Philippines, both  
1586 sets of policies have tended to be maintained under the long-sustained ISI regime (at least

1587 prior to the 1990s). By definition, maintaining unsustainable macroeconomic policies will  
1588 eventually lead to macroeconomic instability that sets off costly adjustment processes for  
1589 everyone, and “the longer they [unsustainable macroeconomic policies] are pursued the  
1590 more drastic their eventual reversal must be” (Rodrik, 1996, p. 21) If the vested interest  
1591 groups (landed oligarchy-cum-industrial manufacturers) are rational, it would appear that  
1592 they have a good reason to sustain the distortionary microeconomic policies (such as  
1593 trade restrictions and industry-specific taxes or subsidies) but *not* sustain the macro  
1594 components of the ISI strategy (such as overvalued exchange rates) that would eventually  
1595 hurt them as well as others. Explaining the maintenance of the whole ISI package in  
1596 terms of ‘vested interest’ groups may also contain an element of collective  
1597 myopia/irrationality that would need to be further explained, an area that needs further  
1598 exploration in the literature.<sup>41</sup>

1599 ***Rural organizations and local politics — potential for changes?***<sup>42</sup>

1600 Much of the literature on Philippine politics focuses on the persistent dominance of the  
1601 landed oligarchy. As we have seen, such a view can explain maintenance of development  
1602 strategies that ran counter to rural development and poverty reduction. Domination of  
1603 political processes by the landed oligarchy can also explain the slow and prolonged pace  
1604 of land reform (Riedinger, 1995; Putzel, 1992; Fuwa, 2000). In contrast, small farmers  
1605 and landless laborers, who comprise the overwhelming majority of the rural poor, have  
1606 relatively little influence over the policies that very much determine their livelihood.  
1607 They are large in number and dispersed geographically, thus it is particularly difficult for  
1608 them to organize against the well-organized landed oligarchy.

1609 Against such a general picture, the political influence of peasants and the landless  
1610 could to some extent be enhanced in local political dynamics by the efforts of grassroots  
1611 organizations. Case studies in local implementation of land reform programs, for  
1612 example, indicate that small-scale farmers and landless laborers who organize and build  
1613 coalitions mediated by NGOs and POs could make a significant difference at the local  
1614 level. Under the Comprehensive Agrarian Reform Program (CARP), the Ramos  
1615 administration redistributed a far larger amount of land than any of its predecessors,  
1616 although it still fell short of the initial targets stipulated by the program (Fig. 5). Some  
1617 observers attribute this redistribution to some changes in civil society originating in the  
1618 late 1980s.

1619 According to these accounts, the ‘people power revolution’ of February 1986 that  
1620 ousted President Marcos not only returned the landed oligarchy to the center stage of  
1621 national politics, but also led to the emergence of various peasant organizations (Borras,

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41. It is interesting to note that the Philippine example is a total reversal of the wholesale adoption of both macro- and microeconomic policy reforms in Latin America during the 1980s. This is in marked contrast to the earlier policy reforms by East Asian tigers where reforms were limited to macro stabilization policies while maintaining selective microeconomic interventions, as illustrated by Rodrik (1996).

42. This section draws heavily on Fuwa (2000).



1622 1999; Putzel, 1992).<sup>43</sup> There have been some reported cases (in areas such as Nueva  
 1623 Ecija, Davao del Norte, Pampanga, Quizon, and Laguna) of increasingly active  
 1624 involvement in land redistribution by local and national NGOs. Linking local peasant  
 1625 groups to pro-reform officials within the national agrarian reform bureaucracy, linking  
 1626 peasant groups from different regions, and media campaigns<sup>44</sup> contributed to successful  
 1627 land redistribution despite strong resistance from local landowners (Borras, 1999). Such  
 1628 actions suggest a potential for a political force to counteract the traditionally powerful  
 1629 landed oligarchy.

## 1630 **Summary and Conclusions**

1631 In this paper we have reviewed overall rural development and government policies that  
 1632 had major effects on rural development over the past four decades in the Philippines. We  
 1633 then explored the dynamics of the political economy behind some of those policies.  
 1634 While there was sustained growth in national income during the 1960s through the 1970s,  
 1635 the rate of growth was lower than that in Indonesia or Thailand. Furthermore, there has  
 1636 been relatively little transformation of the economic structure compared to its neighbors  
 1637 — the share of agriculture in GDP in the Philippines, for example, was much smaller  
 1638 than that of Indonesia or Thailand as of 1960, but the subsequent decline of agriculture's  
 1639 share was much slower in the Philippines than in its Southeast Asian neighbors. As a  
 1640 result, as of 1997 the share of agriculture in GDP was higher in the Philippines than in  
 1641 Indonesia or Thailand.

1642 More importantly, the pace of poverty reduction in the past few decades was much  
 1643 slower in the Philippines than it was in its neighbors. Poverty incidence (headcount  
 1644 ratios) in Indonesia fell from a level nearly twice that in the Philippines in 1975 to less  
 1645 than one-half the level in the Philippines in 1995. The incidence of poverty in Thailand,  
 1646 on the other hand, was already less than one-quarter that in the Philippines in 1975, and  
 1647 then subsequently dropped to near zero by 1993 (Table 1). Such a disappointing  
 1648 performance by the Philippine economy compared to its neighbors is among the most  
 1649 notable observations emerging from our comparative study.

1650 Focusing on the agriculture or rural sector in the Philippines, the aggregate growth in  
 1651 agricultural production during the 1960s and 1970s was quite substantial and comparable  
 1652 to the pace of agricultural growth in Indonesia or Thailand. Much of the agricultural  
 1653 growth during this period resulted from increased productivity as new technology was  
 1654 introduced (especially high-yielding varieties and increased use of fertilizer) and public  
 1655 investment (especially irrigation) expanded. Despite the impressive growth in total  
 1656 agricultural production up to the early 1980s, the effect of such aggregate growth on  
 1657 reduction of rural poverty was not very impressive. While the incidence of rural poverty  
 1658 generally declined over the past four decades, the pace of poverty reduction in the

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43. Such a diversified mode of mobilization included organized attempts at land occupation that peaked in 1987-88 when the Comprehensive Agrarian Reform Law was being debated in Congress.

44. Other potential involvement by local and national NGOs includes providing legal advice to counter the common landowner tactic of bringing legal cases against land reform beneficiaries, supporting peasant demonstrations and picketing, providing logistical support for lobbying in the national capital, and providing links to international NGOs.

1659 Philippines (measured by income or expenditure or by non-income dimensions) has been  
1660 quite disappointing compared to its neighbors.

1661 One of the main reasons for such weak effects of aggregate growth in reducing rural  
1662 poverty can be attributed to the historical processes leading to the social structure of the  
1663 rural Philippines and the growing incidence of landlessness during the period (Hayami,  
1664 this volume). Additional reasons can be found in a layer of policy measures that were  
1665 ‘anti-small-scale farmer’ and thus ‘anti-poor.’ It has been well documented that  
1666 economy-wide policies comprising the import-substitution industrialization (overvalued  
1667 exchange rates, industrial protection) during the 1960s and 1970s depressed the relative  
1668 price of agricultural products and encouraged capital-intensive patterns of  
1669 industrialization, thereby hampering the absorptive capacity of economic growth and  
1670 industrialization for labor. Furthermore, critics have argued that policy interventions  
1671 targeted to the agriculture sector appear to have had a bias against small-scale farmers.  
1672 For example, the subsidized credit program reached relatively few small-scale farmers  
1673 and fertilizer subsidies were largely ineffective.

1674 Growth in agricultural production stagnated in the 1980s as a result of several factors,  
1675 including price declines in world markets, stagnation in public investments (especially  
1676 rural roads, irrigation, and research), and high-yielding varieties exhausting their  
1677 potential. In addition, the slow process and uncertainty surrounding the land reform  
1678 program (CARP) in the late 1980s appears to have had negative effects on private  
1679 investments and encouraged non-planting and premature land conversion as a means of  
1680 avoiding land redistribution. In the meantime, unlike in the neighboring countries, despite  
1681 a series of policy reforms, an import substitution orientation was maintained throughout  
1682 the 1980s, and as a result the magnitude of negative indirect protection on the agriculture  
1683 sector remained relatively high.

1684 Policy measures biased against small-scale farmers that were introduced in the 1970s  
1685 were reformed in the 1980s. Meanwhile, despite the substantial slow-down in agricultural  
1686 growth in the 1980s, rural poverty continued to decline, albeit very slowly, through the  
1687 1980s and 1990s. A main factor that contributed to the increased responsiveness of  
1688 poverty reduction to economic growth during this period appears to be expanded  
1689 opportunities for non-farm income in rural areas (Hayami and Kikuchi, 2000). In  
1690 addition, the policy reforms of the 1980s and 1990s may have made the effect of  
1691 aggregate growth more ‘pro-poor’ compared to the earlier period (Balisacan, 1998b;  
1692 Balisacan, 1999a). In the 1990s, however, there were both accelerated policy reforms  
1693 (liberalization of foreign exchange markets, trade liberalization, privatization in the  
1694 service sector) and increased protection for the agriculture sector (introduction of high  
1695 tariffs). As a result, the effective rate of protection for the agriculture sector became  
1696 roughly equal to that of the manufacturing sector in the 1990s, a major policy shift from  
1697 the previous several decades when the effective protection for agriculture was  
1698 substantially less than that for manufacturing.

1699 Many observers have argued that policies based on import-substitution  
1700 industrialization (indirect negative protection) hindered rural development, and that such  
1701 policies encouraged a capital-intensive pattern of industrialization. This pattern hampered  
1702 the growth of labor-intensive industries that could further reduce rural poverty.

1703 Despite such negative consequences for rural development and the rural poor, an  
 1704 import substitution orientation persisted in the Philippines through the 1980s, a much  
 1705 longer period than in other developing countries. The lack of competitive interest groups  
 1706 that could influence policies contributed to this persistence.

1707 The historical dominance of the landed oligarchy, which originated during the  
 1708 Spanish colonial period, has consistently characterized Philippine politics and the  
 1709 introduction of an import-substitution industrialization orientation. Such an orientation  
 1710 induced the landed oligarchy to diversify into the newly protected industrial sector, thus  
 1711 creating a formidable vested interest group. With the absence of any counter-balancing  
 1712 group to challenge the dominance of the oligarchy, such a policy orientation persisted.  
 1713 Neither the introduction of authoritarianism in the 1970s nor the restoration of democracy  
 1714 in 1986, altered such a basic structure of the Philippine politics.

1715 While definitive quantitative evidence is scarce, the Philippines is well known for  
 1716 highly unequal wealth distribution (especially land ownership), which also originates in  
 1717 the colonial period (Hayami, this volume). The effects of economic growth on poverty  
 1718 reduction are likely to be smaller when income inequality is high. Empirical evidence  
 1719 shows a negative relationship between initial inequality and subsequent growth, although  
 1720 the exact mechanisms for such correlation are not entirely clear (Pearsson and Tabellini,  
 1721 1994). Many government policies during the past three decades apparently contributed to  
 1722 the disappointing performance in Philippine development. The political processes behind  
 1723 these policies, in turn, could also be a result of high initial inequality in wealth  
 1724 distribution. Some have argued that high inequality hinders the emergence of a political  
 1725 process with competitive interest groups and may encourage a political process with  
 1726 rampant rent-seeking (Binswanger and Deininger, 1998; Rodrik, 1996). Philippine  
 1727 development during the past few decades appears to be a prototypical example of the  
 1728 thesis that initial inequality hurts subsequent economic development through the adoption  
 1729 of poor policies through a political process without competitive lobbying. Lack of such  
 1730 competition is a result of the high inequality in wealth distribution, a lingering legacy of  
 1731 the colonial era.

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# Appendix 1

## Is the Rural-Urban Migration Story a Statistical Illusion?

1945

1946

1947

1948 Judging only by statistics, it appears that there have been few improvements in the  
1949 Philippine countryside over the last few decades. Indeed, looking at official estimates, the  
1950 poverty incidence in rural areas has fallen very sluggishly (from 56 percent in 1985 to 51  
1951 percent in 1997). Despite substantial economic growth, the distribution of wealth seems  
1952 to have hardly changed. The rural poor still account for about 70 percent of all poor  
1953 people nationwide and their numbers appear to be growing (from 18.7 million in 1985 to  
1954 19.6 million in 1997).

1955 These numbers are in stark contrast to the apparent ‘success’ of urban areas in terms  
1956 of poverty alleviation. As shown in earlier studies, poverty reduction in urban areas has  
1957 been quite substantial (Balisacan, 1999c). The poverty head count, for example, fell by  
1958 13.5 percentage points from 1991 to 1997, which is in sharp contrast to the 3.6  
1959 percentage point reduction in rural areas.

1960 Two caveats are necessary. First, rural estimates may not be strictly comparable,  
1961 because changes in rural-urban classifications over time create a downward bias on the  
1962 usual indicators of rural development performance. Second, even if examining roughly  
1963 comparable estimates (e.g., for the 1990s), problems still emerge because of the  
1964 phenomenon of ‘shifting physical areas’ as rural areas become increasingly urbanized,  
1965 again dampening rural performance as reflected in the statistics.

### 1966 **Changing Definitions**

1967 The definition of ‘urban areas’ in the Family Income and Expenditures Survey (FIES),  
1968 the main source of data for rural household indicators over time, has changed  
1969 substantially through the years. In the 1961 FIES, urban areas included Metro Manila  
1970 (plus its adjacent cities and municipalities), chartered cities, provincial capitals, and all  
1971 town centers of municipalities.

1972 The 1965 FIES added population density as a criterion for the urban classification,  
1973 including as urban all town centers of municipalities with a density of at least 500  
1974 persons per square km as well as villages contiguous to these centers having at least  
1975 2,500 inhabitants. Since 1971, any district with at least six establishments (commercial,  
1976 manufacturing, recreational, and/or personal services) can also qualify as an urban area,  
1977 regardless of population density. As classifications change, a statistical migration has  
1978 been added to the human migration.

## 1979 Shifting Physical Areas

1980 In addition to changing definitions, the physical area of the ‘rural’ sector is shifting over  
 1981 time. As population grows and/or economic activity expands, an initially rural area will  
 1982 sooner or later be classified as urban. While this may not pose a problem in measuring,  
 1983 for example, urbanization trends, it tends to depress rural performance indicators.

1984 Suppose that rapid agricultural growth in some regions leads to a similarly rapid  
 1985 expansion of non-farm employment and income. This change induces urbanization,  
 1986 thereby reducing the physical size of ‘rural’ areas. Poverty incidence in urbanizing areas  
 1987 tends to fall relative to that in shrinking rural areas because household income rises faster  
 1988 in the former. This is particularly true if there are constraints to labor movement from  
 1989 slow to rapidly growing areas, or if there are considerable lags to such movement.

1990 Although growth stimulus is initially rural-based, gains in poverty reduction appear to  
 1991 happen in urban areas. The data in population censuses would then suggest that rural  
 1992 development programs, even if they spur rural income growth and reduce rural poverty,  
 1993 do not matter much.

## 1994 Rural-Urban Migration Trends — An Exaggeration?

1995 The reclassification of physical areas over time has a particularly important implication  
 1996 on rural-urban migration stories. High urban population growth in less-developed  
 1997 countries is, for example, commonly attributed to rapid rural-urban migration, with  
 1998 evidence of such migration based mainly on published population censuses. If  
 1999 reclassification of physical areas is driving the commonly observed high urban  
 2000 population growth, then the rural-urban story in the development literature can be vastly  
 2001 exaggerated.

2002 For the country as a whole, it is the reclassification of physical areas — *not physical*  
 2003 *movement of population from rural to urban areas* — that mainly accounts for the  
 2004 growing share of urban areas in the total population. This is easy to demonstrate. Table  
 2005 A1 highlights rural and urban population counts based on published population censuses,  
 2006 as well as population estimates for *fixed* physical rural and urban areas (which involves  
 2007 reclassifying geographic areas in various population censuses according to their urban-  
 2008 rural classification in the 1970 census of population). Estimates based on fixed areas  
 2009 indicate that ‘rural’ areas had a population share of nearly 69 percent that dipped to 64  
 2010 percent in 1990. In contrast, the census report shows the population share of ‘rural’ areas  
 2011 falling from nearly 69 percent to 51 percent during the same period.

## 2012 Comparability Problems

2013 Reclassification obviously reduces the comparability of rural poverty indicators. It has  
 2014 been demonstrated that a failure to consider ‘shifting physical areas’ arising from  
 2015 reclassification of villages can distort the overall picture of actual performance. We can  
 2016 return to the example of (extremely slow) rural development in the late 1980s and the  
 2017 early 1990s as an illustration. Sampling for the 1985 and 1988 FIES was based on the  
 2018 1980 population census, while that for the 1991 FIES was based on the 1990 census.

2019 (Note that both censuses applied the same set of criteria in classifying villages into  
2020 'urban' and 'rural' areas.)

2021 A large number of rural areas in 1980 became urban areas in 1990 when they were  
2022 found to satisfy the necessary criteria. This reclassification, in addition to net migration  
2023 from rural to urban areas, reduced the population share of FIES rural areas from 62  
2024 percent in 1988 to 50 percent in 1991. In contrast, the estimated rural population share  
2025 based on fixed physical areas was virtually the same — 64 percent. More importantly, it  
2026 was estimated that in FIES rural areas, poverty incidence *increased* from 50 percent in  
2027 1988 to 52 percent in 1991. In the 'fixed' rural areas, the count actually *fell*, from 48  
2028 percent to 41 percent.

2029 Clearly, much can be explained by construction of statistics alone, and other  
2030 convoluted explanations might not be required. Viewed in this perspective, the rural  
2031 sector might not be as lethargic as often pictured, and may have even been a source of  
2032 considerable dynamism.

2033

**Table A1. Urban-rural population changes in the Philippines, 1960 to 1990**

	1960	1970	1980	1990
Total population (millions)	27.09	36.66	48.10	60.69
Percent change per year	-	3.0	2.7	2.3
<i>Rural population (percent)</i>				
Census report	70.2	68.2	62.5	51.2
Fixed rural areas <sup>a</sup>	68.6	68.2	66.4	64.2
<i>Urban population (percent)</i>				
Census report	29.8	31.8	37.5	48.8
Fixed rural areas	31.5	31.8	33.7	35.8
<i>Rural population growth</i>				
Census report	-	2.7	1.8	0.3
Fixed rural areas	-	3.0	2.4	2.0
<i>Tempo of urbanization<sup>b</sup></i>				
Census report	-	0.95	2.51	4.64
Fixed rural areas	-	0.80	0.83	0.97

a. Based on 1970 urban-rural classification of villages.

b. Urban-rural growth difference.

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