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# BOOK REVIEW

## *Pro-Poor Development Policies: Lessons from the Philippines and East Asia*

■ Hal Hill, Majah-Leah V. Ravago, and James A. Roumasset, editors

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*Pro-Poor Development Policies: Lessons from the Philippines and East Asia* is a collection of 25 essays on Philippine economic development, written by eminent scholars, to honor the illustrious academic and public service of Arsenio M. Balisacan. Professor Balisacan's numerous publications cover wide areas of economic development, including poverty, inequality, human development, agricultural and rural development, competition policy, and political economy of policy reforms. These are all themes covered by the 25 chapters, two of which Dr. Balisacan is a co-author, and, many of which cite his published work.

**T**he breadth of economic issues covered by the 25 chapters is considerable, the quality of analysis undertaken is impressive, and the information provided very timely for those who want a better understanding of the factors driving Philippine economic policy in the post-pandemic period. The Philippines was “on a roll”, economically-speaking, during 2000–19 but unfortunately interrupted by the COVID pandemic. The economy inevitably contracted. The drama now is—can economic growth return to these previous levels on a sustained basis? Can the manufacturing sector contribute more? Can the growth in the services sector be sustained, particularly overseas remittances and business process outsourcing? What is the potential for productivity increases in agriculture to

contribute more to poverty reduction and overall economic growth? How will government policy deal with the demands of a growing middle class at a time when income disparities are widening?

As a way of organizing this review, I start with a stylized model of economic development (Fabella and Ducanes, Chapter 9) in which there are three sectors—agriculture, manufacturing, and services. The goal of economic development and reducing poverty is to move resources (particularly labor) out of low-productivity agriculture and into the higher wage (and higher productivity) services and manufacturing sectors. How has the Philippines fared in this endeavor and what lessons can be learned for future policy? The Philippine experience is often compared with that of its Southeast Asian neighbors and South Korea.

As background, one might start with population growth (Mapa, Pernia, and Bersales, Chapter 12). When I first came to the Philippines in 1972, the population was 39 million; by 2000, the population had reached 60 million, and the total population now is around 110 million. The Philippine Total Fertility Rate (TFR) has declined dramatically over this period, but the decline started later than for Southeast Asian neighbors. Mapa et al. make the point that in the early period, the bulk of the population are children, thus relatively few adults/workers to support many dependents. However, as the TFR declines, this large younger population ages and moves into the workforce; there are potentially relatively many workers to support fewer dependents. If these younger workers can be gainfully employed, there is an economic dividend to be had, whereas before as youngsters, they constituted a drag.

A consensus across chapters divide Philippines' overall economic growth experience into three periods (Hill, Balisacan, and Dela Cruz, Chapter 2):

1. From independence (1946) to the late 1970s, marked by high initial expectations but slowing growth
2. From the late 1970s to the early 1990s, when the economy entered into a deep and extended crisis

3. From the early 1990s to 2019, when the country rejoined the East Asian economic mainstream

The Philippine economy grew by an annual average of 5.5 percent during 2000–19 (281), doubling average per capita incomes despite the high population growth. The empirical analyses in most of the chapters cover this third period. Democracy was functioning (since its restoration in 1986). Important institutional and policy reforms were initiated under the Ramos administration, and the process continued during later administrations. The economy was opened to freer trade.

Chapters 9–11 focus on the manufacturing and services sector during this third period of sustained economic growth. The services sector performed especially well, both through the growth in the remittances of overseas workers and business process outsourcing (BPO). However, policies could have been more favorable to expansion of manufacturing (Athukorala, Chapter 10), which grew but could have done better. Manufacturing is more labor-absorbing, hence poverty-reducing, than services. Thus, poverty declined from 40 percent in 2001 to 17 percent in 2018 (Aldaba, Ang, and Habito, Chapter 11), but the Philippine poverty rate remained higher than in most neighboring countries (301).

Chapters 18–21 and 13 relate to chapters 9–11 by examining how to improve competition and productivity in the manufacturing sector and for small- and medium-sized businesses. The establishment of the Philippine Competition Commission followed analogous previous efforts in South Korea and Thailand. Perseverance and reform, through experience, are required to calibrate efficient policies (Ravago, Roumasset, and Balisacan, Chapter 18). Philippine industrial sectors are currently relatively concentrated (Quimbo, Reganon, Concepcion, and Latinazo, Chapter 19). In shoe manufacturing, for example, internet sales are helping to undermine the monopsony buying power of large shoe retailers (Sonobe, Chapter 20). Central bank reforms in

regulating microfinance transactions have led to a functioning, competitive market, and a substantial increase in the number of loans made by banks and nongovernmental organizations (Punongbayan, Llanto, and Esguerra, Chapter 21). Fuwa, Kajisa, Lucio, Piza, and Sawada (Chapter 13) also discuss microfinance borrowing by factory workers using, as collateral, their ATM cards, which give access to their salaries that are deposited directly into their bank accounts.

Not only are there substantial economic gains to be realized through establishing fair competition domestically, but the same basic principles apply internationally as well. In Chapter 25, Uy discusses how international cooperation in trade policy, corporate tax policies, and additional areas can benefit all nations that cooperate and coordinate.

Chapters 3–8 and 22–24 address the agricultural sector. Warr (Chapter 4) points out that if agricultural output is to increase—at the same time as labor and land resources are being withdrawn for other use in other sectors—then input productivity must increase. Philippine agriculture grew during period 3, outlined above, but at a slow rate of 2.5 percent per annum between 2001 and 2015, more slowly than this average at the latter part of this period (227). Otsuka (Chapter 5), analyzing a time series cross-section panel of rice farms in Central Luzon, argues that farm sizes must increase to realize economies of scale in mechanization as labor costs have risen. However, land markets do not operate efficiently due to current land reform laws, constraining the formation of larger farms. Worrisome is the slow growth (if any) in rice yields evidenced in this data set during 1982 to 2015 (147). Rosegrant and Sombilla (Chapter 8) model the *ceteris paribus* negative effects of climate change on future agricultural change but show that agricultural production can increase through policy reforms and judicious investments in agricultural research and improved infrastructure.

Anderson (Chapter 3) shows that trade distortions, in general, across East Asia have constrained agricultural development and *ceteris*

*paribus* have increased poverty. Setboonsarng (Chapter 24) outlines the various elements of the changing structure (both demand and supply) of the modernizing global rice market. By restricting rice imports, the price of rice in the Philippines has long been higher than in neighboring countries. Huang (Chapter 5) in a cross-country comparative study of agricultural transformation notes that the Philippine agricultural sector has not diversified out of cereal production, as has occurred in China, Indonesia, and Vietnam, where higher value livestock, vegetables, and fruits accounted for a higher percentage of agricultural output over time (121). The price protection afforded to the Philippine rice sector may account for this difference. Rural poverty has declined in the Philippines but more slowly than in neighboring countries.

Tolentino and de la Peña (Chapter 7) discuss various aspects of the political economy of rice policy in the Philippines, giving some emphasis to the enactment and implementation of a new law that eliminates quantitative restrictions on rice imports, replaces quantitative restrictions with a tariff, and eliminates some previous responsibilities (and costs) of the National Food Authority—a reform long sought by economists. In Chapter 22, Clarete reviews the debate on who has benefited from the new law between producers or consumers. He notes that as of 2019, farm prices had fallen more on a percentage basis than retail prices, while the implicit tariff rate hovered around 50 percent (637).

Continuing with the theme of competition, Inocencio and Rola (Chapter 23) examine government subsidies to government-owned and controlled agricultural corporations. Total subsidies were PHP 3.56 billion in 2012; the largest amounts were PHP 2.31 billion to four firms for irrigation systems operation and PHP 1.18 billion to six firms for services to establish crops and related services.

The discussions in chapters 14–17 do not fit nicely into the stylized three-sector economic model outlined above, then measuring the contribution of economic growth in these

sectors to numbers of poor rising above a poverty threshold with economic growth. Rather, these chapters examine relative income distribution and implications for government policy. Canlas (Chapter 14) notes that while average incomes have improved for all deciles during the high economic growth period of 2000–19, the difference in incomes between rich and poor has widened. He argues that corrective measures in labor and financial markets are required to reverse this trend. De Dios and Tuano (Chapter 16) note that the middle class has grown considerably during 2000–19 and that differentiated policy measures by income class are required by government to best alleviate shocks, such as the COVID-19 pandemic (452). Capuno (Chapter 17) examines the willingness of voters across eight countries to support government redistributive programs based on their expectations that they and/or their children will improve their economic position in future years. Finally, Pungongbayan, Williamson, and Jandoc (Chapter 15) examine growth trajectories across Luzon, Visayas, and Mindanao during the American colonial period and find that regional inequalities lessened significantly over time.

To some extent, the way forward is outlined by Hill, Balisacan, and dela Cruz at the end of Chapter 2. The subsection headings are: (i) macroeconomic management, (ii) economic openness, (iii) institutions and governance, (iv) accelerating the transition to the digital economy, (v) transforming the health sector, (vi) rebuilding the educational system and overcoming scarring, and (vii) more efficient social protection. The outcome obviously will not only depend on domestic policy implementation but also the international economic growth and trading environment.

There is no analogous summary on the way forward on agricultural strategy. For the rice sector, readers can refer to *Just Another Crisis? The Impact of the COVID-19 Pandemic on Southeast Asia's Rice Sector*, edited by [Jamie Seth Davidson \(2023\)](#). While the book title indicates a topical focus on the impact of the COVID-19 pandemic on Southeast Asia's rice sector, chapters covering five

ASEAN countries are much more than this, giving considerable historical context leading up to the outbreak of the pandemic and looking forward after the pandemic. The Philippine chapter is authored by Briones and Espineli.

One of the key drivers of economic growth in any sector is technological change. Taking a long-run perspective, the Philippines could take regional leadership in promoting the use of modern crop development technologies, such as transgenic and gene-editing technologies. The Philippines has already de-regulated Bt corn, Bt eggplant, and Golden Rice. Application for de-regulation of a high-zinc and high-iron rice event will be submitted soon. Within two to three years, high-yielding Golden Rice varieties having high densities of all three nutrients could be promoted commercially, selling for the same price as nonbiofortified varieties ([CAST 2020](#)).

Trained as an agricultural economist and having worked for IFPRI during 1982–2019, I have focused my work on food demand and human nutrition issues. Not surprisingly, what I find lacking from the book is analysis in this area. The topic of health spending and services is given some regard in the book, likely due to observed weaknesses in the health care system under COVID. But health also depends importantly on dietary quality. Immune systems are weakened by a lack of essential minerals and vitamins in diets. In addition, cognitive ability—and so the ability to learn in school and later economic productivity—is a function of nutritional status, which is in turn, a function of dietary quality. This is pointed out by Aldaba, Ang, and Habito (302 and associated Table 11.4). Under-five stunting is reported at 30.3 percent, which (as most other indicators in the book) compares unfavorably with neighboring countries that have higher income levels.

Periodic, nationally-representative nutrition surveys undertaken by the Food and Nutrition Research Institute (FNRI, Department of Science and Technology) provide an additional, very much underutilized database to measure trends in welfare by geographic region, across wealth quintiles, and by age and gender. Data on prices paid for

individual foods, occupations, and household assets are provided, among other economic variables. If the FNRI and household food and expenditure data show the same trends, then this reinforces any analysis. If they show discrepancies, then which is the more valid indicator?

Of the 30 percent stunted preschoolers cited above, one in 10 preschoolers in the richest wealth quintile are stunted, and one in two in the poorest wealth quintile are stunted. During the period 1989 to 2019, preschooler stunting declined from 45–29 percent. What dietary factors are driving these changes over time and between wealth quintiles? During the period 1987–2018, the FNRI data showed that per capita meat consumption (primarily pork and beef) increased by 75 percent, milk consumption by 20 percent, egg consumption by 130 percent, poultry consumption by 300 percent. Per capita rice and fish consumption declined marginally. Vegetable consumption increased by 15 percent. Fruit consumption fell by 60 percent. How are all these factors interconnected with income growth and price changes? Who eats what foods in the intra-family distribution of foods?

My plea is that the economic, agricultural, health, and nutrition communities spend more time talking to one another. This is a future opportunity, not a criticism, of a wonderful book. We all congratulate and celebrate Professor Balisacan on his considerable professional accomplishments to date, which continue apace.

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