Issues and Dynamics: Urban Systems in Developing East Asia

Philippines

Level and Rates of Urbanization

The Philippines is 52% urbanized (ADB figure, the UN estimate is 59%), this percentage is expected to increase to 60% in 2010. The urban population grew very rapidly at an annual rate of close to 5% from 1960 to 1995, but has since slowed to approximately 3% annually. Given relatively slow economic development over the last three decades (relative to East Asian norms), the level of urbanization in the Philippines is quite high – demographic and urbanization dynamics are more similar to the Latin American situation than East Asia. (In both the Philippines, and many Latin American urban systems, urbanization has preceded rapidly based on both high rates of natural increase in urban populations and rural-urban migration driven by rural push forces (e.g., rural land distribution), faster than employment creation, resulting in slums, significant levels of urban poverty, etc.) In particular, natural population growth is rapid (and rising – a rare situation in today’s world), a source of demographic pressure not experienced to anywhere near the same degree in other East Asian urban regions. Since the late 1960s, urban regions have had difficulty absorbing migrants, in terms of productive employment, and provision of adequate housing and services. This does not mean that the policy response should be to slow the rate of urbanization; rather the performance of city systems needs to be improved to more productively handle the rapid demographic growth.

The Extended Metro Manila area is home to over 12 million people and accounts for 36% of the total urban population. An additional 10% of the urban population live in the next four largest metropolitan regions. These are Davao City and Metro Cebu, both with over one million residents, plus Metro Angeles and Zamboanga City, with over half a million inhabitants each.

Urban Poverty Dynamics

As in virtually all of developing East Asia, rural poverty rates are much higher than in urban areas. Urban poverty rates fell swiftly during the 1990s, falling from 24% in 1994 to 18% in 1997; however, they have since risen to 20% (2000).22 The poverty rate in the National Capital Region (NCR) is considerably lower (9%) reflecting the fact that many intermediate-sized and smaller cities are struggling to develop viable economic bases, although problems associated with congestion are usually less in the smaller cities.

The poverty gap (the degree to which poor households fall below the poverty line) is much lower in urban areas than rural, again typical of developing East Asia. This is associated with higher levels of education, and younger age, of the urban poor (compared with the rural poor), a positive indicator in terms of likely responsiveness to enabling opportunities and frameworks.

The number of people living in substandard (slum or squatter) housing in urban areas is about double the poverty rate, i.e., around 40%. This means that housing is a serious issue facing the lower-middle class as well as poor groups. (This is a condition partially associated with ineffective land and housing markets. In Jakarta and to a lesser extent in the large Vietnamese cities, housing is also a middle class issue.) Surprisingly, substandard housing incidence in second-tier metropolitan areas such as Davao and Cebu is similar to the NCR. Although there is a wide range in estimates, depending on how existing slums are classified, the urban housing backlog could be as high as 4.5 million units by 2004.

Impeding efforts to fight poverty are shortfalls in social facilities / services. For example, teacher: student ratios exceeded 1:40 in 10 out of the 52 largest cities and exceed 1:50 in metropolitan Cebu. On the other hand, there are positive indicators. HIV/AIDS infections in urban Philippines are very low compared with developing urban East Asia.23
Physical Dynamics, Infrastructure, and Service Delivery

Urban form, infrastructure, environmental quality, and delivery of basic services are major issues in the Philippines. A major problem is poorly functioning land markets, which drive up the price of housing (by effectively reducing the supply of housing available), and create inefficiencies in terms of urban accessibility. Air pollution is a serious issue in the Manila region, largely related to lack of political will to implement an air pollution abatement strategy based on legislation that is largely in place. (Experience in urban East Asia indicates that it is relatively technically easy to reduce urban air pollution where political will exists, e.g., Beijing, Chengdu, Bangkok.) Solid waste disposal is a problem in virtually all sizeable Philippines urban regions, largely the result of lack of effective inter-jurisdictional cooperation (metropolitanization) which allows “Not in my Backyard” (NIMBY) dynamics to flourish. Attempts to privatize urban infrastructure development, e.g., water supply systems, airport facilities, have a poor track record, marred by contract disputes.

Both inter-city and intra-urban region transportation and communications systems are often inadequate, e.g., transportation systems in Metro Manila and along the urban-industrial spine of the Philippines in Luzon. Transportation inefficiencies effectively add a transaction tax to goods and services produced in the Philippines urban system. Other production inputs, e.g., electricity, are expensive (relative to much of urban East Asia) further contributing to lack of competitiveness in the urban system.

Competitiveness and Urban Economic Change

As is the case in much of urban Southeast Asia, a rapidly changing external environment is forcing urban jurisdictions (and national actors) to search for alternative routes to competitiveness. Particularly strong drivers include the dramatic shift in share of FDI to China within East Asia, the slow down in demand for electronics products worldwide, and economic stagnation in Japan and the USA. Fortunately, the Philippines has certain comparative and competitive advantages, including particularly high numbers of technically trained graduates, particularly in information and communications technologies (ICT), and widespread English language competence. Thus new areas of opportunity are opening up for urban economies in the Philippines, such as communications technology enabled activities, e.g., “back office” medical transcription and accounting functions for US firms. The extent to which these opportunities will be realized, improving living standards, and alleviating poverty, is yet to be determined. There is certainly rapid growth in demand for these services, however, strong competitors, particularly Bangalore and Hyderabad in India exist.

What is clear is that the future economic health of the Philippines will largely be determined in urban areas. Urban areas already account for 75 – 80% of output and over 80% of economic growth. The largely urban-industrial Luzon heartland (the National Capital Region, plus adjoining regions III and IV) accounted for 61% of economic growth alone in 2000.

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21. The material in this section is drawn from Webster, Corpuz, and Pablo (2002).
22. Note: World Bank figures, based on a different formula, show slightly lower rates of poverty (urban and rural) in the Philippines. Government of Philippines data is used in this report.
24. Comparative advantage refers to factor endowments possessed by a given city, e.g., low cost labor, beaches, deep sea (port) access, etc. Competitive advantage refers to how productively factor endowments are deployed by a city’s inhabitants and institutions in real economic sectors, in the face of global competition.