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ON CEBU AND ECONOMIC DEVELOPMENT: FIELD NOTES

by

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ON CEBU AND ECONOMIC DEVELOPMENT: FIELD NOTES*

Cebu City is dominated by its port. Centrally located in the Visayas it derives its importance more from its entrepot trade than its own hinterland. Indeed, the island is relatively poor with little cultivable land. Too dry for rice, corn is the staple foodstuff but the island remains a food deficit area. Only the coconut thrives as it is more tolerant of poor soil and less than level land.

Physically the island is dominated by a central mountain range which restricts the cultivable land to a narrow coastal strip. Communication across the island is possible at only a few points and the main roads follow the coast where neither sea nor mountains are out of sight. The mountains are almost denuded of their timber cover, a process which started when the Spanish sought timber for their galleons and was well nigh completed during the Japanese occupation when the populace grew corn in response to forced self-sufficiency. The rural area must therefore import timber for houses and basic foodstuffs along with the usual range of manufactured goods. In return copra and handicraft products are sold. Copra is by far the more important, but Cebu with its land shortage and central location has more highly developed handicraft

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*Field Notes by George L. Hicks, Development Planning Project, Manila.

industries than most parts of the Philippines.

From the hinterland everything moves through Cebu city. There is no other port of any significance at all and rural prosperity is largely a function of distance from the city. Hemmed in by the mountains the city can only expand along the coast. This is happening, but the land shortage is shown by the profitability of a huge reclamation project and high buildings in the city. The dock consists of one long foreshore pier with ships unloading their goods directly on to the road. Warehouse facilities are limited and traffic congestion considerable. It is said that there are more ships here in a year than in Manila but the great majority are small inter-island shipping vessels.

Commercial life in Cebu is dominated by the Chinese and commerce is the essence of the city. In this respect Cebu City is to Manila what the cities along the northern coast of Java are to Djakarta. Perhaps most cities are market places, but in the Chinese dominated provincial city, seaport and trading town, the undisguised, all embracing, buying and selling has a special flavor of its own.

The township of Argau lies on the coastal road some 60 kms. south of Cebu City. Technically a town and classed as a minor port it is a decaying village totally dependent on the coconut. Some new houses are being built but they are small and in some sense marginal; the heart of the town is stagnant. Large old houses stand partially occupied and crumbling, evidence that population may well be declining. For the municipality as a whole, including the rural region it is said to have been constant at 30,000 since the census of 1918. The cause of the decline may well be sociological as much as economic. The lure of the city deprives the remoter village of the young, active and educated. Everywhere there is a tendency for the capital city to grow faster than the provincial capitals and they in turn faster than the small towns.

The road from Argau to Cebu City shows clearly the prosperity that radiates from the urban center and fades away some miles from Argau. At Sibonga there is an upsurge in activity while at Carcar the atmosphere is entirely different. Situated at the junction of a cross island road it is busy and bustling. Closer still to Cebu City, at Naga, not only is the volume of business different but there are more new modern houses. More chickens and vegetables are produced for the market in Cebu. Not only is there a change in the quantity and variety of activities but even the quality is different. Everywhere the coconut is dominant, but whereas the primitive sun drying method is the rule in Argau, the tapahan or open kiln is far more in evidence closer to Cebu.

Argau may well be somewhat typical of the remoter rural towns. Although a town, its activities are closer to agriculture than industry and it mirrors the "sea of agricultural stagnation" not the "enclave of industrial dynamism."

The coconut is an unusually suitable crop for a stagnant society. Unlike many commercial crops it is easy to grow, harvest and process. It requires little in the way of inputs either of skills or materials. Copra production is an activity that lacks significant forward or backward linkages. It has a technology that is appropriate to the existing pre-development factor proportions. Offering little challenge, it yields little opportunity for development. Inputs are land and unskilled labor. Processing can be restricted to breaking open the nut and letting it dry in the sun. A productive activity requiring so little in the way of inputs and technology gives little in the form of external economies or "spread" effects to the surrounding economy. It may be contrasted, for example, with the mining industry which usually requires elaborate investment not only of equipment but in transport facilities and skilled labor as well.

Although the coconut is the mainstay of the Argau economy, an important subsidiary income is earned from the sale of woven products. The hand weaving of blankets and toweling is the traditional speciality of Argau. (Other villages have their own specialities; pottery making or basket weaving.) The weaving industry, as with most handicraft industries, has the advantage that it gives employment to women, complementing the copra industry which employs only men. In an area which is short of cultivable land, and especially rice land, women have much more time than they would otherwise have. The weavers are laborers rather than entrepreneurs. Organized on the "putting out" system, entrepreneurial functions are highly centralized. Using traditional, primitive techniques the weaver does not have to find capital, take risks nor innovate.

Sugar which is usually thought of as a commercial crop is grown in Argau on a subsistence basis. The farmer grows enough for his own use and pays to have it crudely milled in the village. Other subsistence crops in Argau are corn, fruits and vegetables. Fishing is also an important commercial industry of local significance.

These brief observations of Argau and Cebu raise a number of interesting questions. Although Cebu has more highly developed handicraft industries than many parts of the Philippines, there can be little doubt that total production throughout the Philippines is relatively large in the aggregate. Sometimes this takes the form of capital formation as in the village fishing industry where the boats and nets are made on a handicraft basis. Of the durable consumption goods a large share are of cottage origin. Not only the obvious baskets, mats, utensils, furniture, pottery,but also quite finely woven products such as mosquito nets are of cottage origin.

This output is apparently not included in the national accounts estimates of output. In Indonesia cottage industry is of a very similar nature, and based on a sample survey, the national accounts credit small scale industry (less than five employees) with a total output twice as great as the large and medium establishments. For 1958, prior to the most serious decline of the modern sector, output of the combined large and medium establishments was estimated at 9.4 billion rupiahs while that of the small establishments was 18.5 billion. The modern industrial sector of the Philippines is more highly developed than :.. Indonesia, but it is not improbable that half the industrial output is produced on a cottage basis.

In some respects the output of the cottage industrial sector is better treated as part of agricultural output. This is most obviously true in the case of crudely processed agricultural products where the practical difficulties of imputing the industrial value added are very great. On another level it is clear that the whole "milieu" of handicraft production is part and parcel of agriculture. Similar traditional practices and lack of innovation and technical change prevail. Labor productivity is constant and any expansion that takes place is based on a "horizontal expansion" or duplication of existing facilities and methods. Indeed this is hardly surprising as the same people are involved, yet the convention of classifying cottage industry with modern industry discourages thinking about "traditional industry" as well as traditional agriculture. In terms of growth dynamics the significant distinction lies not so much between agriculture and industry but between the modern and traditional sectors or between the technologically dynamic and the static. It is the relative growth of the innovating sector, not of industry per se, that is truly significant. (The New Zealand economy has a large agricultural sector but it grows because it is technologically dynamic.)

When the output of the traditional sector is sold in the village market then it can be considered as remaining in that sector. When, however, it is sold to the city, it enters the modern sector. Many of the interesting problems lie in the interaction of the modern and traditional sectors. Cebu is interesting in this respect because production appears on the one hand to be very traditional, yet there is considerable commercial activity. This is not an undifferentiated subsistence economy nor is it a classical "dual" economy, characterized by a sharp dichotomy between large plantations or mining enterprises and traditional agriculture. In the truly dual economy the interaction between the modern and traditional sectors may be very restricted or even non-existent. It is true that the laborer makes some sort of contract with the mine or plantation, but at that point he then effectively enters the modern sector. The interaction between traditional smallholder commercial agriculture and the modern sector is much more extensive. Unlike the plantation laborer the independent smallholder is a decision making unit. He is usually responsive to price changes. He can and does change his pattern of production. He has a bargaining position as an individual producer, but the very nature of the interaction between the dynamic and stagnant sectors makes it a very weak one.

By contrast we consider the entrepreneur who is also an innovator. Whether it is in international trade or the town market the innovator can usually follow changes in the terms of trade to his advantage. One aspect of innovation is flexibility; another is the power and ability to make adjustment and change. Profitability also relates to an entrepreneur's capacity to choose the time to buy and sell, to reduce costs and reap the advantages from improvements in efficiency. Finally, innovation implies the ability to organize and accumulate capital, in the process utilizing knowledge of technological possibilities.

When copra enters the town market it moves from the traditional to the modern economy. The bargain must surely favor the latter. Prices paid to the producer must not be too low to discourage him producing, but naturally they will not be higher than necessary. It might be expected that the farmer receives a low and fairly stable price which fails to fully reflect world price changes. If this is so then any examination of income effects must focus largely on the distribution network. If this is largely controlled by Chinese traders and foreign exporters then the multiplier effects of income changes affecting the original producer may well be heavily muted. In Argau, Chinese dealers are active in copra buying, but they have nothing like a monopoly. At the next level of marketing, in Cebu, there are hundreds of signs proclaiming that "we buy Copra" and these outlets are heavily dominated by Chinese.

The quality of Argau copra and indeed Philippine copra is very poor. It would be interesting to know what incentives, if any, the farmer has to improve its quality. Modern kilns are, of course, expensive and beyond the means of the typical farmer, but even more significantly they may represent a significant innovation incompatible with traditional practices and attitudes.

The essence of a developing society is innovation; that of a stagnant one is waste. The United States is often characterized as a wasteful country, but there can be no doubt that poor countries waste a much higher share of their resources than do the affluent.

Waste takes many forms. It may be periodic excesses in consumption, a fiesta in the Philippines or a selamatan in Java. Often it is technically investment: temples for the dead in very backward countries, "prestige" projects for the up-and-coming (most developing countries) and misallocation leading to under-utilization of capacity for the sophisticated poor (India).

If a significant and variable share of total investment takes unproductive forms, then savings ratios lose much of their economic significance. A country's claim to have raised savings from 5% to 12% - given reliable statistics - may measure little more than an increase in "durable waste" at the expense of conventional consumption. In fact, statistics are rarely if ever accurate enough to distinguish the difference between consuming 95% and 88% of current output.

The evidence that poor countries save a lower share of their income than do the rich is not convincing due to this lack of reliable data. What is clear is that their investment is relatively inefficient and unproductive. Underdeveloped countries are not low savers; they are big wasters.

This is not to say that saving is unimportant. The fact that per capita saving in a rich country is five or forty times higher than in a poor country is obviously of the greatest significance. But this is primarily a function of their higher income and not the share saved. It is doubtful if the path to higher income lies through increased savings ratios alone or even most importantly. Experience of rich developed countries suggests that most of the increase in output is due to technological change rather than capital accumulation, (e.g. Solow on the U.S. and Cairncross on the U.K.). The connection between the characteristics of waste and technological stagnation are clearer when another aspect of a poor country is considered, that is, their lack of integration.

A very poor country can hardly be said to have an economy. What it has is a number of parallel economies. As a whole it is so "loose jointed" that the effects of even a traumatic stimulus (or blow) to one part of the economy is hardly felt in another. The agricultural sector is very weakly associated with the industrial sector. Within the agricultural sector, plantation agriculture may have no relationship with subsistence agriculture. One whole region of a country will have little to do with another region. In this context, one facet of the development is a process of integrating the economy. It is marked by a reduction in price disparities, increased regional specialization and inter-sectoral and inter-regional flows of resources. It is a process of growing inter-dependence: dependence of one region on another, of agriculture on industry and everything on services.

The whole process is inextricably bound up with technological change. One does not occur without the other. The woman hand weaving under her home in

Argau is not as dependent on a complex of services and suppliers as is a modern textile mill. Yet she is more dependent than the subsistence farmer, needing as she does, thread from abroad and markets at home. But she does not need electricity, banks and stock exchanges, and many other supporting services and intermediate goods required by more sophisticated productive activities.

This process of economic integration and technological change, slowly eliminates the waste and reduces the inefficiencies characteristic of less-developed countries. It promotes efficiency by expanding and integrating markets, prices begin to reflect opportunity costs, and resources are allocated more effectively. Greater efficiency, technological change and integration are different aspects of the same essential process.

Indonesia and the Philippines are both sprawling island archipelagos, but at different stages of development. The Philippine economy is less wasteful, more integrated and more technologically dynamic. The huge pile of cement, lying for years in the open on the docks at Cebu is evidence enough that the Philippines is a poor country, but such waste is not the rule as it is in Indonesia. On the one hand, to stand in Cebu is to realize that her own hinterland is but poorly integrated with the capital, but on the other hand the sea and air provide an easy avenue for men and goods. To stand in Manado (Sulawesi, Indonesia) amidst the unshippable copra, is to worry about how you will ever get back to Djakarta.

The Philippine businessman can take a great deal for granted the Indonesian nothing. Enterprising Indonesian businessmen operating in an unintegrated economy find it necessary to practice integration within the firm on a remarkable scale. An industrialist may find it necessary not only to provide his own electricity and basic services but also to own a bank, an export-import business and a shipping line.

A comparison of two economies in these terms is more useful than to compare per capita incomes and savings ratios. The concept of savings and investment, fashioned so effectively by Keynes has proved inadequate to explain long-run problems in rich societies and even less adequate for analysis of growth and development in poor countries. In a highly unintegrated society the concepts of national income and investment ratios lack not only operational significance but conceptual clarity as well.

All this is, of course, more or less received doctrine. The tide of economic thought has flowed against the Nurkse-Lewis savings thesis, so that the modern writings of a Hirschman or Myint have become something like a successful "struggle of escape from habitual modes of thought and expression." Yet these changes in theory have been barely reflected in the direction of empirical research, focused as it is on capital accumulation rather than technological change, and on national income rather than "linkages" and patterns of interdependence.