**Sectoral growth linkages and the role of infrastructure: Revisiting the sources of nonfarm development in the rural Philippines**

Arsenio Balisacan

Secretary, Socioeconomic Planning, and Director General, National Economic and Development Authority (NEDA), the Philippines

and

Nobu Fuwa

Graduate School of Asia-Pacific Studies (GSAPS), Japan 

**Abstract**  
While the conventional wisdom in development economics tends to hold the view that agricultural growth facilitates diversification of rural economies (from mainly agricultural to rural nonfarm development), empirical evidence showing such a causal relationship is relatively scarce. Furthermore, theoretical work in the past two decades demonstrates that agricultural growth and non-agricultural growth can be either positively or negatively related, depending on the extent of mobility of the goods and services and of the factors producing them.

This paper revisits the question empirically in the context of rural Philippines by exploiting province-level variations within the country covering the period 1985-2006. It examines the sources of rural non-farm sector growth, which has become the main driver of rural poverty reduction. We find that agricultural growth is significantly and positively associated with service sector growth, with elasticity ranging between 0.20 and 0.30, but not with manufacturing growth. This appears to suggest that either rural labor force is sufficiently mobile or capital is relatively immobile across provinces in the Philippines. We also find different roles played by national road networks, on the one hand, and local roads, on the other; local road appears to facilitate rural nonfarm sector development while national road to facilitate agricultural growth.