The Economic Transition and Growth of Philippine Regions

Monica Flerida B. Sandoval and Dennis S. Mapa

ABSTRACT

The development of a country is contingent on the growth of its economy and the strength of a national economy is derived from the strength of its regional economies. An understanding of the nuances of the regional economies is thus crucial to any effort geared towards national development. The paper applies the economic transition models and econometric convergence tests proposed by Phillips and Sul (2006) using data on Per Capita Gross Regional Domestic Product (1988-2008) to determine if the Philippine regional economies converge to a steady state path in the long run. The paper explores modeling and analyzing the economic transition behavior of the regions. Regional relative transition paths are investigated to generate a graphical overview of the behavior of the regional economies. The log t convergence test, which is constructed from a transition differential decay model, is used to establish if a region converges to a steady state path or diverges from a steady state path. The test basically provides the basis for a stepwise clustering algorithm in finding convergence clusters and analyzing transition behavior between clusters. The paper identifies convergence clubs and determines divergent regional economies using a recursive procedure that revolves around the log t convergence test.

Key Words: log t convergence test, convergence clubs