Rise of “Business-Friendly” Local Elite Rule in the Philippines: How the Valdezes Developed San Nicolas, Ilocos Norte

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This paper aims to explain why reform-oriented local politics has gained ground in the Philippines. It has been argued that local politics in the Philippines is characterized by dynastic elites who employ a patron–client relationship, exploitive rent-seeking, and coercion and violence. However, a more reform-oriented local politics has emerged in many parts of the country since around the 2000s. What is the driver for the rise of reform-oriented local politics? Does this form of politics weaken or strengthen the local political dynasties? This paper answers the first question by arguing that links between the global neoliberal economy and local policy entrepreneurs have facilitated the rise of reform-oriented and business-friendly local politics. For the second question, it claims that local elites who become successful policy entrepreneurs adopting the new business-friendly politics are likely to further entrench themselves and perpetuate their dynasty by utilizing private capital investment. These arguments are based on the case of the Valdez family in the municipality of San Nicolas, Ilocos Norte.

Keywords: local politics, business-friendly, good governance, rent-seeking, elite democracy, political economy, real estate business

Introduction

Researchers have observed that Philippine local politics is characterized by an “elite democracy” in which oligarchic elites monopolize political power by controlling poor constituents through clientelism coupled with coercion and violence; they also accumulate wealth through exploitive rent-seeking. However, this traditional view cannot explain the rise of more reform-oriented local politics in which local elites seek good governance and local economic development. This paper aims to address two questions related to the change.

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First, what is the driver for the rise of reform-oriented local politics? Previous studies have emphasized the importance of political leadership. Aser Javier (2002) attributes the emergence of local governments' public entrepreneurship to the initiative of local chief executives who make use of the opportunities and power given to them by decentralization, with case studies of Marikina City, the province of Bulacan, and the municipality of Irosin. Emma Porio (2012) also emphasizes the initiatives of city mayors in Metro Manila in implementing networked governance with NGOs and business groups, emphasizing discourses of participation, empowerment, capacity building, and consensus building to deliver better services to constituents in order to be competitive to demands for economic growth and social and environmental governance. Agarie Hideo (2017) reports that in General Santos City, a new reform-oriented politician emerged due to the initiative of NGOs, people's associations, professionals, and civil servants' trade unions. Ma. Regina M. Hechanova *et al*. (2017), examining eight reform-oriented local governments—Albay Province, Bohol Province, Mandaluyong City, Marikina City, Naga City, San Jose City (Nueva Ecija), Municipality of Dumingag (Zamboanga del Sur), and Municipality of Upi (Maguindanao)—identify transformative leadership with visions, strategic programs and initiatives, and citizen engagement as drivers of change. Hara Tamiki (2019) demonstrates how a progressive political coalition composed of the Liberal Party and Akbayan defeated a political dynasty in Siquijor Province through "People Power volunteers" and bottom-up budgeting projects during the Benigno "Noynoy" Aquino administration. A quantitative study by a Japanese research team asserts that mayors who frequently meet their constituents and hold development councils are likely to achieve good performance (Kobayashi and Osaki 2019; Nishimura 2019).

These explanations highlighting political leadership and initiative are convincing but, do not explain the structural factors that have allowed local elites to become more reform-oriented. This paper argues that economic liberalization and the global economy have created a new political arena in which the pursuit of enticing investments from the private sector through business-friendly politics has become more critical for local elites than adhering to traditional exploitive rent-seeking. In other words, the nexus between the changes in economic structure and initiatives of local "policy entrepreneurs" (Takagi 2021) has facilitated the rise of reform-oriented and business-friendly local politics.

Second, do the new economic structure and the rise of reform-oriented local politics weaken or strengthen local political dynasties? To answer the question, it is important to note that local elites' power bases have shifted from a reliance on landownership and state resources to private resources of investors. With this shift, local political dynasties may become less stable as the importance of monopoly over state resources decreases. Also, economic development can enable constituents become more independent from the local elites by providing them of new private resources. For instance, Raymund John P. Rosuelo (2017) clarifies that urbanization and influx of the middle class into gated subdivisions formed new local constituents, who eroded a political clan's long-standing dominance in Cainta, Rizal. However, it is also possible for local political dynasties to utilize the flow of private capital to strengthen their power base; this is supported by case studies. Sakuma Miho (2012) notes the continued dynastic rule of the Osmeñas in Cebu City, who successfully created jobs and increased tax revenue by attracting foreign investment to the special economic zone of Cebu Bay reclaimed with official development assistance from Japan. Porio (2012) identifies the paradox that local governments with traditional leadership in Metro Manila tend to transform local governance to become more efficient, innovative, transparent, and accountable to the needs of their constituents in order to remain competitive.

This study supports the latter scenario based on the case in Ilocos Norte, where I confirmed that local elites adopted the new mode of business-friendly governance and succeeded in enticing private capital investment to entrench themselves and perpetuate their dynasty. I also explore conditions that would frustrate the continuation of business-friendly elites' rule and usher in more open and competitive local politics. For this research, I carried out a total of five field surveys lasting about two weeks between 2007 and 2018 in the municipality of San Nicolas and Laoag City, in the province of Ilocos Norte.[1)]

I Changing Landscape of Political Economy

I-1 *Shifting of Local Elites' Power Base*

Many studies have tried to identify the power bases of Filipino local elites who successfully captured the state and maintained their power for generations. The origin of traditional elites can be traced back to the early American colonial era, when emerging Filipino-Chinese mestizos purchased huge plantations from the departing Spanish religious orders that accumulated lands to seek profits in the international cash crop market (Anderson 1988). The emerging elites entrenched themselves through the lucrative export of cash crops, mainly sugar, to the US market and through the monopolization of political positions through the electoral democracy installed by the American colonial government.

Studies of rural local politics in the pre-martial law era emphasized elites' landowner-

1) I am deeply grateful to Nagasaka Itaru, Ariel Tejada, and Mario Tejada for facilitating my research.

ship and patron–client relationship with poor constituents as their power base (Lande 1965; Agpalo 1972). They discussed an urban setting, where a vast number of domestic migrants moved from rural areas and the land ownership was not concentrated; the emergence of "machine politics" was observed, in which "new men" utilized resources obtained from national politicians to consolidate their constituents' vote for their political party or faction (Machado 1971; 1974). While the agrarian patron–client relationship is more long term and personal, this urban machine politics is more instrumental and specific to election time. Democratization in 1986 helped to revive such urban machine politics in many localities, including the cities of Metro Manila (Magno 1993; Gloria 1995).

John Sidel (1999) contributed to a theoretical turn by arguing that local elites' power base is neither landownership nor a patron–client relationship but is in fact found in their access to state resources, including allocation of national revenue, use of rent-seeking, and violence. He argues that the local elites who monopolize access to state resources have ruled over poor constituents in the structural condition of "primitive accumulation of capital" in which resources are concentrated in the state. Kawanaka Takeshi (2002) supports the importance of access to state resources for elites' power, yet he presents a different perspective in terms of methods of rule. While Sidel emphasizes the local elites' violence and coercion with the cases of Cavite and Cebu City, Kawanaka explains how Mayor Jesse Robredo's political machine efficiently distributed services to organized constituents in Naga City.

Although the theoretical turn toward state resources is important, the condition of the state's monopoly of resources on which these arguments are premised has become increasingly irrelevant in many localities. This is because globalization and economic liberalization have radically changed the structural condition of what Sidel called "primitive accumulation of capital" and have promoted capital accumulation in society—not only in Metro Manila but also in many smaller cities. Continuously increasing remittances from Overseas Filipino Workers (OFWs) have increased the number of constituents who are independent of the clientelist relationship with local elites.[2] The remittances have also expanded purchasing power of OFW families and the size of local markets, which has attracted inward investment of private capital, both domestically and from foreign investors.[3] Thus, the state no longer monopolizes resources, and private capital has increasingly become essential for local elites to consolidate their rule.

Coinciding with the changing economic environment was the decentralization intro-

2) The amount of remittances from OFWs increased from $694 billion in 1985 to $18,763 billion in 2010 and $28,943 billion in 2018 (Philippine Statistics Authority).

3) The net flow of foreign direct investment into the Philippines increased from $12 million in 1985 to $1.07 billion in 2010 and $9.802 billion in 2018 (World Bank, n.d.).

duced by the Local Government Code of 1991, which gave local governments enhanced discretional authority to tax, issue local bonds, borrow from financial institutions, and engage in development projects in collaboration with the private sector. In general, decentralization provides incentives for local governments to compete for a prosperous local economy (Weingast 2009, 280). In the Philippines' case, limited devolution of resources from the national to local governments, despite the fiscal decentralization, has intensified the race among local governments to attain investments by providing the private sector with exemption from regulations, tax privileges, and long-term guarantees of profits (Holmes 2016, 124–129).

It is clear that local elites have found new incentives in the changing environment. If they are successful in enticing investments from the private sector, they can stimulate the local economy, create employment, and increase local revenue, all of which are useful in consolidating their electoral holds. It has become irrational for them to maintain the traditional practices of red tape and demanding grease payments from the private sector in exchange for permitting business operations. This new rule of the game introduced by the global economy has pressured local elites to become more business friendly.

This new trend is seen in the fact that each year there are around 150 entries from local government units (LGUs) for the Galing Pook award (Galing Pook Foundation 2017, 3). Since 1993 the Galing Pook Foundation has given this award to local governments that initiate outstanding or trailblazing innovations in local governance. However, Ronald Holmes (2016, 129–131) notes that not all local governments are keen to adopt good governance even when they fail to generate local revenues. He explains that the unconditional Internal Revenue Allotment (IRA) from the national government has led to complacency among local leaders, who do not improve public services, causing "flypaper effects" (money sticks where it hits).[4)]

Andreas Lange explains that the divergence between progressive and regressive local politics is determined by differences in local economic structures. In areas where economic activities are urbanized and diversified, there are likely to be more local elites competing for support from the electorate. Intensified competition gives elites incentives for local economic growth that provides benefits to constituents. By contrast, in areas where economic activities rely on agricultural and state resources, a limited number of dynastic elites entrench themselves through exploitive rent-seeking without being pressurized by the electorate and rival elites, and the economy stagnates as a result (Lange 2010).

4) Holmes also notes that real property tax collection on idle lands tends to be low because the financial and political process of land valuation is more costly than a possible increase in revenue from taxes, due to the limited power of local governments to set tax rates.

I-2 *Real Estate Boom in Neoliberal Economy*

For progressive local elites, a crucial requirement to attract the private sector is securing and providing urban lands for them. The real estate business, which has recorded a boom since 2003, is the second-fastest growing industrial sector only behind mining as a separate subsector in the country (Bello *et al.* 2014, 35–66).[5] The real estate boom is visible in the active construction of IT parks, shopping malls, and residential towers not only in Metro Manila and its suburbs but also in smaller cities.

A driver for the growth of the real estate business is remittances from OFWs. Remittances almost quadrupled between 2000 and 2016, from US$6.96 billion to US$26.9 billion. As Antoinette Raquiza (2014, 231) clarifies, the growth in the service sector is marked by a remittance-led economy in which business conglomerates branch out to meet the demands created by OFW families who spend money on real estate, retailing, gaming, tourism, education, and health care. Of the OFW remittances, 30 percent is estimated to be invested in real estate (Bello *et al.* 2014, 46). To seize the opportunity and diversify traditional sources of wealth, established business elites, including Henry Sy, Lucio Tan, and John Gokongwei Jr., have made a full-scale entry into the rapidly growing real estate market within the last two decades, while new entrepreneurs such as Andrew Tan, Manuel Villar, and Andrew Gotianun have built wealth primarily in the real estate business.

Another driver for urban real estate development is the rapidly growing global business process outsourcing (BPO) industry, in which the Philippines, India and China are the leading countries. In 2016, BPO centers in the Philippines generated revenues of US$25 billon, contributing to 9 percent of the country's GDP growth (Shead 2017). The boom in the BPO sector strengthened international companies' demand for office space (Bello *et al.* 2014, 45–46; Raquiza 2014, 230). The BPO business in the Philippines started in 1997 when the real estate tycoon Andrew Tan transformed unoccupied high-rise buildings into the Eastwood City Cyberpark following the Asian financial crisis (Raquiza 2014, 234–235). He was followed by other business elites, such as Lucio Tan, the Ayalas, and the Gokongweis. They successfully lobbied to include BPO facilities as part of the special economic zones authorized by the state to enjoy tax incentives.

According to Raquiza, investment in real estate helped these business elites dramatically increase their wealth accumulation. She explains that their venture into real estate was nothing but an attempt to seize the third most distinct business opportunity, which emerged in the early twenty-first century, when the economy was driven by

5) Current prices of real estate, renting, and business activity according to the gross national income and gross domestic product recorded double-digit growth except from 2008 to 2009.

liberalization and globalization. This followed the first period of the American colonial era—in the early twentieth century—when the production and export of agricultural raw materials and semi-processed goods consolidated the wealth of traditional elites, and the second period, after the post-war independence, in the 1950s, when Filipino entrepreneurs took over departing Americans' retail trade businesses (Raquiza 2014: 231–232). The current, third, opportunity was formed by the global capital flow into the country and neoliberal state policies that "liberated" lands from the state, domestic manufacturing, and agriculture. Many state lands were privatized, structural adjustment programs negatively affected the old manufacturing industry of import substitution, and the conversion of land use from agricultural to commercial became easier (Bello *et al.* 2014, 47–48).

However, this neoliberal economy does not mean a departure from rent-seeking and cronyism that characterized the previous political economy. Despite the dominant discourse of free market competition, real estate and construction businesses are protected from foreign capital competition by economic nationalist institutions, including the 1987 constitution. Rent-seeking is still important because real estate is one of the commodities most regulated by the state (Bello *et al.* 2014, 35–66). Political influence plays a significant role in the following processes: the privatization of state lands, conversion or rezoning of land uses, tax abatements, public service provision, and the construction of infrastructures that affect land value. Edsel Sajor (2003, 98–99) argues that during the real estate boom in Cebu City in the 1990s, the urban planning became about dealmaking with private interests rather than preserving public interests through regulation. Congressmen have exploited their legislative power when diversifying into real estate business (Coronel 2003). The three billionaires in the House of Representatives had real estate businesses in 2017 (Rappler 2018). The owner of Vista Land, Manuel Villar, who served as congressman for three terms and senator for two terms, is the prototype of the new breed of politician.[6] He reportedly exercised political influence over public works in order to inflate the value of his lands (Rufo 2010).

Walden Bello *et al.* (2014, 53–55) insist that land is still the elites' source of wealth but their economic base has shifted from rural, cash crop-oriented activities to urban development. However, not all traditional elites have been successful in adjusting to the changing business environment. For instance, old landed elites in Metro Manila such as the Tuazons, Aranetas, and Ortigases are no longer leading economic players due to their

6) Manuel's son Mark became the secretary of public works and highways in the Duterte administration despite the family's interest in real estate. Manuel's wife, Cynthia, who was reelected to the Senate in 2019, chairs the Senate's Agriculture and Food Committee despite the Villar family's interest in converting agricultural lands into the family's subdivision project sites.

failed strategy of speculatively holding on to idle assets.[7] They are now selling their urban lands to bigger developers.[8] Bello *et al.* (2014, 55) argue that the key for Filipino capitalists to successfully accumulate wealth has become their ability to mobilize large amounts of capital to meet globalized sources of demand.

I-3 *Globalized Local Economy in Ilocos Norte*

The changes in the political economy have reached from Metro Manila to smaller cities. Ilocos Norte is an ideal place to examine their impact on local politics because of the province's heavy reliance on international migration and remittances from OFWs. The province is administratively composed of 21 municipalities, one component city, and the provincial capital of Laoag City. Ilocano is the common language of the region. The following historical description of the region is derived from the works of Nagasaka Itaru (2009; 2013).

In Ilocos Norte Province, which lacks large plain lands, agriculture could not support the increasing population. This pushed many males to migrate to sugarcane plantations in Hawaii and fruit farms on the US mainland from the beginning of the twentieth century, during the American colonial period. Among the approximately one hundred thousand Filipinos who migrated to Hawaii between 1915 and 1946, 54 percent were from the three Ilocano-speaking provinces of Ilocos Norte, Ilocos Sur, and La Union (Young 1981, 360). Although the American government imposed a quota to limit the number of Filipino immigrants in 1934, the quota was removed by the Immigration and Nationality Act of 1965, and the number of Filipino migrants increased again. In the 1960s, two-thirds to three-fourths of the Filipinos in Hawaii and the US mainland were estimated to be Ilocanos (Lewis 1971, 6). Since the 1980s, migration to Italy has become popular. Ilocanos were the biggest group among the OFWs until the 1990s, when the number of international migrants rapidly increased in other provinces (Nagasaka 2009, 91).

Remittances from OFWs has become the main source of income in the local economy. The population engaging in agriculture in the province continuously decreased from 52.4 percent in 1992 to 45.2 percent in 2000 and 27.4 percent in 2016. Tobacco and garlic were once profitable cash crops in the region, but imports and smuggling of cheaper products from China have negatively affected their production (Molina 2013;

7) Speculation was a major strategy they used for accumulation, because of the high and secure returns coupled with failure of the state to collect idle land taxes due to penetration of the elites' interest (Goss 1998, 91–92; Cardenas 2011, 17).

8) Sajor (2003) points out that while the Osmeñas and Aboitezes, the two traditional landed elite families in Cebu, became real estate developers, other landed elites speculatively held on to their lots without developing or selling them and thus lost out on business opportunities.

Clapano 2019).[9] The decrease in selling price has made these cash crops unprofitable due to the high inputs and labor required for cultivation. Growth in the manufacturing industry has stagnated, as it has in many parts of the country, although a few factories continue to operate: the San Miguel Beer and Coca-Cola plants in the municipality of San Nicolas since 1980 and the tomato-processing plant of the Northern Foods Corporation in the municipality of Sarrat since 1984. Reliance on international remittances is reflected in the fact that Laoag City had 16 bank branches for a population of 66,000 in 1975 (Abat 1984, 80); this number of banks per capita could be higher than in Manila. By 2006, the number of bank branches had increased to 29. According to bank managers, branches in Laoag have much bigger deposits than branches in other areas, reflecting the huge amounts of remittance and transfers of pension from the United States (Nagasaka 2013, 361).

Remittances support the locals' new consumption behaviors. Nagasaka's 2008 household survey in a village located 15 kilometers away from Laoag showed that 82 percent of the villagers received remittances. Nagasaka notes that urban or middle-class lifestyles unimaginable 10 years ago have spread in the village. An increasing number of villagers complete higher education, pay for water services, and own a motorbike or private car. They drive to Laoag, withdraw remittances from bank ATMs, and eat out. The way that OFWs invest in land has also changed. While it was previously common to buy lands for agriculture or housing in their home village as traditional "prestige goods," an increasing number of OFWs have purchased real estate in Laoag for their own housing or commercial investment since the 2000s (Nagasaka 2013).

In 1992 there was only one fast food store and one big grocery store in Laoag, but today many shops and businesses can be seen. Investment in the city has increased since the 2000s against a backdrop of enhanced purchasing power of OFW families and intensified competition in Metro Manila, which has pushed investors to seek new opportunities in smaller cities such as Laoag. However, the commercial district of Laoag is small, impossible to expand, and expensive due to the geographical constraints imposed by the adjacent Laoag River. Therefore, a new commercial district has formed in the neighboring municipality of San Nicolas, only 3 kilometers away from the city beyond the Laoag River to the south, including a big shopping mall called Robinsons Place Ilocos (originally Robinsons Ilocos Norte; hereafter the Robinsons). Car showrooms for Honda, Nissan, Kia, Hyundai, Chevrolet, Toyota, and Ford have been built along the road connecting Laoag City and Batac City through San Nicolas.

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9) Production of tobacco declined by an average of 5.36 percent annually from 2001 to 2007 (Espino *et al.* 2009).

The Robinsons Group was founded by John Gokongweis Jr., the Chinese-Filipino business magnate. He started by establishing a food-manufacturing company, Universal Robina, in 1954; this grew to become one of the largest food and beverage companies in the country. The group diversified into real estate (Robinsons Land) in the 1980s, an airline (Cebu Pacific) and shopping mall (Robinsons Mall) in the 1990s, and many other sectors. Robinsons Mall has increased its branches, expanding from Metro Manila to smaller cities and China; there were 51 branches as of 2018. The Robinsons, which opened on December 3, 2009, is the first and largest shopping mall in the Northern Luzon Region and has a floor area of approximately 22,220 square meters.

When the mall opened, there were concerns that the size of the local population might not support the business. However, its sales in January 2010 were more than double the initial estimate. While this was attributed to the newly opened mall's attractiveness to customers during the Christmas season, one year later sales were still growing steadily.[10] By January 2010, all 54 spaces were occupied. About 80 percent of them were being used by companies based in Manila or those directly run by the Robinsons, and the remaining 20 percent were owned and run by local businesspeople. The mall's shop lease manager cited the following reasons for its success: there were no competing large-scale shopping malls in the province; local consumers' purchasing power was boosted by remittances from OFWs; the mall displayed a wide range of goods, including some previously unavailable in the region; and it was the most convenient place to shop for those who had cars, as it had a large parking area.

Real estate development in the area is also impressive. The Robinsons Group built an expensive gated subdivision with a pool and clubhouse in the suburb of Laoag City along the road to Laoag airport.[11] Then Senator Manuel Villar also developed his Camella Homes along the airport road. Most of the lots were quickly purchased by families supported by remittances from overseas.

II Business-Friendly Politics of the Valdezes

II-1 *Valdez Family*

The site where the Robinsons and other commercial facilities were built was called the

10) Interview with Pia Guirre, shop lease manager of Robinsons Ilocos Norte, February 2, 2011.
11) Those who offered land for residential development were local elites. According to Nagasaka (2013), the owner of a local department store called 5-Sisters purchased the land a long time ago from the Agcaoilies, an old elite family, and sold it to the Robinsons for their subdivision, whose units were sold for 2.9 million to 6.6 million pesos in 2010.

Valdez Center, named after the Valdez family, a local elite clan in San Nicolas. I argue that the Valdezes, especially the two brothers Alfredo and Hilario, played the role of policy entrepreneurs and had a major role in developing the municipality.

From a historical perspective, local elites in Ilocos Norte could not own a significant amount of land because the region lacked expansive plains suitable for large-scale plantations.[12] This provided opportunities for new local elites to emerge through violence during World War II and through higher education after the war. The Valdezes are one of them. Hilario Valdez, who lived in the second half of the nineteenth century, married Chrispina, a sister of former President Ferdinand Marcos's grandfather. One of their children, Simeon Marcos Valdez, gained influence by leading the anti-Japanese struggle as a battalion commander of the 15th infantry regiment and served as a congressman for 14 years after the war (Velasco 2006). Angela Valdez, Simeon's sister, married the father of former President Fidel Ramos. Consequently, Simeon was an uncle to both presidents, Marcos and Ramos. After democratization in 1987, one of Simeon's relatives, Alfredo Valdez Sr., a retired soldier who became a municipal councilor, was appointed officer-in-charge as mayor of San Nicolas by Corazon Aquino's administration, but he was soon replaced by Marcelo Batangan. Until Alfredo's namesake son Alfredo Jr. won the mayoral election in 2004 after three other mayors,[13] no clan could establish dominance.

Despite the Valdez family's relationship with powerful political clans, Mayor Alfredo Valdez Jr. emphasizes his middle-class professional origins. He was born in Laoag in 1961 and moved to San Nicolas, his mother's hometown, during childhood. After finishing high school locally, he studied pharmacy at the Far Eastern University in Manila and became a medical doctor. While working at the Veterans Memorial Medical Center in Quezon City, he obtained a master's degree in hospital management from Ateneo de Manila University. Upon returning to San Nicolas, he worked as a hospital consultant. Encouraged by a local priest, friends, and his brother Hilario, he ran for the mayoral election and won the position in 2004. He has explained that he wanted to remedy such problems as the deterioration of public order and financial mismanagement. He was reelected unopposed in 2007 and 2010. In the 2013 election, Alfredo switched to vice mayor due to the 1987 constitutional limit of serving in the same position for no more than three consecutive terms spanning nine years. His wife, Melanie Grace Valdez, won the election as mayor. Alfredo came back as mayor in the 2016 election and was reelected

12) The elites previously held a relatively large amount of land in the province of Ilocos Norte, but due to the practice of divided inheritance, the size of their landholding decreased (Nagasaka 2009, 57).

13) They are Benjamin Madamaba (1988–92), Angelo Barba (1992–2001), and Manuel Hernando (2001–4).

in 2019, both times unopposed. Since 2010, the Valdezes have assumed the position of vice mayor as well.

In the process of consolidating the family's power, Alfredo's brother Hilario, a leading local entrepreneur, played a key role in attracting investment to the municipality, which fueled local economic growth. Hilario studied law at San Beda College and became a lawyer. Recognizing his contribution to the electoral victory of Fidel Ramos to the presidency in 1992, Ramos appointed him as deputy administrator of the National Tobacco Administration and a board member of the National Food Authority. While handling issues related to farmers, he became disillusioned by the tedious procedures of the government. He resigned from both positions and started a shipping and cargo logistics business in 1994. The following year, Hilario expanded his business into his hometown with the establishment of the Venvi Group of Companies, which ventured into agribusiness and then real estate (Guillermo 2006). He suggested his brother Alfredo run for the 2004 mayoral election to create a business-friendly environment.

II-2 *Making of the Valdez Center*[14]

Hilario saw the economic potential in 20 hectares of underutilized, agricultural, low-lying land, which was frequently flooded during the rainy season and would remain waterlogged for a month afterward. This land has now developed into the Valdez Center. Accumulation of the lands started in 1997 when Carlito Abadilla, a local elite in the municipality of Banna, sold 4,000 m^2 of the family land to Hilario to finance the clan's election expenses the following year. To address concerns among board members of the Venvi Group that this development plan would cost a lot, Hilario argued, "What is more important is the good location. If the site is in a bad location, even if the development is easy, the business will be difficult" (Guillermo 2006). When certain lands were purchased, he petitioned the provincial government to allow the moving of soil from the adjacent Laoag River to increase the height of the land to prevent flooding.

The most difficult problem in the course of development was the acquisition of titles to the land. A lot of land was registered in the 1920s and 1930s, and many of the titleholders were deceased, along with their children and grandchildren. In some cases, when the Venvi Group was negotiating the purchase of land from an owner, another person would come forward claiming to own the same piece of land and demand payment. Consequently, the group had to negotiate with multiple claimants and go through the process

14) The description here is drawn from interviews with Alfredo Valdez (February 1 and 8, 2010; February 19, 2019); Hilario Valdez (February 20, 2019); Ed Mar Vincent Bonoan, former municipal councilor of San Nicolas and deputy leader of the operation team, the Venvi Group (February 7, 2010); and Guirre.

of judicial titling, which took a lot of time and work. It also took considerable time for the Department of Environment and Natural Resources to process administrative titling and for the Department of Agriculture to convert land use from agricultural to commercial. About 60 percent of the process of acquiring the land title for the Valdez Center was completed by January 2009, and 80 percent by February 2019.

It is not rare in large-scale development projects in the Philippines for coercion and violence to be used against residents who oppose land sale or relocation. However, my research into the development of the Valdez Center did not uncover such stories. Rather, it appears that the former landowners earned a profit by selling their land.[15] Several times I heard such jokes such as "My grandfather used to own land there, but he sold it to buy a buffalo carriage. If he had not sold it, I would be very rich by now." The Venvi Group also provides jobs in the Valdez Center to families of landowners, to encourage them to sell their land.

From the beginning, Hilario had a view to develop the site into a commercial district. When some progress was made in developing the land, he asked SM Department Store, the leading mall business—owned by Henry Sy—to build a shopping mall. However, the negotiations broke down, because while the Venvi Group proposed constructing its own commercial facilities and operating a joint venture with SM Department Store, the latter demanded a 50-year lease of the entire land and a monopoly on the shopping mall business. After this, Hilario discussed the business plan with the Gokongweis' Robinsons Group, and in 2005 they reached a basic agreement for a joint venture, which was finalized the following year. Based on the agreement, in 2007 the Venvi Group first built a commercial facility named 365 Plaza (originally 365 Mall), and in December 2010 the Robinsons Ilocos Norte opened for business.

Following the success, the Venvi Group, which become the biggest corporation in the province, further expanded its businesses in the Valdez Center. In 2011 it built the first condominium in Ilocos Norte, Balai Condominium, consisting of one nine-story building and two four-story buildings with a swimming pool. All the units were purchased while the condominium was still under construction, mostly by migrants living in Hawaii as accommodations for temporary returns home or as rental investments.[16] The meat shop Freddo was constructed to promote the Venvi Group's pork industry. Vivien Hotel

15) According to Bonoan, there were cases in which some residents tried to extort an excessive amount of money from the Venvi Group using false documents.

16) The reason why the group built a condominium when there was plenty of land to build houses was so that migrant workers returning home temporarily could enjoy peace and quiet as well as privacy. The units ranged in size from 47 m^2 to 170 m^2 and were sold for prices ranging from 1.1 million to 3 million pesos in 2010.

Table 1 Comparison of Real Properties in San Nicolas

		1998		2008		2017	
		Parcel	Value (pesos)	Parcel	Value (pesos)	Parcel	Value (pesos)
Agricultural	land	19,521	55,941,930	20,076	61,546,280	20,331	129,694,640
Residential	land	5,423	21,005,590	6,031	27,092,750	6,050	61,509,150
	building	5,412	12,518,210	5,880	104,268,180	5,962	297,236,120
Commercial	land	244	8,957,530	364	20,887,400	636	92,813,670
	building	143	15,673,990	231	90,153,560	591	852,286,010
Industrial	land	5	6,131,430	8	6,765,640	26	27,466,790
	building	13	5,275,140	15	14,340,070	20	74,645,550

Source: Office of Municipal Assessor, Municipality of San Nicolas (2018).

started operations in 2018 in 365 Plaza. In a space beside the hotel, the Venvi Group enticed Casino Filipino-Ilocos Norte owned by Philippine Amusement and Gaming Corporation, targeting Taiwanese and Chinese mainlanders. The Venvi Group also built an IT park, to which it successfully enticed big American BPO companies: Expert Global Solutions (renamed Alorica Ilocos) in 2014 and Accenture in 2015.[17] In order to provide accommodation for workers in the Valdez Center, it built the Vesa Hall, composed of four buildings that could accommodate 198 people, in 2019. In the Robinsons, the Valdez Center also hosts such government offices as the Department of Foreign Affairs' passport center, the Social Security System, and the Technical Education and Skills Development Authority. Thus, the Valdez Center has become a one-stop shop for many purposes, from shopping, eating, working, and living to applying for government services.

Thanks to the real estate development and opening of new businesses, the number and value of real properties have significantly increased. The surge in commercial land and building values between 2008 and 2017 is impressive (Table 1).

II-3 *Business-Friendly Politics*

The economic development in San Nicolas is partially attributable to the area's geographic attractiveness to investors: it is located at the major transportation interchange in the province of Ilocos Norte and has easy accessibility to Laoag City and Laoag International Airport. Compared with Laoag City, whose commercial district is small and unsuitable for redevelopment, San Nicolas has the advantage of having vast lands along the major road that are suitable for developing large-scale commercial districts.

However, it is wrong to ignore Mayor Alfredo Valdez's initiative for what he calls

17) Alorica Inc., a California-based customer service company, acquired Expert Global Solutions in 2016. Accenture's branch in Ilocos Norte was the third after Manila and Cebu.

“business-friendly” politics.[18] The concept seems to be derived from the “Most Business-Friendly Local Government Unit Award,” which has been given by the Philippine Chamber of Commerce and Industry (PCCI) since 2002 to promote good local governance and improvement in the business environment under the theme of “What’s good for the citizenry is good for business.” Among the one hundred LGUs nominated each year, San Nicolas won the prize in the level 1 municipality category in 2009, becoming the first winner of the award in Ilocos Norte. The municipality also received the award for three consecutive years in 2012, 2013, and 2014, which made it the first Hall of Famer of the award in Ilocos Norte. The selection criteria in 2009 were twofold: first, “good governance,” which refers to encouraging trade and investments through both “quality customer service,” based on simplified, efficient, and seamless business-related procedures, and “public–private sector partnership” for the formulation and implementation of local developmental plans; and second, the realization of “competitiveness” in terms of “investment promotion,” “micro, small and medium enterprise development,” and “quality management systems and innovation” (Philippine Chamber of Commerce and Industry 2009). By 2016, revised business friendliness indicators included “anti-red tape act,” “fiscal transparency,” and “trade, investment, and tourism promotion” (Philippine Chamber of Commerce and Industry 2016).

Alfredo’s initiative has been in line with these indicators of the PCCI.[19] Eradicating conventional rent that was exploiting state resources for public projects was a prerequisite for him to put in place new reforms. Immediately upon being elected in 2004, he revoked a plan of the previous administration to build a public market with a loan of 36 million pesos, which he criticized as an inappropriately high price due to collusion with the construction company. The municipality then completed construction of a public market with its own funds without resorting to a loan in 2010.

In order to attract investors, Alfredo implemented a series of reforms. First, he had the municipal council draft and pass the Investment Incentive Code in 2004, the first legislation of its kind in the region, to facilitate investment procedures and provide tax reductions for five years to new investors.[20] Hilario also made use of his business network in Manila to bring investors to San Nicolas. Second, Alfredo eliminated the conventional practice of politicians and officials demanding grease money in exchange for

18) A municipality official who had served three mayors also noted that it was after Alfredo was first elected that various reforms were started under the banner of being “business friendly” (interview with Reidemor Bumanglag, head of human resources, municipality of San Nicolas, January 31, 2011).

19) The following discussion is based on interviews with Alfredo Valdez, February 1 and 8, 2011.

20) San Nicolas Investment Incentive Code of 2004; interview with Bonoan, who drafted the bill, on January 28, 2011.

licensing and approval for investors. Third, he realized a "one-stop shop licensing center" by eliminating red tape and quickly providing licenses and approvals necessary for business. When investors visited the municipality, rather than letting them go back and forth between various bureaus, he would convene a meeting in the mayor's office with all related officials in attendance. He said this was also effective in preventing wrongdoing on the part of officials. Fourth, he made sure to maintain security to reassure investors. As validation of this, San Nicolas was recognized as having the Most Outstanding Municipal Peace and Order Council in 2006 by the National Police Commission. Security is particularly important for luring BPO businesses, which operate in the middle of the night due to differences in time zones from the United States.

II-4 *Impacts on the Local Economy*

The development of the Valdez Center has had various impacts on the local economy. The most positive impact is its huge contribution to job creation. Although some contractors were from Manila, five hundred to six hundred locally hired construction workers worked on building the Robinsons, while two hundred worked on building Balai Condominium. They commuted in the beginning by public transportation but later by newly purchased motorbikes. As of 2019, more than ten thousand people regularly worked as construction workers, salespersons, security guards, and so on in the Valdez Center.[21] BPO offices have greater potential to provide jobs with higher salaries to young college graduates. Alorica Ilocos increased its number of employees from nine hundred to 1,500 in 2019.[22] To attract workers, it provides 13,000 pesos for relocation assistance. Accenture initially employed two hundred people, increased that number to around one thousand by 2019, and was set to offer five thousand jobs. These BPO companies have pointed to the wealth of talented students and young professionals as a reason for choosing Ilocos Norte to host their branches (ABS-CBN News 2015; Adriano 2015; 2018; *Manila Times*, April 27, 2016; Provincial Government of Ilocos Norte, Communications and Media Office 2016).

Alfredo also intends to create synergy between San Nicolas's traditional pottery (*damili*) industry and newly attracted businesses, which would remind the public that modern design and traditional crafts could go hand in hand (*Manila Times*, July 28, 2009). Having exempted pottery business operators from paying taxes,[23] he asked the Robin-

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21) The Venvi Group directly hired five hundred to six hundred workers as of 2019.
22) Alorica Ilocos offered 390 pesos a day for new workers, which was much higher than the minimum wage of 310 pesos in the region in 2019.
23) Licensing requirements are also exempted for pottery business operators except for those who produce bricks that construction companies purchase with official documents.

sons to use locally produced red bricks for the mall's exterior and part of the interior. The municipality also invited a volunteer pottery artist from Japan International Cooperation Agency to develop new products that would be attractive for tourists to buy as local souvenirs.

Some local businesspersons found new business opportunities in the Robinsons, but local businessmen I interviewed in 2010 and 2011 were having difficulty adjusting to the new business.[24] A Chinese Filipino restaurant owner who invested 700,000 pesos to set up an outlet in the food court complained that the high rent and mandated use of high-quality materials were burdens on his business. Another Chinese Filipino who ran a restaurant in the mall admitted that his business was in the red because of the high rent and expensive utilities and that he would consider withdrawing if the rent did not come down.[25] Because of this situation, many local business owners were still in a "wait and see" mode with regard to assuming tenancy in the mall.[26]

Investments by big business from the outside also brought threats to existing local businesses. Before the opening of the Robinsons in 2009, there was some opposition to the plan from grocery stores in San Nicolas and an old local department store in Laoag, but there was no serious political opposition. After the opening of the Robinsons, local retail businesses were adversely affected. The 5-Sisters Superstore, a local department store in Laoag, tried to win back customers by improving its stock and increasing sales, but it eventually closed and leased its premises to SM Savemore, which opened in 2011. Vendors at the public markets in Laoag and San Nicolas were also affected by the Robinsons' opening.[27] In particular, those dealing in groceries complained about reduced sales, but they tried to secure *suki* (regulars) with friendly sales talk and by providing services that department stores could not, such as discounts and free replacement of defective products. They also tried to attract customers by emphasizing that their prod-

24) Rent varies from one business type to another. In 2010, for a restaurant the monthly rent was 600 pesos per square meter as well as a small percentage of total sales.

25) He expected that if a new large-scale shop opened in Laoag City, the Robinsons would reduce its rent in order to retain tenants.

26) Interview with Robert Bismonte, president, Laoag/Ilocos Norte chapter, Philippine Chamber of Commerce and Industry, on January 29, 2011.

27) However, the revenue from the Laoag public market decreased by only a small margin after the Robinsons' opening because the city administration made efforts to prevent tax flight by strictly monitoring shipment to the market and sales. On the other hand, merchants in the Laoag public market demanded a reduction in rent from Laoag City because the loan of 140 million pesos to build the public market in 1999 had been paid off in July 2009 and because the merchants' sales had been reduced with the opening of the Robinsons. As for vendors in the San Nicolas public market, because the market opened in November 2010, it is impossible to compare revenues before and after the Robinsons' opening.

ucts were cheaper and fresher than those found in the mall.[28)]

Yet the biggest reason why many local businesses were able to survive despite aggressive investment by the mall businesses was that local residents receiving remittances from abroad had enough purchasing power to sustain both old and new commercial facilities. Locals generally welcomed the Robinsons as it provided a new place for consumption and entertainment. The rich and middle classes enjoy shopping for luxurious items as well as the convenience of making a significant number of purchases in a single trip because of the mall's large parking lot, which is a contrast to the congested commercial districts in Laoag. The poor come with their families on holidays to have meals in inexpensive restaurants and indulge in a bit of shopping in an air-conditioned space.[29)] Yet many consumers use shops closer to their home or workplace to buy items they use daily and the public markets to buy fresh foods.

II-5 *Contribution to Local Revenue and Public Services*

New businesses have made important contributions to the tax revenue of San Nicolas, which does not enjoy a big share of the IRA from the central government due to its classification as a second-class municipality.[30)] The amount of IRA to local governments is determined by their classification based on area, population, and income. For instance, Vintar, having the largest area in the province, is classified as a first-class municipality and received 80 million pesos of IRA in 2009, whereas San Nicolas, which has the second-smallest area in the province at 40.18 km^2, received only 43 million pesos that year. A municipality can significantly increase its share of IRA by gaining cityhood, which requires satisfying one of two requirements: having an area of 100 km^2 or a population of 150,000, or generating a local income of 100 million pesos for the last two consecutive years.[31)]

It is unrealistic for San Nicolas, which had a population of only 33,642 in 2007 and 36,736 in 2015, to meet the population requirement. Thus, San Nicolas has sought to raise local revenue through its business tax, the largest source of tax revenue.[32)] Since

28) A vendor dealing in clothes said that her products were cheaper for "everyone," in contrast to the more expensive products at the Robinsons, partly due to the latter's high rent. A chicken vendor said that because chickens sold at the Robinsons were frozen, she was trying to compete by selling as much fresh chicken as possible.

29) The shop lease manager claimed that tenants at the Robinsons were chosen to cover all classes of customers (interview with Guirre).

30) When Alfredo assumed the mayoral position in 2004, San Nicolas was a fourth-class municipality.

31) In Ilocos Norte, Batac was granted cityhood by Congress in 2007 even without satisfying the income requirement, but the Supreme Court revoked the decision in 2008. Batac regained cityhood in 2010 after the Supreme Court nullified its previous decision.

32) Coca-Cola paid the highest business tax of an annual 6 million pesos, which was followed by the Robinsons' 3 million to 3.5 million pesos from 2010 to 2017 (interview with Henry Ulep, treasurer, San Nicolas, January 27, 2011 and November 26, 2018).

Table 2 Revenue of Municipality of San Nicolas (pesos)

	Business Tax	Local Sources	IRA	Total Income	Local-IRA Ratio	IRA Dependency
1995	–	5,867,393	9,065,063	14,932,456	65%	61%
2000	–	9,780,525	19,999,176	30,156,843	49%	66%
2005	5,309,264	16,243,027	27,328,178	49,362,887	59%	55%
2006	9,087,340	22,954,227	31,865,571	57,849,372	72%	55%
2007	8,504,991	19,619,440	33,016,562	53,558,126	59%	62%
2008	–	24,220,931	38,487,191	63,227,750	63%	61%
2009	–	36,899,928	43,250,560	77,004,823	85%	56%
2010	13,708,576	45,574,280	45,882,014	94,171,132	99%	49%
2011	–	42,862,964	49,614,809	108,880,338	86%	46%
2012	23,156,039	49,429,061	48,155,015	107,123,299	103%	45%
2013	25,563,645	53,551,818	53,272,738	113,655,331	101%	47%
2014	26,603,670	58,506,180	60,290,493	121,494,068	97%	50%
2015	30,130,853	62,386,035	68,713,644	132,389,747	91%	52%
2016	30,130,853	69,811,613	75,684,623	149,028,183	92%	51%
2017	30,846,695	73,563,096	85,202,101	162,257,296	86%	53%
2018	40,001,487	95,304,294	91,384,284	224,523,047	104%	41%
2019	44,274,485	97,194,880	99,777,236	209,598,819	97%	48%

Sources: Republic of the Philippines, Commission on Audit (various years) and Municipality of San Nicolas (2007; 2010).

2005, the year after Alfredo was elected mayor, San Nicolas's local revenue has increased dramatically despite the tax reduction for new investors. The increase in local sources of income has outstripped the increase in IRA, which has led to a significant decline of IRA dependency to around 50 percent or even lower (Table 2). Considering the national average of IRA dependency at the municipality level was 78 percent in 2004 and 77 percent in 2016,[33] it is clear that San Nicolas has achieved a financial status relatively independent of central government funding.

By making use of the increased local revenue, the municipality has improved public services, which has helped it win many awards in various fields of good governance. Trophies and certificates for more than sixty awards are exhibited in the municipality hall, which is constructed with locally produced red bricks and ornamented with traditional products. A virtuous cycle is identified: initiatives for good governance yield awards; awards attract investment; and investment increases local revenue to support the betterment of public services, which attracts new awards.

In terms of infrastructure, the municipality implemented the Small Water Impounding Projector "Catching Rain" Program, which utilizes the indigenous and environment-

33) Bureau of Local Government Finance, Department of Finance (2004, 20; 2016). The average IRA dependency of the municipalities in Ilocos Norte also decreased from 73.4 percent in 2009 to 52.2 percent in 2016.

friendly technique of earth dams, water reservoirs, and irrigation systems for agriculture in the municipality, where there are no natural bodies of water for irrigation. This program won the Galing Pook award in 2017 (Dela Cruz 2017b; Galing Pook Foundation 2017, 17). For environmental rehabilitation, to address the rapid increase in waste and garbage generated by economic development, the municipality in 2012 started constructing a sanitary landfill, which came into operation in 2015. This was a progressive initiative, considering that more than 85 percent of LGUs still used open dumps as of 2016, despite the Ecological Solid Waste Management Act of 2000 enjoining LGUs to convert open dumps into sanitary landfills (Senate Economic Planning Office 2017).

In the field of cultural services, in order to enhance public awareness about the cultural heritage of the local pottery industry, the municipality honored the master craftswoman Paulina "Nana Paul" Rangcapan as a Municipal Living Treasure in 2016 (Municipal Ordinance No. 2016-05). Her story is highlighted in the museum Museo San Nicoleño, which was set up in a historical water reservoir building in 2017 in time for the quadricentennial of San Nicolas's independence from Laoag (Sembrano 2018). A municipal officer explained that the pottery industry was an important part of San Nicolas's cultural heritage; even though the Spanish colonial government tried to annex San Nicolas to Laoag, the necessity of managing the pottery industry helped San Nicolas to maintain its independence.[34] The municipality also institutionalized the Damili Festival, in which each *barangay* performs native dances; required elementary and high school students to learn the art of pottery as part of the curriculum; and purchased an old Spanish-style building to preserve the structure and named it Balay San Nicolas. Such programs act as a conduit for tourism development. The municipality became a finalist for the Galing Pook Award for Outstanding Governance Program for its cultural heritage program in 2015. Moreover, Alfredo encouraged and facilitated Manuel Aurelio, a local intellectual, to publish a second edition of his book titled *The History of San Nicolas* (Aurelio 2013).

As for health and sanitation, the municipality has provided funds to extend health insurance to those not previously covered by PhilHeath: informal workers and unenrolled women about to give birth.[35] It has held medical-dental missions and blood donation drives to provide medicine and medical assistance to the people. The Department of Health conferred the National Sandugo Award on the municipality in 2013 and 2017 for actively promoting voluntary blood donation (Dela Cruz 2013; 2017a). In the education sector, the municipality has worked with the San Nicolas Express BIN-I Foundation, a

34) Interview with Richie Cavinta, February 19, 2019.

35) See Municipal Resolution No. 2019-52, which was enacted to comply with the National Health Insurance Act of 2013.

goodwill organization founded and chaired by Alfredo, to provide scholarships to less fortunate students. San Nicolas was also adjudged a National Kabalikat awardee by the Technical Education and Skills Development Authority in 2013 for its outstanding promotion and enhancement of technical education and skills development (Dela Cruz 2013).

II-6 *Race for Investment among Local Governments*

According to Alfredo, another advantage of being less dependent on IRA is that local chief executives like himself can withstand harassment from higher-ranking politicians. A feud with the Marcoses, the distant relatives and the most powerful clan in the province, is a serious threat for the Valdezes.[36] The Marcoses, who have monopolized the governorship of Ilocos Norte since 1998, was not always supportive to the development of the Valdez Center. The Venvi Group's application to the provincial government for tax incentives was rejected.[37] The Venvi group also had to develop the basic infrastructure for services such as electricity and water by themselves. Imee Marcos, who served as the governor from 2010 until she was elected to the Senate in 2019, declined the Venvi Group's application for a quarry permit for two years while issuing permits to other businesses. When two senators distributed farm-to-market road funds to the provincial government, Imee did not allocate the funds to San Nicolas. Perhaps frustrated by the Valdezes' achievements, Imee demanded that investors not invest only in San Nicolas. As if to appease the governor, Alorica opened a small office in Laoag, and Casino Filipino installed several machines in the Plaza Del Norte Hotel and Convention Center which was constructed in Paoay by Imee's brother Bongbong when he was the governor. The feud with the Marcoses eventually made Hilario to run for a congressional seat but lost to Eugenio Angelo Barba, who was backed by the Marcoses in the 2019 election.

Such conflicts between political clans should be understood in the context of competition over investment, not just as personal matters. Imee herself situated the rise of business-friendly politics as the third stage of development of the province, following the first stage when her father, President Ferdinand Marcos, developed the province through aggressive public spending on infrastructure in the 1970s, and the second stage when remittances from OFWs contributed to the local economy from the 1990s to 2000s, which she believed was not sustainable due to the high social cost of draining the population. In the current third stage, where "small government" is celebrated, local governments seek sustainable development by collaborating with the private sector. The BPO busi-

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36) Interviews with Alfredo Valdez and Hilario Valdez, February 19 and 20, 2019.

37) The Ilocos Norte Investment Board pointed out that Venvi had acquired land titles for only 2 to 3 hectares of the 20 hectares for which the application had been made (interview with Bismonte).

ness is especially important because it can prevent university graduates from leaving the province and can increase the purchasing power of young workers. Thus, Imee emphasized that winning the "race towards FDI (foreign direct investment)" was essential, and it was no longer only ASEAN countries that competed for FDI but also local governments in the Philippines.[38)]

Apart from enticing investment, Imee added another method for the local government to function as an enterprise: pursuing profit in such fields as tourism.[39)] However, there are still legal and political limitations that discourage local governments from seeking profit as an enterprise.[40)] Thus, attracting investment is so far the most important strategy.

The impressive successes of San Nicolas have sparked a race for investment among local governments in the Province. Laoag City, whose mayoral position was ruled by the Fariñas clan from 2004 to 2019, legislated the Investment Incentive Code in 2008, four years after San Nicolas, and tried to entice mall businesses. Although its scale is much smaller than that of the Robinsons, the SM Savemore opened in the city in December 2011, replacing the old 5-Sisters Superstore, which was followed by the opening of SM Hypermarket in October 2012. To host the latter, Laoag City renovated the Ilocano Heroes Memorial Hall. In return, SM Department Store donated 1.5 million pesos to Laoag City General Hospital and 300,000 pesos for the renovation of St. William's Cathedral (Orosa 2012). Puregold Supermarket, a large-scale grocery store run by the Chinese-Filipino businessman Lucio Co, opened its doors in November 2012.

However, the series of big investments in congested Laoag drew opposition in several forms. Local businesses and the Laoag Market Vendors Association opposed the opening of large-scale grocery stores in the city. In response to their anxiety, Laoag City claimed that it could not prevent local development and proposed that local businesses take up tenancy in the malls.[41)] The strongest protest was against Laoag City's decision to demolish the historic structure of Laoag Central Elementary School, which was built in 1929, and offer the land to Puregold. The land had originally been donated to the city for educational purposes by the diocese of Laoag. Growing opposition from the school's parent-teacher association, the community, and the local business sector forced the pro-

38) Interview with Imee Marcos, February 3, 2011.

39) Imee pointed to Governor Ray Villafuerte of the province of Camarines Sur as a successful example. The governor put back profits gained from promoting tourism into school-building projects.

40) Imee criticized that Jesse Robredo, secretary of the Interior and Local Government of the Benigno Aquino III administration issued three memorandums to constrain local governments' economic independence.

41) Interview with Joshua Paulino, head of Management Authority of Laoag Public Market, February 1, 2011.

vincial board to impose a moratorium on the demolition of the heritage structure in 2009 (Arzadon 2009). To avoid further delay in opening, Puregold eventually agreed to downscale its original plan and built its supermarket beside the school.

III Local Politics and Private Capital

III-1 *Reexamining Rent in Local Politics*

A characteristic of the business-friendly politics in San Nicolas is the close link between politics and business formed by the Valdez brothers. Although Hilario had made a conscious effort not to intervene in politics,[42] the two brothers clearly made use of rent to further develop the Valdez Center. It would not be feasible to accumulate and develop the huge lands without strong support from the local government because the business needed to go through many complex procedures to get various kinds of permits. However, the use of such political power by an economic actor is usually regarded as rent-seeking, which harms the economy. In that case, why did the use of rent by the Valdezes promote the development of the local economy instead of harming it?

According to the mainstream neoclassical economic theory, rent essentially harms the economy because it gives incentives for economic actors to indulge in rent-seeking, inefficiently spending resources for unproductive purposes such as lobbying, petitions, and donations, as opposed to profit-seeking, in which resources are utilized for productive purposes in the market, thus contributing to economic development. On the other hand, there are arguments that some forms of rent have produced more benefits than costs, contributing to economic growth in East Asia and Southeast Asia, contrary to the dominant neoclassical view (e.g. Chang 1994; Khan 2000a; 2000b; 2006; Kang 2002). According to Mushtaq Khan, it is possible to measure the different economic impacts of rent by subtracting the cost of rent-seeking from the benefits of rent. While a positive difference signifies that rent is "value-enhancing," a negative difference shows that rent is "value-reducing" (Khan 2000a; 2000b; 2006).

In the Philippines, rent-seeking has been identified as a major obstacle to economic development. Paul Hutchcroft (1998; 2000) argues that oligarchic elites have engaged in predatory rent-seeking from the state for their self-interest at the cost of economic rationality and the general welfare of the nation. He also states that privatization of businesses previously controlled by the state did not lead to the abolition of predatory rent-seeking because it produced new rent—the state's licensing of the entry

42) Interview with Bonoan, January 28, 2011.

of private capital—which could be utilized by companies enjoying the most favorable political connections to take advantage in bidding and negotiation (Hutchcroft 2000, 241). Rent-seeking in the Philippines is expensive and unproductive because so many actors compete for rent; the state is weakened by many authorities informally intervening in and influencing the formal bureaucracy. This condition makes the outcome of rent-seeking so unpredictable that beneficiaries of rent pursue narrow self-profit instead of investing in development that contributes to broader interests (Hutchcroft 2000; Kang 2002).

In stark contrast to the general description of the Philippine political economy, however, it is undeniable that value-enhancing forms of rent have worked in the case of San Nicolas. This can be attributed to two factors. First, the cost of rent-seeking has been at its minimum because of the high predictability of its outcomes at the level of local government, where the number of actors is limited and negotiation with a chief executive with strong leadership is reliable. Rent-seeking from the central government is much more complex and incalculable due to the many informal authorities involved. In the case of San Nicolas, the family tie, coupled with the shared vision and interests of the Valdez brothers, has made the cost of rent-seeking little to none. Another factor making rent-seeking inexpensive is the changing economic structure. The cost of rent-seeking is likely to become more expensive in a setting where the state monopolizes resources or provides lucrative business opportunities and a number of companies are competing for rent, as in the case of overbidding for a public project. However, private capital has become more dominant over state resources and local governments are not always in the position to choose investors. In the new setting where many local governments compete to attract private capital to their localities, the cost of rent-seeking to companies must be much cheaper.

Second, the rent utilized by the Valdezes for the development of the Valdez Center produced general benefits to the local economy because the Valdezes tapped the potential of the local market rather than monopolizing it. The enticement of the international BPO companies further expanded the local market by strengthening the purchasing power of its workers and families. Furthermore, the Valdezes succeeded in creating and maintaining a competitive market. They did not put undue pressure on other private capital and instead used their own businesses as instruments to attract new investment from Manila and abroad. They explained that investors would not be interested in investing in a large expanse of empty land and therefore it was necessary for the Venvi Group to create some successful examples with their own money.

Yet, the economic impacts of rent can change over time, and value-enhancing forms of rent can become value-reducing (Khan 2000b). At least three negative scenarios are conceivable for San Nicolas. If investment in the municipality further increases and multiple companies compete for business permits from the local government, the cost of rent-seeking may balloon, and this may take away from the benefits of the rent. Also, if demand in the local market becomes close to saturated, the businesses of the Valdezes and other companies that enjoy rent may prevent the development of other private capital and inhibit the competitive market. Lastly, a change in local political leadership may seriously disturb the conditions that have kept the rent productive. The weakness of local bureaucracy under the "spoils system" of the Philippines, in which high-ranking local officials' tenure is dependent on electoral outcomes, raises the risk.

III-2 *Changes and Continuity in Elite Rule*

Sidel stated that the structural condition of the state's monopoly of resources helped local elites to entrench their power through access to the state. This paper argues, however, that conditions have changed as private resources have accumulated in society—not only in Metro Manila but also in many smaller cities—through international remittances and investments by the private sector since the 2000s. The new structural conditions have provided local elites with an incentive to switch their political dominance strategy from predatory rent-seeking for state resources to enticement of private sector investments. The new strategy enables local elites to enhance their revenue, improve public services, and receive awards, which further attract investment. The Valdez brothers were the pioneering policy entrepreneurs who first adapted the new strategy in Ilocos Norte.

However, the new structural condition does not always produce policy entrepreneurs who practice reform-oriented local politics throughout the Philippines. Given that the new strategy is not always available for local elites who do not enjoy geographic conditions suitable for commercial development, the gap between progressive and regressive local governments will become bigger. Even in cities with potential for investment, not all local elites can smoothly change the conventional way of doing politics. Aggressive enticement of investment without sufficient coordination can also invite local opposition, as seen in the case of Laoag. Thus, it can be argued that the new structural condition provided local elites with a new rule of a game in which those who succeeded in adapting themselves to the new rule became dominant and those who did not do so began failing.

This study also confirmed the tendency that business-friendly local politics strengthens the power base of dynastic local elites. The case of San Nicolas suggests that business-friendly politics facilitates the emergence of a new type of local dynasty. The fact that Alfredo won reelection unopposed in 2010, 2016, and 2019 shows that the Valdezes were able to establish a dynasty through reform-oriented politics in the municipality, whose political landscape had once been so competitive that none of the ambitious clans had been able to build a stable dominance.

For more established dynasties such as the Marcoses, the changing structure of the political economy may have provided a new challenge. Yet, Imee was confident in the dynasty's stability, insisting that local governments ruled by long-standing dynastic elites were more advantageous to economic development through business-friendly politics. This was because stable, strong leadership enabled them to implement a long-term plan, while competition among many interests, coupled with frequent changes in leadership in national politics as well as more competitive local politics, could stagnate development.[43]

Although it may be tempting to dismiss Imee's argument as mere self-justification for dynastic elites, the study's findings affirm her view. Theoretically, the presence of many actors and unpredictability in electoral politics increase the cost of rent-seeking, which tends to have a negative impact on the economy. On the contrary, dynastic local politics limits the number of actors and unpredictability in politics, which can reduce the cost of rent-seeking and thereby produce a positive outcome. Empirically, this study exemplifies that local elites can strengthen their hold on power through business-friendly politics by managing the channel of capital inflow, providing more job opportunities, and improving public services.

However, a change in the way local elites allocate resources to constituents and the way the latter evaluate the former may eventually lead to more pluralistic local political competition. In traditional clientelist and machine politics, local elites directly distribute resources to their followers for votes as a token of their personal "kindness." In contrast, in business-friendly politics, local elites indirectly benefit a broad range of constituents, beyond their narrow political affiliation, through economic and social development. This can make constituents more independent of local elites and thereby weaken the latter's direct control. Moreover, because constituents value performance and competence in the local elites, even established dynasties may fail if they fail to perform for the people. Although this study does not have data showing such signs, new studies on failed or weakened dynasties in the new environment of a political economy would reveal conditions for change.

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43) Interview with Imee Marcos.

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