**Regions, institutions and development in a global economy**

*Divergent regional business systems in the Philippines*

**Regio's, instituties en ontwikkeling in een mondiale economie**

*Variërende regionale handelssystemen in de Filippijnen*

This thesis forms part of the research programme Regional Development in a Global Context of the Urban and Regional research Centre Utrecht (URU).

ISBN 978-90-393-5178-9

Graphic design, Cartography and figures and DTP:
Geomedia [7451], Faculty of Geosciences, Utrecht University.

Printed in the Netherlands by A-D Druk b.v., Zeist

**Regions, institutions and development in a global economy**

Divergent regional business systems in the Philippines

**Regio's, instituties en ontwikkeling in een mondiale economie**

Variërende regionale handelssystemen in de Filippijnen

(met een samenvatting in het Nederlands)

**Proefschrift**

ter verkrijging van de graad van doctor aan de Universiteit Utrecht
op gezag van de rector magnificus, prof. dr. J.C. Stoof,
ingevolge het besluit van het college voor promoties
in het openbaar te verdedigen

op vrijdag 16 oktober 2009 des middags te 4.15 uur

door

Bram Johannes van Helvoirt

geboren op 20 februari 1979
te Tilburg, Nederland

Promotor:
Prof. dr. O. Verkoren
Co-promotor:
Dr. A.C.M. van Westen

Examination Committee:
Prof. dr. R.A. Boschma
Prof. dr. A.H.J. Helmsing
Prof. dr. O.D. van den Muijzenberg
Prof. dr. E.B. Zoomers

# Contents

# List of figures

# List of maps

# List of tables

# List of textboxes

# Abbreviations

| | |
|---|---|
| AABT | Associacion Agricola de Bais y Tanjay |
| ABCF | Alona Beach Community Foundation |
| ABUTSI | Association of Bohol United Transport Services Inc. |
| AFI | Association of Food Industries |
| AFTA | Association of Southeast Asian Nations Free Trade Arrangement |
| ANT | Actor-Network-Theory |
| ARMM | Autonomous Region in Muslim Mindanao |
| ASEAN | Association of Southeast Asian Nations |
| BAHRR | Bohol Association of Hotels, Resorts and Restaurants |
| BAS | Bureau of Agricultural Statistics |
| BCBP | Brotherhood of Christian Businessmen and Professionals |
| BCCI | Bohol Chamber of Commerce and Industry |
| BISCOM | Binalbagan-Isabela Sugar Company |
| BFCCI | Bohol Filipino-Chinese Chamber of Commerce and Industry |
| BOFAMCO | Bohol Farmers Multi-Purpose Cooperative |
| BOFETTO | Bohol Federation of Travel and Tour Operators |
| BOI | Board of Investment |
| BOPK | Bando Osmeña Pundok Kauswagan |
| BOT | Build-Operate-Transfer |
| BPO | Business Process Outsourcing |
| BQ | Bohol Quality Corporation |
| CAB | Central Azucarera de Bais |
| CALABARZON | Cavite, Laguna, Batangas, Rizal, Quezon |
| CARP | Comprehensive Agricultural Reform Program |
| CASA | Central Azucarera de San Antonio |
| CBM | Cebu Business Month |
| CBS | Comparative Business Systems |
| CCCI | Cebu Chamber of Commerce and Industry |
| CCSF | Coconut Consumer Stabilisation Fund |
| CDC | Cebu Development Corporation |
| CIDA | Canadian International Development Agency |
| CIP | Cebu International Port |
| CIPC | Cebu Investment Promotion Center |
| CITEM | Center for International Trade Expositions and Missions |
| CFCCCI | Cebu Filipino-Chinese Chamber of Commerce and Industry |
| CFIF | Cebu Furniture Industry Foundation |
| CGIF | Cebu Garments Industry Foundation |
| CME | Coordinated Market Economy |
| COCOFED | Philippine Coconut Producers Federation |

| | |
|---|---|
| CPVDC | Cebu Property Ventures and Development Corporation |
| DA | Department of Agriculture |
| DAR | Department of Agrarian Reform |
| DECS | Department of Education, Culture and Sports |
| DOT | Department of Tourism |
| DTI | Department of Trade and Industry |
| DUCOMI | Dumaguete Coconut Mills Inc. |
| ECCI | European Chamber of Commerce and Industry |
| EOI | Export-Oriented Industrialisation |
| EPZ | Export Processing Zone |
| Cebu FAME | Cebu Fashion Accessories Manufacturers and Exporters |
| FCB | First Consolidated Bank |
| FDI | Foreign Direct Investment |
| FFCCCI | Federation of Filipino-Chinese Chambers of Commerce and Industry |
| GCC | Global Commodity Chain |
| GDP | Gross Domestic Product |
| GMC | General Milling Corporation |
| GTH Cebu | Gifts, Toys and Housewares Cebu |
| GVC | Global Value Chain |
| GRDP | Gross Regional Domestic Product |
| HTCI | Herminio Teves and Company Inc. |
| ICM | Island City Mall |
| ICT | Information and Communication Technology |
| IRA | Internal Revenue Allotment |
| ISI | Import-Substituting Industrialisation |
| IT | Information Technology |
| JBIC | Japan Bank for International Cooperation |
| JICA | Japan International Cooperation Agency |
| LGC | Local Government Code |
| LGU | Local Government Unit |
| LME | Liberal Market Economy |
| LPP | League of Provinces of the Philippines |
| LVGP | League of Vice-Governors of the Philippines |
| MCCI | Mandaue Chamber of Commerce and Industry |
| MCIA | Mactan-Cebu International Airport |
| MEPZ | Mactan Export Processing Zone |
| MEPZCEM | Mactan Export Processing Zones Chamber of Exporters and Manufacturers |
| MSMEs | Micro, Small and Medium Enterprises |
| MTPDP | Medium Term Philippine Development Plan |
| NACIDA | National Cottage Industry Development Authority |
| NACOCO | National Coconut Corporation |
| NASUTRA | National Sugar Trading Corporation |
| NCR | National Capital Region |
| NEDA | National Economic Development Authority |
| NFA | National Food Authority |

| | |
|---|---|
| NGA | National Government Agency |
| NGO | Non-Governmental Organisation |
| NIE | New Institutional Economics |
| NOCCI | Negros Oriental Chamber of Commerce and Industry |
| NOPA | Negros Oriental Planters Association |
| NPA | New People's Army |
| NPC | Nationalist People's Coalition |
| NSCB | National Statistical Coordination Board |
| NSO | National Statistics Office |
| OFW | Overseas Filipino Worker |
| OPA | Office of the Provincial Agriculturist |
| OSEDC | One-Stop Export Documentation Center |
| PADP | Panglao Airport Development Project |
| PALM | Philippine Agricultural Land Development and Mill |
| PEZA | Philippine Economic Zone Authority |
| PCA | Philippine Coconut Authority |
| PCCI | Philippine Chamber of Commerce and Industry |
| PCPF | Philippine Coconut Planters Federation |
| PDAF | Priority Development Assistance Funds |
| PGCCP | Philippine-German Chamber Cooperation Program |
| PHILCOA | Philippine Coconut Administration |
| PHILEXPORT | Philippine Exporters Confederation Inc. |
| PHILSUCOM | Philippine Sugar Commission |
| PITE | Panglao Island Tourism Estate |
| PNB | Philippine National Bank |
| PO | People's Organisation |
| PSMA | Philippine Sugar Millers Association |
| RAFI | Ramon Aboitiz Foundation Inc. |
| RDC | Regional Development Council |
| RIC | Regional Industrial Center |
| SEP | Socio-Economic Portal |
| SEZ | Special Economic Zone |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package for the Social Sciences |
| SRA | Sugar Regulatory Authority |
| SRP | South Reclamation Project/South Road Properties |
| TNC | Transnational Corporation |
| UCPB | United Coconut Planters Bank |
| UNA-NPC | United Negros Alliance-Nationalist People's Coalition |
| ULAP | Union of Local Authorities of the Philippines |
| UNICEF | United Nations Children's Fund |
| UNICOM | United Coconut Mills Inc. |
| UNU | United Nations University |
| UPSUMCO | United Planters Sugar Milling Company |
| URC | Universal Robina Corporation |
| URSUMCO | Universal Robina Sugar Milling Company |
| USC | University of San Carlos |

| | |
|---|---|
| VoC | Varieties of Capitalism |
| WTO | World Trade Organisation |

# Preface

'The world has become a global village'. The first time I heard this often quoted phrase by Marshall McLuhan, I was fascinated by the idea of a global community in which people from all corners of the world would belong to and could equally participate in. However, during the course of my studies I have come to realise that my initial vision of a global village was an unrealistic one. The world is simply too diverse and complex to be shrunk into a synoptic village. This is also true for the global economy, which is not a homogeneous economic system, but reveals more resemblances to a patchwork of diverse national, regional and local systems. It is this intriguing diversity that has inspired me to conduct this study.

This dissertation could not have been completed without the support and involvement from people from various parts of the world. In Utrecht, two people have played essential roles in my professional life as a PhD: my supervisors Otto Verkoren and Guus van Westen. Otto has been an important inspiration for my career as a PhD, as he encouraged me to write a PhD research proposal. Once the research project was on its way, Otto remained this positive and stimulating role as the guardian of the structure and progress of the research project. During our lively discussions he always emphasised to keep a clear sight on the big picture. From the starting point to the finish line, Guus has been the dedicated manager of the entire operation. Despite his busy schedule, he always found time to help me when I got stuck in the theoretical or methodological mud. As such, he has been an inexhaustible source of theoretical and practical knowledge for me. Furthermore, our presentation of preliminary research findings at USC and participation in the EADI conference were enjoyable joint international activities. In all, it has been a great pleasure and honour to work with Otto and Guus and learn from their expertise on an impressively wide range of topics.

During the past four years, my time spent in the Philippines has truly been an unforgettable experience. Every time I arrived in the Central Visayas, the warm welcomes I received from the people at the University of San Carlos (USC) in Cebu City felt like a 'homecoming abroad'. For a large part, this can be attributed to the friendly and helpful people of the International Linkages Office at USC, and in particular its director Fr. Theodore Murnane. A true academic by heart, he always inspired me to dig deeper and remain critical. I will fondly remember all the conversations we had in the 'coolest place' on the campus. The discussions I had with Victorina Zosa, the director of the Office of Research, provided me with useful guidelines on how to structure my fieldworks. Furthermore, Alma and Celeste, the secretaries of the two offices, were always willing to help me with all kinds of practical issues that were easier to solve with a 'Cebuano touch'. This is also true for Alice and Jocelyn, who helped me with the business surveys in Cebu. I also owe much gratitude to Elisabeth Remedio and Resil Mojares for their insightful

comments on my work and Rene Alburo for providing the working space at the Social Sciences Research Centre (SSRC). It has been a pleasure to work in the 'basement', where Lauren and Edwin were always in the mood for a good laugh. In Bohol, Michael 'Miko' Cañares from Holy Name University (HNU) has been very supportive, as were his research assistants Kim Aranas and Ruth Orillos. In Negros Oriental, I am especially grateful to Gloria Futalan from Silliman Univerity (SU), who introduced me into the local community. Finally, I would like to thank all the businessmen, politicians, journalists and other academics who were willing to share their knowledge, thoughts and opinions with me during the many interesting interviews I conducted in the Philippines. To all of you: *Daghan salamat!* and *Maraming salamat!*

Mijn tijd als PhD in Utrecht is een prachtige ervaring geweest. Hier hebben mijn collega's binnen het Departement Sociale Geografie en Planologie en de vakgroep International Development Studies (IDS) een belangrijke rol in gespeeld. Naast het prettige contact met de vaste staf van de vakgroep heb ik veel plezier gehad en ervaringen kunnen delen met mijn kamergenoten mARTin Zebracki, Dinu*cha* Abdella, 'Mr. VoC' en 'institutional partner in crime' Edo Andriesse en mijn eerste grote voorbeeld Leendert de Bell. Hetzelfde geldt voor alle andere PhDs van de derde verdieping: Maarten Hogenstijn, Daniël van Middelkoop, Marike Bontenbal, Rizki Pandu Permana, Efsane Luleciler, Femke van Noorloos, Claver Rutayisire en Dieudonné Muhoza Ndaruhuye. Bovendien heb ik het genoegen gehad om samen met IDS master studenten Henri Plas, Kristy Gilsing, Lis Oldewarris, Maarten Mulder, Anouk Wienke, Leonie Jansen en Tjerk Destombes onderzoek te verrichten in de Filippijnen en tegelijkertijd allerlei verrassende facetten van deze prachtige archipel te ontdekken. Naast het feit dat zij interessante academische inzichten hebben geleverd voor mijn proefschrift, zal ik nog vaak met veel plezier terugdenken aan onze vele *jeepney* ritjes, crossmotor avonturen en *videoke* avonden. In Utrecht heb ik prettig samengewerkt met studente Roos Saalbrink aan een mooi artikel in Geografie. Veel dank gaat uit naar Geomedia voor de fraaie opmaak van dit boek en naar Floor Landa voor haar verrijkende taalcorrecties. Tenslotte wil ik ook een woord van dank doen uitgaan naar Akife Koçak, die er altijd op een gezellige manier voor heeft gezorgd dat het AIO-park bewoonbaar is gebleven de afgelopen vier jaar.

Hoewel mijn leven de afgelopen vier jaar grotendeels binnen academische muren heeft afgespeeld zijn er ook veel mensen buiten deze muren die ik wil bedanken. Allereerst heeft de continue belangstelling van mijn ouders en broers Stijn en Gijs voor de nodige motivatie gezorgd om mijn onderzoek succesvol en op tijd af te ronden. Daarnaast zijn mijn vrienden van de Tobbers belangrijk geweest voor het periodiek opfrissen van mijn hoofd in het weekend tijdens een gezellig avondje op stap. Een bont gezelschap waar ik veel waarde aan hecht. En aangezien een gezonde geest niet zonder een gezond lichaam kan, heb ik de voetbaltrainingen op donderdagavond en de wedstrijden op zondagmiddag met mijn fanatieke teamgenoten van Tuldania 2 en 1 nooit willen missen. Voor het eerstgenoemde team: *El Capitano* heet vanaf nu *Il Dottore*. Ik wil jullie hierbij allemaal hartelijk bedanken voor alle aandacht voor mijn werk, zowel van dichtbij als veraf.

Tot slot wil ik bovenal Judith bedanken voor haar begrip tijdens mijn verblijf in de Filippijnen, haar geduld als ik weer eens een hele avond achter de computer zat omdat ik 'nog heel even iets moest typen', haar interesse in mijn onderzoek en haar verfrissende

visie hierop, en haar steun die essentieel is geweest voor mij om dit project op een geslaagde manier te voltooien.

Bram van Helvoirt
Tilburg, juli 2009

# 1 Introduction

## 1.1 Background to the study

Regional development is an unequal process, in both space and time. Unequal in space, as is clear from the huge gaps in social and economic development that exist not only between different countries but also between regions within countries. Regional development is also unequal in time, as certain localities emerge at specific historical junctures while the importance of others declines or seem to never have been touched by any significant dynamism. Despite its early promising outlooks, the recent advent of economic globalisation spurred by neoliberal free trade policies has not been able to break with this pattern of inequality. As the economic geographers Scott and Storper (2003: 193) argue, 'it is fundamentally mistaken to equate globalisation with the notion that development today involves a spreading out of economic activity, or the transformation of the economic order into a liquefied space of flows. On the contrary, globalisation has been accompanied by the assertion and reassertion of agglomerative tendencies in many different areas of the world, in part of the very openness and competitiveness it ushers in (Scott, 1998; Puga and Venables, 1999)'. This polarising development effect of economic globalisation is particularly relevant within developing countries, where the dichotomy between core and non-core regions has become increasingly evident and disturbing (see UN Policy Brief by Kanbur and Venables, 2005; Asian Development Bank Working Paper by Balisacan and Pernia, 2002; World Bank Policy Research Working Paper by Shankar and Shah, 2001).

The uneven nature of regional development processes and its persistence in an ever-changing global context is a traditional preoccupation of geographers, development thinkers and researchers of related fields. Following the American economist and 2008 Nobel Prize laureate Paul Krugman, there are good reasons as to why regions and their mutual disparities deserve this attention:

'...one of the best ways to understand how the international economy works is to start by looking at what happens *inside* nations. If we want to understand differences in national growth rates, a good place to start is by examining differences in regional growth; if we want to understand international specialisation, a good place to start is with local specialisation' (Krugman, 1991: 3).

A range of insights from economics and the social sciences have made interesting contributions. Mainstream neoclassical economics, for one, has emphasized the integration of local economies in national and global markets, in order to benefit from specialisation according to their comparative advantages. Political economy approaches, on the other hand, have drawn attention to the fact that regional specialisations have often been imposed by the visible hand of the powerful rather than resulting spontaneously from the

invisible hand of free market forces. Geographical features (natural resource base, distance to markets, etc.) may further explain regional economic performance – an approach shunned by most contemporary geographers but recently popular among economists such as Sachs and Warner (2001) and Henderson et al. (2001).

An alternative approach to explain regional disparities in economic activity and performance that has recently gained momentum within economic geography emphasizes the role of 'institutions', a concept that is based on the realisation that economic activity is embedded in social and cultural norms and practices. The 'institutional turn' in economic geography has been inspired by the groundbreaking work of Douglass North (1990), one of the most well-known protagonists of the New Institutional Economics (NIE), who defined institutions as 'the rules of the game', i.e. the set of formal legal rules and the informal social norms that constrain or encourage (economic) behaviour and interaction between economic actors. As such, it has a relational view on the economy, wherein the structuring institutions are embedded in specific cultural, political and historical contexts, and therefore vary between localities. As such, specific regional settings create different economic institutions, encouraging certain types of activities and development trajectories, while at the same time discouraging others.

This study examines regional economic activity and performance by comparing specific institutional arrangements that shape distinct regional economic systems. It is particularly inspired by two recent publications that have revived the focus on the varying nature of capitalist systems and their underlying institutional foundations: Richard Whitley's (1999) book *Divergent Capitalisms: The social structuring and change of business systems* and the work of Peter Hall and David Soskice (2001) entitled *Varieties of Capitalism: the foundations of comparative institutional advantage*. These comparative institutional theories offer insightful perspectives for the study of economic activity and performance. Furthermore, the books present useful models to operationalise such a comparative study. This thesis explores varieties of regional economic systems in a single developing country, the Philippines, a setting in which the comparative institutional approach has received little attention so far. This study combines key elements of Whitley's and Hall & Soskice's approaches and complements these with other institutional perspectives that are relevant to the Southeast Asian context. With its alternative focus and combined approach, this study embroiders on previous research on Southeast Asian capitalist systems by Andriesse (2008) that has been undertaken within the research program *Regional Development in a Global Context* of the International Development Studies (IDS) section at Utrecht University in the Netherlands.

## 1.2 Main objectives

As indicated in the section above, this study focuses on regional disparities in economic development. The emphasis on the sub-national region as the central research unit is a relevant one, particularly in countries of the developing world that are recognized by large internal disparities (Verkoren, 2002). The Asia Pacific is a dynamic part of this developing world as it is recognized by a highly diverse socioeconomic composition. The region's ethnic, cultural, religious and geographic -the region hosts the world's two largest archipelagic states- heterogeneity has a strong impact on its spatial political-economic

constellations. As such, the various manifestations of distinct regional identities -socio-cultural and economic- are clearly present in the developing countries of the Asia Pacific (Hill, 2000). Because of its diverse nature, the region has been an area of interest to geographers from Utrecht University who have increased our understanding on a variety of issues pertaining to regional development (e.g. see Titus and Burgers, 2008; Andriesse and van Westen, 2007; van Grunsven, 1998; Huisman, 1991). This explorative study aims to contribute to the body of knowledge on regional development in Southeast Asia, and in particular it's underlying institutional dynamics. More precisely, the three main objectives of the study are presented below.

**1. Explore to what extent and how *regional* institutional arrangements shape different patterns of regional economic activity and performance *within* a single developing country.**
The first and most important objective of this study is to identify the relative importance of regional institutions for regional economic performance and development. This study is concerned with diversity in regional economic performance within developing countries and aims to explain this diversity by focusing on region-specific sets of institutional arrangements. The regional institutional view of this study contrasts with most studies in institutional economics that strongly emphasize the role of national formal institutions -i.e. government legislation and regulation- with a particular focus on countries in the developed world. While it is not the aim of this study to question the influence of national institutions on regional economies, it aims to reveal regional variations within these nation-wide frameworks. This is particularly relevant in developing countries that are often characterized by less coherent and solid national formal institutional frameworks, leaving a larger sphere of influence for region-based informal institutions to shape distinct regional economic systems. This regional institutional view also brings about some methodological challenges. In order to qualify and compare these regional economic systems and the regional institutional frameworks that produce them, this study applies key elements of the Comparative Business Systems approach and the Varieties of Capitalism approach. As these approaches are constructed for and mainly applied in comparative studies of national economies in the developed world, this study incorporates additional insights from economic and political geography to construct an analytical model that is suitable for comparative analysis of regional economic systems in a developing country. Finally, it is important to note here that though this study emphasizes the importance of regional institutional arrangements for regional development this does not mean it ignores non-institutional factors. Rather, it aims to pursue a holistic view on regional development and inequality as done by Balisacan and Pernia (2002) who indicate that location-specific institutional arrangements (i.e. the quality of local governance and access to financial resources), geographical factors (e.g. infrastructure and irrigation) and neoclassical economies of scale (such as average farm size) are important explanations for disparities in poverty reduction aside mere disparities in economic growth.

**2. Investigate how and to what extent regional institutional arrangements and regional economic development are shaped by external forces, i.e. a region's position in the global economy.**
Whereas many studies on regional economic development have placed significant emphasis on local institutional structures, they often do not pay attention to the 'global economic environment' of which the region forms an intrinsic part. In line with the study

by Coe et al. (2004), this study attempts to construct and employ a broad conceptual framework that pays analytical attention to both endogenous growth factors within specific regions and also to the strategic needs of actors coordinating in global value chains. Using Hall and Soskice's (2001) concept of 'institutional complementarities' or 'bundled institutions', this study analyses how and to what extent the key geographical orientation of leading firms in a region will affect the patterns of relationships between firms locally. In other words, this study stresses the multi-scalarity of the forces and processes underlying regional development and does not privilege one particular geographical scale. As such, this study aims to contribute to the recent 'new regionalism' literature that 'places increased weight on the extra-local dynamics shaping economic growth within regions' (Coe et al., 2004: 469).

**3. Contribute to the ongoing debate on divergent capitalist systems and the levels of scale on which these exist.**

Thirdly, this comparative institutional study aims to contribute to the ongoing debate on capitalist systems and their varieties. This study aims to complement the predominating focus of comparative institutional studies on the nation state by recognising the existence of distinct regional economic systems. This is a relevant issue, since globalisation has not 'flattened' the world into a level playing field. Rather, it has given rise to an uneven global economy in which certain regions have emerged as dynamic centres of economic activity while others seem to have remained untouched by international flows of trade and investment. As this study attempts to show, these 'regional varieties of capitalism' occur within national economies that are regarded as homogenous systems by comparative institutional approaches as Hall and Soskice's Varieties of Capitalism. In order to better understand the regional disparities in development that persist in many developing countries it is necessary to zoom in on the regional level and its dynamics. Here, intra-country comparative regional case studies like this can be enlightening. Moreover, it is important to emphasize here that in this regional institutional research ample attention should be addressed to (semi)peripheral regions and the impact of disabling institutions, as this could raise our understanding on unsuccessful regions and their underlying causes.

## 1.3 Setting of the study

**National setting**

The Philippines -the world's second largest archipelagic state with a population exceeding 88 million- is one of the world's development puzzles as the country has not developed into the robust economy it was foreseen to become when it gained independence in 1946 (see Balisacan and Hill (2003) for an insightful overview). Rather, the lagging Philippine economy seems to be an 'exceptional case' in the Asia Pacific region among the New Industrialising Countries (South Korea, Japan, Taiwan, Singapore and Hong Kong), the ASEAN 'tigers' (Malaysia, Indonesia and Thailand) and the capitalist emergence of China and Vietnam. As Balisacan and Hill (2003: 5) argue in their extensive work on the Philippine economy, the country 'is often poorly understood abroad' and it has received 'surprisingly little attention' over the past two decades as it has been present in the background during both the spectacular rise and sudden fall of the 'Asian miracle countries' during that era. From a macroeconomic view, the Philippines' poor performance

has been ascribed to the country's enduring political instability; a rapidly expanding population and its combination of a weak industrial and agricultural sector that are struggling to survive on the global market after the country joined the World Trade Organisation (WTO) in 1995.

A deeper look *inside* the Philippine economy reveals another important of its defining characteristics: the major and persistent regional disparities in socio-economic development. Economic activity is highly uneven in the Philippines, and particularly concentrated in and around the National Capital Region (NCR) or Metro Manila (see appendix 1 for an overview of the 17 Philippine regions). Together with its two adjacent regions of Central Luzon and CALABARZON, this region produced 53 percent of total national output in 2007. It is important to stress here that regional inequality in the Philippines not merely pertains to a divide between a 'rich capital' and a 'poor hinterland'. Rather, the disparities are so prominent since they are -somewhat paradoxically- widespread and fine-grained: they occur among different regions as well as among provinces within a single region (Balisacan and Fuwa, 2004). The high level of intra-national disparities in the Philippines leaves some researchers with the impression of analysing various autonomous states rather than provinces part of one and the same nation:

'The contrasts [...] among the regions and provinces of the Philippines would be better appreciated if they were to be considered separate countries. Then some provinces and regions would be in the same league as the Congo or Bangladesh, while others are comparable or better off than Malaysia and Thailand' (Balisacan & Fujisaki, 1999: 75).

What is further troublesome about these marked disparities in regional development is that they seem to be a structural characteristic of the Philippine economy. The regional economic development convergence analysis of Manasan and Chatterjee (2003) reveals that marked disparities in regional output (GRDP) in the Philippines persisted throughout 1975-2000, not showing significant signs of narrowing the gap between poor and rich regions. This pattern of inequality has remained largely intact in spite of the long track record of the Philippine government to implement regional development policies aimed at reducing the regional gaps, including a relatively early and successful program of political decentralisation (see e.g. van Oosterhout, 1985). All in all, these characteristics make the Philippines an interesting research area for those who want to come to better grips with the institutional dynamics behind regional disparities.

**Regional setting**

The Central Visayas islands of the Philippines (see map 1.1) have been the setting of empirical research by Utrecht development geographers for some years, focusing mostly on economic aspects of regional and local development (e.g. Jansen, 2007; Plas, 2007; Beerepoot and van Westen, 2001; Faasen and de Vries, 2000). The Central Visayas, or Region VII in administrative terms, is home to three provinces that are located on three neighbouring islands: Bohol, Cebu, and Negros Oriental. As will be discussed in chapter 4 in more detail, these provinces are marked by significant different patterns of economic development. Metro Cebu -the main urban centre of the southern Philippines- has emerged as a consequence of economic globalisation and the 'global shift' of manufacturing activity to low-cost locations. Cebu City and vicinity has become a significant centre of


***Map 1.1:*** The Central Visayas islands and their location in the Philippines

manufacturing and service industries in the last 15 years or so, attracting both foreign and domestic investment and producing for world markets. In fact, Metro Cebu has emerged as a second (after Metro Manila) node with direct global connections -shipping, aviation, and telecommunications- in the Philippines. While the strong global market interconnectivity offers Cebuano exporters vast market opportunities, Cebu is facing increasingly fierce competition from other low-cost countries such as China, which put much pressure on local producers. Neither of the two neighbouring islands of Cebu, Bohol and Negros, show much of the dynamism displayed by Cebu. They present two contrasting cases of regional economies. Negros island -comprised of the two provinces Negros Occidental and Negros Oriental- is notorious for its large-scale sugar cultivation that emerged from the late 19th century under Spanish and American colonisation. While Negros Oriental shows less resemblances to a classic plantation economy à la Beckford (1972) than Negros Occidental due to the smaller scale of its local sugar industry, the province has a polarised socio-economic structure that is topped by a landed elite. This has left the province with an uneven distribution of wealth, as it has consolidated politico-economic power in the hands of a small oligarchy. Bohol, like Negros Oriental, has shown little dynamism or diversification beyond its agricultural economy. This rural economy is different from that of Negros Oriental, however. Bohol is characterised by a localised agricultural economy that consists of smallholder farmers who sell their produce on the local market or remain involved in subsistence production. In recent years tourism has become an important industry as well, catering mostly to domestic visitors.

These Central Visayan islands present an excellent opportunity for a comparative analysis of regional economic systems as introduced above. Within close proximity, they offer a considerable variety in socio-economic composition and performance. Some are essentially rural and local in orientation, while others are highly urban, industrial and tightly integrated in global networks and flows of capital, goods and information. All share the national institutional framework of the Philippines -which remains an important source of regulation and public expenditure- while at the same time each comprises a very distinct island society. This distinct nature of regional societies and especially their elite sections is exacerbated not only by the archipelagic nature of the region, but also by the fact that individual islands have been separately integrated in the world economy, at different points in time and often without much involvement of the national centre.

## 1.4 Structure of the study

This book consists of five thematic blocks: (a) introduction to the main research themes; (b) theory and methodology; (c) local contexts and their evolutions; (d) empirical findings and their analysis; and (e) integrated overview and implications of the research. Integrating these blocks and the chapters they comprise, the structure of the book is graphically illustrated in figure 1.1.

After the introduction of the main research themes and objectives that underlie this study, the second part of the book concerns with its theoretical background and methodology. Chapter 2 gives an overview of the literature that has emerged on the main themes and issues dealt with in this study. Combining the theoretical and empirical insights from New Institutional Economics (NIE) on the interplay between relations, institutions and economic growth and those from economic geography on regional economic development, this chapter results in a conceptual framework that serves as the analytical road map for this study. Before discussing the methodology used in this study, chapter 3 continues by outlining and discussing the main research questions. Furthermore, the chapter gives an overview of the key concepts used in this study and provides them with definitions that fit in the specific research topic of this study.

The third block of the book will introduce the research area for this study: the Central Visayas and the three provinces of Bohol, Cebu and Negros Oriental. After positioning the Central Visayas in the national socioeconomic context of the Philippines, an overview of the three islands' divergent contemporary socio-economic sceneries is given using official statistics, own inventory and existing literature. In these descriptions, focus lies on the distinct key economic activities on the islands and their specific features. In order to better understand the divergent contemporary pictures, chapter 4 concludes with a historical analysis that traces the roots of the present-day regional economies.

In the fourth part, chapters 5 to 7 present the empirical findings of the study. Each of the three chapters focuses on one section of the conceptual model and is based on a specific set of empirical data. Using the data gathered from a business survey, chapter 5 discusses the extent and forms of coordination between firms within (global) value chains. Chapter 6 also discusses inter-firm relations, but focuses particularly on those that occur on the local

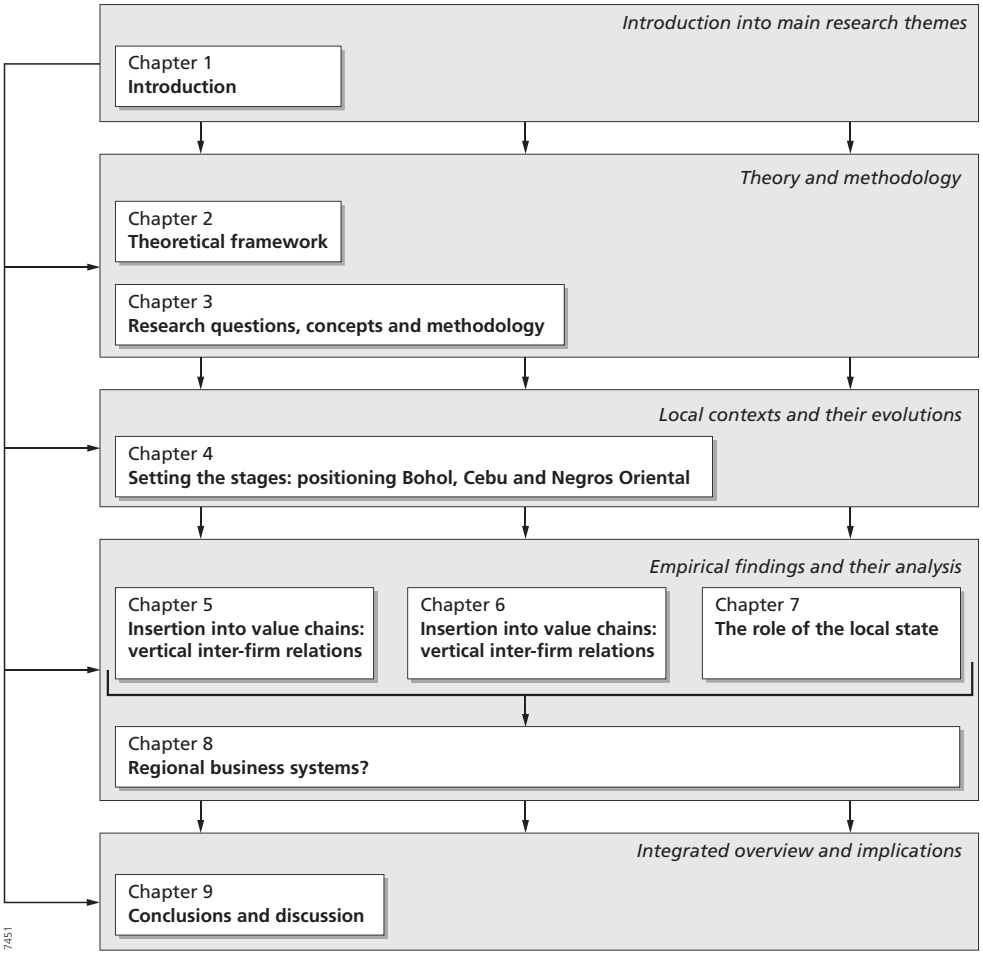



***Figure 1.1:*** Structure of the study

level. This chapter is also based on findings from the business survey, and uses additional data from a survey conducted among local business associations. The third empirical chapter, chapter 7, shifts the attention to the position of the local government vis-à-vis the local private sector and the national government. The findings presented in this chapter are largely based on personal in-depth interviews with key stakeholders. After having presented the empirical data, chapter 8 provides an integrated analysis hereof in order to investigate to what extent the regional economies -due to their distinct institutional arrangements- can be qualified as different economic systems.

Finally, the concluding chapter reviews the main findings by answering the key research questions posed in chapter 3. Furthermore, it interprets these findings to scrutinise how they contribute to our understanding on regional disparities in economic development and their underlying dynamics. Extending this debate, a following section discusses policy implications that can be distilled from this study's findings. Finally, several suggestions for future research on institutions and regional economic development are displayed.

# 2 Towards a relational view on regional economic development

## Introduction

"Countries," nations, nation-states, and national economies are in fact collections of spaces (regions), each with its own society and its own economic, social, political and power structure. The degree to which these spaces are integrated into a unified national economic, social, political and administrative system varies a great deal from country to country, and these variations go a long way in explaining differences in performance from country to country'. (Higgins and Savoie, 1995, p. 3. Quoted in: Hill, 2000: 1).

The persistent difference in social and economic development between subnational regions as described in the quote above is the subject of this study. Its specific aim is to explain the divergent development trajectories of three neighbouring island provinces in the Philippines. In doing so, this chapter will discuss the theoretical framework designed to scrutinise the underlying relational and institutional determinants of the differential patterns of regional development. The chapter starts with a brief introduction into the central research issue of this study: disparities in regional economic development. This will be followed by a discussion on the various theoretical approaches in economic geography that aim to explain the persistent disparities in regional development in the world (section 2.2). As such, it will introduce the 'institutional turn' that has occurred in this field of academic research. Section 2.3 will elaborate more extensively on the role ascribed to relations and institutions in economic life and discuss how their varying occurrence can shape different economic systems. This discussion is continued in section 2.4 that presents conceptual approaches to define and compare economic systems based on their relational and institutional characteristics. Section 2.5 then focuses on the Comparative Business Systems (CBS) approach, the comparative institutional approach that forms the basis for the conceptual model applied in this study. Since the CBS approach is constructed for and typically applied to national economies in the developed world, some conceptual adjustments and additions to the original model are necessary for this study on intra-country regional disparities in a developing context. These adjustments and additions are outlined in section 2.6. Finally, section 2.7 will assemble the theoretical insights of the previous sections to construct a conceptual model that will serve as the guideline of this study.

## 2.1 Regions, economic development and diversity

Unequal regional economic development within a country is not a unique phenomenon that only occurs in a geographically dispersed country like the Philippines. As a 2005 policy brief of the United Nations University states, 'In China, Russia, India, Mexico and South

Africa, as well as most other developing and transition economies, there is a sense that spatial and regional disparities in economic activity, income and social indicators, are on the increase' (Kanbur and Venables, 2005). In their study in 12 African countries, Sahn and Stifel (2003) find that the smallest rural-urban difference in people living below the poverty line in these countries is 30%, while in half of the countries this gap exceeds 50%. In Peru, there are large differences in poverty incidence between sea districts and high altitude sea districts (Escobal and Torero, 2005). Kanbur and Zhang (2005) reveal that -despite its impressive economic growth rate- China's interprovincial inequality has increased dramatically over the last 15 years and now stands at its highest level in half a century. Finally, the transition economies of Hungary, Poland, the Czech Republic and Russia show marked disparities in economic growth between capital cities and other major urban areas and the regions located further away from their rich western neighbours (Forster, Jesuit and Smeeding, 2005). In Southeast Asia, a highly diverse region that is marked by large national disparities in economic development, such significant intra-country disparities are not rare either. As Hill (2002: 11) strikingly reveals, 'the incidence of poverty in the comparatively rich capital cities of Jakarta, Kuala Lumpur and Manila is less than one-tenth that of some poor provinces in their hinterlands (respectively Nusa Tenggara, Kelantan and Bicol)'.

While the UNU stresses the significance of these forms of regional economic disparity as they can undermine national economic, social and political stability, it also acknowledges that there is too little knowledge on the driving factors behind these disparities. There is insufficient understanding of the determinants of regional disparities in the contemporary globalizing world. While it was assumed that the integration of regional economies into the global economy would create an equal 'borderless world' (Ohmae, 1990), it seems that within countries large differences have emerged between regions that have successfully conquered a 'position on the global map' and others that have declined in importance. Furthermore, while decentralisation programmes have given regions in a country more equal means of control over their development paths via a shift in public resources towards local governments, many socioeconomic disparities between regions remain. Helmsing (2003) simplifies the possible outcomes of these two dynamics on the local level by sketching three situations: (1) cities and regions which are integrating in the new 'geo-economy'; (2) localities and regions which have the resources and potential to integrate and (3) localities and regions which have been unable (or unwilling) to link up. While they are simplified examples, the different situations do call for a reassessment of global impacts on regional development.

## 2.2 Approaches to explain regional disparities in development

How can the large intra-country disparities in economic development, depicted in the former section, be explained? Among geographers and economists there is no single overarching theory that 'explains all'. Rather, throughout history several paradigms have emerged that focus on particular factors. In general, these schools of thought have long studied regional development from a one-sided perspective, analyzing either internal or external factors. Classical economists such as Adam Smith (1776) and David Ricardo (1817) have stressed the importance of region-specific 'resource endowments'. When

regions integrate in national and international trade markets, they can benefit from economic specialisation according to their comparative advantages. Embroidering on this argumentation, neoclassical theorists have emphasised that this free international trade will lead to a convergence of regional development, gradually fading out regional disparities. Furthermore, neoclassical economists have argued that development and underdevelopment are simply spatial manifestations of agglomeration of economic activity (Krugman and Venables, 1995). This resembles the academic work on agglomeration economies (see Marshall, 1890), which emphasises the benefits -economies of scale and network externalities- that economic actors (i.e. firms) obtain when locating near each other (Lambooy, 1997). The extensive work on clusters has generated additional insights on how geographical proximity between economic actors influences their economic behaviour and performance (see Maskell and Kebir, 2005). This emphasis upon internal (physical) characteristics as key factors for regional development is still found in the work of contemporary geography protagonists such as Gallup, Sachs, and Mellinger (1999) who see causal relationships between the geographical location of a region and its level of economic development. Locational factors such as accessibility (Limão and Venables, 1999) and natural resource endowments (Sachs, 2003; Sachs and Warner, 2001; Auty, 1997) are regarded as determining factors to explain the dichotomy between developed and underdeveloped regions. Whether a region becomes economically successful depends largely on its internal characteristics such as location, natural environment and (human) resources. These views contradict with political economy approaches, which have emphasised the role of external forces in shaping patterns of regional economic development. Dependéncia theorists in the '60s have opposed the neoclassical idea that regional specialisation on the international market occurs freely via market forces, enabled by a laissez-faire role of the government. Rather, they stress that it is often imposed by the leading hand of the powerful through historical processes of industrialisation and imperialism that have initiated an international division of labour. Following this school of thought, the world systems theory argued that the skewed power relations between the wealthy and industrialised 'North' and the poor and undeveloped 'South' have resulted in a world-economy with core, semi-peripheral, and peripheral areas (Wallerstein, 1979). Clearly, these approaches stress the importance of exogenous influences in the process of regional development. In an attempt to include both external and internal factors, Keynesian economics has argued that states can help maintain economic growth and stability in a mixed economy in which both the public and private sectors play important roles (Keynes, 1936).

In retrospect, the theories above have contributed to our understanding of regional economic development by discussing how regions can improve their economic performance and what underlies the uneven spatial pattern of economic development in the world. However, they lack adequate tools to study and explain disparities in regional economic development. These disparities do not only exist between similar non-core regions in different countries (e.g. Hill, 2002) but also between regions within one country (for the Philippines, see Hill, Balisacan and Piza, 2007; Balisacan and Hill, 2003; Balisacan and Pernia, 2002).

The recent 'institutional turn' has offered new ways and means to analyse regional economic development: 'without prejudice to the 'hard' economics and geographical factors

[...], or insights derived from the Dependency School, recent years have seen a focus on the 'software' of regional development gaining more currency. This 'software' refers to a range of institutions that affect the way in which economic activity is undertaken' (Andriesse and van Westen, 2006). One of the key elements of this 'institutional turn' is the recognition that the form and evolution of the economic landscape cannot be fully understood without paying attention to the various social structures on which economic activity depends and through which it is shaped. In other words: the behaviour of economic agents is influenced by the socio-cultural context they are active in. While conventional development studies have tended to abstract economic action from its social, political and cultural contexts, the institutional approach argues that economic activity has to be understood as entrenched in wider structures of social, economic and political rules, procedures and conventions. It is the role of these systems of rules, procedures and conventions -both of a formal and informal nature- and the way that they affect economic relations that is the focus of an institutional approach to economic geography (Martin, 2000: 77). As stated in a paper issued by the World Bank, 'institutions matter for development because they determine the efficiency and existence of both markets and organisations, public or private' (Burki and Perry, 1998).

This study aims to explain disparities in regional economic development by unravelling and identifying different regional economic systems that are structured by region-specific institutions. Therefore, it is necessary to create further insight into the wide realm of institutions and how they can affect regional economic development. In order to do so, the following section will provide an overview of the key thoughts of institutional economics.

## 2.3 Institutions and varying economic systems

While the earlier described 'institutional turn' in regional development studies is still in a phase of infancy, the foundations of institutional economics were already born at the end of the 19th century. Early institutional economists -most notably, the Norwegian sociologist and economist Thorstein Veblen and his American apprentice John Kenneth Galbraith- constructed a theorem that opposed the neoclassical belief in a 'homo economicus' operating on a free market. As the early institutionalists argued, economic activities and decision making by actors cannot be separated from the political and social system within which these activities and actors are embedded. In his famous work, *'Institutions, institutional change and economic performance'*, regarded as a founding work for the new institutional economics (NIE), Douglass North successfully revitalised these thoughts by stating that institutions are the 'rules of the game' in a society that structure *human interaction*, whether political, social, or economic (North, 1990: 3; emphasis added). As his predecessors, North fundamentally disagrees with the neo-classical assumption of a universally free market equilibrium that is the outcome of stable, ever-maximizing economic behaviour and decision making by economic actors who have full access to market information. NIE opposes the concept of a universally free market equilibrium and argues that there are multiple equilibriums, since economic actors do not make the same decisions over and over again as their preferences change and access to market information is incomplete. As an effect, actors' decisions are not always maximizing. Furthermore, following earlier work by Ronald Coase (1937) and Oliver Williamson (1985) who studied

the formation and behaviour of firms, NIE states that aside the price mechanism there are additional transaction costs which appear during the process of economic exchange between firms. Examples of such costs are search and information costs, bargaining costs and policing and enforcement costs. These relational costs -neglected by neo-classical economists who start from the principle of a perfect efficient market that only has production costs- can be related to the incomplete market information a firm has, creating uncertainty about other firms' interests and behaviour. Williamson argues that the lower these transaction costs are for firms in an economy, the better this economy functions. As a result, firms seek ways to keep their transaction costs as low as possible. One way to do this is to reduce the dependency upon other firms by taking over their production activities. According to NIE, institutions can also lower these transaction costs between firms. A key element of North's work is to define different forms of institutions. Secondly, North distinguishes institutions from organisations in order to differentiate 'the rules from the players' (North, 1990: 4).

NIE speaks of the institutional framework (or institutional environment) when referring to the systems of *informal* relations, customs, norms and social routines and the *formal* structures of rules and regulations which constrain and control socioeconomic behaviour. Thus, NIE clearly makes a division between the socially constructed informal 'rules of the game' (e.g. habitual forms of corporate behaviour, consumption cultures, transaction norms etc.) and the (often) legally enforced formal 'rules of the game' (such as laws relating to competition, labour, trade, money flows, etc.). North (1990) uses the word 'constraints' when referring to institutions. Still, he argues that institutions can both constrain and enable economic behaviour and relations. The existence of rules implies constraints that, at the same time, also can open up possibilities through enabling choices and actions that otherwise would not exist. For example: the rules of language allow us to communicate; traffic rules help traffic to flow more easily and safely; the rule of law can increase personal safety. In the words of Hodgson (2006: 2): 'Regulation is not always the antithesis of freedom; it can be its ally'. In NIE, much emphasis has been put on the role played by formal institutions. Though North and others (e.g. Denzau and North, 1994; Ensminger, 1997; Greif, 1997) acknowledge that informal institutions play a crucial role in economic life, emphasis on the influence of formal institutions has been traditionally strong among traditional NIE theorists (Zenger, Lazzarini and Poppo, 2001). As they argue, economic modernisation and development demand and force an increasing formalisation of institutions within a society. Adapting the transaction cost theorem of Coase (1937) in his work, North argues that the government should create institutions which minimise transaction costs, so misallocations of resources can be corrected as cheaply as possible. The shift from informal to formal rules (implemented by the government, for example) leads to a lowering of transaction costs, thus stimulating economic exchange and growth. In this manner, formal rules create an economic environment that requires fewer costs due to more certainty and market transparency. 'When we compare the cost of transacting in a Third World country with that in an advanced industrial economy, the costs per exchange in the former are much greater – sometimes no exchange occurs because costs are so high. The institutional structure in the Third World lacks the formal structure (and enforcement) that underpins efficient markets. [...] In addition, the institutional framework [of a Third World country], which determines the basic structure of production, tends to perpetuate underdevelopment' (North, 1990: 67).

According to North (1990), there is a strong connection and interaction between formal and informal institutional arrangements. The formal 'rules of the game' underlie informal institutions: economic behaviour and relations are structured via formal rules. The idea that the informal constraints are important in themselves (and not simply as appendices to formal rules) can be observed from the evidence that the same formal institutions imposed on different societies lead to different outcomes. Moreover, many aspects of a society remain the same in spite of a change of the formal rules. The importance of informal rules for the performance economic systems is a thought that, more recently, has recently given rise to an alternative institutional approach. With its foundations in social sciences, it focuses more on the less perceptible 'social' side of economics. Aside from formal rules and regulation, informal institutions structure social and economic relations through 'codes of conduct' that are embedded in culture. Paralleling the ideas of the social network theory and building on the work of Bourdieu (1985) and Coleman (1988), Putnam's (1995, 2000) writing on the importance of social capital has given rise to a line of work that argues economic actors can lower transaction costs using their relational networks. The enhancement of cooperative undertakings via trust-based relationships (see Fukuyama, 1995) stimulates the sharing of knowledge, encourages joint innovations and hence improves productivity and competitiveness of an economy.

Aside from the division of institutions into formal and informal institutions, North (1990) also makes the crucial distinction between institutions and organisations. The latter are groups of individuals bound by some common purpose to achieve objectives. These organisations include political bodies (e.g. political parties, the Senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, cooperatives, markets), social bodies (churches, clubs, athletic associations), and educational bodies (schools, universities, vocational training centres). These organisational forms arise as a consequence of and are governed by the institutional environment (North, 1990: 5). According to sociologists Portes and Smith (2008: 106), institutions 'represent the symbolic blueprint for organisations -they are the set of rules, written or informal, governing relationships among role occupants in organizations like the family, the schools, and the other major areas of social life: the polity, the economy, religion, communications and information, and leisure'. This definition of the concept also makes a clear distinction between organisations and the institutions that govern them, which provides a basis for understanding how events in social and economic life unfold.[1]

Institutional economics is interested in both aspects -the institutional framework and the organisations- of the economy, and especially the interaction between them. This interaction works in a two-way direction: (1) what kinds of economic organisations are formed and how they function and evolve are fundamentally influenced by the institutional framework; and (2) equally, in the course of their operation, organisations not only reproduce but also modify the institutional environment. How this interaction varies across space -creating different institutional regimes- and how these regimes shape different regional and local economic outcomes, are central issues of concern in institutionalist approaches to economic geography (Martin, 2000: 80). The second form of interaction between institutions and organisations assumes that regional development trajectories evolve over time, which is a central (Darwinist) biology concept that has been adopted by evolutionary economics (see Boschma and Frenken, 2006; Boschma and Lambooy, 1999;

Nelson and Winter, 1982). Because institutions are naturally characterised by inertia and durability, institutional regimes do not change overnight, but tend to evolve over time. According to North (1990: 118), 'institutions [...] connect the past with the present and the future so that history is a largely incremental story of institutional evolution in which the historical performance of economies can only be understood as a part of a sequential story'. As such, institutions are important 'carriers' of economic history and contribute to the path dependence of the development trajectories of economic systems. It is at the regional and local levels that the effects of institutional path dependence are particularly significant. Different specific institutional frameworks develop in different places, and these then interact with local economic activity in a mutually reinforcing way. If institutional path dependence matters, it matters in different ways in different places: institutional-economic path dependence itself is place-dependent (Martin, 2000: 80). This study analyses the impact of regional institutional arrangements on firms' behaviour, which in turn affects regional economic development. As such, the emphasis of this study is on the first form of interaction between institutions and organisations: the institutional regime as the determinant of regional economic development. However, not neglecting the fact that 'history matters', this study takes into account the historical events that have shaped the contemporary institutional regimes and analyses how they have altered the regional development trajectories over time.

While NIE offers interesting and useful conceptualisations on how institutions shape economic systems and trajectories of economic development, it is weak in offering decent analytical tools for empirical analysis. Relying on quantitative data and mathematical models for their analyses, empirical studies by institutional economists have mainly been focused on formal institutions -such as property rights and regulatory frameworks- on the national level (Joskow, 2003). Formal institutional arrangements are most prominently present in western developed economies -initiated and enforced by national governments, thus regarded as the key organisations for institutional change- and most empirical studies do not touch the institutional frameworks of developing countries. Additionally, the bias of NIE towards the nation-state as the main level for institutional analysis makes it unsuitable for an analysis of regional institutional arrangements as this study aims to do. Despite these imperfections, there have been various institutional approaches that have made insightful and useful attempts to analyse and compare economic systems. Some of these approaches will be discussed briefly in the following section. This discussion will serve as an introduction into the analytical framework used in this study: the comparative business systems approach of Richard Whitley (1999).

## 2.4 How to identify and compare economic systems?

Although the traditional systemic paradigm based on the dichotomy market versus state has gone obsolete -with the transformation of the Chinese state-led economy into a new capitalist powerhouse as one of the most drastic shifts in contemporary times- this does not automatically mean the new world economy has become more uniform. The capitalist system is the single dominant form of economic organisation in the contemporary world. Nonetheless, there are many variations within this overarching concept that have emerged over space and time. Distinguishing these different forms of capitalist systems

is not new. In line with the neoclassical body of thought, early attempts mainly focused on 'pure' economic determinants. An attempt by Gregory and Stuart to categorise some of the national 'variants of capitalism' created a clear distinction between the forms of economic organisation of various European countries. The French system of 'indicative planning in a market economy' contrasts with the German 'social market economy' and the Swedish 'welfare state in a market capitalist setting' (see Gregory and Stuart, 1989). In another publication, Alfred Chandler associated the historic rise of the traditional western industrial powerhouses Great Britain, the United States and Germany with the emergence of three successful models of capitalism, respectively: personal capitalism, competitive capitalism and cooperative capitalism (Chandler, 1990). Regulation theory offers an analysis of capitalism and its transformations. Transformations of social relations create new economic and non-economic forms, which are organised in structures that create a dominant structure: the mode of production (Boyer and Saillard, 2002). Introduced by the French regulation school, Fordism is the most famous example of such a mode of production. Even though the influence of institutions is acknowledged in regulation theory through modes of regulation (institutional practices such as constructs of law, customs, forms of state and policy paradigms) that support modes of production by providing a conducive and supportive environment, application of the model proves to be difficult. Tickell and Peck (1995) have tried to describe and compare countries as variants of Fordism. Together with Malaysia and Bangladesh, the Philippines are described as a Fordist regime of 'Primitive Taylorism', which is based on Taylorist labour processes that depend on a large low-cost labour supply. Furthermore, it has the shocking characteristics of bloody exploitation, huge extraction of surplus value, social tension and dictatorial state. These notions are certainly strong exaggerations of the contemporary Philippine capitalist system. They imply the difficult application of the model on developing economies, leading to inaccurate generalisations.

An alternative range of publications has offered different insights into the institutional realm of economic systems from a sociologist perspective. Unlike the 'macro level economic' approaches that focus on national production processes and market mechanisms, this kind of work places the 'micro level' individual firm in a central position: it starts from an actor-oriented perspective. Boggs and Rantisi (2003) and Yeung (2002) speak of a 'relational turn' in economic geography, where economic actors and the dynamic processes of change and development caused by their relations are central units of analysis. These views place the individual firm in a less predictive and more uncertain environment. 'The accretion of relevant factors such as embedded competencies, institutions, politics and networks has led to a growing acknowledgement that efficiency is socially constructed' (Redding, 2005: 124). Emphasis hereby often lies on the relationships firms have with their environment – consisting of other firms, public sector authorities and other players in economic life. The nature of these relations influences a firm's competitive strengths (Kogut, Shan and Walker, 1993). In other words; business activity does not occur in a vacuum. Rather, businesses are formed and operate in a specific environment. This environment is shaped and influenced by a wide variety of institutions (Pedersen and McCormick, 1999). The different ways business groups are organised in East Asian countries are, according to Orrù et al. (1997), products of country-specific fiscal, political and social institutions. In this sense, 'business relations represent enactments of socially acceptable, institutionalised forms of economic behaviour' (Orrù et al., 1997: 184).

Departing from the idea that different inter-firm relations create different structures of economic organisation, three distinctive forms of capitalism are identified: alliance (or communitarian as in Japan), dirigiste (or patrimonial as in Korea) and familial (as in Taiwan). Using a different terminology for a similar institutional approach, Hollingsworth and Boyer (1997) speak of social systems of production when discussing the various ways that institutions of a country are integrated in a social context. These sociologist approaches have added exciting insights by stressing that economic systems are not just organised via economic production and market mechanisms, but they are also structured along social relations and cultural norms that are embedded in history. Unfortunately, these theories of economic sociology are often complex to use and their outcomes difficult to interpret, as 'they are put together at a level of generality where explanatory clarity ceases and the usefulness of the constructs for purposes of policy is minimal. At that level everything influences everything else in multidirectional ways' (Prybyla, 1998: 199). This is also an important critique towards actor-network-theory (ANT), which emphasises the role of agency in relational networks (e.g. see Latour, 2005). While this theory has gained useful insights in unraveling how relational networks are formed between human and non-human actors and hold themselves together (or fall apart), it does not account for pre-existing structures such as power. Rather, it assumes all actors are equal within the network and power emerges from the actions of actors within the network. The assumption of actor equality makes ANT less suitable to use in the socio-economic context of a developing economy, which is often determined by inequality and hierarchy among economic actors.

Recently, some institutional economists have combined the economic and social aspects of economic organisation in more suitable operational approaches that comparatively analyse economic systems. A popular contribution in this line of work has been made by Peter Hall and David Soskice (2001). Their Varieties of Capitalism (VoC) approach compares capitalisms as production regimes and focuses on micro-agents -such as firms, employees and shareholders- and how they organise production. The framework seeks to offer an institutional explanation for cross-national differences in micro-behaviour, especially that of business firms. The focus of this framework lies on the relations firms have with other economic actors: 'In short, because its capabilities are ultimately relational, a firm encounters many coordination problems. Its success depends substantially on its ability to coordinate effectively with a wide range of actors' (Hall and Soskice, 2001: 6). More particularly, Hall and Soskice focus on five spheres in which firms must establish relations in order to resolve coordination problems: (1) industrial relations, such as bargaining over wages and work conditions with their labour force; (2) vocational training and education, to secure a workforce with suitable skills; (3) corporate governance, to which firms turn for access to finance and in which investors seek assurances of returns of their investments; (4) inter-firm relations, the relationships a company forms with other enterprises to secure a stable demand for its products, smooth supplies of inputs, and access to knowledge and technology; and (5) relations with employees, to ensure they have the right competencies and cooperate well with others to advance the objectives of the firm (Hall and Soskice, 2001). The outcomes of these coordination problems do not only condition the success of an individual firm, but also that of an economy as a whole. Here institutions, organisations and culture enter the analysis because of the support they provide for the relationships that firms develop to resolve the coordination problems. The approach emphasises the presence of institutions providing capacities for the exchange of information, monitoring, and the

sanctioning of defections relative to cooperative behaviour among firms and other actors. Hall and Soskice distinguish between liberal market economies (LMEs) and coordinated market economies (CMEs). In the first, the outcomes of firms' behaviour are usually determined by demand and supply relations in competitive markets (e.g. as in the US and UK), whereas in CMEs firm coordination is the result of strategic interaction among firms and other actors, in particular the state (as in Germany). As Hall and Soskice argue, the presence of *institutional complementarities* reinforces the organisational differences between LMEs and CMEs. This concept stresses the interactivity that exists between institutions within an economic system. Based on the concept of complementary goods, two institutions can be said to be complementary if the presence of one increases the returns from the other. This concept has particular relevance for comparatively analyzing capitalist economies, as it suggests that economies with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well. In economies where dense networks of business associations support collective technical training, for instance, those same networks may be used to operate collective standard-setting (Hall and Soskice, 2001: 18). Following this reasoning, institutional practices of various types are not just randomly distributed across economies. Rather, Hall and Soskice predict that a certain degree of institutional clustering is important in shaping distinct capitalist systems (in their case, the dichotomy between LMEs and CMEs).

Though the VoC approach certainly is a useful tool for cross-national comparative analysis of economic systems, it is less suitable for an intra-country analysis of regional disparities in economic organisation. While Hall and Soskice recognise that especially within CMEs huge differences persist regarding institutional relationships, their approach only produces a division of economic systems into national CMEs and LMEs. This dichotomy reveals a classification problem of the VoC approach: while it does recognise institutional variation that exceeds the dichotomy between national LMEs and CMEs, it does not have the analytical toolkit to define this variation. As Allen (2004: 87) comments: 'important institutions are assumed [in the varieties of capitalism approach] to be uniformly spread across firms within a national economy'. Since this study departs from the assumption that there are also intra-country disparities of economic organisation, the VoC approach is not suitable here. The following section will introduce an alternative analytical framework -closely related to the VoC approach- that offers more apt analytical tools for this study: Richard Whitley's (1992, 1992a, 1996, 1996a, 1999) comparative business systems approach. 'While the basic variables [of the comparative business systems approach] are quite similar to those found in Soskice and Hall, the introduction of the different dimensions of ownership control and sectoral vs. intersectoral coordination allows more fine-grained distinctions' (Jackson and Deeg, 2006: 28). These fine-grained distinctions are necessary when trying to define different economic systems within one national institutional context (see Deeg and Jackson, 2007).

## 2.5 Comparative business systems

### 2.5.1 Key ideas of the comparative business systems approach

In his book *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, Richard Whitley (1999) makes use of a firm-oriented relational view to qualify national

institutional regimes as specific economic systems. The central purpose of the business systems approach is to describe significant differences in the organisation of market economies and explain them in terms of variation in the nature of dominant societal institutions. Whitley (1999: 33) defines business systems as 'distinctive patterns of economic organisation that vary in their degree and mode of authoritative coordination of economic activities'. In contrasting business systems, differences in the nature of relationships between five broad kinds of economic actors are particularly important: 1. the providers and users of capital, 2. customers and suppliers, 3. competitors, 4. firms in different sectors, and 5. employers and different kinds of employees. The relations between these actors vary among spatial economies, creating different development trajectories. Competitor relations, for example, may be adversarial and zero-sum between a set of companies in one country. In contrast, in another country they may encompass collaboration over a number of issues such as R&D, training, and union negotiations between entrepreneurs. Since analysis and comparison of all varieties of institutional relations is an almost impossible task, the business systems approach uses eight key characteristics for defining and comparing the various business systems (see table 2.1). These key characteristics are grouped in three main categories: ownership coordination, non-ownership coordination and employment relations and work management.

The first main category, ownership coordination, deals with relations *within* individual businesses. More specifically: between the providers and users of capital. In this sense, the extent of owners' direct involvement in managing their businesses is an important dimension. Encompassing relations with customers and suppliers, competitors and firms in different sectors, there are three sets of inter-firm relations that characterise the extent of non-ownership coordination within an economy. First of all, the position and functioning of firms in value chains is important. For instance, while value chains may be fragmented in terms of ownership, they can comprise cooperative ties between suppliers and clients or producers and their subcontractors. Similarly relations between competitors can also be dual in nature. Local competitors can be in fierce competition with each other, while at the same time they also cooperate with each other through sharing market information, joint marketing or grouping in sector-specific business support organisations. Thirdly,

***Table 2.1:*** Key characteristics of business systems

| |
|---|
| *Ownership coordination* |
| Primary means of owner control (direct, alliance, market contracting) |
| Extent of ownership integration of production chains |
| Extent of ownership integration of sectors |
| |
| *Non-ownership coordination* |
| Extent of alliance coordination of production chains |
| Extent of collaboration between competitors |
| Extent of alliance coordination of sectors |
| |
| *Employment relations and work management* |
| Employer-employee interdependence |
| Delegation to, and trust of, employees (Taylorism, task performance discretion, task organisation discretion) |

Source: Whitley, 1999

alliance coordination across sectors represents horizontal inter-sectoral business networks that consist of economic activities that are coordinated by businesses across different sectors. When firms want to enter a new market or acquire a new technology, they can seek alliances with firms that are already active on this market or already use this new technology in their respective sector. The relationship between employers and employees is the last main category of relations that distinguishes one business system from another. As ownership coordination, employer-employee relations are distinguishing intra-firm characteristics instead of inter-firm relations. Interdependence and trust between the two actors hold central positions when analyzing patterns of work organisation and control. Altogether, these eight dimensions form the general characteristics of business systems. While they are interdependent, they constitute different forms of market economy organisation. Using the key characteristics of his model on various national economies, Whitley identifies six major types of business systems (see appendix 2).

These distinctive forms of economic organisation, as Whitley continues, are established in particular institutional contexts. Whitley follows the NIE assumption that economic organisations are formed and that the way they function and evolve is fundamentally influenced by the institutional framework. When discussing the boundaries of business systems, Whitley argues that 'given the importance of state-based legal systems for defining and enforcing private property rights in many capitalist economies, the role of the state in maintaining public order, structuring interest groups and the conventions governing their competition and collaboration, regulating financial systems and organizing skill development and control, it is not surprising that many distinctive characteristics of business systems are nationally specific' (Whitley, 1998: 454). The key institutional features that structure business systems are: the state; financial system; skill development and control system; and trust and authority relations (see table 2.2). In reference to the first key institutional feature, Whitley recognises that the state influences forms of economic organisation in many different ways. However, only three spheres of state influence

***Table 2.2:*** Key institutional features structuring business systems

| |
|---|
| *The state* |
| Dominance of the state and its willingness to share risks with private actors |
| State antagonism to collective intermediaries |
| Extent of formal regulation of markets |
| *Financial system* |
| Capital market or credit based |
| *Skill development and control system* |
| Strength of public training system and state-employer-union collaboration |
| Strength of independent trade unions |
| Strength of labour organisations based on certified expertise |
| Centralisation of bargaining |
| *Trust and authority relations* |
| Reliability of formal institutions governing trust relations |
| Predominance of paternalist authority relations |
| Importance of communal norms governing authority relations |

Source: Whitley, 1999

are regarded as particularly significant for qualifying business systems: the strength of the state vis-à-vis societal interest groups; the extent to which states encourage the establishment of intermediary economic associations; and the extent to which states regulate market boundaries. The financial system, the second key institutional feature, deals with the processes by which capital is made available and priced. Based on their differences in capital allocation, Whitley distinguishes capital-market-based (liquid markets based on shares) from credit-market-based (illiquid markets based on credit) financial systems. Thirdly, there is the system for developing and controlling skills, which consists of two interrelated sets of institutions: (a) the education and training system and (b) the institutions that control labour markets, e.g. trade unions and professional associations. Finally, Whitley regards the norms and values governing trust and authority relations as crucial because they structure exchange relations between business partners. 'How trust is granted and guaranteed in an economy especially affects the level of inter-firm cooperation and tendency to delegate control over resources'. As such, 'variations in these conventions result in significant differences in the governance structures of firms, the ways in which they deal with each other and other organisations' (Whitley, 1999: 51).

Initially, the comparative business systems approach was mainly used to identify national economies, with a particular interest for developed countries in Europe (Whitley, 1994; Lane, 1992; van Iterson and Olie, 1992) and East Asia (Whitley, 1994a). These countries have successfully industrialised -during different eras- and have established relatively stable institutional contexts for the market-based coordination and control of economic activities. In these respects, most economies of the South are different, and the comparative business systems approach has to be modified to be useful in understanding them (Whitley, 2001: 26). Still, as Pedersen and McCormick (1999) have shown with their study on fragmented African business systems, the approach is also suitable for developing countries that have less homogenous national socio-economic and institutional structures. They make a strong plea for further empirical research on the fragmented business systems in Africa, in order to better understand their place in the globalizing world. Yeung (2000) sees the potential of the business systems approach to explain Southeast Asia's economic diversity: 'This business systems perspective is particularly relevant in analyses of the political economies of the Asia-Pacific region where national business systems are socially and institutionally embedded. In the words of Backman (1999: 365): '[o]ld habits are hard to break' in the context of opaque and corrupted business systems in some Asian countries' (Yeung, 2000: 400). These authors certainly stimulate further research on business systems in developing countries, but also indicate that the business systems approach needs some adaptations for proper use in the South.

Secondly, this study aims to use the national business systems approach for comparative analysis on sub-national level. While Whitley has used his model only on nation states, he also recognises that there are regional disparities within national economic systems, which can be regarded as regional business systems: '[...] the institutionalisation of coherent forms of economic organisation as distinctive kinds of business system, varieties of capitalism, or social systems of production at the national level is a contingent, not necessary, phenomenon (Hall and Soskice, 2001; Hollingsworth and Boyer, 1997; Whitley, 1999). They could, and have been, established at sub-national levels in Germany, Italy, and elsewhere (Braczyk et al., 2003; Crouch et al., 2001; Herrigel, 1996). As a result,

not all states can be expected to establish a single kind of business system throughout all regions and sectors of an economy, and not all cohesive and stable business systems are nationally specific and bounded' (Whitley, 2005: 191-192). Rather, as Whitley explains, 'the national boundedness of distinctive systems of economic organisation is, then, historically contingent and variable. Distinctive and cohesive kinds of business system can become established and reproduced at regional, national and international levels of socioeconomic organisation depending on the strength and integration of the actors and institutions involved at each level' (Whitley, 1998: 456). Other economic geographers have recently also concluded that the business systems approach might indeed be relevant for studies on regional economic development. Boschma and Kloosterman (2005) suggest the combination of cluster studies with the business systems approach to be able to study 'clustered innovation within wider institutional contexts'. And Schamp (2003), in a publication that investigates the possibilities of integrating institutions in economic geography, argues that as alternatives for regional innovation systems 'würden sich auch andere Konzepten für die wirtschaftgeographische Analyse anbieten, wie etwa das der *national business systems* (Whitley, 1999)'. Moreover, the fact that this approach was developed for the national scale level should not hold researchers back to apply it on other scale levels: according to Schamp, empirical analysis should define the spatial borders of institutional arrangements rather than a priori theoretical notions. Schaumburg-Müller (2001: 210) affirms this reasoning, arguing that the extent to which studies on business systems should use the country or subnational region as the analytical unit depends on the homogeneity of culture and institutions within the country.

Clearly, these statements call for a broader application of the business systems approach, not limited within the analytical boundaries of Western or other developed national economies. The challenging task of atomizing the organisational structures of developing economies should not be ignored or shied away from, simply because of their complexity or internal diversity. Instead, qualification of these fragmented structures can offer much-needed answers to questions about sub-national diversity and regional development. This study aims to find out how and to what extent the divergent development paths of three neighbouring provincial economies in the Philippines can be related to their distinct relational networks and institutional structures; i.e. to what extent they constitute different regional business systems. In order to successfully apply the business systems approach on the regional level in a developing country, it is necessary to make a few modifications to the model that is designed for cross-national comparison of industrialised countries. Therefore, the following section will discuss the main implications for the model when applying it for regional comparative analysis in the Philippines.

### 2.5.2 Adjustments for analysing business systems in the Philippines

As argued in the previous section, the business systems approach provides a useful set of relational and institutional features for defining and comparing national industrialised economies. Many studies of industrialising countries have emphasised that the non-ownership alliances and obligations are often especially important in structuring these market economies (e.g. for East Asia see Orru, Biggart and Hamilton, 1997). It is expected that these inter-firm relations and their organisational arrangements -in particular: the norms and values governing trust and authority relations- are also decisive in shaping developing market economies like the Philippines. Still, there is one analytical aspect

of the inter-firm relations that needs reconsideration. While the business systems approach assumes that the national institutional framework is the realm in which these relations occur, this assumption seems too narrow for understanding business systems in developing countries that are experiencing dramatic shifts under ongoing globalisation. The opening of developing countries -the Philippines joined the World Trade Organisation (WTO) in 1995- is likely to have a significant impact on the organisation of production and trade in the South. This situation provides challenging additional questions when studying business systems in a developing country. What is the outcome of the interaction between local and international processes? What are the changes and dynamics that this interaction creates, and what are the opportunities and threats for the local firms to enhance their performance? These questions have been examined before but not so much in the perspective of combining the business systems approach with studies of international business and economic geography. The following section will bring these different disciplines together to form an appropriate analytical framework for analysing regional business systems in a developing country and a global context.

The Philippines is identified by the World Bank as a lower-middle-income developing country. Aside from the income gap, another important feature -for this study at least- that sets developing countries apart from their industrialised counterparts is their distinct institutional framework. Unlike developed economies 'that have established relatively stable institutional contexts for the market-based coordination and control of economic activities [...] most economies of the South are different, and the comparative business systems framework has to be modified to be useful in understanding them' (Whitley, 2001: 26). The most urgent question to be answered here is, then, what are these differences between developed and developing countries? Jakobsen and Torp (2001) have aggregated a series of studies that have used (parts of) the business systems approach in various developing countries in Asia such as India (Holmström, 2001), Indonesia (Rademakers and van Valkengoed, 2001) and Malaysia (Wad, 2001). While the case studies in this book focus on nation-specific forms of market organisation and the institutional constellations that shape these -e.g. Malaysia's pro-*bumiputra* policies- they also provide vital clues on the more general political-economic features of developing countries that seem to characterise them. One of the most significant common features is that developing countries are in the midst of institutionalising their market economies. As an effect, many of the key institutional arrangements for governing them -such as the financial and labour control systems- remain unclear and weak. This institutional uncertainty has serious implications for the organisation of market relations in developing countries, as it encourages opportunism and makes it difficult, if not impossible, to rationally evaluate the predictable interests and actions of other actors. This uncertainty is further intensified by the fragmentation of collective actors in many developing countries. The organisation of interest groups around identifiable and relatively stable concerns is weak and changeable, creating a lack of strong collective intermediaries. 'This combination of emerging institutions and weak social groupings in many developing countries often means that the only significant collective agency beyond the family is the state, and this is frequently fragmented and factionalised'. As Whitley continues, the development state often appears 'much more dominated by personally controlled factions and/or particular ethnic groups seeking to extract rents through the state machinery' (Whitley, 2001: 32). Clearly, these points suggest that comparative analysis of business systems in developing countries

needs to take into account more features of state structures and policies. In particular, the variety of state-business relationships found in developing countries is a crucial feature in identifying them as different business systems. In this public-private interplay, the position of political and bureaucratic elites vis-à-vis the business sector is of special importance, affecting the strength and competence of the state to steer economic development (Whitley, 2001). These aspects are certainly important analytical features for business systems in the Philippines, which is often characterised as a 'weak state' controlled by a highly business-entrenched oligarchy of elite families (e.g. Hutchcroft, 2000; Sidel, 1999; Anderson, 1998; Rivera, 1994). In this regard, Hutchcroft (1998) refers to 'booty capitalism' to identify the Philippine political economy wherein a powerful oligarchic business class uses government administrations to plunder the state and other national resources for their own benefit (aside Hutchcroft (1998), also see van Oosterhout's (2005) study on the politics of banking and microfinance in the Philippines).

A third and final reconsideration of the original business systems approach tackles the heterogeneous nature of relational networks in terms of the actors involved. Post-colonial developing economies -such as the Philippines- have a long experience with incorporation in multilateral networks of economic and socio-cultural exchange. As such, economic organisation within ethnic groups is a remarkable feature in developing countries in general (Fafchamps, 2003; Mitchell, 2000; Dwyer and Drakakis-Smith, 1996). In Southeast Asia, the economic role of ethnic or overseas Chinese cannot be underestimated. Table 2.3 clearly shows the economic importance of ethnic Chinese in the Philippines: while they constitute only one percent of the total population, they control forty percent of the total national business output. For research on regional economic development in the Philippines -as well as in other Southeast Asian countries- the influence of ethnicity should also be taken into account, because it is likely to affect the socio-economic patterns of regional economic organisation. The pivotal role of the ethnic Chinese in the developing economies of Southeast Asia is also recognised by Schaumburg-Müller as an important analytical feature for identifying these economies as distinct business systems, since institutions, markets and policies can reflect the division between indigenous and Chinese business communities. He even goes further by stating that this division might be best analysed by applying two interlinked business systems (Schaumburg-Müller, 2001).

Using a definition of Max Weber, this study qualifies ethnic groups as 'those human groups that entertain a subjective belief in their common descent because of similarities of physical type or of customs or both, or because of memories of colonisation or migration; this belief must be important for the propagation of group formation; conversely, it does

***Table 2.3:*** Economic importance of ethnic Chinese in Southeast Asia

| Country | % of total population | Economic importance |
|---|---|---|
| *The Philippines* | 1 | 40% of total business output, 60% of total wealth |
| *Indonesia* | 4 | 50% of total business output |
| *Thailand* | 10 | 50% of total business output, 80% of listed firms by market capitalisation |
| *Malaysia* | 32 | 60% of total business output |

Sources: Bjerke, 2000; Ahlstrom et al., 2004

not matter whether or not an objective blood relationship exists' (Weber, 1978: 389). This definition is used in this study, as it succeeds in binding the heterogeneous group of Filipino-Chinese as a singular ethnic group (see also box 2.1). It does so by emphasising that it is not common ancestry or other physical heritages through blood lines that shapes an ethnic group. Rather, it is the subjective belief in physical and behavioural commonalities that are the key binding factors. As such, an ethnic group should be seen as a social construct. This is a useful perspective on ethnicity for this study, as it also focuses on the social aspects that distinguish different ethnic groups: it investigates how the Filipino-Chinese are positioned in the three provincial political economies and how their relational patterns and customs vary from those of their local Filipino peers. After all, as Rutten (2003: 35-36) argues in his comprehensive study on rural capitalists in Asia, 'the economic transactions of entrepreneurs are often also social transactions – they are usually embedded in social relations and not simply determined by impersonal market forces'. Thus, the behaviour of entrepreneurs is not solely driven by the profit motive, but is also determined by constraints such as obligations towards kin.

The importance of these specific attributes for business systems in developing countries -and the Philippines in particular- are also acknowledged by authors who have studied

**Box 2.1 Ethnicity and the definitions of the Filipino-Chinese**

Comprising the largest group of immigrant settlers in the country, the Filipino-Chinese form one of the largest ethnic groups in the Philippines. Different terminologies are used to refer to Filipino-Chinese, which causes confusion on their population size and composition. First, there are the people of pure Chinese descent (*Tsinos* or *Chinos*). These ethnic Chinese comprise are usually referred to in statistics, making up one percent of the total population (approximately 1.1 million). Most of the ethnic Chinese that live in the Philippines originate from the south-eastern coastal province of Fujian and belong to the Han Chinese ethnicity. They have kept their original Chinese surnames, which are usually single syllable names such as Ong, Lim and Uy. Second, there is the large group of Chinese mestizos that has been formed through intermarriages between Chinese and other nationals, particularly during the Spanish colonial era. This large group, which makes up 10 to 20 percent of the total population, can roughly be divided in two main categories: (1) those of mixed Chinese and indigenous Filipino descent (*Tsinoys* or *Chinoys*); and (2) those of mixed Chinese and Spanish descent (called *Tornatrás* during the Spanish colonial era, but now generally referred to as Chinese mestizos). These mestizos usually have either inherited or took on Spanish or indigenous names (e.g. Martinez or Madrigal) or they have multiple syllable Chinese surnames like Cojuangco, Lacson and Yuchengco. In daily use, the term Filipino-Chinese is reserved for those who have more recent Chinese ancestry; those who still retain, in full or in part, the surnames of their Chinese ancestors; or those who have physical characteristics -'Chinese eyes' or fairer complexion compared to the general populace- which can be attributed to their Chinese ancestry. The variety of definitions that exists to qualify the Filipino-Chinese indicates that there is no undisputed term labeling them as a distinct and homogenous ethnic group. Because of their heterogeneous composition, the Filipino-Chinese do not exist as a single ethnic group.

Southeast Asian forms of business systems. Yeung (2000) stresses the importance of informal personalised market relations and the strong interplay between state and business. 'To some observers, these business systems in Asia are characterised by the differentiated role of inward-looking inter-firm networks, excessive reliance on personal relations in business transactions, and strong intervention of the state in business and the economy. These qualitative differences in business systems constitute a mosaic of distinct political economies in Asia' (Yeung, 2000a: 400). In another study, Lim stresses that Southeast Asia's indigenous business system -due to the region's diversity in terms of culture, political structures, economic development and business actors- is 'a complex hybrid consisting of ethnic Chinese and indigenous capitalists who have relied on family networks and close links with rulers and governments (Lim, 1996: 91). These findings are useful indications that the key analytical features used in this study are appropriate for defining different regional business systems in the Philippines. The following section will elaborate further on these features and, using additional insights from international business studies, economic geography and political approaches and discuss how they can be analysed as features that comprise distinct business systems on the regional level.

## 2.6 Towards an analytical framework for regional business systems

Recapitulating the previous discussion, the following components are particularly important when analysing business systems in the Philippines: (1) inter-firm relations and their governance structures, (2) the strength of the state and (3) the influence of ethnicity. This paragraph will use these components to work towards an analytical framework for regional business systems.

### 2.6.1 Inter-firm relations

As stated in the previous section, market relations and their organisational structures are regarded by Whitley as one of the key defining characteristics of business systems in developing countries. Furthermore, these localised inter-firm relations are influenced by the increasing international connectivity of firms in the South within global networks of production and trade (Schaumburg-Müller, 2001). In order to analyse these relations properly from a regional perspective, this study uses theoretical insights from economic geographers who have recently been debating on how to position regions in the contemporary global economy. In these academic debates, two recent approaches try to tackle the links between globalisation and notions of 'regional development'. While the 'new regionalism' literature emphasises local institutional characteristics and their capacity to 'glue' the global to the locality, the 'global value chains' literature -with its origins in international business studies- highlights the ways in which regional economies are inserted into global systems of production and trade (Coe et al., 2004; Yeung, 2000b). The common factor in both lines of work is that they are firm-oriented approaches -similar to Whitley's approach- focusing on how the individual firm is positioned within larger networks of relations with other economic actors. This relational view of the regional economy has become popular in a post-Fordist economy where firms derive competitiveness not just from their own assets and abilities, but also from their relational networks connecting them with other economic agents. Following Yeung (2000b: 302), a network is defined here as 'both a governance structure and a process of

socialisation through which disparate actors and organisations are connected in a coherent manner for mutual benefits and synergies'. As such, a coupling of the 'new regionalism' and 'global value chains' literature will allow this study not only to analyse inter-firm relations as sec forms of interaction between economic actors, but also how these forms of interaction are organised and governed within specific institutional frameworks and thus constitute a distinct regional economic system. As Swyngedouw (2004: 38) argues, 'companies are simultaneously, intensely local *and* intensely global. These 'glocalising' production processes and inter-firm networks cannot be separated from 'glocalising' levels of governance'. Furthermore, the combined use of the two approaches allow us to pay attention both to endogenous growth factors within specific regions and also the more exogenous effects that stem from firms' integration into extra-regional networks of production. After all, this study agrees with the argumentation of Coe et al. (2004) that the interaction between these two effects contributes to regional economic development, not only inherent regional advantages or solely processes of globalisation.

***Vertical insertion in value chains***

The initial concept of the value chain (Porter, 1985) rests on the simple notion of different economic activities that are required to bring a good or service from conception, through different phases of production, to final delivery to consumers, adding value at each stage (Lane, 2007). These stages may be separated both organisationally and locationally (see figure 2.1). Organisationally, this is based on the assumption that some functions in the chain are performed better by external independent contractors than within hierarchically integrated firms. This results in a spatial distribution of functions between various independent firms in different locations.

Although it offers interesting insights into inter-firm relations, the original value chain concept has some severe analytical limitations. It is purely linear in structure and pays no attention to issues of power, the institutional contexts of firm activities or to the territorial arrangements (and their profound economic and social contrasts) in which the chains are embedded. These issues of asymmetry are especially important when analysing the position of firms from the South in global systems of production that link them with firms from developed countries. While the earlier French *filière* concept focuses more on the

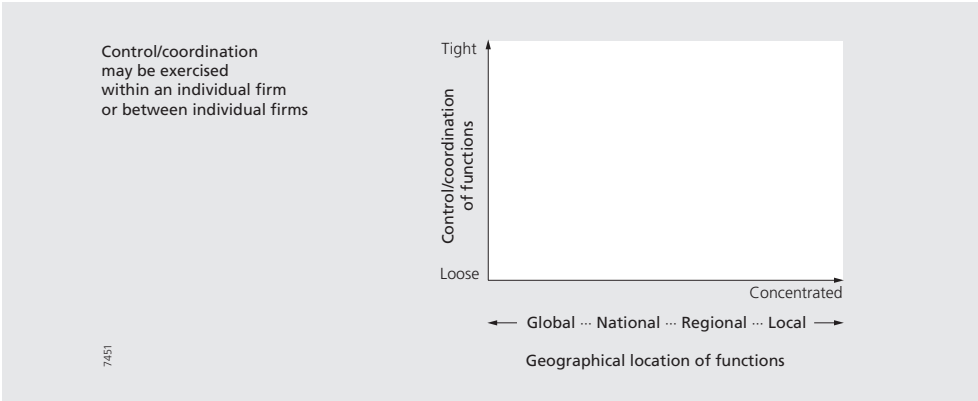



***Figure 2.1:*** The two primary dimensions of value chains - Source: Dicken, 1999

agents within the production system and pays attention to the distribution of power and dependency among them, it mainly concentrates on two types of agents -large firms and national institutions. The more recent literature that discusses firms' insertion into global commodity chains (GCCs) (Gereffi and Korzeniewicz, 1994) has offered more appropriate analytical tools for this study. As defined by Gereffi, global commodity chains consist of 'sets of interorganisational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy. These networks are situationally specific, socially constructed, and locally integrated, underscoring the social embeddedness of economic organisation' (Gereffi and Korzeniewicz, 1994: 2). These networks, as Smakman (2003) argues, can be seen as relational processes, which allow us to identify the actors in the networks, their ongoing relations and the structural outcomes of these relations. This argumentation follows the reasoning of Dicken et al. that 'networks are neither purely organisational forms, nor structures. They are essentially *relational processes*, which, when realised empirically within distinct time- and space specific contexts, produce observable patterns in the global economy' (Dicken et al., 2001: 91). According to Gereffi (1999), there are four main dimensions of GCCs: (1) an input-output structure which is comprised of the raw materials, knowledge, productive and service functions (with their different value-adding capabilities) that link together across a given industry or related industries; (2) a territoriality which refers tot the spatial patterning of the chain-related activities and particularly the extent to which these are spatially concentrated or dispersed and whether or not they are territorially bounded (such as within a nation state); (3) a governance structure whereby the relations of power within and between the firms in a chain determine how resources are allocated and how they flow between the various agents in the chains; and (4) an institutional framework that provides the different local, regional, national and international contexts that impact on the chain and each of its agents (Henderson et al., 2002).

As Whitley (1996b) acknowledges, the value chain approach offers useful additional insights to the business systems approach on how to analyse inter-firm relations within networks of production and how they are regionally integrated. The analytical and empirical focus has been overwhelmingly on the governance dimension of value chains (Henderson et al., 2002). Chains are coordinated and governed by businesses, through the intra- and inter-firm relationships that make up an economic system. In other words, 'governance refers to the inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain is achieved' (Humphrey and Schmitz, 2001: 5). Resembling Whitley's (1999) institutional realm of 'norms and values governing trust and authority relationships', chain governance is crucial because it structures exchange relationships between business partners. Of particular importance are the division of corporate power between the different firms in the chain and how they organise their upstream and downstream production relations. While the dichotomy between producer-driven chains (integrated production systems of transnational companies or TNCs) and buyer-driven chains (incorporation of various independent companies into a chain) is the most extensively discussed division in governance style, there are (more recent) additional governance structures. Aside from loose market coordination between firms that trade with each other on a transitory basis, Gereffi, Humphrey and Sturgeon (2005) have defined five (5) types of more stringent value chain governance (see figure 2.2).

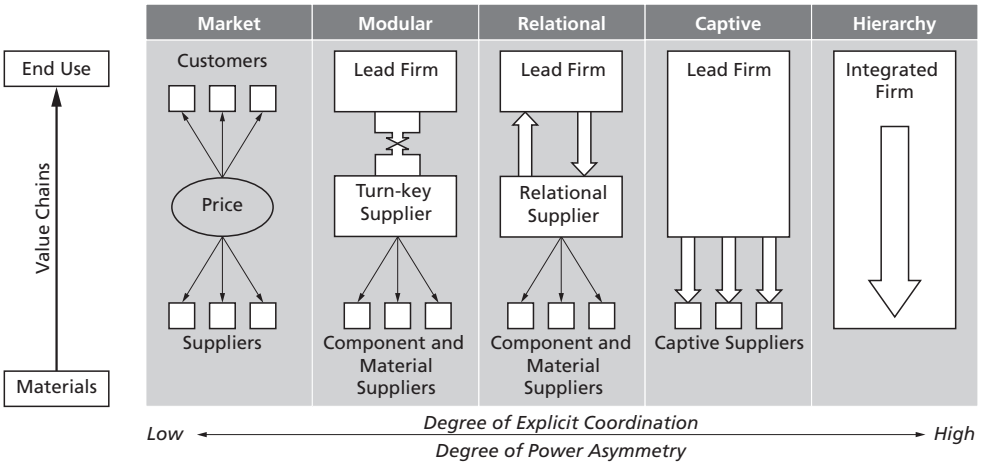



***Figure 2.2:*** Types of value chain governance - Source: Gereffi, Humphrey and Sturgeon, 2005.

Each type of governance style creates a different set of advantages and limitations for participating firms. For example, relational production networks tend to be built through social or spatial proximity and consist of long term relationships between firms based on trust. The main advantage of such networks is flexibility, since the trust and personal and familial relations enable the firms to adapt to market volatilities quite swiftly. Additionally, the networks often consist of a myriad of small manufacturing firms. This fragmented base creates flexibility to meet requirements such as on-time delivery, changing designs and small orders. As for disadvantages, relational chains and networks often have high entry barriers and a geographic narrowness. The trust-based relations take a long time to be formed and can create a sense of exclusiveness for 'outsiders'. Furthermore, if firms remain small and the manufacturing base fragmented, economies of scale may fail to develop and coordination costs can be high, especially when buyers are from outside the network (Sturgeon, 2000). This example suggests that a value chain analysis of local firms in the Central Visayas will create valuable insights in their relational patterns, both spatially and organisationally. Importantly, it allows for a multiscalar analysis of inter-firm relations, not compressed by political or physical boundaries. It can contribute to a better understanding of the influence of firms' insertion into (extra-)regional networks of trade and production on their functioning and performance. As such, the value chain framework offers insightful analytical perspectives on key relational dimensions of regional development, as it focuses on market access of local firms and their access to learning, which are two vital dimensions of private sector development. Additionally, the governance style of the value chain has a determining impact on the division of power and profits (wealth) among firms. For instance, local firms positioned at the lower end of a global producer-driven value chain have a weak market access, which diminishes their opportunities to autonomously raise their profits. Instead, they are highly dependent upon their lead firms' willingness to share market information and corporate gains. This example indicates that the position of local firms in their value chains has serious repercussions for regional development via private sector development and (corporate) wealth distribution.

Though the value chain approach recognises that firms inserted in value chains are affected by the different local, regional and national institutional frameworks in which they operate, the approach provides few tools for analysis on the regional level. In order to tackle this analytical shortcoming, the following section will discuss theoretical insights from a different line of literature that stresses the importance of region-based networks of inter-firm relationships for regional economic development.

***Horizontal inter-firm networks***

Opposite to the notion that firms are becoming more and more footloose agents in a 'borderless world' (Ohmae, 1990) that has been rearranged by global flows of goods, services, people and finances, there is the argument that firms are operative in a local setting that influences their behaviour and performance. The 'new regionalism' (Coe et al., 2004) literature claims there is a 'resurgence of regional economies' (Storper, 1995) in the era of globalisation. Indeed, as MacLeod (2001) argues, one prevailing vision is that, far from signalling the 'end of geography', the territoriality of globalisation leads capital, people, institutions and technologies to be ever more intensely motivated by and stimulated through localised geographical agglomeration and spatial clustering (e.g. Porter, 1990; Scott, 1998; Krugman, 1997). As Storper argues, the region is assuming a role as: (1) a fundamental basis of economic and social life, as distance still matters for many of the most important kinds of transactions; (2) a vital relational asset for distilling competitive advantage, e.g. spillover effects generated within clusters; and (3) a meso-level of analysis within which to examine the new era of reflexive capitalism, the contemporary economic system wherein actors (such as firms and governments) are increasingly required to coordinate with each other to deal with economic insecurities and risks (Storper, 1995; 1997). Aside from claiming that 'regions are resurgent', this line of literature also offers insightful perspectives on how to identify regional economic systems along inter-firm relations. Firms are based in localities that also affect their functioning. Physical location-specific aspects such as accessibility, infrastructure and natural resources are seen as determining factors for the competitiveness of a spatial economy (e.g. Sachs and Warner, 2001; Henderson et al., 2002). Much is written on the integration of firms and organisations that operate in the same geographical context, using the term of clusters to describe these integrated localities. As Porter (2000) defines, 'clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also cooperate'. Clusters are geographical agglomerations of related economic activities that presumably have been contributing to regional economic growth for quite some time -e.g. the Marshallian industrial districts- but the recent turn towards a global economy has increased our interest in understanding these spatial configurations (Maskell, 2001). As Schmitz and Nadvi (1999) recall, clusters have received increasing attention in various lines of research, such as mainstream economics (Krugman, 1991), business economics (Porter, 1990), regional science (Scott, 1996) and innovation studies (Maskell and Malmberg, 1999). In general, these studies share a view of firms as connected entities and they emphasise local factors as vital assets for firms to compete in global markets. Early studies on clusters mainly have emphasised cost advantages that stem from specific locational features of agglomeration economies, e.g. a dedicated infrastructure or a qualified labour pool. More recently, attention has shifted towards the institutional and relational constellations of clusters and

how these generate benefits for local firms. Maskell (2001) speaks of 'knowledge-based clusters' in which agglomerated firms from one or a few interrelated industries increase their global competitiveness via collective learning and the sharing of knowledge and information that spurs innovation. This collaborative behaviour among local economic agents, or 'institutional thickness', stimulates economic and political coordination and cooperation, as well as sharing of ideas and information (Amin and Thrift, 1997). Ann Markusen (1996) speaks of 'sticky' places in a 'slippery space' when describing different types of successful industrial districts in a world that is increasingly dominated by footloose conglomerates and shifting investments. Several studies on clusters in developing countries share these views and they tend to test these on clusters of small-scale industries, as these are considered to be the key generators of employment and economic growth (e.g. see Knorringa, 1999, 1996; Schmitz, 1999; Van Dijk and Rabellotti, 1997). In these studies, localised competitive (dis)advantages are often ascribed to the social networks and structures that exist within -and comprise- the clusters. For instance, the study of Knorringa (1996) has shown that socio-cultural barriers can create distrust among local producers and traders, hampering the processes of local learning and technological development (Schmitz and Nadvi, 1999).

A similar sociological viewpoint has been adopted by Michael Storper (1997) to qualify regional economies along networks of relations between firms and other economic agents. In his book, *The Regional World*, regional economies are defined as relational assets. This means that the regional economy is considered to be a network of relations, the economic process as conversation and coordination between firms and groups of firms, entrepreneurs as reflexive human actors and the nature of economic accumulation not only as material, but as relational (Storper, 1997: 28). In a similar manner, Cooke and Morgan (1998) speak of an 'associational economy' when defining regional economies as networks of relations. Alternatively, Gernot Grabher (1993) uses the concept of the 'embedded firm' to bring back 'the social in inter-firm relations'. The definition of specific generic forms of economic organisation and exchange, referred to as networks, is defined by two relational forms: horizontal inter-firm cooperation and vertical inter-firm cooperation (Grabher, 1993). Together, these two relational channels create regional networks that function as location-specific economies. Grabher mentions 'Marshallian industrial districts' in the Third Italy region, stating that their unique horizontal and vertical inter-firm relations lead to a highly productive and innovative region. Geographical proximity and the social embeddedness (Polanyi, 1944) of firms in their local civil society are two key determinants of these horizontal relations. Granovetter (1985) defined the term embeddedness as actors' relative depth of involvement in social relations and used it to explain how social relations influence the behaviour of local actors and the institutional arrangements supporting transactions. Again resembling Whitley's 'trust and authority relations', the assumption here is that a high density of social networks -consisting of social relations between firms and organisations- in a locality creates competitive advantages for these firms. Affined with the concept of embeddedness, Storper (1997) argues that inter-firm networks, especially of small and medium-sized enterprises, capitalise upon localised 'traded and untraded interdependencies' in order to generate comparative advantage. Collaborative inter-firm networks can provide collective assets that the (small) individual firms could not acquire by themselves. While both arise from spatial proximity, the more traditional and rational traded interdependencies refer to cost reductions for complementary firms by locating

close to each other. Untraded interdependencies (Storper, 1995), on the other hand, materialise from dense networks of informal exchanges between entrepreneurs. These exchanges allow for the production of regional goods, for a more long term approach to development and for non-immediate forms of reciprocity.

Putnam (1993) embroiders on the work of Bourdieu (1986) and Coleman (1988) when he argues that such interdependencies or socially embedded 'weak ties' can stimulate economic growth in a region through the creation of 'social capital'. Different from physical and human capital, social capital refers to the feature of social organisation, such as networks, norms, and trust that facilitate coordination and cooperation for mutual benefit. Social capital enhances the benefits of investments in physical and human capital. As such, social capital can be a comparative advantage for firms in a spatial economy, directly influencing its economic performance. A key aspect which has been broadly discussed in the debate on social capital and horizontal relations is the level of trust, which can be defined as 'the willingness to expose oneself to the possibility of opportunistic behaviour by others' (Schmitz, 1999). Trust is seen as an influential factor for horizontal interconnectivity (see Fukuyama, 1995). The social embeddedness, trust and interdependence among firms -not only individual, but also via associational groups such as business associations- are important factors for the creation of social capital in a spatial economy, as argued by Putnam (1993). In his famous publication he shows how the economic success of Northern Italy can be explained by its high quality of civic life through a dense web of member associations and public groups. Other well known examples of successful regional economies with a competitive edge that are ascribed to the strong presence of dense social networks and social capital are Silicon Valley in the US (cf. Saxenian, 1994; Lee et al., 2000; Cohen & Fields, 1999), the Third Italy region in the north-eastern and central part of Italy (see Boschma, 2001; Visser and Boschma, 2002) and Baden-Württemberg in Germany (e.g. Cooke, 1997).

An interesting question is then: does social capital created by trust-based relations influence regional economic performance? As Knack and Keefer (1997) discuss in a study on the economic payoff of social capital, Solow (1995) argued in an early critique on Fukuyama (1995) that if social capital is to be more than a 'buzzword' its stock 'should somehow be measurable, even inexactly', but 'measurement seems very far away'. More recently, various authors have suggested different causal linkages between trust-based inter-firm relations -partly via membership in organisations- and economic performance. A useful contribution has been made by Maskell (2001: 926), who argues that 'co-localised firms will [...], it is asserted, often benefit from the emergence of a general climate of understanding and trust that helps (i) to reduce malfeasance, (ii) to induce the volunteering of reliable information, (iii) to cause agreements to be honoured, (iv) to place negotiators on the same wavelength, and (v) to ease the sharing of tacit knowledge'. Additionally, other authors have linked social capital with the NIE body of thought, stressing that transaction costs are lower in higher-trust societies since entrepreneurs spend less on protection against being exploited by others in economic transactions. Subsequently, a low level of trust can discourage innovation. If entrepreneurs need to spend more time to monitor possible malfeasance by suppliers, buyers, competitors or employees, they have less time to devote to the innovation of new products or processes. Thirdly, a strong presence of trust makes a society less dependent upon formal institutions to enforce agreements. As an

example, interpersonal trust can provide an informal credit market where there is no well-developed formal system of financial intermediation. Finally, even the efficiency of political institutions is subscribed to the level of trust and willingness to cooperate in a society (Putnam, 1993; Fukuyama, 1995 and Whiteley, 2000). These findings suggest that social capital by definition has a positive effect on firms' performance. As Annen (2001) argues, the positive effect of social capital should not be taken for granted a priori, especially when doing research on firms in developing economies that tend to rely more on tight social networks -often constructed along familial or ethnic lines- in their daily business operations. He refers to the work of Granovetter (1973) who defines that such 'strong ties' between firms are less beneficial -due to their exclusive nature- than 'weak ties' that are more open to outsiders. Annen has used this distinction of social relations and speaks of *exclusive* and *inclusive* social capital respectively, whereby the first is created in closed social networks with high entry costs and the latter in open ones where entry costs are low. In a similar vein, Putnam (2000) speaks of *bonding* and *bridging* social capital, with the first referring to the value assigned to social networks between homogeneous groups of actors and the second to that of social networks between socially heterogeneous groups. While inclusive or bridging social capital -though it has its limitations- can stimulate the sharing of new ideas, information, technologies, etc. among a broad and diverse group of actors, exclusive or bonding social capital does not encourage such broad diffusion of new ideas. Rather, it remains restricted within an exclusive homogenous group (e.g. based on social class or ethnicity), which can contribute to rent seeking (Annen, 2001; Putnam, 2000). With this reconsideration in mind, this study does not want to leave out the possibility of any negative effects of social capital a priori.

This section has discussed the first component of the analytical framework to identify regional business systems: inter-firm relations and how these are governed. The following section will continue with the second component: the strength of the local state. This strength is analysed by the interplay of the local state with the private sector and its position vis-à-vis the national government.

### 2.6.2 The strength of the local state

When discussing regional business systems, Whitley recognises that significant influence can come from regional governments, at least when these are distinct from national ones in the sense that they are 'able to exert considerable discretion in the economic sphere' (Whitley, 1999: 45). There are good reasons to believe the local state has gained importance over the recent years. Decentralisation processes have led to an increase of political power and autonomy for regions. MacLeod and Goodwin (1999: 505) refer to Jessop's 'denationalisation of the state' when discussing the enhanced role played by the local and regional state in governing cities and regions. In the Philippines, decentralisation programs were set in motion in response to political core-periphery pressures (Hill, 2002). The Local Government Code of 1991 diverted significant powers, autonomy, responsibilities and resources from Manila to the provinces and cities. New regionalism and decentralisation have given birth to the rise of a meso-level government that is functioning in a context of multilevel governance, which refers to a strong interdependence between various governmental and nongovernmental actors in policy making (Hooghe and Marks, 2001). Taking these dynamics into account, the local state can be conceptualised as a two-faced public entity in the sense that it (1) embodies the political arena of a local society and (2)

serves as a local executive body of the national government. In other words, the local state is an actor in a multiscalar relational network with other (non)governmental actors. In this network, two relational dimensions are particularly important: the horizontal public-private interplay between the local state and the local business community and the vertical core-periphery relations along the hierarchical structure of the national government.

Regarding the public-private interplay, a key indicator Whitley uses to identify the role of the nation state in business systems is the 'strength' of the state. This strength can be described as the dominance and autonomy of the state versus the private sector and its interest groups. Evans (1995) describes embedded autonomy as the key characteristic that distinguishes developmental states from 'less developmental' predatory and intermediate states in the sense that it is broadly embedded in civil society without losing its autonomy versus powerful interest groups from this society. A significant body of literature that describes the influence of local and regional political entities on regional economic development in the Philippines suggests that political embeddedness and autonomy are undisputedly important analytical components for this study. Authors such as Anderson (1988), Hutchcroft (2001; 2000; 1998; 1994), Kerkvliet (2002; 1995), Sidel (1999; 1998) and McCoy (1994), among others, have written an extensive line of publications that not only analyses the Philippine political system from a relational perspective, but also zooms in on the regional and local playing field. In these studies, the autonomy of the local state vis-à-vis the private sector and community is oftentimes captured in such terms as 'patron-client relations' and 'clientelism'. These descriptions stress the existence of highly personalistic public-private relations (brokerage, patronage) that have a strong influence on policy making and economic development. Hutchcroft (1998) uses the analytical framework of Weber (1981) to qualify the Philippines as a 'patrimonial oligarchic state', in which the dominant social group has an economic base largely independent of the state apparatus, but the state nonetheless plays a central role in wealth accumulation. There is a weak separation between the 'official' and the 'private' sphere, with most power residing in the private sector. Such dense interconnectivity between the public and private sector -often crystallised in dyadic personalised relationships- manifests itself most prominently on the local and regional level in the Philippines, as Sidel (1999) and McCoy (1994) extensively describe. The dual position of local political leaders as key public and private actors, or their close relationship with powerful local entrepreneurial groups -central issues in Sidel's work- and how this affects public policy making are also unavoidable focus points for this study on disparities in regional economic development.

The second relational tier of the local state is vertical in its nature and runs within the hierarchical structure of the Philippine state. While decentralisation and new regionalism have given rise to a hollowing-out of the national state (Jessop, 2003), this is especially true for a geopolitically dispersed country like the Philippines (see Hill, 2002), the national government remains an influential actor for regional economies. To a large extent the policy stage for cities and provinces is set by national government regulations. More importantly, the increase of local state authority and responsibility is accompanied by a rising need to retrieve financial resources from the national budget (De Dios, 2007). Savitch and Kantor argue that tight vertical networks between the centre (national government) and periphery (local governments) are important for the latter. Formal and informal collaboration with national ministries can provide provincial and city

governments with tangible resources and political leverage in bargaining with the private sector (Savitch and Kantor, 2002: 38). As various extensive studies on regional development in the Philippines (see e.g. Balisacan and Hill, 2007; 2003) have indicated, central-local relations within the Philippine government are also of vital importance when analyzing the strength of the local state and its role in the process of regional economic development.

### 2.6.3 The influence of ethnicity on inter-firm and public-private relations

In the literature about economic development in Southeast Asian countries the role of ethnic Chinese entrepreneurs has often been highlighted (e.g. see Gomez and Hsiao, 2001; Gambe, 2000; Mackie, 1999). Recalling table 2.3, the pivotal position of ethnic Chinese entrepreneurs in economic life in the Philippines is obvious. As such, we know that ethnic Chinese (commonly referred to as Filipino-Chinese or *tsinoys*) will also hold a key position in the regional economies of Bohol, Cebu and Negros Oriental. In this study, ethnicity is suggested to play an important role in two relational spheres: inter-firm relations and public-private relations. Regarding the first, the exceptional position of the ethnic Chinese entrepreneurs is not only reflected by their dominance in business ownership. More importantly, ethnic Chinese entrepreneurs are often identified by their specific way of doing business, based on a strong reliance upon tight intra-ethnic relational networks. The term 'guanxi' is often mentioned in this context, referring to 'the establishment of a connection between two independent individuals to enable a bilateral flow of personal or social transactions' (Yeung and Tung, 1996: 55). In business life, guanxi-networks can be translated as webs of relations between ethnic Chinese who rely on their social networks that are founded on trust and reciprocity, lowering transaction costs. Putnam (1993: 37) sees guanxi as a form of social capital that gives the ethnic Chinese an important competitive advantage in doing business:

'Studies of the rapidly growing economies of East Asia almost always emphasise the importance of dense social networks, so that these economies are sometimes said to represent a new brand of "network capitalism". These networks, often based on the extended family or on close-knit ethnic communities like the overseas Chinese, foster trust, lower transaction costs, and speed information and innovation. Social capital can be transmuted, so to speak, into financial capital: In novelist Amy Tan's *Joy Luck Club*, a group of mah-jong-playing friends evolves into a joint investment association. China's extraordinary economic growth over the last decade has depended less on formal institutions than on *guanxi* (personal connections) to underpin contracts and to channel savings and investment'.

These findings suggest that one should not be surprised if inter-firm networks that comprise business systems are also structured along ethnic lines. Secondly, it is suggested here that the dominant position of ethnic Chinese entrepreneurs in the Philippine economy can also have a significant impact on public-private interaction. As stated earlier, Whitley (2001: 38) argues that in developing countries the state is often dominated by particular ethnic groups or personalised factions seeking to extract rents through the state machinery. While the ethnic Chinese in the Philippines are often described as 'apolitical' (Subianto, 2001) in the sense that they tend to restrain themselves from public positions or open affiliation with political leaders, their dominant position in the private sector makes

them a powerful civic group that can claim an influential lobby in public office via personal networks with political leaders.

## 2.7 Constructing a regional model

The previous discussion has given various theoretical insights that can help to tackle the main question of this theoretical excursion: how relevant and useful is it to explain disparities in regional economic development in terms of different regional business systems? Answers to this question have been sought in various theoretical corners that underscore the importance of economic relations and their structuring mechanisms as key assets of an economy. A final step of the theoretical framework is the integration of the different institutional constellations into one model that places them in their proper position and connects them. In figure 2.3, the two key relational features that shape regional economic development are positioned inside the thick-lined boxes: (1) inter-firm coordination; and (2) public-private coordination. The underlying components of these relational features are printed in italics inside the dash-lined boxes: (a) vertical inter-firm coordination; (b) horizontal inter-firm coordination; and (c) strength of the local state. Again, these components can be defined by sets of interconnected institutional attributes, displayed in smaller delineated boxes. The extent of horizontal inter-firm coordination for instance: the presence of social capital is a crucial institutional factor that is influenced by the embeddedness of local entrepreneurs, the existence of interdependencies and the level of trust among firms. Furthermore, these attributes can vary between different ethnic groups, thus changing the way localised firms coordinate with each other. In line with Helmsing, the relational features in the model encompass the three principal characteristics for local development promotion: it is multi-actor, as it requires active involvement from public and private actors; it is multi-sector, as it refers to public and private sectors of the economy; it is multi-level, as globalisation -both as a competitive threat and a resource opportunity- forces local initiatives to be framed by an analysis of global changes. Local economic development is increasingly: think globally and act locally (Helmsing, 2001: 63).

This institutional interconnectivity, as shown by the model, brings another important theoretical concept to light: institutional complementarities. As Hall and Soskice (2001) argue, nations should encourage institutions that are operative in different spheres of the political economy to complement each other. This way, they strengthen the overall performance of supportive institutions. For example, when a dense network of business associations supports collaborative systems of vocational training, those same networks may be used to operate collective standard-setting (ibidem, 2001: 18). With reference to the model in figure 2.2, a strong level of horizontal inter-firm coordination not only encourages collective activities individual firms benefit from, it can also create a powerful private lobby towards the local state for enhanced business support from the public sector. The tendency behind institutional complementarities is that one should not merely analyse the impact of one specific single set of institutions on economic development, but rather include the whole integrated institutional package in this analysis. However, in their attempt to do this, Hall and Soskice are exclusive in a different way. They only discuss the positive effects of institutional complementarities, without paying attention to the possibility of

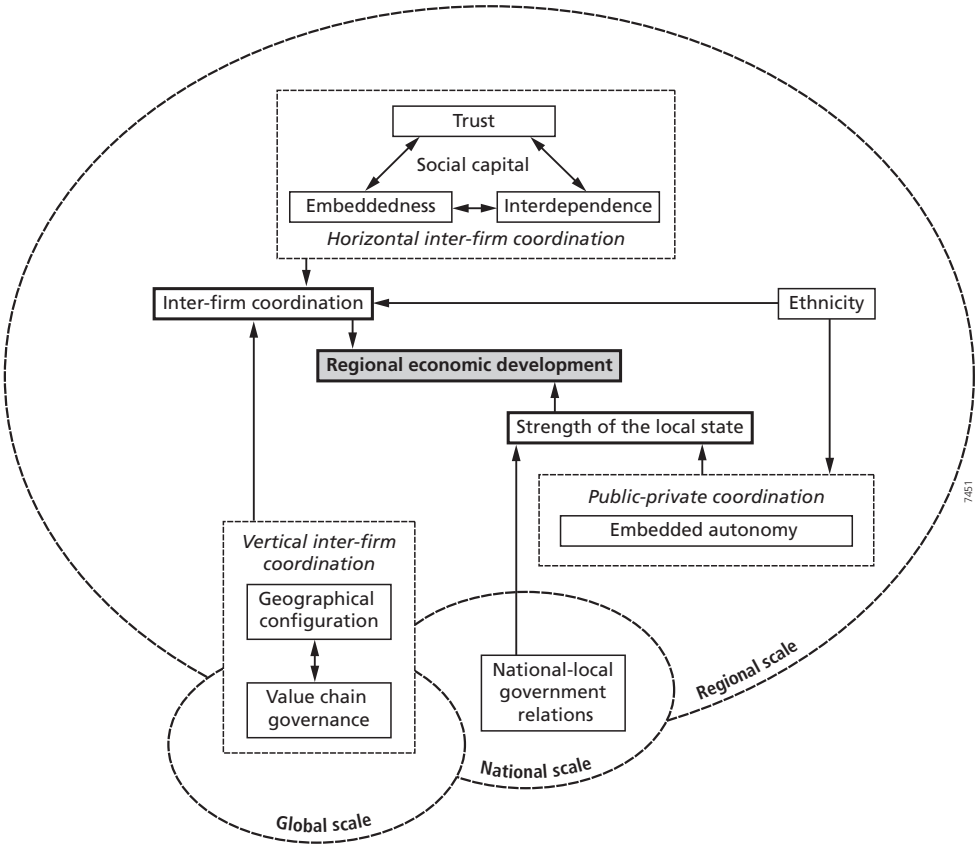



***Figure 2.3:*** Conceptual model

negative complementary effects. In this opposite situation, one set of institutions would cause another set of institutions to perform less effectively, thus downgrading the overall institutional supportive performance. For example, the same strong network of inter-firm relations that encourages a powerful private lobby towards the local state can also lead to political favouritism that supports a single sector and creates an institutional lock-in. This study also wants to take into account the possibility of any of such negative institutional complementarities being present in the regions. Therefore, a positive or negative connotation should be added to the term 'institutional complementarities'. The term 'disabling institutional complementarities' is used when institutional complementarities have a hampering effect on economic growth, whereas 'enabling institutional complementarities' has a stimulating impact.

## 2.8 Concluding remarks

As discussed in the introduction, the aim of this study is to explain disparities in regional economic development by focusing on key regional institutional arrangements. This chapter has provided the theoretical introduction to do so. After a brief overview of other insightful theoretical approaches towards regional development, attention was directed towards the recent 'institutional turn' in regional development studies, which emphasises that economic activity has to be understood as entrenched in wider structures of social, economic and political rules, procedures and conventions. In other words: the institutional context matters in shaping distinct economic systems. Based on North's (1990) statement that institutions are the 'rules of the game' in a society that structure human interaction, NIE opposes the neo-classical assumption of a universally free market equilibrium that is the outcome of stable, ever-maximising economic behaviour and decision making by economic actors who have full access to market information. Rather, economic agents (i.e. firms) make different decisions that are not always maximising, as their preferences change over time and their market information is incomplete. As such, firms are uncertain in their relations with other firms, which bring along additional transaction costs during the process of economic exchange. According to NIE, institutional arrangements can lower these transaction costs between firms, as they help firms to organise their relations with other economic agents.

This study makes use of this relational view on the economy to investigate divergent regional patterns of development in the Philippines. In doing so, this study not only applies a national-oriented institutional approach on the regional level in a developing country, it also analyses regional development in a global context. Using key analytical characteristics of Whitley's (1999) comparative business systems model, this study analyses regional development from a firm-oriented relational perspective. More particularly, this model defines economic systems based on how firms organise their relations and how these relations are shaped by their institutional context (e.g. the state). Having adapted the business systems model for an analysis of regional economies in a developing country by taking into account the important role of the local state and the influence of ethnicity in networking, this study defines regional development as an outcome of the organisation of different relational spheres: inter-firm networking, both within global value chains and the locality; and the position of the local state vis-à-vis the local private sector and national government. By coupling these relational networks and their institutional arrangements, regional economies can be identified as distinct economic systems that bear different development outcomes.

Having presented the research agenda of this study, the following chapter will address the main research questions. Furthermore, the methods used to find empirical evidence that gives answers to these questions will be outlined.

### Endnote

1 While they do credit institutional economists for incorporating key elements of social reality into economic analyses, Portes and Smith (2008: 103) argue that the 'institutional turn' in economics

lacks a solid theoretical framework and a clear definition of what institutions are. They stress that the definition of North is a 'vague definition that encompasses everything from norms introjected during the process of socialisation to physical coercion. From this definition, all that can be said is that institutions exist when something exerts influence over the behaviour of social actors, exactly the same notion that Emile Durkheim identified as norms more than a century ago and certainly not all that there is to the dynamics of social life'. According to the two sociologists, the 'institutional turn' needs stronger interdisciplinary collaboration between economists and sociologists to solve the problem of a weak theoretical framework and unclear definitions.

# 3 Research questions, concepts and methodology

## Introduction

After having introduced the major research themes and the previous theoretical discussion, this chapter provides the methodology for the study. As discussed in the preceding chapters, this study's central topic addresses regional disparities in economic development in the Philippines and their underlying relational constellations. This section will introduce the main research questions that are derived from the central research topic and its theoretical embeddings. Subsequently, section 3.2 will deal with the operationalisation of the main concepts used in this study by providing their definitions. Finally, the research methodology will be elaborated on in order to clarify how the modes in which the empirical data that supports this study has been gathered. The chapter will end with some brief concluding remarks.

## 3.1 Research questions

Before diving into the diverse Central Visayas island region and scrutinising its underlying relational arrangements, it is crucial to learn more about the distinct contemporary socio-economic and economic-geographical features of the region's three main provinces and the key actors of these local political economies. It is equally important to investigate how these provincial constellations have evolved over time, as it will increase our understanding on the present conditions.

I. *What do the key characteristics that distinguish the contemporary provincial economies of Bohol, Cebu and Negros Oriental (structure, composition, and position in wider -regional, national, and international- contexts) look like? How have these characteristics emerged over time?*

The second and third research questions focus on the key organisational features of the local private sectors in the three provinces. Following Whitley's analytical business systems model, a conceptual division is made in the positions local firms hold in different networks of inter-firm relations. First, there is the insertion of firms in value chains, a concept coined by business management and economics Professor Michael Porter (1985). He visualised a value chain as a linear set of interconnected production stages, either organised within a single firm or among various independent firms. The concept has been further explored by many authors, among whom Gary Gereffi is one of the protagonists who has adapted the model to analyse inter-firm networks of production on a global scale. Furthermore, he introduced the notion that varying relations of power exist between firms in different value chains, crystallizing in different governance styles. The position firms have in global value

chains is vital for their performance, as it has a major impact on their trade linkages, access to resources, information and technical upgrading.

*II. To what extent and how are local firms integrated in global value chains and what are the (dis)advantages these firms derive from their insertion into such vertical relational networks?*

The third question is oriented towards a different set of inter-firm relations, namely those existing between local firms that are operative in a region. The vast literature on clusters and agglomeration economies by authors such as Porter (1985), Lambooy (1997), Steiner (1998), Maskell (2001), Boschma and Kloosterman (2005) and Asheim et al. (2008) is useful here as it stresses that the presence of a tightly knit horizontal network of inter-firm relations among local firms can be a vital precondition for regional economic growth. Based on Whitley's model, this study emphasises the importance of relations among local competitors and the role played by local business associations.

*III. To what extent and how are local firms integrated in local networks of inter-firm activity and what are the (dis)advantages these firms derive from this form of localised horizontal networking?*

As discussed in the theoretical chapter, horizontal networking of firms is not limited to inter-firm relations. The local state is an important agent in the regional economy, serving as a key regulatory and policy-making body that steers local economic development. In this role, however, the local state is not isolated from other actors, but it is embedded in society (recalling the work of Evans (1995) on embedded autonomy). As such, the role of the local public sector is investigated via two sets of relations it upholds with other key actors in the regional political economy: (1) the local private sector; and (2) the national government. Research question four focuses on the first set, which aims to examine the autonomy of the local state vis-à-vis the local private sector.

*IV. To what extent and how does the local state coordinate and cooperate with the local private sector in its efforts to promote regional economic development?*

Research question five concerns with the second set of relations that is crucial for the functioning of the local state, i.e. the interrelation it upholds with the national government. As for the public-private coordination of research question four, the extent of local state autonomy in central-local political ties is of particular importance in the Philippine context.

*V. To what extent and how is the local state dependent upon the national state in its efforts to promote regional economic development?*

Interconnecting the previous research questions and their findings, research question six is designed to construct an integrated perspective on the regional economies. This is done by analysing to what extent they can be qualified as distinct regional economic systems, based on the set of relational arrangements investigated by research questions two to five.

*VI. To what extent do the three provincial economies constitute different regional economic systems, characterised by their specific institutional (relational) arrangements?*

While research question six provides an insightful overview of the different regional economic systems, it does not address the varying development impacts of these regional systems. A key objective of this study is to explore to what extent and how regional relational arrangements shape different patterns of regional economic activity and performance within a single developing country. Therefore, research question seven investigates to what extent the divergent regional economic systems explain the disparities in regional economic development among the three Central Visayan provinces.

*VII. To what extent and how are these business systems explanatory for the varying patterns of regional economic development in the Central Visayas?*

## 3.2 Main concepts and definitions

The interconnected concepts and definitions of *regional economy* and *regional economic development* that were introduced in the former two chapters are briefly summarised in this section, since they are two key concepts in this study. The definitions of these concepts have been adopted from Coe et al. (2004), who have written an insightful article on how to conceptualise regional development in a continuously 'globalising' environment. They start from their perception of a region 'not as a tightly bounded space, but as a porous territorial formation whose notional boundaries are straddled by a broad range of network connections'. Thus, a regional economy is not constructed (or contained) by physical or political boundaries, but by the relations of the economic actors it is home to. These relations can be multi-scalar and cross border in nature. In this study, the regional economy is analysed from this relational view by scrutinising the relational networks of its economic actors without being biased towards a specific level of scale.

The relational definition of the regional economy also reflects in the description for regional economic development. Again, Coe et al. (2004: 469) provide a fitting description for regional economic development as it is interpreted in this study. 'We regard regional development as a set of *relational processes* (see Amin, 2002). It is also, by definition, an *interdependent* process (Massey, 1984). The fortunes of regions are shaped not only by what is going on within them, but also through wider sets of relations of control and dependency, of competition and markets. These relations may be with other regions within the same national territory, but increasingly occur at the international scale.' As they continue and summarise their argumentation: 'In our framework, regional development is conceptualised as *a dynamic outcome of the complex interaction between territorialised relational networks and global production networks within the context of changing regional governance structures'* (ibidem, 2004: 469). In this study, regional economic development is understood in a similar manner. It emphasises the multifaced relational networks that region-based economic actors maintain and scrutinises how these networks impact the actors' performance. In order to indicate the broader regional development impact of these networks, the narrow actor-oriented view is extrapolated. This way, the impact on regional economic development is investigated in terms of private sector development and the division of wealth.

## 3.3 Methodology

The empirical data presented in this study has been gathered during two periods of fieldwork in the Philippines in 2006 and 2007 (see table 3.1). Preceding these periods of fieldwork, a literature review had been undertaken since the start of the PhD project in July 2005 to get acquainted with the theoretical and thematic issues that underlie this study. Additionally, in October and November 2005 an orientation visit to the Central Visayas was made. An important purpose of this trip was to introduce myself at the International Linkages Office and the Office of Research at the University of San Carlos (USC) in Cebu City, the local counterpart for this study. More important, the research proposal was discussed with various academic staff members who had extensive research experiences in the region, in particular Dr. Victorina Zosa, the director of the Office of Research. Following the initial research proposal, the four provinces of Bohol, Cebu, Negros Oriental and Iloilo were visited to scout the regional economies to experience their dynamics first hand. Furthermore, explorative talks were held with the directors of the provincial offices of the Department of Trade and Industry (DTI) to familiarise myself with the regional economies and the business activities that characterise them. After these visits and a second deliberation with Dr. Zosa at USC, it was decided to constrict the initial research area of the research proposal to three provinces by leaving out Iloilo province. Not only were four regional economies deemed to be too excessive to successfully analyse in detail within the strict timeframe of this study, Iloilo was considered as an inappropriate 'outsider' for this regional study since it belongs to a different region (Western Visayas) that has a distinct socio-economic and cultural background -Illongo versus Cebuano- and is isolated from the three neighbouring provinces in the Central Visayas.

### 3.3.1 First period of fieldwork: February 2006-July 2006

*Business survey*

A major task of the first period of fieldwork was to conduct a survey among local firms that would demonstrate their relational networks and internal organisation. Based on the preceding literature review at Utrecht University and consultation of the research staff at USC, a questionnaire was designed to scrutinise the main organisational characteristics of local firms. The surveyed firms have been selected on the basis of the following characteristics that allowed a comparative analysis of regionally-specific

***Table 3.1:*** Chronological overview of main research activities

| Time period | Research activities |
|---|---|
| July 2005 – October 2005 | Literature review. |
| October 2005 – November 2005 | Orientation visit to the Central Visayas. |
| November 2005 – January 2006 | Further literature review and preparing the first fieldwork. |
| February 2006 – July 2006 | First period of fieldwork. |
| August 2006 – January 2007 | Quantitative data analysis of survey findings, writing of draft chapters and preparing second fieldwork. |
| February 2007 – July 2007 | Second period of fieldwork. |
| August 2007 – October 2007 | Qualitative data analysis of interviews. |
| November 2007 – December 2008 | Writing of articles and draft thesis. |
| January 2009 – July 2009 | Finishing of final thesis. |

economic institutions: (I) they are locally owned and operated SMEs involved in trade; (II) they are drawn from leading sectors in each of the provincial economies, part of 'home-grown' industries that have an extensive track record as important pillars of the provincial economies: agriculture in Bohol and Negros Oriental and export-oriented manufacturing in Cebu. Subsequently, the local tourism industry that has recently emerged in Bohol is also included in the survey since it has drastically altered the structure of the island economy. The sectors selected are backbones of the provincial economies in terms of economic output and the number of local firms and employees involved (see appendix 3). Furthermore, the surveyed industries have an important role in shaping the economic identities of the three island economies: Cebu is known across the Philippines as the 'furniture capital'; Negros Island is commonly referred to as the 'sugar bowl' of the country, and within the region Bohol is often dubbed as a 'rice granary'. The latter island is also increasingly recognised as a prime eco-cultural tourist destination in the Philippines. Other studies comparing market organisation between different geographical settings in Asia (see Nishida and Redding 1992) support the view that 'key social institutions, rather than industry-specific characteristics, influence the development of inter-firm relations' (Rademakers and van Valkengoed 2001: 66). Still, it is important to recognise that the selection of specific industries may affect the pattern of inter-firm relations observed here, due to sector-specific characteristics of the production and trade processes. It was attempted to limit bias in the findings by concentrating on the trade segment in the respective value chains, thus ensuring some degree of comparability between the three regions.

Sampling was based on a random selection of local SMEs from business directories of provincial offices of the Department of Trade and Industry (DTI) that were complemented by directories from the local Chambers of Commerce in the three provinces and branch-specific associations in Cebu. The classification of SMEs, based on their number of employees, is as follows: firms with less than 10 employees were considered small and firms up to 99 were regarded as medium-sized.[1] Based upon Whitley's (1999) comparative analytical framework, the survey contained 80 questions aimed at unraveling the extent of vertical and horizontal inter-firm coordination of the SMEs in the three provinces. The survey investigated vertical inter-firm coordination as it contained questions on the extent and forms of contact and cooperation firms undertake with their suppliers and buyers. Questions on horizontal inter-firm coordination asked firms about the degree and means of contact they have with other local entrepreneurs and competitors, as well as the cooperative activities they undertake with them. Furthermore, questions referring to ownership and management, access to finance and employment were posed to learn more about the firms' internal organisation. Finally, firms were asked to give their opinion on issues regarding to regional development and the local state.

In all three provinces, selected firms were contacted over the phone first to explain the contents and objectives of the study before making an appointment to conduct the survey. The owners or managers of the firms were specifically targeted to participate in the survey, since it was assumed that they were best informed about the organisation and daily operation of their businesses in general. In total, 85 percent of the questionnaires were filled in by firm owners and managers. In Negros Oriental all surveys were conducted by the researcher himself, while in Cebu and Bohol local students from respectively the

University of San Carlos and Holy Name University assisted. In both provinces, the research assistants were selected in consultation with senior academic staff from the two universities to assure that they understood the contents of the survey and were able to conduct them properly. Depending upon the answers given by the respondents and their willingness to talk, the time to conduct one survey varied between 45 minutes up to two hours. The surveys were conducted in English, since the respondents were able to answer the questions in intelligible English and did not object to speak in this language instead of their native Cebuano or Filipino.

The overall result was a business survey consisting of 80 questions, personally conducted among 117 local SMEs in the three provinces. The division of these 117 firms per province is as follows: 40 in Bohol, 54 in Cebu and 23 in Negros Oriental. With regards to Bohol it is important to note that half (20) of the surveyed firms are active in the agricultural sector and the other half is involved in the local tourism industry. In all three provinces, the majority of the surveyed firms were based in the capital cities of Tagbilaran, Cebu and Dumaguete, as these cities are the primary trading hubs for the regional economies of Bohol, Cebu and Negros Oriental respectively. While in Cebu almost double the number of the surveyed firms was approached to participate, non-response was low in Bohol and Negros Oriental. Moreover, a significant number of surveyed entrepreneurs in Cebu requested an anonymous use of the survey data before agreeing on participating in the survey. Finally, some additional observatory research activities were undertaken in combination with the business surveys. Various firms in the three provinces were visited to gain first hand insights on the organisation of their daily commercial activities, used technologies and the scale of their operations. During these visits, informal talks were held with the owner and employees on site.

*Business association survey*

Aiming to provide additional insights into the horizontal relational networks of the local firms in their regions (referring to research questions 3 and 4), a second questionnaire was conducted among local business associations in the three provinces that were identified as important intermediaries by the firms analysed in the business survey. As for the business survey, the business association survey was also based on the analytical 'business systems' model of Whitley (1999). The questionnaire investigated the local business associations by posing them 29 questions pertaining to: (1) their basic organisational features; (2) their activities and relations with other organisations; (3) their access to finance; and (4) their opinion on regional economic development issues. Selection of the business associations occurred according to the position they hold in the regional economies and their relevance for the surveyed firms. The Philippine Chamber of Commerce and Industry (PCCI) has over one hundred local member chambers nationwide and the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII) has a similar widespread national network of local member organisations, making them two powerful private sector representatives. With this in mind, the local Chambers of Commerce and their Filipino-Chinese counterparts in the Central Visayas were selected as they typically form important representatives of the local private sector in Philippine provinces. Furthermore, industry-specific associations -related to the economic sectors of focus- were also selected if present and active in the province. In total, 20 local business associations were surveyed: 7 in Bohol, 10 in Cebu and 3 in Negros Oriental (see appendix 4).

All surveys were conducted by the researcher himself in English and in all cases the respondent was at least an active board member of the association -in 15 cases, it was the (vice)president- who was well informed about the organisation and its activities. The procedure used with the business survey was also applied with the associations. The respondents were first contacted and informed over the phone or by letter before the questionnaire was administered during an appointment. Since most respondents were eager to talk about their association and the regional economy, it took more than one hour to conduct a survey on average with little variation. In Bohol and Negros Oriental, all surveyed associations are located in the capital cities of Tagbilaran and Dumaguete, while Metro Cebu is host to all surveyed associations in the province of Cebu.

*Semi-structured interviews*
In addition tot the surveys, open-ended questions were asked to the representatives of business associations and governmental authorities to gain a deeper understanding on the overall structure, functioning and performance of the regional politico-economies, the key public and private players involved and their mutual interrelationships (referring to research question 4). Since the open-ended questions encouraged interviewees to give their opinion on various issues, the answers were cross-checked and compared with other answers. In case of the business associations, these interviews were usually held right after the survey, while the interviews with the representatives from government offices were held during a separate appointment. Since none of the interviewees rejected the use of a voice recorder, the interviews were recorded in full. Despite the open atmosphere during the dialogues several interviewees requested at the start of the interview that the contents of the conversation would be treated anonymously. To respect their request, none of the respondents are referred to by name in this thesis. Appendix 4 provides a list of the interviewed persons by their function and organisation.

*Analysis*
After conducting the surveys and semi-structured interviews, the results were analysed in different ways. The data from the two surveys were inserted in the statistical computer programme SPSS and converted into two separate spreadsheet files. Unfortunately, most data was too qualitative -mainly nominal, and in some cases ordinal- in nature to be useful for statistical analyses. Furthermore, the results from the survey are subject to the unique situation each respondent is in. For instance, while some trade firms only had a few suppliers, others had numerous. This impacts the outcomes of the survey, as it is impossible for the latter group to give a detailed overview of the relationship they uphold with each supplier. Still, data processing in SPSS proved to be useful for data management and comparative analysis using cross tabulation. Furthermore, the transfer of the surveys' codified data into spreadsheets allowed for their visual representation in graphs, charts and diagrams. The interviews were transferred from the digital voice recorder to the computer. Then, the interviews were replayed and typed in full before storing them in separate Word files for a synoptic comparative analysis of the questions and their respective answers.

### 3.3.2 Second period of fieldwork: February 2007-July 2007

*Semi-structured interviews*
While the first fieldwork focused on the private sector and its internal organisation, the second fieldwork was aimed at gaining better insights into the role of the local state in the

three provinces. More specifically, the interrelations of the local state with the local private sector and the national state needed to be investigated. After consultation with senior research staff from Utrecht University and the University of San Carlos it was decided to gather information via personal interviews. The interviews were structured along a set of research themes that were to be discussed via a range of prepared questions. The choice for semi-structured interviews allowed the researcher to bring up new (non-prepared) questions during the interview to further investigate the respondent's answers to the prepared questions. This research flexibility was regarded particularly important for the analysis of political relations in the Philippines. The country is recognised by a strong interconnectivity of its public and private sectors, often established via highly informal and personal relations between public and private powerbrokers on both local and national levels and also between them (for instance, see the study by Sidel, 1999). It is extremely difficult to unravel such opaque, secretive systems, especially in a short time span that offers little room to build trust-based relations with insiders.

These research obstacles and shortcomings were tackled by using the following tactics and techniques. First of all, the research staff of the University of San Carlos helped the researcher to get introduced to key stakeholders from the complex local public-private scenery in Cebu. A similar tactic was applied in Bohol via the provincial DTI office, and in Negros Oriental staff from Silliman University assisted. Moreover, during the first period of fieldwork the researcher had already made personal contact with various key stakeholders from the three political economies. In general, these contacts were easy to approach and served as good 'entry points' into the local political-economies as they referred me to other insiders who they were acquainted with. Heeding that this 'snowball effect' would not lead to a one-sided story told by 'befriended' politicians and businessmen, objective outsiders were also interviewed. Journalists from leading local newspapers and local academics in the three provinces proved to be attentive outsiders who were well-informed about local politics, business and the key players in these two realms. Finally, the prepared questionnaire was carefully constructed, as the questions were sequenced from 'neutral' ones that were concerned with 'general information' to more 'sensitive' ones excavating 'personal information'. This interview technique proved to be beneficial and also allowed the researcher to ask complementary questions depending on the respondent's willingness to talk. Because of the issues above, the duration of the interviews varied considerably: while some were finished within half an hour, others lasted for more than two hours. A similar diversity was noticed among the respondents' acceptance of using a voice recorder during the interview. Again, as various respondents asked for an anonymous use of the contents of their interview, none of them are referred to by name in this thesis.

*Analysis*

Similar to the interviews that were conducted during the first period of fieldwork, the recorded interviews were transferred as separate audio files on the computer and stored in three province-named folders. Afterwards, the interviews were played and simultaneously typed in full. Once all the recorded interviews were put on paper, they were dissected by research topic using the recurring questions as guidelines. This allowed for a synoptic comparative analysis and cross-check of the respondents' answers, excavating mutual agreements and discrepancies in their views and opinions on various topics. It was possible to also include the non-recorded interviews in this analysis. During these interviews,

the researcher used keywords and -sentences to record the respondents' answers to the questions. Consequently, these short notes were transformed into a comprehensive Word file the same day.

### 3.3.3 Secondary sources

During both fieldwork periods, literature was collected from various libraries and other book collections in the Philippines. In Bohol, the library of Holy Name University in Tagbilaran contained some useful reports and research papers on the regional economy. In Cebu, various visits to the library of the University of San Carlos and its rich Filipiniana collection yielded much literature on the Philippines and its many forms of regional socio-economic diversities. Furthermore, the Cebuano Studies Centre at USC proved to be a treasure trove for (historical) literature on the Visayas and Cebu in particular. Also in Cebu, the library at the Eduardo Aboitiz Development Studies Centre of the Ramon Aboitiz Foundation, Inc. (RAFI) and the 'documentation section' at the Sun Star Cebu newspaper headquarters were additional providers of useful literature and relevant newspaper articles published in the past. In Negros Oriental, the library of Silliman University in Dumaguete was visited more than once to scout its (Filipiniana) book collection and browse through past issues of local newspapers such as the Negros Chronicle. In Bacolod, Negros Occidental, the library of the University of St. La Salle is home to an extensive book collection on the historical development of Negros Island and its plantation economy. Subsequently, regional statistical socio-economic data was retrieved in the three provincial offices of the National Statistics Office (NSO), while macro-level statistics were collected at the NSO national head office in Manila.

Finally, during the entire period of research, information was retrieved from Internet editions of local and national newspapers such as the Sun Star Cebu, the Cebu Daily News, the Negros Chronicle, the Bohol Chronicle, the Philippine Star and the Philippine Daily Inquirer. These newspapers repeatedly published articles that contained valuable information on both political and business issues in the country and the three provinces.

## 3.4 Concluding remarks

This chapter presented the research questions this study is based upon. Furthermore, it elaborated on the pivotal concepts and the interpretations of their definitions in this study. Finally, the methodology was outlined, particularly zooming in on the empirical data gathering during the two fieldwork periods. Reflecting upon these building blocks of the study, its 'robustness' can be assessed. This explorative and inductive study offers an analytical framework to define regional business systems by applying a theoretical model that is designed for analysis of national economies in developed countries on a regional level in a developing country. This challenging research endeavour has brought along some empirical strengths and weaknesses. The business survey has been limited to samples of locally-owned trading SMEs. As such, it does not include other forms of corporate activity present in the regional economies, e.g. such as transnational corporations (TNCs). Because of this focus on a limited research population, this regional study does not analyse all facets and actors of the regional economies that distinguish them. On the other hand, the empirical focus on this specific group of firms does allow for an insightful and correct

regional comparison that is based on data gathered from equivalent research populations in the provinces. Furthermore, while other types of firms are not included in the survey, this does not necessarily mean that they are excluded from this study a priori as they can belong to the SMEs' relational networks, e.g. via their insertion in global value chains or as members of the same local business associations. Additionally, personal interviews with key public and private sector representatives from the three provinces have helped to gain a more comprehensive understanding of the regional politico-economies. Therefore, the data presented in this study does provide a concise yet solid empirical foundation for a comparison on regional development.

With the concluding remarks in this chapter, the introductory section of this book is completed. The following four chapters will provide answers to the research questions by providing empirical and secondary data, which will be comparatively analysed in chapter 8. Finally, chapter 9 will summarise the research findings and link these with the theoretical foundations from the previous chapter.

## Endnote

1 There is no generally accepted definition of micro, small and medium-sized enterprises or SMEs. The distinction between micro, craft, cottage, small, and informal sector is often blurred. In this study, therefore, SMEs refers to micro, small and medium enterprises. The term 'micro, small and medium enterprises' or MSMEs is not commonly used, as more frequent reference is made to the designation of SMEs. The following classification is used by the Small and Medium Enterprise (SMED) Council and the National Statistics Office of the Philippines: micro 1-9 employees; small 10-99 employees; and medium 100 -199 employees. Following this classification, this study focuses on micro and small firms.

# 4 Setting the stages: positioning Bohol, Cebu and Negros Oriental

## Introduction

'A glance at the map immediately draws attention to the Philippines' unusual geography. Its 7,100 islands are emphasised in the country's tourist promotion programs, but they also draw attention to a deeper reality. With a population nearing 90 million people, the country is extraordinarily diverse in terms of its geography, ecology, natural resource endowments, economy, ethnicity and culture' (Hill, Balisacan and Piza, 2007: 1).

As the statement above indicates, regional diversity, in its many forms, is a key characteristic of the Philippines. While the rich biodiversity and cultural variety of the archipelago are favourable assets for tourism promotion by the national government, the significant regional disparities in economic development have a less positive connotation. In the cautious words of Jeffrey Sachs, spoken during a visit to the Philippines, the country is a 'remarkably diverse economy'.[1] This study will explore the nature, patterns and causes of provincial diversity in economic growth in this diverse setting. Bohol, Cebu and Negros Oriental are three provinces in the Central Visayas region in the central Philippines that show remarkably divergent trajectories of socioeconomic development. What are the distinct socio-economic characteristics that set the provinces apart and how have they emerged over time? The objective of this chapter is to answer this first research question, and, by doing so, set the stages against which this study will be situated.

Before focusing on the provinces, section 4.1 provides a definition of the 'region' as it is conceptualised in this study and discusses the unique socioeconomic position of the Central Visayas region in the Philippines. How does the Central Visayas distinguish itself from the other regions in the country? This question is tackled by analysing its key physical, demographic and socioeconomic characteristics within the national context. After the regional introduction, section 4.2 unravels the general regional picture as described in section 4.1. Its objective is to show the distinct identities of the three provinces. To what extent and how do the provinces of Bohol, Cebu and Negros Oriental differ from each other? This question is answered by analysing the key contemporary geographical, demographic and socioeconomic characteristics of the three provinces. How have these distinct provincial constellations been formed? Section 4.3 tries to answer this question through a historical overview on the political-economic development patterns of Bohol, Cebu and Negros Oriental. Overall, the objective of this chapter is to find answers to research question one, by revealing how the three provincial economies have experienced distinct development trajectories that have left them with different positions of the provincial economies in the global economy of today.

## 4.1 What are regions in this study?

There is no singular definition of a 'region' among scholars of the different fields of geography. Definitions of regions are often quite arbitrary, analytically constructed according to particular research criteria (Allen, Massey and Cochrane, 1998; de Pater, Groote and Terlouw, 2002). Similarly, in a compilation of regional studies in Asia entitled 'focus on the region in Asia', van den Muijzenberg draws the conclusion that, 'in short, region is a 'container concept': one can fill it with the contents one wishes, one can even use it during the same research efforts with varying contents, so that it serves various purposes' (van den Muijzenberg, Streefland and Wolters, 1982: 338). As such, dependent upon the subject and purpose of research, the definition of a region can vary in terms of its size, content and characteristics. Common criteria are specific physical, cultural, economic, social or political-administrative characteristics (de Bell, 2005). The Philippines have a hierarchical political structure that runs from the national state down to the smallest political unit of the village, the barangay, with the region serving as an intermediary administrative unit between the national and local level. In this structure, a region is comprised of multiple provinces.[2] Various studies on regional development dynamics in the Philippines take the administrative unit of its regions as their starting point (e.g. Balisacan and Hill, 2007; Manasan and Chatterjee, 2003), a choice dictated by the availability of statistical data.

However, there are also good reasons not to hold on this administrative regional division. First of all, the regions are merely administrative groupings of provinces; they do not hold any political power.[3] The province is the primary political division under the national state. Additionally, some analysts have indicated that the regional boundaries do not divide the country into natural economic zones. For instance, Pernia et al. (1983) find it more useful to identify four principal economic regions in the Philippines: 'metropolitan', being Metro Manila or the National Capital Region (NCR); 'metropolitan periphery', comprising the NCR's two adjacent regions of Central Luzon and Southern Tagalog; 'traditional agricultural', comprising Ilocos, Bicol and the three Visayas regions; and 'frontier', referring to Cagayan Valley and all of Mindanao (Manasan and Chatterjee, 2003). Reversely, in some circumstances the official regional boundaries may be too aggregated, especially in physically scattered and socio-economically diverse regions such as the Central Visayas (Hill, 2000). Underscoring this statement, the study of Balisacan (1998) on regional development patterns in the Philippines finds that inequality *within* administrative regions is much higher than the commonly analysed inequality *between* these regions. With these comments in mind, the Central Visayas represents a diversified group of island provinces that are defined in this study as regions based on their unique physical geographies and distinct socio-economic identities, which are rooted in history. As such, the provinces are the analytical units to compare and discuss distinct patterns of regional economic development.

### 4.1.1 The Central Visayas and its position in the Philippines

The Central Visayas, or Region VII, is composed of the four provinces of Bohol, Cebu, Negros Oriental and Siquijor. It lies at the centre of the Philippine archipelago between the major islands of Luzon and Mindanao. The island region is bounded on the north by the Visayan Sea; on the east by the Camotes Sea and the Camigao Channel and on the south

by the Mindanao Sea. On the west, the only regional land border runs across the island of Negros, dividing the island into two provinces (Negros Oriental and Negros Occidental) that belong to different regions (Central Visayas and Western Visayas, respectively). In general, the topography of the Central Visayas is rugged and is characterised by highlands dominating the interior of the islands, with narrow strips of arable land lining the coast. With a land area of almost 15,000 square kilometres -constituting about 5 percent of the country's total land territory- the Central Visayas is the second smallest region in the country. In terms of population size, however, the Central Visayas -with a population of more than 5.7 million- ranks as the fifth most populous and third most densely populated region among the 17 regions that comprise the country. The region's relatively high out migration rate has contributed to one of the lowest regional population growth rates in the country since the mid-70s. The majority of the population (54%) in Central Visayas still resides in the rural areas. However, the region has become much more urbanised over the past three decades, particularly during the period 1980-1990 when the urban population grew by more than 50 percent.

In terms of the Central Visayas' contribution to the total goods and services produced in the country, statistics show that the region's share to the Gross Domestic Product (GDP) is significant. With a GDP share of 7.1 percent in 2005 -a Gross Regional Domestic Product (GRDP) of almost P86 billion- the Central Visayas is the fifth largest regional contributor to the national economy (table 4.1). However, when applying Pernia et al.'s (1983) alternative natural economic zones division on this ranking, a different pattern surfaces. Leaving out the larger 'metropolitan' zone of Metro Manila and its adjacent CALABARZON and Central

***Table 4.1:*** Regional distribution of GDP (%) and per capita GRDP (in Pesos), 2005 (in constant 1985 prices)

| Region | | % of GDP | GRDP per capita |
|---|---|---|---|
| NCR | Metro Manila | 31.9 | 35,742 |
| CAR | Cordillera | 2.3 | 17,919 |
| I | Ilocos | 3.0 | 7,727 |
| II | Cagayan Valley | 2.0 | 7,649 |
| III | Central Luzon | 8.5 | 11,142 |
| IVA | CALABARZON | 12.5 | 14,159 |
| IVB | MIMAROPA | 2.8 | 12,735 |
| V | Bicol | 2.8 | 6,632 |
| VI | Western Visayas | 7.3 | 12,825 |
| VII | Central Visayas | 7.1 | 13,518 |
| VIII | Eastern Visayas | 2.2 | 6,678 |
| IX | Zamboanga Peninsula | 2.6 | 10,159 |
| X | Northern Mindanao | 4.8 | 14,829 |
| XI | Davao Region | 4.6 | 13,892 |
| XII | SOCCSKSARGEN | 3.5 | 11,477 |
| ARMM | Muslim Mindanao | 0.9 | 3,433 |
| XIII | CARAGA | 1.3 | 6,690 |
| Philippines | | 100.0 | 14,186 |

Source: National Statistical Coordination Board

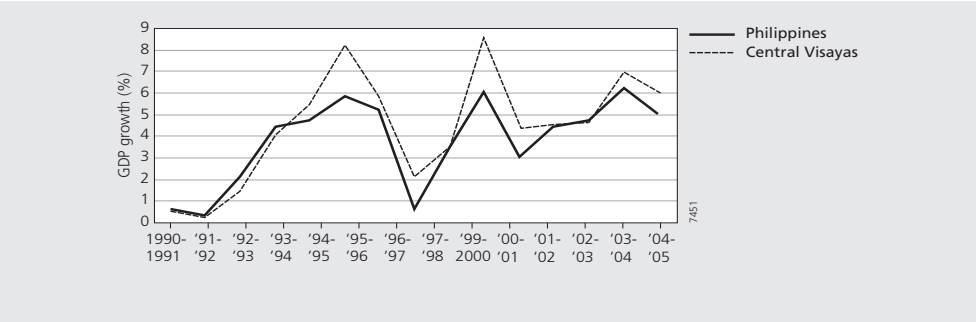



***Figure 4.1:*** GDP growth rates Philippines and Central Visayas, 1990-2005 - Source: National Statistical Coordination Board

Luzon regions, the Central Visayas ranks second among the 'traditional agricultural' and 'frontier' regions that comprise the rest of the country. When repeating this scheme on per capita GRDP data, the Central Visayas ranks fourth after the Cordillera, Northern Mindanao and Davao regions.

As Manasan and Chatterjee (2003) have shown, the contemporary uneven division of regional GDP and per capita GRDP in the Philippines is not a sudden trend break. Rather, this pattern has been relatively stable for over the past three decades, not showing significant signs of regional convergence. The overall national trend during these years has been a steady increase of the importance of the NCR and its adjacent regions, while most of the other regions experienced a slight downfall in their output share. The Central Visayas does not fit in this general picture, since its GDP share increased by 0.6 percent since 1975. On the average, the Central Visayas economy grew at an annual rate of 4.4 percent in 1990-2005. This is significantly higher than the average growth rate per annum of the Philippine economy of 3.8 percent for the same period (see also figure 4.1).

How can the position of the Central Visayas in the Philippine economy be explained? As the preceding macro-level analysis offered little insightful indicators that answer this question, a deeper look *inside* the island region and its provinces is necessary to provide us with explanations. Unlike that in most agricultural regions in the country outside the NCR, the Central Visayas has a more diversified economy dominated by industry and services. In line with the statements made by Limão and Venables (1999) and Sachs (2003), there are two key geographical characteristics that offer plausible explanations for this. First, the Central Visayas has a relatively small land base, which provides the region with limited agricultural productive land. Of its total land area, almost two thirds of the region is qualified as hilly to mountainous. This has forced the growing population to initiate alternative non-agricultural economic activities. Secondly, the region is strategically located in the centre of the archipelago between Luzon and Mindanao, giving it a favourable position for inter-island trade by sea. Since 1990, the industry and service sectors accounted for not less than one third and one half of the region's GRDP. Agriculture's contribution to the total value of goods and services produced in the Central Visayas, on the other hand, has decreased steadily during the same period from 16 percent to less than 12 percent (table 4.2).

***Table 4.2:*** Central Visayas' GDP by industrial origin, percent distribution 1995-2005

| Industry | 1995 | 2000 | 2005 |
|---|---|---|---|
| **Agriculture, fishery and forestry** | **14.81** | **12.69** | **11.67** |
| Agriculture and fishery | 14.81 | 12.67 | 11.66 |
| Forestry | 0.00 | 0.02 | 0.01 |
| **Industry** | **29.72** | **33.74** | **29.57** |
| Mining and quarrying | 1.20 | 1.18 | 0.79 |
| Manufacturing | 20.38 | 20.23 | 20.85 |
| Construction | 5.14 | 9.52 | 5.36 |
| Electricity, gas and water | 2.99 | 2.81 | 2.57 |
| **Services** | **55.47** | **53.57** | **58.76** |
| Transport, communication and storage | 5.97 | 6.49 | 7.48 |
| Trade | 30.21 | 29.25 | 33.19 |
| Finance | 2.06 | 2.21 | 2.62 |
| Ownership of dwelling and real estate | 6.75 | 5.73 | 5.52 |
| Private services | 7.22 | 6.99 | 7.46 |
| Government services | 3.35 | 2.90 | 2.49 |
| **Gross Regional Domestic Product** | **100.00** | **100.00** | **100.00** |

Source: National Statistical Coordination Board

The distinct economic structure of the Central Visayas is closely related to another important characteristic that sets aside the region from the other regions outside the 'metropolitan zone': its position in the global economy. Its regional shares of national exports and Foreign Direct Investment (FDI) -5.6 percent and 5.2 percent respectively in 2000- have been considerably higher over the past 20 years than those of its peer regions.

While the Central Visayas continues to export traditional products produced by the agriculture and fishery sector (e.g. crude coconut oil, copra products and processed food products such as prawns, mangoes and sugar), industrial and consumer goods are the top commodities produced and exported by the region. Until the early 1990s, copper concentrate was the leading export product of the Central Visayas and mining was the region's second largest industry. However, with the 1994 closure of the Atlas Mines -at that time the third largest copper mine in the world- the contribution of the mining industry to total regional output has become insignificant.[4] Within the industry sector, manufacturing has established itself as the dominant activity since the strong influx of FDI into the region's Economic Processing Zones (EPZs) during the early 1990s, mainly consisting of American and Japanese producers of electronics. Other important, more traditional export-oriented industrial activities in the region are furniture production and the production of fashion accessories. Furthermore, food processing connects the agricultural sector of the region with its industrial base. The industrial sector is also closely linked with the other

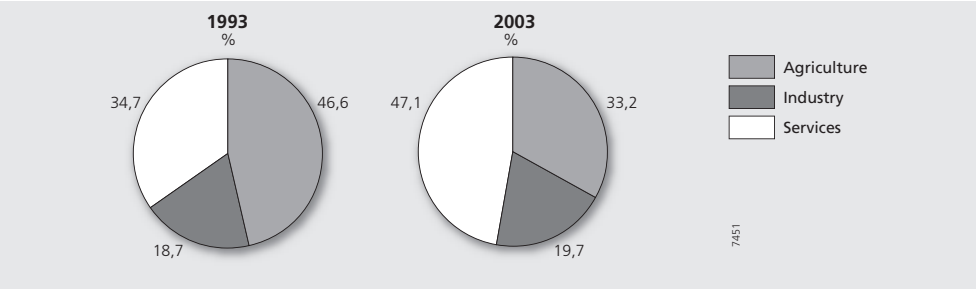



***Figure 4.2:*** Sectoral employment (%) in the Central Visayas, 1993 and 2003 - Source: NEDA Region VII, 2003

main economic activity in the region: trade. Among the sub-sectors of the service sector, trade is the most dominant sector. The strategic location of the Central Visayas in the heart of the Philippine archipelago has made the region a major hub for inter-island trade. The region is not only important for domestic trade. In terms of international trade, exports from the region contribute more than 11 percent to the national export total, with regional exports worth 4.7 US$ billion in 2005. This makes the region the third largest contributor to total national exports. With 63 percent of these exports originating from the region's EPZs, electronic goods aimed for the US market lead the list of top export products.

Following the trend of a decreasing share of total regional output, agricultural employment has declined over the last decades in the Central Visayas. Still, for one third of the total employed population in the region agriculture is the main source of livelihood (figure 4.2). Whereas industrial employment has remained largely stable since the early 1990's, employment in the service sector has grown significantly.

Aside from the strong performance of the region's trading sector, the growth of the service sector in terms of employment can also be attributed to the more recent emergence of two internationally oriented service activities in the region: tourism and information and communication technology (ICT). The Central Visayas has developed from its modest beginnings as a tourism hub in the 1980s into a top destination for both domestic and foreign tourists in the Philippines. With more than half a million foreign tourists visiting the Central Visayas in 2006 -the total number of visitors to the region was 1.6 million- the region is an important destination for the 2.8 million foreigners that visited the Philippines that year. The influx of tourists has become an important dollar earner for the region with the national amount of visitor receipts in 2006 estimated at 3.49 US$ billion. The region's ICT industry has experienced a similar pattern of growth in the recent years, with call centres emerging as the main type of Business Process Outsourcing (BPO) activity. As the manufacturing industry, the foreign-owned IT-enabled service providers are located on Special Economic Zones (SEZs) in the region.

***Table 4.3:*** Central Visayas key indicators and provincial distribution, 2005*

| | Central Visayas | Bohol | Cebu | Negros Oriental | Siquijor |
|---|---|---|---|---|---|
| Land area (square kilometres) | 14,951 | 4,117 | 5,088 | 5,402 | 344 |
| Population | 5,706,953 | 1,249,200 | 3,782,300 | 1,239,000 | 87,400 |
| GDP (million Pesos) | 86,112 | 8,432 | 68,028 | 9,472 | 179.1 |

Sources: National Statistical Coordination Board, Provinces of Bohol, Cebu, Negros Oriental and Siquijor
*Population and GRDP distribution are (projected) estimates

## 4.2 Intra-regional diversity in the Central Visayas: introducing contemporary Bohol, Cebu and Negros Oriental

After a general introduction into the Central Visayas, the focus now shifts to its provinces: Bohol, Cebu and Negros Oriental. Breaking down the regional physical, demographic and socioeconomic characteristics to the sub-regional provincial level, this section aims to depict the intra-regional disparities that exist between the provinces by introducing them separately. Before doing so, it is necessary to explain why the fourth island province of the region, Siquijor, is excluded from this study. With its disproportional small-sized land area, population and economy, Siquijor holds a marginal position in the political-economic setting of the Central Visayas (table 4.3 and figure 4.3), which makes it less suitable to include in this comparative study. While it does underscore the major intra-regional disparities in the Central Visayas, Siquijor's position is too much determined by its physical, demographic and economic size. For this reason, Siquijor is left out of this study and attention focuses on the three main provinces of the Central Visayas: Bohol, Cebu and Negros Oriental.

While the exclusion of Siquijor creates a somewhat a more level playing field in terms of 'provincial sizes', table 4.3 still reveals major disparities between the remaining provinces. While Bohol and Negros Oriental show parallel indicators that suggest similar demographic and economic sizes, Cebu exceeds them significantly and clearly dominates the region contributing to two-thirds of the regional population and almost 80 percent of total regional economic output in 2005. As figure 4.3 depicts, this domination has sharply increased over the past four decades and there are no signs of a nearby future trend break.

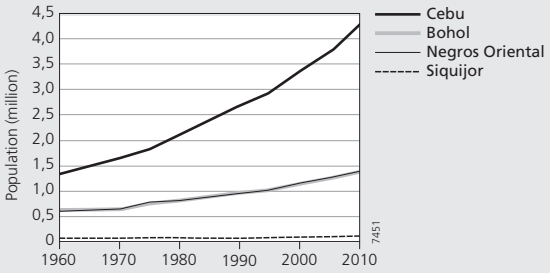


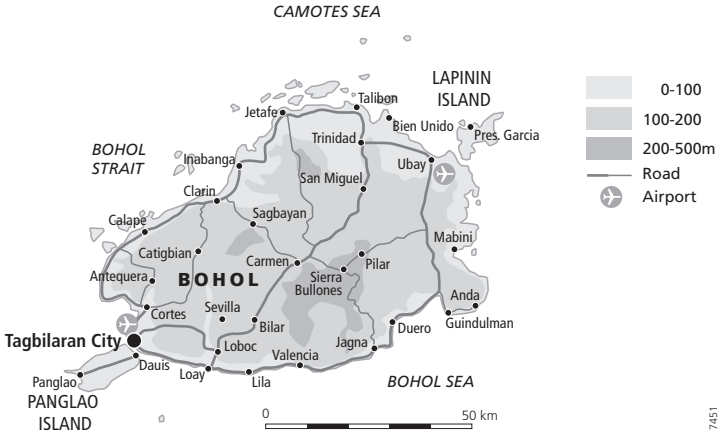

***Figure 4.3:*** Central Visayas population by province, 1960-2010* - Source: National Statistics Office. *Statistics of 2005 and 2010 are estimates.

As this brief quantitative comparison has shown, the Central Visayas is a region with both significant internal socioeconomic differences and some striking similarities between its provinces. The following section will provide a more thorough analysis of the provinces' individual physical and contemporary socioeconomic characteristics. As such, the following key aspects of the individual provinces will be included in the discussion below: topography, population and key economic activities. Furthermore, the contemporary positions of the provinces in larger economic constellations -regional, national and international- will be reviewed through an analysis of the provincial trade and infrastructure patterns.

### 4.2.1 Small-scale agriculture and tourism: Bohol

Bohol lies between southern Leyte in the east and Cebu in the west. Its northern shores face the Camotes Sea, while in the south it is faced by the Mindanao Sea. With a land area of 4,117 square kilometres, Bohol comprises 28 percent of the region's land base and is the tenth largest island of the Philippines. The main island is surrounded by an approximate 70 smaller islands, the largest of which are Panglao Island in the southwest and Lapinig Island in the northeast. The physical geography of Bohol Island distinguishes itself from the rest of the mountainous region. Unlike the other three provinces of the Central Visayas, Bohol has a less rugged landscape. While Bohol has steep mountains on its eastern, western and southern coastlines, the interior of the island is a large plateau with irregular landforms. In general, the terrain is rolling and hilly and covered in limestone. The island has a rich freshwater ecosystem, with the northern Inabanga River and southern Loboc River among its major watersheds.

According to the most recent population census in 2000, Bohol has 1,137,268 inhabitants, representing an approximate 20 percent of the Central Visayas' total population. Its population has been growing in a steady pace over the last decades and almost doubled in size since 1960 (figure 4.3). Bohol's distinct topography has a clear impact on the spatial spread of its population. Unlike the elongated and mountainous provinces of Cebu and Negros Oriental whose populations are mainly concentrated in settlements along their




***Map 4.1:*** The province of Bohol

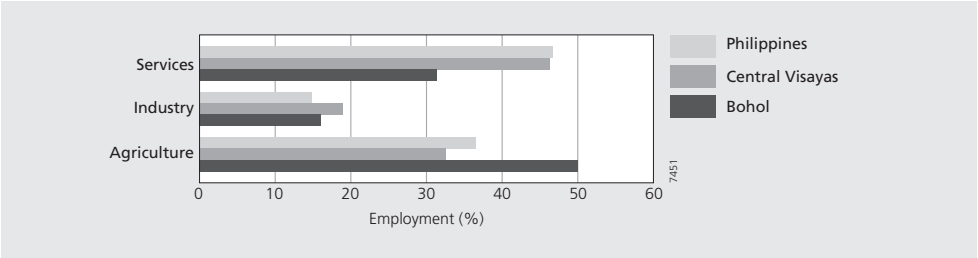



***Figure 4.4:*** Sectoral employment Bohol, Central Visayas and the Philippines (%), 2003 - Source: National Statistics Office

narrow coastal plains, Bohol's population is more equally dispersed over the island with a large number of municipalities located in the island's rolling interior as well. Furthermore, Bohol does not have a major urban centre where a large portion of the population is concentrated. With a population of 77,700, the single (small) urban centre on the island is Tagbilaran City, which is located on its south-western shores.

The distinct settlement pattern of Bohol is closely related to its key economic activities: agriculture and fishery. According to the Province of Bohol's 2004-2009 medium-term development plan (2003), roughly 45 percent of the total land area of the province is devoted to agricultural use. Bohol's agricultural sector is shaped by its highly fragmented landownership: with an average farm size of 0.6 hectare, agriculture is a smallholder's activity that serves as the main source of livelihood for no less than 54 percent of the Boholanos (figure 4.4). Besides small-scale production for the local market, traditional subsistence farming is still common practice on the island. Aside from the important agricultural commodities coconut, corn, banana and cassava, *palay* (rice) is Bohol's staple crop. A large portion of the prime interior and northwestern agricultural lands are traditionally cultivated for rice production (approximately one third of all agricultural land, or 70,541 hectares in 2007). Bohol is dubbed the 'food granary of the Central Visayas', annually contributing to more than half of the region's rice production.[5] However, since most rice lands in Bohol are rain fed, production fluctuations are common and yields are relatively low. Additionally, since rice consumption on Bohol nearly matches its production, rice is only a small export product for the province compared to the other major primary commodities. This is also true for Bohol's fish production, which is largely destined for the local market. Fishing is the second main source of income and alternative source of livelihood for Boholanos. In the coastal towns along Bohol's circumferential road, it is estimated by the provincial government that 33 percent of its population is directly dependent upon fishing, selling their produce on the local market. A substantial alternative activity in the fishery sector is aquaculture production, particularly the production of seaweeds that is mainly shipped to nearby Cebu for the production of *carageenan* (a thickener widely used in dairy products).

In many ways, agriculture serves as the backbone for Bohol's industry and service sectors. With traditional micro and cottage industries that are involved in the production of handicraft articles, woodcarving and loom weaving, Bohol does not have a significant manufacturing sector. Rather, its main industrial activities lie in the processing of raw agricultural goods. With rice as the main agricultural commodity, rice milling is

*Table 4.4:* Comparison business activities of Alturas and BQ per industry

| Industry | Alturas | BQ |
|---|---|---|
| **Agriculture (production/ processing)** | Marcela rice mill<br>Marcela feed mill (corn)<br>Marcela aqua farm (prawns, tilapia)<br>Marcela piggery & poultry | Golden Harvest rice mill<br><br><br>Santo Niño farm (piggery, poultry, cattle and goat) |
| **Agriculture (wholesale trade)** | Rice<br>Corn<br>Feeds and fertilisers | Rice<br>Corn<br>Feeds and fertilisers |
| **Retail trade** | Island City Mall (Tagbilaran)<br>Plaza Marcela (Tagbilaran)<br>Colonnade Mall (Cebu)<br>Alturas Supermarket (Tagbilaran and Talibon) | BQ Mall (Tagbilaran)<br><br><br>BQ Supermarket (Tagbilaran) |
| **Other trade services** | Alturas Hardware<br>Alturas Glass Service | BQ Glassmaster (construction supplies and glass service)<br>BQ Gases<br>BQ Link (internet provider) |
| **Tourism** | | MetroCentre Hotel<br>Panglao Island Nature Resort |

Source: Personal interviews, 2007

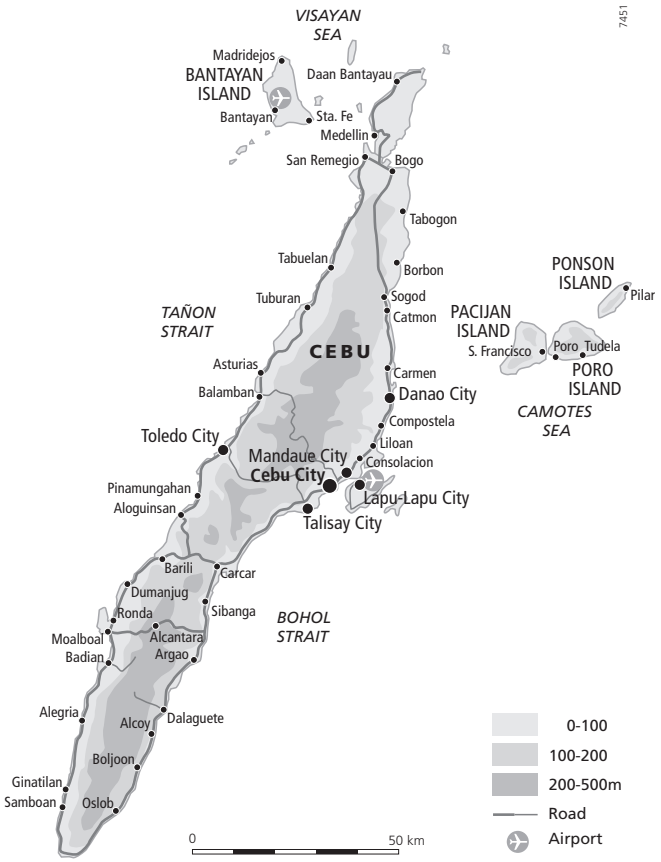
an important industrial activity carried out by numerous local millers throughout the province.[6] In a similar way, the trading of agricultural and fishery goods is one of the key service activities in Bohol, largely absorbed by two local Filipino-Chinese business conglomerates that control the local market in a duopolistic manner: the Alturas Group of Companies (Alturas) and the Bohol Quality Corporation (BQ). These two highly diversified business groups own the largest rice and corn mills, piggery and poultry farms in the province and the main retail outlets (shopping malls and supermarkets) in Tagbilaran. Furthermore, they are the main wholesale suppliers of consumer goods to other retail stores throughout the island. Via their large-scale processing and trade activities, the local 'big two' are pushing the commercialisation of agriculture on the island. Although the two conglomerates are highly diversified in their business ventures and Alturas exceeds BQ in the size of its agricultural and retail trade ventures, they are each other's main competitors on many different fronts (table 4.4).

Aside from being the provincial capital, Tagbilaran traditionally serves as the commercial service centre for the agricultural hinterlands, having the largest concentration of wholesale and retail stores, banks (see appendix 5), restaurants, hotels, schools and hospitals. With its national airport and seaport, the city also serves as the most important trading hub of the island's modest domestic inter-island trade by sea and air. Within this role, Tagbilaran has a strong regional orientation, with almost half of its outbound trade directed to neighbouring Cebu (see table A4 in appendix 6). Bohol mainly serves as a resource frontier for Cebu's export-oriented manufacturing industry, particularly its food processing industry. Since Bohol's agricultural economy does not produce any major export commodities and most imported goods enter the island via Cebu and Manila, it has little direct foreign trade linkages.[7] An economic activity that has gained ground in Bohol more recently

is changing the island's relative isolated market position as it draws external capital and creates opportunities for global trade. Tagbilaran has become the main entry point for a considerable number of tourists who come to Bohol for its beach resorts on nearby Panglao Island, its scuba dive locations and its sightseeing tours to the famous Chocolate Hills and the Philippine tarsier in the island's interior. While majority of the rapidly growing number of tourists -313,585 in 2004, from 85,420 in 2000- who visit Bohol are Filipinos (65%), an increasing number of foreign visitors (mainly Asian) come to the island as well (Bohol Tourism Office, 2006). This growth is accompanied by an increasing interest from both domestic and foreign investors, who have spurred an 'induced' or 'industrial' type of tourism development: high end beach resorts that are developed with little participation from locals. This new type of tourism development differs from the traditional form of 'craft tourism' development -composed of small firms established by locals- that has been existent on Panglao Island since the 1980s (Bersales, 2005).

### 4.2.2 Export-oriented manufacturing, trade and services: Cebu

Cebu Island lies in the centre of the Central Visayas, separated from Bohol in the southeast by the Bohol Strait and Negros Oriental facing its west coast. Cebu's topography contrasts with that of Bohol, not only because of the elongated shape of the island, but also because




***Map 4.2:*** The province of Cebu

***Table 4.5:*** Cebu's major urban settlements, 2000

| **Province of Cebu** | **3,356,137** |
|---|---|
| Metro Cebu | 1,930,096 |
| Cebu City | 718,821 |
| Mandaue City | 259,728 |
| Lapu-Lapu City | 217,019 |
| Talisay City | 148,110 |
| Danao City | 98,781 |
| Carcar City | 89,199 |
| Naga City | 80,189 |
| Toledo City | 141,174 |
| Bogo City | 63,869 |

Source: National Statistics Office

of its mountainous terrain. Cebu is known for its rugged mountain ranges traversing the entire length of the island, with some steep mountains reaching over 1,000 meters in altitude. While most of the island has narrow coastal plains, flat tracts of land can be found in the northern tip of the island. Cebu Island is surrounded by numerous smaller islands, of which Mactan, Bantayan and the Camotes Islands are the largest in size.

Due to its poor living conditions -this can be attributed to the mountainous landscape and infertile soils- the rural hinterlands of Cebu have a long history as an expulsion area. The combination of rapid population growth (figure 4.3) and extensive rural-urban migration has given Cebu its contemporary highly urbanised character, with Metro Cebu -a metropolitan agglomeration of seven cities and six municipalities clustered around the provincial capital Cebu City (see appendix 7)- as the largest growth pole. With a population reaching 2 million according to the latest census of 2000, Metro Cebu is the country's largest urban district after Metro Manila and the dominating urban centre of the Central Visayas. More than 60 percent of Cebu's population lives in urban areas, with Metro Cebu accounting for the lion's share (table 4.5).

Cebu's urban economy dominates the region, contributing to almost 80 (!) percent of the Central Visayas' GRDP and two-thirds of the region's population (table 4.3). As for the population, Metro Cebu contributes to the bulk of the economic output of Cebu. Metro Cebu is a highly diversified economy consisting of a large number of cottage-, small and medium industries and some domestic and foreign corporate giants engaged in a variety of economic activities (Etemadi, 2000). As figure 4.5 illustrates, Cebu's economic composition differs significantly from the regional and national patterns. The socioeconomic figures of Cebu (and even of the whole Central Visayas) are largely shaped by those of urban Metro Cebu more than by the rest of the province (or any of the other three rural provinces in the region). Contrary to the other provinces in the central and southern Philippines, agriculture is not the leading economic activity in Cebu. Due to its unfavourable natural conditions that make the island unsuitable for extensive agricultural production, Cebu relies heavily on the surrounding islands in the Visayas and Mindanao for the necessary input of raw materials for its urban economy and food for its population.

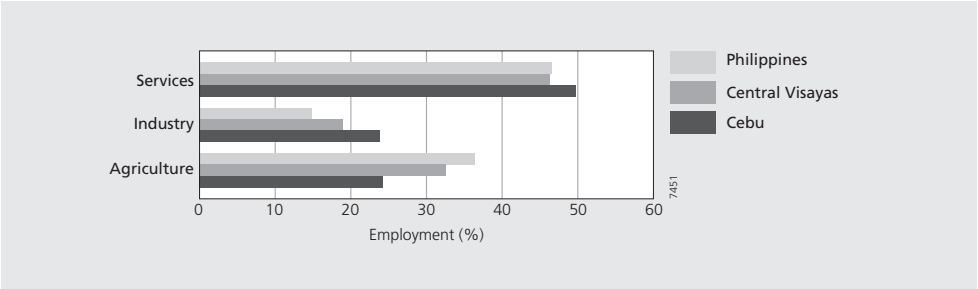



***Figure 4.5:*** Sectoral employment Cebu, Central Visayas and the Philippines (%), 2003 - Source: National Statistics Office.

Metro Cebu has benefitted from its strategic location in the heart of the archipelago and has transformed into a prime centre of commercial manufacturing and service activities in the central and southern Philippines. Its political leaders have cleverly taken advantage of this geographical asset via major infrastructural projects that have created an attractive business environment for external investors and local entrepreneurs. The Cebu International Port (CIP) in Cebu City is the biggest in the country after Manila. Surplus products from Cebu Island including those coming from neighbouring provinces in the Visayas and Mindanao are brought to the urban agglomeration for processing and redistribution to other parts of the country or for export. Goods manufactured in Manila or imported from abroad are also channelled to Cebu prior to distribution to other places in the southern part of the Philippines. In addition, the Mactan-Cebu International Airport (MCIA) on Mactan Island is the country's second largest airport with almost 2.8 million domestic and 1 million international passengers in 2007 (see the table and figures in appendix 6). Other important infrastructural facilities, particularly for attracting FDI, are the Special Economic Zones (SEZs) on Cebu. Cebu has 7 of these zones, consisting of 2 industrial parks, 4 Export Processing Zones (EPZs) and an IT park. Additionally, Cebu City houses a large number of office buildings that are designated as special IT zones as well (appendix 8: table A5). With an educated workforce and office spaces designated as SEZs for IT activities, the city is host to the majority of call centres and other business process outsourcing (BPO) offices in the region.

The urban demographic composition of Cebu, largely concentrated in Metro Cebu, matches the concentration of key economic activities in Metro Cebu. Cebu City serves as its core city. The 'Queen City of the south' is the largest commercial and service centre of the southern Philippines. It has a high concentration of financial institutions (appendix 5) and other supporting business activities as well as the main offices of business establishments. Additionally, Cebu City is also the regional centre for the tourism and ICT sectors, the two earlier discussed emerging service activities in the Central Visayas. Cebu City serves as the starting point for (foreign) tourists who enter the Central Visayas at Cebu's international airport. Furthermore, Cebu City is host to a number of shopping malls and other major retail outlets that have a regional range. Other important services in the city have a more public service character. Cebu City is the regional centre for health care services and its six universities and high number of colleges makes Cebu City the educational centre of the southern Philippines. Aside from its dominant economic role in the wider region, Cebu City also serves as its socio-cultural and religious centre. It is the heart of the Cebuano

cultural and linguistic area, which encompasses the Central Visayas and parts of Mindanao and is inhabited by roughly 20 million people. Cebu City is also an important religious centre for this population; it is considered the Philippine 'cradle of Christianity', with the Santo Niño de Cebu (Holy Child of Cebu, a representation of the Child Jesus) as its most revered symbol.

Metro Cebu's strong linkages with the global economy are important for its large manufacturing sector that produces almost the entire value of exports from the Central Visayas region. This sector can be divided into roughly two different camps: locally owned and foreign owned. Cebu's manufacturing sector is strongly FDI-driven, with Japanese and American electronics producers as the primary exporters to their home markets. Most of the multinational manufacturers are operative in the Mactan Export Processing Zones (MEPZ I and II) in Lapu-Lapu City on Mactan Island, which are the largest manufacturing clusters of Cebu province, employing more than 50,000 people and contributing to two-thirds of total regional exports in 2004 (appendix 8: table A6 and figure A6). Another major foreign manufacturing centre is Danao City, where the Japanese semiconductor producer Mitsumi employs an approximate 16,000 Cebuanos, making it the single largest employer of the province.

Cebu also accommodates a large and diversified export-oriented manufacturing sector that produces furniture, gifts, toys and housewares, fashion accessories, garments and processed foods for the global market (table 4.6). Unlike the FDI-driven manufacturing of electronics, the producers of these products are locally owned small and medium sized enterprises (SMEs) located outside the province's EPZs.[8] The cities of Mandaue, Lapu-Lapu and Talisay are home to the largest clusters of these SMEs that traditionally form an important economic group based on their export contribution and employment generation. Cebu's traditional export-oriented manufacturing sector is recognised by a high level of subcontracting, with cottage industries serving as low-key assemblers of (semi-)finished goods. Furthermore, it has a regional scope through its dependence upon suppliers of raw materials from the Visayas and Mindanao.

***Table 4.6:*** Top ten Cebu export products and markets, 2004

| Ranking | Products | Markets |
|---|---|---|
| 1. | Electronics | Japan |
| 2. | Furniture | USA |
| 3. | Other industrial goods | Hong Kong |
| 4. | Electrical equipment | China |
| 5. | Steel/metal products | Belgium |
| 6. | Marine products | Australia |
| 7. | Garments | Hungary |
| 8. | Vehicles/machinery parts | Indonesia |
| 9. | Gifts, toys and housewares | Singapore |
| 10. | Processed foods | The Netherlands |

Source: Cebu Investment Promotions Centre


***Map 4.3:*** Negros Island

### 4.2.3 Agro-industry: Negros Oriental

Negros Island, west of Cebu, is the fourth largest island in the Philippines. Rolling hills, large inland valleys and plains and mountain peaks characterise the island's topography. A group of volcanic mountains that traverses the length of the island, with Mount Canlaon as the highest peak in the whole Visayas at 2,435 meters, divides the island in two provinces that belong to different administrative regions: Negros Occidental (Western Visayas or Region VI) and Negros Oriental (Central Visayas or Region VII). Furthermore, the physical boundary also separates the two major ethno-linguistic groups on the island: the Illongo-speaking Negrense in the Occidental side and the Cebuano-speaking Negrense in the Oriental side. The province of Negros Oriental comprises the smaller southeastern portion of the island. Even so, it is the largest province of the Central Visayas with 5,402 square kilometres.

Similar to neighbouring Cebu, the majority of Negros Oriental's population -a total of 1,126,061 inhabitants according to the 2000 census- resides in settlements along its coast.

***Table 4.7:*** Negros Oriental's urban population by city, 2000

| City | Population | Area (km²) | Population density (per km²) |
|---|---|---|---|
| Dumaguete City | 102,265 | 33.6 | 3041.8 |
| Tanjay City | 70,169 | 276.1 | 254.2 |
| Bais City | 68,115 | 319.6 | 213.1 |
| Guihulngan City | 83,448 | 388.6 | 214.8 |
| Canlaon City | 46,548 | 170.9 | 273.3 |
| Bayawan City | 101,391 | 699.1 | 145.0 |

Source: National Statistics Office

Negros Oriental has several component cities that, according to the 2000 census, comprise 34.5 percent of the provincial population. However, this percentage does not represent the actual urban population of the province, which is much lower. This can be explained by the spatial composition of the cities. As table 4.7 shows, Dumaguete City's population lives on a land area of 33.6 square kilometres, whereas Bayawan City has its similar number of inhabitants living on a land area of 699 square kilometres. With the exception of the provincial capital Dumaguete, the scattered 'rural cities' in the province have only a minor portion of their population living in the urban centre or *poblacion*.

Negros Island is predominantly agricultural and its economy depends on its most precious natural resource base: fertile coastal and inland plains. The socio-economic development of the island is inextricable connected with sugar, its main agro-industrial commodity. Ever since Spanish times, prime agricultural lands on the island are traditionally planted with sugar cane. Sugar cane is the single most important agricultural crop of the island, occupying more than half of the island's agricultural land area. Unlike Bohol's smallholders' rice production, the bulk of the sugar cane grown in Negros is produced on a relatively small number of large-scale plantations or *haciendas*. Known as the 'sugar bowl of the Philippines' and 'Sugarlandia', Negros Island contributes to 203,394 hectares of sugar lands -or 52 percent of the national total. Furthermore, the large number of sugar mills on the island -there are currently 29 operative sugar mills in the Philippines, 11 of which are in Negros- traditionally produce more than half of the country's sugar. While sugar is the lifeblood of both Negros provinces, Negros Occidental houses the largest portion of the industry contributing to 87 percent of the island's sugar production (see appendix 9). Due to its more mountainous topography and smaller land base, Negros Oriental's sugar industry is less extensive than in its neighbouring province.

Even so, sugar is the top commodity of Negros Oriental's agriculture-based economy, outranking all other agricultural crops including the basic food staple cereals rice and

***Table 4.8:*** Number of sugarcane farmers in mill districts by farm size, 2005

| Farm size (hectares) | 0.01 – 5 | 5.01 – 10 | 10.01 – 25 | 25.01 – 50 | 50.01 – 100 | Over 100 |
|---|---|---|---|---|---|---|
| **Number of farmers** | 8,618 | 464 | 243 | 87 | 64 | 38 |

Source: Sugar Regulatory Authority

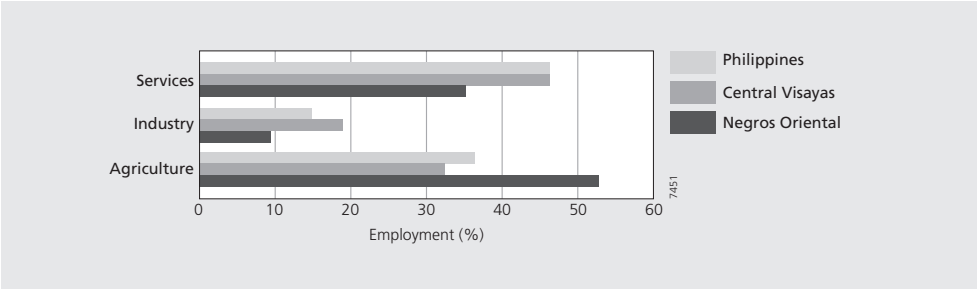



***Figure 4.6:*** Sectoral employment Negros Oriental, Central Visayas and the Philippines (%), 2003 - Source: National Statistics Office

corn. While sugar cane is grown on small plots of land all over the province, the bulk of sugar cane comes from two large-scale production areas of the highest valued croplands in the province.[9] The first comprises over 25,000 hectares and roughly covers the Amlan-Mabinay-La Libertad triangle, with Tanjay City, Bais City and Mabinay as the core centres. The second large-scale production area lies in the south and runs from Siaton to Bayawan, covering over 7,000 hectares and Santa Catalina (Tolong) as its core. As table 4.8 indicates, a minority of large-scale plantations covers the largest portion of these lands, while a large group of small-scale sugar planters cultivate small plots of land less than 5 hectares in size.

The two production areas (labeled as mill districts) serve as the feeding grounds for the main industrial activity in Negros Oriental: sugar milling. The harvested canes are processed by three mills: Central Azucarera de Bais (CAB) in Bais City and Universal Robina Sugar Milling Company (URSUMCO) in Manjuyod comprise the northern mill district, the Herminio Teves and Company Inc. (HTCI) in Santa Catalina processes the canes harvested in the southern district. While sugar has traditionally been exported to the US, it is now mainly destined for the domestic market that is protected by trade tariffs. This makes sugar trading a national affair, with the mills in Negros Oriental selling most of their sugar to the Philippine food and beverage industry.

A second important agro-industrial commodity is coconut, which occupies the largest portion of agricultural land in the province. Coconut trees are grown throughout the entire province by numerous farmers and their copra (coconut meat) is processed in the Dumaguete Coconut Mills (DUCOMI) into coconut oil, which is the largest agricultural export product of the province today. Aside from agricultural production, the natural resource base is also important for the other industrial activities in the province. The Australian mining conglomerate Orica-Dyno Nobel owns an ammonium nitrate plant in Bacong that is the single largest exporter of the province. Furthermore, the two Palinpinon Geothermal Power Plants in Valencia use the island's volcanic steam to generate and supply close to 30 percent of the total power consumed on Negros, Panay and Cebu Islands. While these industrial facilities are major contributors to the island's industrial output, they contribute little to employment (figure 4.6).

Dumaguete City functions as the provincial centre of commerce and services. It holds the largest concentration of trading companies, retail stores, public services -education, health care and government offices- and private services. The economic base of the capital

city is marked by the strong presence of educational facilities: four universities -with Silliman University as the largest and most prestigious-, six colleges and eleven technical institutes that accommodate some 27,000 students altogether. The local economy is highly dependent on these education institutions: at least a third of all retail sales come from higher education industry spending. In terms of trade, Dumaguete serves as the main entry point of the province for goods and people via its seaport and only airport that has daily connecting flights with Manila. The city attracts a considerable number of foreign tourists, particularly Europeans, because of easy ferry access from Cebu City and Tagbilaran, the availability of prime dive sites and the attraction of dolphin and whale watching in nearby Bais Bay. In recent years, Dumaguete has been using its reputation as a university town to promote itself as an attractive location for e-services. This way, the city seeks to stop the out migration of its educated workforce to Cebu and Manila. The American global BPO companies SPi and Teletech are the two main IT-enabled service firms operating in Dumaguete.

## 4.3 Path dependencies? Tracing the roots of regional diversity

The former section revealed there are considerable socio-economic disparities within the administrative boundaries of the Central Visayas. The provinces of Bohol, Cebu and Negros Oriental show marked differences in their contemporary socio-economic constellations and positions in wider economic playing fields: while Bohol is a somewhat enclosed self-sufficient agricultural economy with little outward trade, Negros Oriental's prime agro-industrial commodity is destined for the national market. Finally, Cebu's diversified urban-based economy is oriented toward the global economy, hosting international corporations and exporting to foreign markets. How have these distinct socio-economic systems emerged? Corresponding with the reasoning of geography protagonists like Sachs (2003), the former section indicated that the islands' distinct topographies bear endogenous comparative (dis)advantages that shape their socio-economic structures. However, these structures have not always existed in their present forms as they have materialised over the course of time. In order to better understand how these different structures have crystallised, this section will discuss the historical development paths of the three provinces. This is done by narrating how the provinces have been involved in and responded to key historical developments -taking place on regional, national and international levels- and how this has shaped the development courses of the provincial economies. In this historical narrative, the key role played by specific local actors during these events will be elaborated.

### 4.3.1 Bohol's modest and isolated development

Bohol's historical socioeconomic development does not indicate much dynamism. The island has occupied a relatively subordinate position in the unevenly developed political economy of the Philippines. It has never been the site of major economic investments by Spanish planters, American capitalists or crony industrialists. This can partly be explained by 'Bohol's unsuited topography and geology, as well as its fabled history of resistance to direct Spanish [and other foreign] rule' (Gibson-Graham, 2005: 9). In their quest to pick up a share of the highly lucrative spice trade (controlled by their Portuguese colonial competitors) and spread Christianity in the Far East, the Spanish crown sent out an

expedition in 1521 led by the famous Portuguese maritime explorer Ferdinand Magellan to expand the colonial empire. After Magellan was killed shortly after arriving in Cebu by the hostile tribal leader Lapu-Lapu during a battle on Mactan Island, it was the Spanish *conquistador* Miguel Lopez de Legazpi who undertook a second attempt and landed on the shores of Cebu in 1565. After a brief struggle with the natives, Legazpi left Cebu and his ships accidentally drifted to the coast of nearby Bohol. Here Legazpi and his crew were also given a hostile welcome, as the Boholanos thought they were Portuguese who had returned to plunder the island.[10] However, after convincing the local tribal leaders that they were not Portuguese and had come in peace, the hostility ended. Legazpi entered a pact of friendship with the Boholano *datu* (chieftain) Sikatuna, which led to the Sandugo ('one blood') peace pact that was signed by a blood compact between the two men on March 16, 1565. Despite this promising start, the Spanish never really got a strong foothold in Bohol. First of all, the interior landscape of Bohol was not considered as suitable for agricultural development by the Spanish explorers, due to its rolling terrain that mainly consists of infertile limestone soils. As such, after the explorers left, the single objective of the Spanish in Bohol was to spread Christianity on the island. However, the missionaries' oppressive methods of conversion led to some of the most fierce and persistent local resistance against the Hispanic colonisers in the Philippines that lasted almost the entire Spanish colonial era.[11] During the last years of Spanish rule, Bohol experienced a period of relative peace and gained a more independent status as a politico-military province together with Siquijor in 1854 (before, both belonged to the *residencia* of Cebu). When Spanish rule in the Philippines came to an end in 1899, Bohol had not experienced major changes except inheriting the Catholic faith and some of its prestigious stone churches. The small indigenous population (253,103 inhabitants according to an 1879 census) on the rural island largely remained dependent upon its pre-colonial economic activities of farming and fishing on a small-scale subsistence basis.

The turnover of the Philippines from the Spaniards to the Americans was marked by a second era of Boholano rebellion against a foreign power. Under the newly proclaimed independent Philippine government established by General Emilio Aguinaldo in 1899, which was not recognised by the US, Bohol was governed as a *Gobierno de Canton*. A year later, American troops landed in Tagbilaran to take over control from the followers of Aguinaldo. The Boholanos started an organised resistance against the new invaders. After a bloody struggle that lasted for several months, the Boholano resistance leaders signed a peace treaty. With peace restored in the country in 1901 after Aguinaldo pledged alliance to America, the US government started to reorganise and reform the country. For Bohol, this meant that roads were constructed and schools established, somewhat improving the living conditions. Furthermore, Bohol was established as a separate province in 1917. Despite these positive changes, Bohol remained in the economic backwaters of the archipelago. Similar to their Spanish predecessors, the American colonisers did not see much economic potential in Bohol and concentrated more on investing in the flourishing commercial trade in Cebu and the lucrative production and export of sugar from Negros when investing in the regional economy. The stability on Bohol during the American era abruptly ended when Japanese forces landed in Tagbilaran in 1942 and seized military control over the island for three years. The second arrival of American troops in Bohol on April 11, 1945 was welcomed by the Boholanos who had been fighting the Japanese oppression in a guerrilla

**Box 4.1 Duopsony in Bohol: BQ and Alturas**

The hegemony of Bohol Quality Corporation (referred to by locals as Bohol Quality or simply BQ) and Alturas Group of Companies (Alturas) can easily be discovered in the provincial capital city of Tagbilaran. Here, both conglomerates own multiple commercial landmark buildings that play a key role in the provincial economy. There are some striking similarities and differences between the two, when looking at their development and activities. First of all, the conglomerates are owned by Filipino-Chinese families, with the heads of the families as the business leaders. From a similar initial core business, a small retail store, the Ong family (BQ) and Uy family of Alturas have used different strategies and chose different directions to pursue business expansion and growth. Despite their different expansion strategies, the two conglomerates are each other's main competitors in a wide variety of business activities. Because of their extensive wholesale and retail trading activities, the 'big two' serve as gatekeepers to the local economy: via their local market dominance they largely control the external flows of commodities that enter and leave the island.

Diversification has been BQ's approach to expand, though retail and wholesale have remained its core business activities. The company owns several sales outlets, with the BQ Mall in the centre of Tagbilaran as its prime selling location. Aside imported consumer goods, the mall serves as a vertically integrated sales centre for locally produced BQ food products (especially rice, pork, beef and poultry). As a wholesaler, BQ also distributes these products to other stores province wide. In order to gain a strong position in the wholesale food market and to keep up with the rapidly expanding agribusiness activities of Alturas, large-scale agribusinesses have been started by the firm to remain strong on the wholesale market. As the family's patriarch, Mr. Frederick Ong, explains: 'While in the course of developing the wholesale market, we later realised we cannot compete as strongly without operating our own rice milling and trading' (Personal interview, 06-27-2006). Therefore, the company established its own rice mill in Pilar, in the heart of Bohol's farm lands, to better regulate a constant supply of high quality rice. Furthermore, the firm engaged in hog-raising, broiler chicken raising, egg production and cattle and goat fattening to supplement supplies. Aside from agricultural production, processing and trade, the company has a diverse range of other commercial activities. As a wholesaler/retailer, BQ is also a supplier of construction materials, industrial gases, aluminium sections and glass panels, and school and office supplies. Also, the Ong family was one of the first to make large investments in Bohol's growing tourism industry. The family owns the MetroCentre Hotel & Convention Centre, the largest and most prestigious hotel in Tagbilaran City, and has built the luxurious Panglao Island Nature Resort. BQ also embarked on the IT industry by becoming a provincial internet provider through the foundation of BQLink.

Alturas' core business is also wholesale and retail, focusing on self-produced agricultural goods. With the multiple stores of the Alturas Supermarket Corporation and Plaza Marcela, Alturas is the largest trading company in the province. The new (2005) Island City Mall (ICM) in Tagbilaran (a direct competitor of the BQ Mall) is the latest showcase of Alturas' expanding business empire. Owning the Colonnade Supermarket in Cebu City, the firm also sells its goods outside the provincial borders,

something BQ does not. The company is Bohol's largest producer and trader of rice, pork, beef, poultry and seafood. Unlike BQ, Alturas also produces its goods for other markets outside its own stores. Regarding the production side, Alturas dominates the provincial market for agricultural commodities. The family conglomerate owns the province's largest rice and corn mill, a piggery and poultry farm and an aqua farm for the production of prawns and fish. This focus on large-scale agribusiness facilities has been Alturas' growth policy, aiming to expand through the scale increase of their supply operations instead of horizontal diversification like BQ. In the case of rice production and trade for example, Alturas mills only one quality-type of rice and does this in large quantities. BQ, on the other hand, focuses more on the quality of its milled rice, producing relatively smaller quantities of higher quality. This way, the company has found a niche to compete with the massive rice production and trade done by Alturas.

style war. When Bohol was liberated a year later, it became a province of the independent Republic of the Philippines.

After the independence, a long period of recovery and slow development started. Bohol never drew the attention of the colonial superpowers that ruled the country before, a pivotal position it continued to hold for most of the 20th century post-colonial period. In the Regional Development Plans for the Central Visayas, made by Manila-based technocrats of the National Economic Development Agency (NEDA), attention was focused on the prominent position of Cebu as a regional growth pole that would spur the development of its surrounding islands. Additionally, Bohol's development was held back by internal social unrest, making it one of the poorest provinces in the country.[12] In 2001, poverty alleviation programs started under incumbent Governor Erico Aumentado that had the twin goals of spurring development and attaining peace and security in the province. In terms of economic development, agriculture and tourism were targeted as the key economic drivers.

Being the main source of livelihood for most Boholanos, the focus on improving agricultural production through the enhancement of irrigation facilities and rural roads, the dispersion of livestock and provision of technical training was a logical one. These public initiatives ran parallel to the private investments in the sector that were initiated by Alturas and BQ, the two local firms who had emerged from humble *sari-sari* stores in Tagbilaran to the largest and most diversified business conglomerates operating province wide. In their efforts to keep up with the rising demand from Bohol's growing population and driven by their competitive relationship, the two retailers went into agribusiness activities to secure their main supplies and expand their dominant market positions (see box 4.1). Their competitive mechanisation and modernisation efforts helped Bohol not only to improve its agricultural production figures but also to gain in its self-sufficiency level of basic food commodities. Additionally, the two conglomerates' aggressive expansion of sales outlets, particularly in Tagbilaran, has created a duopolistic situation on the local retail market, leaving a market share too small for national retail chains -e.g. SM, Robinsons or Gaisano- to set up shop in the city. To a large extent, Alturas and BQ serve as the gatekeepers of the local economy, comprising the bulk of goods shipped in and out of the province.

Furthermore, the matured retail sector in Tagbilaran has improved its ability to support the second economic driver targeted by the provincial government that breaks with the island's 'introvert' past: the tourism industry.

The first beach cottages on Panglao Island were erected in the early 1980s by locals as family rest houses that gradually also started to cater to tourists. In 1983, the first commercial beach resort on the island -the Bohol Beach Club- was opened, followed by three other resorts in the following four years. Still, during the Marcos administration tourism remained a small and localised industry -mainly clustered along the shores of Alona Beach. The peaceful removal of Marcos meant a boost to Bohol's tourism development as the island started to attract a growing number of European 'backpack' tourists who wanted to explore the Philippines. As an effect, new resorts and diving facilities were erected in the early '90s, often initiated by Europeans married to a Boholana (University of San Carlos, 1992). Simultaneously, the 1991 Local Government Code (LGC) transferred tourism management and planning tasks to the local government, providing it with the institutional framework to embark on a tourism-oriented development agenda (Acejo, Del Prado and Remolino, 2004). The Provincial Government organised a public-private Tourism Council; a policy-making, advisory and recommendatory body to the provincial leadership on matters relating to the development, regulation and promotion of tourism in the province (Relampagos, 2002). The promotional activities of this public-private partnership -supported by the Department of Tourism (DOT)- attracted new external investors, especially after the establishment of a daily fast ferry connection between Cebu City and Tagbilaran that spurred the number of tourists visiting the island. Today, Panglao Island hosts to approximately 30 resorts that cater to domestic and foreign tourists. Recognising the potential of tourism for (local) development, the national government has targeted Bohol as a prime international tourist destination next to Cebu. In order to meet with this target, the incumbent Arroyo administration has rehabilitated the Panglao Island Tourism Estate (PITE) project and approved the plans to construct an international airport on Panglao to further boost the tourism industry in Bohol.[13]

#### 4.3.2 The changing position of urban Cebu in the global landscape

Cebu's economic development is shaped by the outward orientation of its urban trade economy. According to Bernaldez (1997), the Cebu -then known as *Zubu*- that awaited Magellan in 1521 was not a major settlement, but it did have the largest port in the region that maintained a lively trade with Chinese merchants. When Legazpi conquered Cebu 44 years later after a fierce battle that destroyed a large part of the town, it became the first Spanish settlement in the Philippines. However, later Spanish colonisation policies blotted the city out of the economic map of the Philippines, as development became centred in Manila that was conquered by Legazpi in 1571 and became the colony's capital (University of San Carlos, 2004: 5). This was a decisive turn of events for Cebu, as Spain's monopolistic trading philosophy -exercised through the Galleon trade- was aimed at foreign trade with the Chinese via Manila, by-passing Cebu and discouraging inter-island trade by Filipinos. While Cebu's shipping trade suffered from this economic neglect during the first decades of Spanish rule, it did gain the status as the political centre and seat of Christianity in the southern Philippines from which the Spanish controlled the rural hinterlands. It was not until 1860 -when the port of Cebu was opened to world trade, following an earlier abolishment of the Galleon trade that ended Manila's monopolistic trade position in 1821

when Mexico gained its independence- when Cebu experienced unparalleled commercial growth through the export of agricultural cash crops such as sugar, hemp, abaca and tobacco grown throughout the Visayas. With British and American trading houses present in Cebu, the goods were shipped to England, the United States and Spain, the three principal markets for the port's exports (Fenner, 1985).[14] Furthermore, a thriving community of Chinese immigrants had nested itself in Cebu and was involved in a wide array of -mainly local, but also international- commercial activities.

When the Americans replaced the Spanish as the colonial overlords in 1898, Cebu's commercial growth had fundamentally altered the economic landscape of not only the city, but also the countryside of the province with the appearance of several small sugar estates on both coasts of the island. The American presence would only further boost these developments. Unlike their Spanish predecessors, the American civil administration was eager to stimulate economic activity across its new colony. The Americans succeeded to place Mindanao under their control, opening a vast and rich new resource frontier for Cebu's commercial shipping trade. Furthermore, they heavily invested in the improvement of Cebu's infrastructure: the harbour was expanded and upgraded with concrete seawalls and the province was opened up through a road and railroad system. Additionally, the Americans purchased large tracts of land from the Catholic Church and redistributed these friar lands that surrounded Cebu City to individuals and private corporations. Another important decision of the Americans was related to bilateral trade. The Payne-Aldrich Act was signed by the US Congress in 1909, allowing the import of Philippine sugar free of duty. This act was followed five years later by the Underwood-Simmons Act that freed all trade between the US and the Philippines (Bernaldez, 1997). These events also spurred Cebu's urban industrialisation, with sugar and coconut oil mills being erected with American capital. But also local (Chinese-) Filipino entrepreneurs -stimulated by powerful nationalist Filipino political leaders like Sergio Osmeña from Cebu City- embarked on industrial activities. These businesses flourished until the invasion of the Japanese in 1941, when they were either placed under Japanese control or destroyed during the war that followed.

The war was devastating for Cebu's urban-based economy, having destroyed much of its infrastructure and industries built during the American period. However, rehabilitation was swift, pushed by strong political leadership -Sergio Osmeña served as president of the Commonwealth- and inflow of American funds under the Philippine Rehabilitation Act. Peacetime meant a sharp rise of commodity prices on the world market, causing foreign trade to flourish once more in urban Cebu.[15] While the Philippines gained the status of an independent republic in 1946, it remained largely dependent upon its former coloniser in terms of trade and financial aid. This changed when the nationalist sentiments in Manila initiated a 'Filipino First' policy that caused a shift in the industrialisation course of the country from export-oriented (EOI) towards import substituting (ISI). This new course did not affect Cebu's economic development drastically, but the increased domestic trade did strengthen the role of Cebu City as a regional entrepot and shipping centre of the country.[16] As an effect, Cebu City became the base for the distribution and sales networks of major manufacturers in Luzon and Mindanao. The export-oriented processing of agricultural, mineral and non-mineral products remained the strong industrial activity of the Cebuano economy.[17] The industrialisation of the urban economy was accompanied by a strong

population influx from the rural hinterlands of the island that offered scarce livelihood opportunities aside marginal farming. Due to the rapid economic and population growth in the past decades, Cebu City's commercial district was in need of expansion at the start of the 1960s. Sergio Osmeña, Jr. -a son of the homonymous former president and a leading politician and businessmen himself then- organised the Cebu Development Corporation (CDC) that used private funds to expand and improve the port and undertake a major land reclamation project (160 hectares) to extent the city's commercial and industrial district.[18]

During the martial law years (1972-1986) under President Marcos, Cebu was not in a favoured position being an opposition bastion. Only three years before, Marcos narrowly won his re-election bid against his political arch rival Sergio Osmeña, Jr. The authoritarian Marcos administration and its cronies plundered the Philippine economy during martial law and caused havoc to urban Cebu's export-oriented economy. Still, during this era Cebu experienced the rise of various cottage industries that were started by many small Cebuano producers with financial assistance of the National Cottage Industry Development Authority (NACIDA) initiated under former President Macapagal in 1962. This first phase of global export-oriented industrialisation was marked by an international division of labour, as the local garments industry experienced a period of rapid growth by embarking on labour-intensive subcontracting activities for foreign (mainly American) firms. Similarly, local producers of furniture, bamboo-, shell- and metal craft, processed foods and other fabricated goods were quickly expanding their operations in Cebu when foreign trading companies discovered their products and started to import them in their home markets. Today, these local export-oriented industries still form the backbone of the island's manufacturing sector (Bernaldez, 1997: 71). Taking advantage of Cebu's global accessibility, these cottage industries soon started to export their goods to foreign markets. Despite his neglect of Cebu, two policies initiated by Marcos proved to be crucial for Cebu's future development: (1) the creation of the Mactan Export Processing Zone (MEPZ) in 1979 and (2) the creation of the Ministry of Tourism in 1973 that stimulated the construction of beach resorts on Mactan and the eastern coast of Cebu.

It was after Marcos was peacefully removed from power that these two initiatives became success factors for Cebu's economic rise during the 1990s, spurred by a revival of foreign interest in the Philippines. An effective marketing campaign attracted foreign tourists to the beach resorts and FDI to the MEPZ, spurring a new type of export-oriented industry: the production of electronics by multinational manufacturers. Furthermore, a real estate investment-driven *boosterism* agenda under a third generation of Osmeña political leadership stimulated the construction of modern infrastructures. Using their close connections within the Ramos administration and successfully tapping funds from the Japanese government, the Osmeñas completed major infrastructural projects such as the extension of the provincial road network, the construction of high-end business parks and secured a sufficient supply of water and electricity for industrial use. During the *Ceboom* that lasted up to the Asian financial crisis of 1997, Cebu repositioned itself on the global market as a major exporter of various manufactured goods. After the crisis, the emergence of ICT and the rising competition from new low-cost manufacturing countries like China on the global market caused another shift in Cebu's growth strategy. Cebu -mainly Cebu City- embarked on President Gloria Macapagal Arroyo's national strategy that targeted IT-enabled services and Business Process Outsourcing activities as one of the new pillars of

urban economic growth in the Philippines. In recent years, a steady influx of (foreign) call centres has been welcomed by the city.

### 4.3.3 The turbulent development of Negros Oriental

A few years after having sent the first frigates to explore Negros Island, Legazpi distributed *encomiendas* to Spanish *encomenderos* residing in the colonial centres Cebu and Arevalo (near Iloilo).[19] For proximity reasons, tribute collected on the east side (Negros Oriental) was destined for the Diocese in Cebu, while the west side (Negros Occidental) donated to Arevalo. Up to the 1840s, Negros remained a sparsely populated and densely forested island that was run by the Spanish as an unprofitable 'friarocracy' (Billig, 2003). It showed little economic dynamism, also due to the constant destructive raids by *Moros* from Mindanao. Small farms -established by migrants from Panay, Bohol and Cebu- claimed little plots of land on which rice, corn and some cash crops were grown (Larkin, 1993: 60). However, with the threat of Muslim piracy waning, the Spanish became increasingly interested in opening up the 'Negros frontier' for commercial agriculture. Members of wealthy Spanish and Chinese *mestizo* families from Iloilo and Cebu -as well as Spanish Recollect Friars and adventure seekers from mainland Europe- successfully started agricultural settlements. Still, since Negros was far from Manila and had no good harbours, it was the opening up of the Iloilo and Cebu ports to foreign trade during the middle of the century that transformed the island into a major producer of export crops.

Like Cebu, Iloilo had developed into a thriving trade centre, producing and exporting large quantities of textiles to Europe and bringing back western goods to sell on the local market. This radically changed when Nicholas Loney became the British vice-consul in Iloilo in 1856. He destroyed Iloilo's economic base by flooding the local market with cheaper, machine-made British cotton. To provide the city's elites whose textile business was crumbling with new opportunities, he stimulated the expansion of sugar cultivation on Negros. Additionally, Loney pictured sugar as a lucrative return cargo for the British ships entering Iloilo (McCoy, 1982). By the end of the nineteenth century, when sugar no longer was a luxury good for the rich only but a commodity for all classes, sugar comprised over 90 percent of Iloilo's exports. The *hacienda* system that evolved in Negros was built on sharecropping and patrimonial debt relations between the *hacendero* and his landless tenants. Most of these tenants were marginal farmers from Cebu and Panay who migrated to Negros to work on the sugar fields; a regional division of labour sparked by global demand. With high world market prices, ample and cheap credit provided by export firms and foreign banks, Negros' *hacenderos* rapidly expanded their plantations along the western shores and the inland plains of Negros and surpassed Pampanga as the Philippines' leading producer of sugar (Billig, 2003). On the eastern side, sugar areas also expanded near the principal towns of Dumaguete, Bais, Tanjay and Bayawan. Additionally, tobacco, coconut and corn, cultivated on plantations and small-scale farms, were important commodities shipped to Cebu from the eastern shores of Negros.

The American colonial era gave a new boost to the sugar industry. The US government did not only favour sugar for its commercial potential, it was also friendly towards the *hacenderos* who had supported the revolt against Spain. As a result, the Payne-Aldrich Act paved the way for duty-free export of sugar to the US market and provision of easy credit to planters (Lopez-Gonzaga, 1991). Over the next decades, Negros produced and exported

huge amounts of sugar to the American market. Furthermore, American technology and capital were used to build modern 'sugar centrals' (large centrifugal mills) that increased production (Larkin, 1993). In Negros Oriental, the Central Azucarera de Bais (CAB), established in 1918 by the Compania General de Tabacos de Filipinas -or Tabacalera- was the first of these modern mills to start large-scale industrial sugar cane processing in the province, boosting the cultivation of sugar cane in Bais and its surrounding areas.[20] The new agro-industrial system was further reinforced by the quota system created in 1934 by the Jones-Costigan Act that guaranteed a protected market for Philippine sugar. While Negros' large-scale mono-crop economy flourished, it also created a highly polarised society on the island. An elite of Chinese and Spanish mestizo sugar planters earned huge profits, which they largely spent on their lavish lifestyles. This was in sharp contrast with the poor living conditions of the numerous *sacadas* (seasonal migrant workers) who worked on the sugar fields.

In the aftermath of World War II that ended the Japanese occupation, Negros sugar industry was badly crippled. Under the Philippine Rehabilitation Act that helped to reconstruct the production facilities, duty-free trade of sugar to the US was also restored through the Bell Trade Act of 1946 together with a generous sugar quota. Soon, the industry was back to its pre-war condition. It even further boosted through the Laurel-Langley Trade Agreement of 1954 that extended the provisions set up under the Bell Act. It granted Philippine sugar a high quota for entry into the US market on an accelerating tariff schedule up to 1974. This was a major impulse that led to the booming sugar years from the 1950s up to the early 1970s (Billig, 2003: 54). In Negros Oriental, the areas grown with sugar cane had doubled in size during this time and two additional mills were constructed: the Tolong Sugar Mill in Santa Catalina (established in 1969) stimulated sugar cultivation in the southern towns of Bayawan, Santa Catalina, Basay, Siaton and Zamboanguita. Furthermore, the United Planters Sugar Milling Company (UPSUMCO) started its massive operations in Manjuyod in 1976 to alleviate the congested situation of the sugar planters in the wider Bais area who solely relied on CAB (Aldecoa-Rodriguez, 1989). With its industrialised monocrop production destined for export and polarised society marked by a large landholdings controlled by an elite class of planters who coercively ruled over a large pool of lower-class landless workers that cultivated their lands, the Negros plantation economy (Beckford, 1972) was in full swing.

With sugar as the prime export commodity of the Philippines and Negros as the national sugar-producing epicentre, its industry leaders (planters) were among the most influential people of the country. Aside from dominating local politics, the sugar industry was also represented by many national political figures who had their roots in sugar. Initially, the support from these 'sugar barons' helped Ferdinand Marcos to claim political power.[21] However, when Marcos grew more authoritarian and economic growth stagnated, political opposition from Negros' elite grew. Marcos used his declaration of martial law to antagonise his political opponents by attacking their economic base. He succeeded in this by creating a government monopsony that controlled sugar trade and siphoned off much of the profits to Marcos and his selected crew of cronies. While this damaged Negros' economy, the expiration of the Laurel-Langley Agreement in 1974 meant that sugar producers lost their guaranteed access to the US market. No longer assured of high-priced demand from the US, the sugar producers were forced to sell on the volatile

world market. When prices dropped a year later -due to the entry of large quantities of heavily subsidised European beet sugar- the island dived into a deep economic recession. Furthermore, Marcos created a new government monopsony that caused additional havoc to the industry. The Philippine Sugar Commission (PHILSUCOM) and its trading arm the National Sugar Trading Corporation (NASUTRA) were mandated to control domestic pricing, distribution and marketing, as well as export of sugar. While world prices began to rise in the early 1980s, the NASUTRA-offered buying price did not. When prices on the world market plummeted once more during the mid-80s, this devastated Negros' economy: it is estimated to have lost more than fifteen billion pesos between 1975 and 1987; land cultivated with sugar and raw sugar production had shrunk to less than half; and unemployment increased three-fold (Billig, 2003: 57). A 1985 UNICEF report said 82% of the children on the island were malnourished and in 1991, according to the last census at that time, 47% of the island's population lived in poverty (The Economist, 1997). With the landless field workers hit the hardest of all, social unrest mounted during the crisis years and Negros became an insurgency hotbed. Leftist NPA rebels recruited many desperate young people who were fed up with the highly uneven distribution of land and wealth on the island and started an armed struggle against the private armies of their former landlords. This tense situation lasted into the 1990s, when the Ramos administration initiated a program to curb the violence in rural areas. Furthermore, the Comprehensive Agricultural Reform Program (CARP) started under President Aquino was designated to balance the skewed pattern of landownership on Negros, by retrieving plantations from landlords and redistributing these to the landless tenants who had been tilling them.

In the aftermath of the crisis, Negros was left with a weak economy that badly needed extensive modernisation in order to be able to compete on the world market. This has not happened. With low farm and mill yields, due to a lack of private and public investments, the industry is often categorised as a 'sunset industry' that produces sugar using outdated and inefficient facilities. Additionally, while the Sugar Regulatory Authority (SRA) was formed in 1986 to regulate and protect the trade of sugar on the domestic market, the protection tariffs are too low to stop the influx of cheaper foreign sugar into the country. When sugar mills were on the verge of going bankrupt after the crisis, many were bought by domestic food and beverage conglomerates and wholesale traders who have become the new powerful players in the industry. The deadlock position of the sugar industry has forced Negros to look for other economic alternatives and become less dependent on the unpredictable crop. So far, this has proved to be a difficult task with the island's leading entrepreneurs and politicians rooted in the sugar industry and with the most precious resource of the two provinces, fertile agricultural land, still largely designated for the cultivation of sugar. Furthermore, the long dependence upon sugar as the economy's single cash cow -controlled by local elites- has hampered the emergence of an entrepreneurial middle class involved in other economic activities, such as manufacturing or services. In retrospect, the rapid and integral set-up of a plantation economy that focused on a single primary export product in the late 19$^{th}$ century initiated a 'lock-in by historical events' that left Negros Island with a path dependent development process (Arthur, 1989; Liebowitz and Margolis, 1995).

## 4.4 Concluding remarks

With the Central Visayas as the focus point, this chapter showed that regional diversity occurs on various levels in the Philippines. The disparities between the administrative island regions are commonly addressed in the literature on regional disparities (e.g. Balisacan and Hill, 2007). Clearly, the Central Visayas has a unique position in the Philippines due to its distinct socio-economic characteristics. These characteristics, however, do not reflect the provinces that comprise the region. Rather, intraregional disparities between the provinces of Bohol, Cebu and Negros Oriental are just as significant as the regional differences on the national scale. One could identify Metro Cebu as the 'Capital Region' of the Central Visayas, lording over its rural hinterland and neighbouring provinces. Its urban-based and diversified economy is a growth pole of national prominence that serves as the regional gateway to the global economy. Additionally, while Bohol and Negros Oriental both are rural provinces dominated by agriculture, they have opposite production systems. These variegating contemporary economic systems have been shaped by different historical development patterns. Particularly the different position of the three provinces in wider economic constellations has been decisive: whereas Bohol has been neglected by the western colonial powers, Cebu and Negros Oriental were fully incorporated into their international trading networks. As an effect, in Bohol a 'pre-colonial smallholder's economy' -focused on subsistence farming or the production of food crops for the local market- has largely sustained to the present day. This has generated little economic growth (Bohol has long been ranked as one of the poorest provinces in the country) and allowed two local tycoons to take control over the local market via extensive vertical integration of production and trade. Such agricultural commercialisation has occurred much earlier in Negros Oriental, where a once successful large-scale monoculture agro-industry -focused on the production and export of a single cash crop- has pertained as the locked-in backbone of the local economy. The plantation system has left the island with a polarised society that is recognised by sharp disparities in human development between its social classes that lack a strong entrepreneurial middle class. Cebu, on the other hand, has experienced different phases of insertion into the global economy, also with an important role played by local elites. This development path has given Cebu a more diversified economic base that has allowed Cebu -to a certain extent, at least- to secure its position in the global economy as it can better respond to external shocks and trends. As such, Metro Cebu's economic growth has generated livelihood opportunities for many of its constituents. However, it has also drawn a large number of migrants which it can barely absorb. Many of them have traded thief life in the impoverished countryside of the province for an insecure existence in one of Metro Cebu's squatter areas.

The following chapter will provide a deeper empirical analysis of the contemporary provincial economies, focusing on the principal actors that comprise these economies: local firms. How do the different positions of the three provinces in the global economy affect the functioning of local firms within their value chains? Following Whitley's (1999) business systems approach that identifies alliance coordination of production chains as a key set of inter-firm relations, the chapter discusses various aspects of the local firms' vertical relations: spatial orientation of production relations, organisation of supply and demand relations and contact and cooperation with suppliers and buyers. Afterwards, the discussion is lifted to the meso level in order to depict and analyse the entire provincial

value chains, particularly focusing on the power relations between the actors that are active in these chains.

## Endnotes

1 Remark made at the launch of the United Nations Millennium Project Report in Manila, 16 February 2005 (original quote from: Balisacan, 2007: 398).

2 All but one region is divided into provinces. The National Capital Region (NCR or Metro Manila), due to its urban environment, is divided directly into cities and municipalities.

3 An exception to this is the Autonomous Region in Muslim Mindanao (ARMM), which is a political entity as well and is headed by a regional governor.

4 Currently, the Atlas Mines in Toledo, Cebu are under rehabilitation for a re-opening scheduled in 2009.

5 In agriculture, Bohol is recognised as the number one agriculture producer in Central Visayas. In 2006, the Department of Agriculture (DA) stated Bohol produced 66 percent of rice, 54 percent of fish, 44 percent of livestock, 65 percent of coconut, 70 percent of seaweeds for carrageenan production, 72 percent of root crops and 100 percent of oil palm production in the region.

6 Another important industrial processing plant of an important local agricultural crop in Bohol is the Philstarch Company in Carmen, which processes cassava into starch. Additionally, PALM, Inc., also in Carmen, processes the fruits from oil palm trees into palm oil.

7 The entire registered foreign export from Bohol is produced by one international mining company, Philippine Sinter Corporation, which has a large-scale limestone quarrying site in the south-eastern town of Garcia Hernandez. The limestone is exported from its private port to steel plants and other factories in the Philippines and abroad.

8 The food processing and packaging industry is an exception. This industry is dominated by large national companies.

9 According to a schedule of base unit market values set by the Provincial Board in 2002, croplands with the highest value are sugarcane areas (P70,000 per hectare), followed by irrigated rice fields (P50,000 per hectare).

10 Coming from the Moluccas, Portuguese ships traversed the Visayan seas, and just a few years before, in 1563, had plundered Bohol and killed or enslaved about one thousand of its inhabitants. When Legazpi and his crew landed on their shores, the Boholanos easily mistook the Spaniards for Portuguese.

11 Two significant revolts in Bohol during the Spanish era indicate that this friendly relationship did not last. The first was the Tamblot Uprising of 1622, when Boholanos left their coastal settlements imposed by the Spanish and moved inland to escape the coloniser's dictates of forced labour and tribute payments. Secondly, the Dagohoy Rebellion (1744-1829) was the longest and one of the most successful rebellions against the Spanish in the Philippines (Gibson-Graham, 2005).

12 Bohol's economy showed little dynamism during the second half of the 20$^{th}$ century, the province consistently sitting at the bottom of the provincial poverty ladder in the Philippines (the poverty incidence was 53.6 percent in the year 2000, making Bohol the 16$^{th}$ poorest province). The strong presence of communist rebels belonging to the New People's Army (NPA) in the island's interior was an important factor in this.

13 The national government under Ferdinand Marcos already acknowledged the potential of Panglao as a tourist destination in 1973 by declaring it as the Panglao Island Tourism Estate (PITE).

14 Spain's decision to abolish Manila's trade monopoly and stimulate economic liberalisation in its eastern colony was forced by developments elsewhere in Asia. The withdrawal of foreign merchants from the colony, largely due to the rise of free ports in British territories, stimulated the Spanish to open the ports of Iloilo, Zamboanga and Sual in 1855. Five years later, Cebu was opened to foreign ships (Bernaldez, 1997).

15 In Cebu, the price for copra increased 480 percent, from P6.17 per 100 kilos in 1941 to P35.98 in 1950. Sugar prices doubled and those of coconut oil quadrupled pre-war levels. Hemp prices rose by 550 percent, from P8 per picul to P53 in 1950 (Bernaldez, 1997: 64).

16 By 1958, Cebu had become the shipping centre of the archipelago with more coastwise ships registering in Cebu than in any other port in the country. Cebu was the base of some of the largest domestic shipping companies such as Aboitiz & Company, Carlos A. Gothong & Company, Hijos de F. Escaño Co. and William Lines (Bernaldez, 1997: 66).

17 The Ludo & Luym Company in Cebu City was the largest copra processor in Asia and the Atlas Consolidated Mining and Development Corporation operated the world's third largest copper mine in the world in the western town of Toledo. Other major industrial operations (re)started in Cebu after the war were the General Milling Corporation (GMC) on Mactan Island, the Bogo-Medellin Sugar Company in the northern part of the island and Cebu Portland Cement.

18 Though the land was reclaimed and an international container port was constructed, the North Reclamation Area was never converted into a new commercial district. The main reason for this was the political bickering that dealt with the controversial role of Sergio Osmeña in the Cebu Development Corporation (CDC).

19 Encomiendas were territories and its inhabitants temporarily assigned to deserving Spanish soldiers primarily for the collection of tribute (Aldecoa-Rodriguez, 1983).

20 The Compania General de Tabacos de Filipinas was founded in 1881 to cultivate, process and export Philippine tobacco to the Spanish Tobacco Monopoly. Since it enjoyed near monopoly control over the Philippine market during late Spanish colonial times, the company quickly expanded into non-tobacco activities. Central Azucarera de Bais was founded by the company as its first sugar mill in the Philippines. In 1948, the Compania de Cellulosa de Filipinas set up in CAB the first integrated pulp and paper factory in the world using the *bagasse* (biomasse that remains after crushing of sugar canes to extract their juice) as raw and primary material in the manufacture of paper (Antonio et al., 2001).

21 Fernando Lopez, a member of one of the Philippines' wealthiest and most influential sugar families, had been Marcos' vice-president prior to the declaration of martial law.

# 5 Insertion into value chains: vertical inter-firm relations[1]

## Introduction

'When they [marginal farmers] plant and harvest rice, they only sell one third of their production to local traders. The rest they eat. Companies like Alturas, they consolidate and they add value. They are able to penetrate markets, because of the volume that they offer'.

*- Interview at DTI office, Tagbilaran, Bohol*

'The actual trade of sugar is done through a rather secretive process, where each trader writes down the price he wants to give for a certain amount of sugar. The bidding committee gathers all these enclosed pieces of paper and analyses them. The trader who has written down the highest price will be given the quedans that allow him to collect the sugar at the mill compound'.

*- Interview at sugar planters' association, Bais, Negros Oriental*

'While foreign trade buyers still find design innovation and creativity to be the most valuable competitive advantage of Cebu-made furniture, most firms are unable to price competitively, thus unable to effectively protect their market share. A global downward price pressure influenced by a weakening US dollar and unstoppable competition from China and Vietnam, for example, severely affect Cebuano manufacturer-exporters' viability and competitiveness'.

*- Pearl2 state of the sector reports 2006, Philippine furniture*

The three quotes above tellingly touch upon the key issue of this chapter: how the positioning of local firms into different (global) value chains shapes the distinct functioning of the provincial economies. This topic is a central relational dimension in the conceptual model (see chapter 2), which hypothesises how firms are positioned vis-à-vis their suppliers and buyers and organise their interrelations with these actors has a strong impact on their functioning and performance, thus affecting regional economic development outcomes. In order to test this hypothesis, this first empirical chapter will analyse this specific relational dimension of the three provinces. As such, it aims to find answers to research question two: to what extent and how are the firms from the provincial economies integrated in (global) value chains and what are the (dis)advantages these firms derive from their insertion into such vertical relational networks? Following Whitley's (1999) analytical model, this is done from a firm-oriented perspective. Emphasis lies on the spatial configuration and the organisation of the inter-firm relations that comprise the value chains. The primary data presented in this chapter are derived from the business survey and personal interviews with local entrepreneurs.

This chapter is structured as follows. First, section 5.1 will provide a brief theoretical overview that serves as the foundation for the value chain analysis. Then, the main characteristics of the key players in the value chain -the local SMEs- will be elaborated on in section 5.2 before analysing their relations in the value chain. This will be done in section 5.3, which will focus on the firms' networks of supply and demand relations by analysing their spatial configuration, amount and type of contact with suppliers and clients, the regulation of product flows and types of cooperation with suppliers and clients. Based on this analysis, an integrated overview of the provincial value chains and their governance styles will be outlined in section 5.4. The empirical data presented in this chapter is extracted from the business survey that was conducted during fieldwork in the three provinces in 2006 (see chapter 3).

## 5.1 The spatial and organisational configuration of value chains

As introduced in chapter 2, the value chain encompasses all activities associated with the flow and transformation of goods from the raw materials stage (extraction), to the end user, as well as the associated information flows (Handfield and Nichols, 2002). Clearly, supply and demand relations form the essential inter-firm connections that make up a value chain. They link the different production stages and actors through the trade of essential materials, intermediate goods or finished products. For a complete value chain analysis, it is important to select the proper dimensions. First of all, the interconnectedness of firms within chains of production occurs at various levels of scale. As Sturgeon (2000) has argued, the concept of global commodity chains (Gereffi, 1999) has an explicit international dimension, whereas industrial districts (Piore and Sabel, 1984) are on the other end of the scale on the regional and local level. Thus, an important qualifying aspect of value chains is their spatial configuration. As could be seen in the previous chapter, this is also a relevant aspect that sets the three regional economies in the Central Visayas apart: they show remarkable disparities in the spatial range of their leading trade activities. To get a clearer perspective on the production networks that can emerge on different levels of scale, table 5.1 provides an overview of various relational networks ranked by their scales of operations (Sturgeon, 2000). Secondly, there is the governance style of value chains. The way a chain is governed creates certain advantages and limitations for participating firms, and perhaps by extension, the economic development prospects of the societies in

***Table 5.1:*** Spatial scales of value chains

| Name | Scale of operations | Other names |
|---|---|---|
| Local | Commute area | Industrial district, specialised industrial cluster, regional economy |
| Domestic | Single country | Supply-base, national system |
| International | More than one country | Cross-border production network |
| Regional | Confined to a multi-country trade bloc (e.g. NAFTA, EU, MERCOSUR, ASEAN, AFTA) | Regional production system |
| Global-scale | Actors integrate activities across – at least – each region of the "triad" | Global commodity chain, global production network |

Source: Sturgeon, 2000

***Table 5.2:*** Types of chain governance

| Network name | Basis | Other names | Examples |
|---|---|---|---|
| 1) Authority networks | Authority | Governance | |
| a) Intra-firm or hierarchy networks | Authority of management | Vertical integration, producer-driven commodity chains | Acer, the "old" IBM |
| b) Captive networks | Authority of lead firm, long-term relationships | Industrial groups, lean production networks | Toyota Group, Japanese Keiretsu, Korean Chaebol |
| 2) Relational networks | Long-term personal and inter-firm relationships, assumed group characteristics | Trust-based networks, personal networks, networks involving repeat transactions | |
| a) Agglomeration networks | Spatial propinquity | Industrial districts, industrial clusters | Silicon Valley, 3rd Italy, New York garment district |
| b) Social networks | Social propinquity | Ethnic networks, interest groups, culture networks | Overseas Chinese, Mafia, Usenet |
| 3) Virtual or modular networks | External scale economies, "promiscuity" of network actors, commodified network capacity, codifiable transfer of specifications | Turn-key production networks, agile production networks, buyer-driven commodity chains | Cisco and Solectron, B2B ecommerce, the "new" IBM, Silicon Valley and beyond |
| 4) Market networks | Fragmented production, specialised suppliers, limited economies of scope | Arm's length market coordination networks | Global PC and bicycles industries |

Sources: Gereffi, Humphrey and Sturgeon, 2005; Sturgeon, 2000

which they are situated (Gereffi, Humphrey & Sturgeon, 2005). As discussed in chapter 2, various types of value chains can be identified based on their specific governance styles (for reference: see figure 2.2). Table 5.2 gives a schematic overview of the various production networks that complements the visual configurations of these networks presented in chapter 2.

Together, the two aspects of spatiality and governance provide a comprehensive set of viewpoints to comparatively analyse and qualify the value chains in which the provincial firms are positioned. Since this comparative value chains analysis is based on a firm-oriented approach, it is necessary to introduce these firms first. Again, the analytical framework of Whitley (1999) is useful here, as it not only emphasises inter-firm relations, but also takes into consideration the internal organisational features of firms for the qualification of business systems. Under the denominators *ownership coordination* and *employment relations and work management*, firms' organisation of ownership, corporate finance and employment are included in Whitley's model (for reference, see table 2.1). Therefore, the following section will specifically focus on the firm-level by discussing these key internal organisational features of the surveyed firms.

## 5.2 The micro level: business characteristics

Before analysing the identifying characteristics of the provincial value chains, the individual actors in these networks -the local firms in the provinces- are introduced. In line with Whitley's (1999) comparative business systems framework, three business characteristics are discussed here: ownership coordination, the financial structures of the surveyed firms and their employment relations (see table 2.1).

### 5.2.1 Ownership coordination

In Whitley's analytical model, three kinds of ownership coordination are distinguished among private firms: (a) direct control of firms by owners, (b) alliance control, in which owners delegate considerable strategic decision-making to managers but remain committed to particular firms and (c) market or arm's length portfolio control by investors (Whitley, 1999). In the three provinces, the vast majority of the 117 surveyed firms operate independently (see table 5.3). Only a few (8) function as a subsidiary of a larger local business conglomerate. Analyzing their type of ownership coordination, market or arm's length portfolio control does not occur among the surveyed trading firms. Direct control by the owner(s) is the most common form of ownership coordination. Additionally, the alliance-controlled firms from the survey are often in the hands of managers who are related to the owner(s). This way, control within the company remains to a large extent directly in the hands of the owner(s) through family ties. Overall, corporation is the most common ownership form of the surveyed firms, followed by single proprietorship, a type of ownership that is particularly present among the small-scale traders in Bohol. However, for these two types of firms the term 'family business' is a proper description as well. Many of the corporations in the three provinces have multiple shareholders or executive

***Table 5.3:*** Key ownership characteristics of surveyed firms

| | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Type of ownership** | | | | |
| *Corporation* | 1 | 8 | 37 | 22 |
| *Single proprietorship* | 19 | 12 | 17 | 1 |
| **Position of firm** | | | | |
| *Independent* | 20 | 18 | 50 | 21 |
| *Subsidiary* | 0 | 2 | 4 | 2 |
| **Ethnicity of owner(s)** | | | | |
| *Filipino* | 15 | 12 | 35 | 9 |
| *Filipino-Chinese* | 5 | 3 | 11 | 13 |
| *Local-foreign* | 0 | 5 | 8 | 1 |
| **Total number of firms** | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

board members who are often members of one and the same family. A similar family-based organisational pattern can be found among the single proprietorship firms that are particularly well-represented in Bohol's agricultural sector. Most of these firms are owned and managed by the family patriarch, while the owner's wife and children are also involved in the daily business operations. To get a clearer insight on the lifetimes of the surveyed firms, table A8 in appendix 10 provides an overview of their years of foundation.

With regard to the ethnicity of the owner(s), three main groups can be distinguished: (a) Filipino entrepreneurs, (b) Chinese *mestizos* or Filipino-Chinese; and (c) local-foreign owners. The latter group needs some specification. In most cases, the local-foreign owned firms are established via a partnership between local Filipinas and western men (from the US or Europe), enabled through their marriage.[2] The majority (71) of the surveyed merchants stated they belong to the first group, followed by a considerable number (32) of Filipino-Chinese entrepreneurs who are well-represented in all three provincial economies. Finally, local-foreign owned firms can mainly be found in Bohol's tourism sector and the export-oriented manufacturing industry in Cebu (table 5.3).[3] It is important to stress here that the number of Filipino-Chinese traders is probably even higher among the surveyed firms than the total number displayed in the table above, since many Filipinos with Chinese ancestry -especially those of the younger generations who were born and raised in the Philippines- refer themselves to as being Filipino instead of Filipino-Chinese. This finding suggests the cultural identity of the Filipino-Chinese cannot solely be defined by their common ancestry. Rather, ethnicity is a more fluid social construct (see textbox 2.1) of behavioural commonalities. The behavioural commonalities of the Filipino-Chinese entrepreneurs will be explored further in this study.

### 5.2.2 Corporate finance

Corporate finance is closely related with ownership coordination in Whitley's model. For instance, an executive director who runs a corporation financed by shareholders has less corporate control than the owner of a single proprietorship. Among the surveyed firms, reliance upon personal and family capital is the main source of starting capital (see table 5.4). In combination with these traditional and informal channels of corporate fundraising, bank loans are used for additional access to finance. It is striking to notice that this is more common practice among tourism entrepreneurs in Bohol and export-oriented manufacturers in Cebu. Agricultural businesses in Bohol and Negros Oriental, on the other hand, mainly rely on personal and family capital respectively. This finding suggests that the accumulation of sufficient financial funds necessary for starting a new business is often a difficult hurdle to take by small-scale entrepreneurs in rural areas. While there are rural and cooperative banks in Bohol and Negros Oriental that cater specifically to the financial needs of the local private sector (see appendix 5, figure A2), their loan requirements -e.g. collateral, interest rates- cannot be met by many of the smaller-sized firms. This scenario corresponds with the national situation of rural finance depicted by Llanto (2005), who indicates that smallholder agriculture in the Philippines still mainly relies on informal sources of financing. Despite the financial reforms pursued by the national government, agricultural lending has remained unattractive to most banks while access of small farmers to formal loans has not improved.

***Table 5.4:*** Sources of starting capital used by surveyed firms

| **Sources of starting capital** | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Bank* | 2 | 0 | 4 | 1 |
| *Family* | 0 | 0 | 6 | 9 |
| *Owner* | 12 | 15 | 21 | 5 |
| *Owner and bank* | 5 | 2 | 7 | 0 |
| *Shareholders* | 1 | 2 | 10 | 6 |
| *Total* | 20 | 19 | 48 | 21 |

Source: Business survey, 2006

Analysing their finance of daily operations, revenues from sales is the most important source for the day-to-day financial needs of the vast majority (78%) of surveyed firms. This is also true for the firms' regular purchases to supply their stocks. Only a few of the surveyed firms stated that they make use of bank loans to finance their daily business operations. Since new investments often require larger instant amounts of money, one would expect a raise in the need for external financial sources. This only occurs in Cebu, where 45% of the firms use (additional) credit from bank loans to finance their investments. In Bohol and Negros Oriental however, most entrepreneurs tend to remain reliant upon personal and family capital for such major financial injections. These findings indicate a divide in the firms' access to finance: whereas Cebuano entrepreneurs make use of a credit from private commercial banks to fund their investments, most agricultural traders in Bohol and Negros Oriental rely on their own sources of capital and informal loans. This divide in corporate finance can be related to the different activities of the surveyed firms in Cebu (involved in export-oriented industry) and Bohol and Negros Oriental (agricultural trade). In general, for the Cebuano exporters it is somewhat easier to acquire an additional bank loan since they have more collateral (e.g. machinery) that enable them to engage in asset-based lending. Since most agricultural merchants have much less corporate assets they cannot obtain additional bank loans.

### 5.2.3 Employment relations

A third organisational feature of firms from Whitley's analytical framework is concerned with their employment relations. Table 5.5 gives an overview of the firms according to their numbers of employees. Clearly, Bohol's smallholder agricultural economy is reflected in this table: 18 out of 20 surveyed firms have only up to ten employees. The firms from the agro-industrial economy of Negros Oriental reveal a more varied pattern of employment generation, as does the sample from Bohol's tourism industry. The relatively large proportion of Cebuano exporters that employ over one hundred people can be explained by the scale and dual character of their activities: they are medium-sized manufacturers-cum-traders whose workforces are mainly enrolled in the production process of the goods (in particular furniture) they export.

Not surprisingly, among management and office employees the use of long-term formal labour arrangements is highest. This is especially true for the Cebuano firms, whereas in Negros Oriental and Bohol verbal agreements are also common for higher positions. In all provinces, most factory and field workers have a verbal agreement with their employer,

***Table 5.5:*** Number of employees of the surveyed firms

| Number of employees | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *0-5* | 14 | 5 | 1 | 3 |
| *6-10* | 4 | 4 | 6 | 3 |
| *11-20* | 0 | 5 | 1 | 5 |
| *21-30* | 1 | 1 | 2 | 2 |
| *31-40* | 1 | 2 | 0 | 0 |
| *41-50* | 0 | 0 | 2 | 1 |
| *51-75* | 0 | 2 | 7 | 0 |
| *76-100* | 0 | 1 | 8 | 3 |
| *> 100* | 0 | 0 | 14 | 3 |
| *Total* | 20 | 20 | 41 | 20 |

Source: Business survey, 2006

though short-term contracts are also a regular form of labour regulation. Interestingly, in Cebu a considerable number (one third) of surveyed firms indicated they use long-term contracts for their factory workers, as they are artisans with specific skills such as woodcarving, welding or weaving. For the firms to keep these skilled craftsmen, they need to provide them with long-term security about their position and wage. Such stable labour arrangements are uncommon for the large number of irregular workers employed via subcontractors, whose assembly services are usually arranged via a pay-by-order basis. For the exporters, the piece-rate system is a way to reduce fixed production costs and increase labour flexibility.[4] However, this splitting up of the production process into different small tasks that are carried out by subcontractors who are paid on a piece-rate basis has also its downturns. As Beerepoot's (2005) study on the Cebu furniture industry has shown, a common complaint among Cebuano furniture exporters is about the work-attitude and loyalty of the subcontracted workers, claiming that they were little motivated, their productivity was low and of volatile quality and they had a high level of absenteeism in comparison with regular factory workers. For the exporters this means that they have to be strict about labour agreements and quality control to ensure that the subcontractors meet their demands. In Negros Oriental, a similar labour system exists on sugar plantations, where the *pakyao* arrangement for seasonal field workers is also based on a piece-rate payment.[5] For the large planters, the 'outsourcing' of basic land cultivation activities -such as the planting and cutting of sugar cane- to field workers is essential as these activities have not been mechanised and are still largely carried out by manual labour. Table A9 in appendix 10 provides an overview of additional qualitative employment characteristics of the surveyed firms.

## 5.3 Organisation of supply and demand relations

After having introduced the surveyed firms by outlining their basic internal organisational characteristics, this section will shift the focus to the external relations they maintain with other firms that are active within their value chains, i.e. their suppliers and buyers. This corresponds with Whitley's (1999) key business systems characteristic 'the extent of

alliance coordination of production chains' (see table 2.1). After a spatial overview of the firms' trade flows, key organisational features of their supply and demand relations are analysed.

### 5.3.1 Spatial networks of supply and demand

The previous chapter already indicated the scopes of the three provincial trade economies show remarkable variations. While Cebu has a strong outward trade orientation, producing its goods for the global market, the agricultural economies of Bohol and Negros Oriental are mainly oriented towards their respective local and national home markets. To what extent do the trading networks of the surveyed firms match these general spatial patterns? Mapping the spatial spread and range of the firms' trade networks creates a useful overview of the geographical configuration of the provincial production chains. Table 5.6 provides an overview of where the surveyed firms' main suppliers are located.

For the majority of surveyed businesses in the Central Visayas the main suppliers are located within the province. This is particularly true for the firms in Bohol, both in agriculture and tourism. For the latter industry, the localised supply chain can be explained by the market domination of the two major wholesalers/retailers Alturas and BQ: 80% of the surveyed tourism firms buy their supplies at (one of) these conglomerates. To a large extent, the Cebuano manufacturers also depend on local suppliers. Most of their products are made of natural materials like bamboo, abaca and rattan for furniture or seashells, corals and coconut shells for fashion accessories. These indigenous materials are found throughout the Philippines and distributed locally. Imported goods include components such as glass, ceramics, metal fittings and chemical products. The surveyed trading firms in Negros Oriental serve as intermediaries between local farmers and industrial processors of sugar and copra and as distributors of other agricultural commodities that are not grown sufficiently in the province, in particular basic staples such as rice and corn.[6] As such, a significant share of their supplies comes from other parts of the Philippines (in particular Cebu, Manila and Mindanao).

When analysing the firms' spatial networks of client relations, the agro-industrial economy of Negros Oriental reveals a highly localised pattern: the majority of the firms sell their goods to local buyers. For the cash crops sugar and copra these are either the industrial

***Table 5.6:*** Locations of main suppliers

| **Location of main suppliers** | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Province* | 19 | 16 | 37 | 10 |
| *Visayas* | 0 | 1 | 4 | 7 |
| *Metro Manila* | 1 | 2 | 7 | 3 |
| *Philippines* | 0 | 1 | 3 | 3 |
| *Asia* | 0 | 0 | 1 | 0 |
| *US* | 0 | 0 | 1 | 0 |
| *Europe* | 0 | 0 | 1 | 0 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

***Table 5.7:*** Locations of main buyers

| Location of main buyers | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Province* | 19 | 0 | 5 | 17 |
| *Visayas* | 0 | 0 | 0 | 5 |
| *Metro Manila* | 1 | 0 | 1 | 1 |
| *Philippines* | 0 | 9 | 4 | 0 |
| *Asia* | 0 | 2 | 6 | 0 |
| *US* | 0 | 0 | 32 | 0 |
| *Europe* | 0 | 9 | 6 | 0 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

processors (mills) or other (larger) wholesale traders in the province who in turn cater to the domestic market, characterizing the regional economy with a strong national market orientation. In Bohol, a clear division in local and (inter)national demand surfaces between the local agricultural and tourism industries (see table 5.7). The growing, processing and trading of rice all occurs within the provincial boundaries, which explains the highly localised trading network of the sector. Again, Alturas and BQ play a central role here, as they are named by nine of the twenty surveyed firms as (one of) their main buyers. While Bohol still mainly serves as a domestic tourist destination, an increasing number of foreign nationals visit the island as well. The surveyed firms from the local manufacturing industry in Cebu produce furniture, fashion accessories, processed foods and garments specifically for the international market. The bulk of these goods are exported to the American market, which absorbed almost 60% of all Philippine furniture produced for export in 2000 and 34% and 23% of total Philippine exports of fine jewelry and custom jewelry respectively in 2006 (Pearl2 Project, 2007). Other foreign marketplaces of importance are found in Asia (e.g. Japan) and Europe (e.g. the Netherlands).

### 5.3.2 Chain governance: establishment and regulation of supply and demand

Before discussing the regulation of supply and demand relations, it is worthwhile to review the initial phase of these relations. How did the surveyed firms get in touch with their suppliers and clients? The findings from the survey indicate a division among the firms in the provinces between two types of vertical networking: a) personal networking; and b) formal networking. In the case of the agricultural sectors of Bohol and Negros Oriental, family and friends form the key to new business partners (see table 5.8). The entrepreneur's network of acquaintances also serves as an important business network, through referrals and word of mouth. Such a personal network is also important for the firms in Bohol's tourism sector, though advertising is also often used for attracting new clients. Cebu shows a completely different picture, with business associations as the main formal platforms for starting new business relations. For supplies, business directories are an additional source, whereas business fairs -both domestic and international- are also important for establishing new client relations. An explanation for these different types of networking among the surveyed firms can be found in the varying scales of their operations: the Cebuano exporters are generally larger in terms of trade turnover than the agricultural traders in Bohol and Negros Oriental. This brings along a more professional

***Table 5.8:*** Establishment of supply and demand relations

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Begin of supply relations** | | | | |
| *Advertising* | 0 | 1 | 0 | 2 |
| *Business association* | 0 | 5 | 23 | 2 |
| *Business directory* | 0 | 1 | 15 | 1 |
| *Business fair* | 0 | 0 | 5 | 0 |
| *Family or friends* | 10 | 2 | 6 | 15 |
| *Personal choice of owner* | 1 | 9 | 0 | 0 |
| *Referral* | 9 | 2 | 5 | 3 |
| *Total* | 20 | 20 | 54 | 23 |
| **Begin of demand relations** | | | | |
| *Advertising* | 0 | 10 | 4 | 2 |
| *Business association* | 0 | 0 | 16 | 3 |
| *Business directory* | 0 | 3 | 7 | 0 |
| *Business fair* | 0 | 0 | 22 | 1 |
| *Family or friends* | 12 | 2 | 5 | 8 |
| *Personal choice of owner* | 0 | 0 | 0 | 1 |
| *Referral* | 8 | 5 | 0 | 8 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

approach towards networking with trade partners. More importantly, however, are the varying scopes of the value chains the firms are positioned in. The suppliers and clients of the traders in Bohol and Negros Oriental are located nearby and can easily be approached personally, whereas the clients of the Cebuano firms are mainly stationed in the US. In order to gain foreign market access, many firms rely on support from local business associations for their marketing activities at business fairs.

Once supply and demand relations are established, the performance of a production chain is largely determined by the level and type of coordination that exists between the business partners. Coordination is defined here as forms of inter-firm contact and communication that are necessary for firms to mutually agree upon and close their business transactions. There is a wide range of inter-firm coordination that varies from order-specific contracts that are the result of face-to-face negotiations to non-contact direct order placements via company websites. The organisation of supply and demand relations in the three provincial economies has been analysed by making a distinction between the use of contracts (formal coordination) or receipts (informal coordination) by the firms. As discussed in chapter 2 by referring to the work of Fukuyama (1995), an important social construct that influences how inter-firm trade relations are organised is the extent of trust that exists between trade partners. According to Handfield and Bechtel (2002), trust generally refers to either a business risk view based on confidence in the predictability of expectations (Luhmann, 1979; Zucker, 1986), or on another's goodwill (Dore, 1983; Ring and Van de Ven, 1994). Mutual trust between trade partners also plays an important role in explaining the difference between the two forms of trade coordination used in this study. A contract

***Table 5.9:*** Organisation of supply and demand relations

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Organisation of supply relations** | | | | |
| *Contracts (formal)* | 1 | 1 | 16 | 6 |
| *Receipts (informal)* | 19 | 19 | 38 | 17 |
| *Total* | 20 | 20 | 54 | 23 |
| **Organisation of demand relations** | | | | |
| *Contracts (formal)* | 2 | 7 | 24 | 6 |
| *Receipts (informal)* | 18 | 13 | 30 | 17 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

is a formal agreement that is signed beforehand by trade partners to record product and delivery agreements -i.e. on price, quantity, quality, and time of delivery. Contracts are an exchange of promises between trade partners used to protect themselves by restricting uncertainties. The issuance of receipts, on the other hand, occurs after the actual deal and does not require any formal -written and mutually signed- trade agreements beforehand. Rather, the specifics of the deal are agreed upon verbally and not recorded. This implies there is more trust among the trade partners that the counterpart will meet the trade agreement.

As table 5.9 reveals, the majority of the firms in the three provinces use receipts to register their trade flows. An important explanation for this can be found in the earlier discussed locations of the suppliers and buyers: since most of them are located within the same province as the firms, distances between trade partners are short. This enables easy access to trade partners. Even more important is the fact that many surveyed entrepreneurs stated that they know their suppliers and buyers personally and have long-term trade relationships, which is an essential factor for trust-based business relations. A typical statement in this context comes from a rice mill owner in Tagbilaran, Bohol: 'most of my suppliers and clients I know personally and they are my friends. We meet at family dinners or go for a drink' (Business survey, 2006). This quote indicates that personal and business relations are strongly interwoven in the rural smallholders' economy of Bohol. In the agro-industrial economy of Negros Oriental most trade coordination also occurs via informal agreements. The unique organisational structure of the sugar industry -which will be discussed in section 5.4- explains the substantial use of contracts.

Unlike the firms in Bohol and Negros Oriental, a relatively large portion of Cebuano firms have organised their trade relations with formal contracts. This can be explained by the fragile market position of the firms. They need to live up to the high standards on product quality, delivery schedules and prices from their foreign buyers. In order to meet these contractual demand requirements, firms need to be sure that they can rely on suppliers and subcontractors who deliver materials and assembled (parts of) goods of a stable quality on time. These qualifications are difficult to meet for local suppliers and

subcontractors, creating insecurity among the exporters. As a result, some firms arrange their supplies by contract, ensuring them of a stable input of materials and products. Also, firms are cautious to hand subcontractors their product designs as they might pass these on to local competitors. As such, formal trade contracts are also aimed at protecting the firms' property rights. The use of contracts can have serious repercussions for the local firms in Cebu, since it increases their dependency upon downstream buyers. In general, foreign buyers pay the Cebuano exporters only after they have received their goods on time and meeting their quality demands, as stated in the order contract that is often covered by a letter of credit.[7] If not, the buyers can reject and return the order without payment. To prevent this scenario, the exporters use contracts that strictly define the material and workmanship specifications for their subcontractors. This allows them to hold quality controls, usually at the finished product stage. This, however, can cost a substantial amount of and time on the part of the subcontractors when the goods are rejected by the exporter. Similarly, the inability to meet contracted deadlines is a big disadvantage on the part of the subcontractors as well as for the exporters, because this problem causes a chain of effects. If the subcontractor cannot deliver on the specified date by the exporter, the delivery to the buyer will also be delayed which can result in a cancellation of the order that leaves both the exporter and its subcontractors with a loss due to sunk production costs.

### 5.3.3 Chain governance: exchanges between suppliers and buyers

As indicated in the previous section, coordination of production and trade in the value chains largely depends on the type and amount of contact between the individual actors involved in these processes. How does inter-firm contact occur in the three provinces and how does it affect firms' performances? The correct amount and quality of supplied materials or goods needs to be delivered on time, a process that demands coordination. Also, keeping clients up to date about orders requires communication. Therefore, most firms in the provinces regularly have contact with their suppliers and clients (table 5.10). The irregular contact of some Cebuano firms with their clients is caused by the large distance between them. Furthermore, their use of contracts restricts the volatility of supply and demand specifications, making it only necessary to get in touch when there are modifications. In Bohol, the irregular coordination in the agricultural value chain can be explained by its periodical production scheme: contact between rice farmers, millers and traders increases during harvest times.

The type of contact the surveyed firms maintain with their suppliers and clients can be attributed to the geographical scale of the value chain. For most of the export-oriented firms in Cebu, a personal approach towards clients is impossible because these clients are located abroad.[8] Therefore, they rely on telecommunication technologies such as the Internet and telephone to confer with them. Personal meetings with clients occur only sporadically on international events such as trade fairs, which are organised a few times per year. Moreover, most small firms cannot afford the expenses to participate in such events. In contrast, the agricultural value chains of Bohol and Negros Oriental are locally embedded, which enables firms to coordinate their supply and demand issues by personal, face-to-face meetings. Many of the surveyed entrepreneurs see this personal approach as a successful one. As one entrepreneur from Negros Oriental stated: 'We meet our suppliers and clients at social events in the municipalities. We sometimes talk about how our business is doing. It is important to have a good relationship with them; it just eases our business operations. We

***Table 5.10:*** Frequency of contact with suppliers and buyers

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Frequency of contact with suppliers** | | | | |
| *Daily* | 0 | 3 | 14 | 9 |
| *Weekly* | 10 | 8 | 18 | 13 |
| *Monthly* | 4 | 4 | 9 | 1 |
| *Irregular* | 6 | 5 | 13 | 0 |
| *Total* | 20 | 20 | 54 | 23 |
| **Frequency of contact with buyers** | | | | |
| *Daily* | 0 | 1 | 17 | 9 |
| *Weekly* | 8 | 3 | 5 | 8 |
| *Monthly* | 3 | 0 | 13 | 1 |
| *Irregular* | 9 | 14 | 19 | 5 |
| *Total* | 20 | 18 | 54 | 23 |

Source: Business survey, 2006

know each other and have strong ties' (Business survey, 2006). Trade relations in the small-scale agriculture of Bohol are also based on closeness and mutual reliance between local entrepreneurs. Here, many small-scale rice millers, who are also involved in rice trading, use the suki system to organise their trade relations with local farmers and other traders. In her study on trade arrangements in the vegetable market on Cebu, Hendriks (1994) assembles an extensive and useful definition of this trading system.

'In general, suki means regular customer. Philippine sukis are pictured as a system of personalised dyadic relations, or long-lasting contractual arrangements (Szanton, 1972; Davis, 1973). The term refers to the relationship itself, but also to both trading partners involved, buyer and seller. Producers, retailers, wholesalers and consumers alike, all can be sukis. The relationship has to be developed over time, for both parties to show mutual trust. [...] the main purpose of establishing suki relationships is to secure regular supply and disposal of produce. Suki implies living up to norms and values, expressed as utang na loob, a moral debt of gratitude, and pakikisama, the maintenance of smooth interpersonal relations. Also ritual kinship ties like godparenthood, compadrazgo, are linked to suki contracts and serve to enforce the long-term commitment of the participants (Davis, 1973). Some authors relate suki to a general notion of a "right to survive", a guarantee of safety and stability (Szanton, 1972). In what is generally referred to as "moral economy", suki networks are a kind of redistribution system and are mutually beneficial.'

In Bohol, the suki system is an informal and personal approach to doing business, with regularity, reciprocity and mutual trust as its main pillars. Rice millers have long-lasting relations with their suppliers and clients, based on mutual trust that has been created over time. The strong reliance of the Boholano entrepreneurs on personal ties to coordinate with their suppliers and buyers is also visible in table 5.11, which shows the additional contact

***Table 5.11:*** Additional contact with suppliers and buyers

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Additional contact with suppliers** | | | | |
| *Business* | 0 | 2 | 12 | 8 |
| *Personal/friendship* | 15 | 6 | 4 | 11 |
| *Shared membership* | 2 | 0 | 1 | 0 |
| *None* | 3 | 12 | 37 | 4 |
| *Total* | 20 | 20 | 54 | 23 |
| **Additional contact with buyers** | | | | |
| *Business* | 0 | 0 | 10 | 6 |
| *Personal/friendship* | 18 | 19 | 3 | 16 |
| *Shared membership* | 0 | 0 | 0 | 0 |
| *None* | 2 | 1 | 41 | 1 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

that firms have with their suppliers and buyers. This is contact firms have with their suppliers and buyers aside their mutual coordination on specific trade deals. For example, entrepreneurs who do business with each other might also be friends or members of the same sports club. At first sight, these informal types of business contact do not seem so influential, but they can cement relations between firms, leading to cooperative activities and mutual spin-offs (see next section).

The figures in table 5.11 underscore the earlier discussed presence of strong personal ties within the agricultural value chains of Bohol and Negros Oriental. In Cebu however, entrepreneurs share little time with their suppliers and buyers aside from the contact necessary to coordinate supply and demand flows. Unlike the entrepreneurs in the other two provinces, contact between Cebuano entrepreneurs and their trade partners is strictly business-oriented and not embedded in personal ties. The relatively small number of surveyed Cebuano firms that do have additional contact stated that this is strategic business behavior: stay in touch with your trade partners to stay informed about their operations and products. Finally, the client-oriented character of the tourism industry is in Bohol reflected by the personal contact that many firms have with their clients. Additional contact with local suppliers, on the other hand, is not common.

#### 5.3.4 Chain governance: inter-firm cooperation

A third aspect of importance for value chain governance is the extent of cooperation between firms. Cooperation refers to joint activities and actions undertaken by firms. The previous analysis of the contact that the firms have with their suppliers and clients offered an initial perspective on their cooperative behavior. In the agricultural value chains of Bohol and Negros Oriental, personal and family relations are strongly interwoven with business relations, causing more frequent and profound contact between actors in the agricultural value chains than between the firms in Cebu's export-oriented manufacturing

***Table 5.12:*** Cooperation with suppliers and buyers

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Cooperation with suppliers** | | | | |
| *Sharing information* | 14 | 2 | 14 | 9 |
| *Joint investments* | 0 | 0 | 0 | 0 |
| *Joint marketing* | 1 | 6 | 3 | 5 |
| *None* | 5 | 12 | 37 | 9 |
| *Total* | 20 | 20 | 54 | 23 |
| **Cooperation with buyers** | | | | |
| *Sharing information* | 15 | 6 | 13 | 9 |
| *Joint investments* | 0 | 0 | 0 | 2 |
| *Joint marketing* | 2 | 13 | 0 | 1 |
| *None* | 3 | 1 | 41 | 11 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

chain. As table 5.12 shows, the strong personal relations between firms in the agricultural value chains of Bohol and Negros Oriental do create cooperative spin-offs. The face-to-face exchange of information on market prices, the (expected) quantity and quality of commodities, and more general news from the local business communities and local politics is the most common cooperative activity that occurs between the surveyed firms and their trade partners. An exception is the frequent cooperative marketing undertaken by Bohol's tourism firms that aim to promote the island as an attractive tourist destination.

As table 5.11 already illustrated, there is a strong tendency among Cebuano entrepreneurs not to extend supplier and client relations beyond placing orders and closing trade deals. While there are firms that share information with their clients on the products' used materials, designs and prices, this cooperative activity is not so common. Surveyed entrepreneurs often replied they 'just want to do business and see no need to cooperate with them' or 'have no time for such contact' (Business survey, 2006). Statements like these indicate that firms in Cebu are completely focused on their core activity: exporting manufactured goods. This strategic attitude can be explained by the fierce competition the firms are facing on the global market. Foreign clients are mainly interested in the quality and price of the products they buy and less in the firms that produce them. The foreign buyers do not engage in cooperative activities with producers abroad to strengthen their mutual ties, as this makes them less flexible. Because of their dependence upon the foreign buyers, the Cebuano exporters' main concern is to meet the demands of these buyers. As such, the exporters are focused on the products they manufacture and trade and less about additional cooperative undertakings with their suppliers and buyers.

## 5.4 The meso level: integrated value chains

The preliminary discussion on the various characteristics of the surveyed firms' vertical relations provided insights into the organisation of production and trade relations of these firms. Extrapolating these findings to the level of the provincial economy, this paragraph will give a comprehensive view of the value chains that characterise the economies of Bohol, Cebu and Negros Oriental. First, the value chains and their key actors will be analysed by outlining their positions and mutual relations within the chain. Then, in section 5.4.4 the provincial chains will be qualified according to the governance types demonstrated by Gereffi, Humphrey and Sturgeon (2005) and Sturgeon (2000). In these analyses, the emphasis will lay on the position of the surveyed firms vis-à-vis other firms within the value chain. Lastly, there will be some concluding remarks to conclude this chapter.

### 5.4.1 The agricultural value chains of Bohol and Negros Oriental

As discussed in the previous chapter, the diverse historical development paths of the agricultural economies of Bohol and Negros Island have left a clear footprint on the current structures of the agricultural island economies. Whereas in Negros the opening up of Cebu's and Iloilo's ports to international trade and the influx of foreign capital in the late 19th century meant the start of a large-scale (plantation-style) agro-industrial economy, Bohol was largely neglected by the foreign colonisers and capitalists and remained a traditional subsistence economy with smallholders as the main producers. While a general picture of the organisational structure of the agricultural value chains in the two provinces can be drawn that roughly resembles the overall structures of the marketing networks for their leading commodities -rice in Bohol; sugar and coconut in Negros Oriental- (see figure 5.1), there are significant differences in the way these networks are organised in the two provinces.

*Negros Oriental*

While the sugar industry in Negros Oriental -as is true for the entire Philippine sugar industry- has lost much of its former prestige and dominant position in the local economy, the organisational structure of its production chain has remained largely intact over the past decades since the industrialisation of the industry under American colonial rule (see box 5.1).

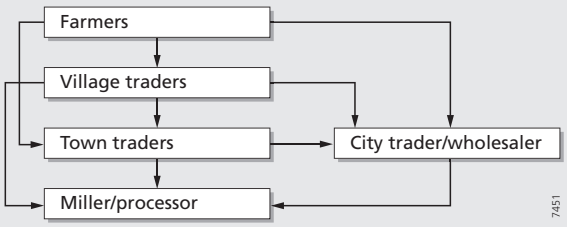



***Figure 5.1:*** Simplified diagram of the agricultural value chains - Bawalan, 2004

**Box 5.1 The industrialisation of the Negros sugar industry and its lasting impacts on the value chain**

As Billig (1993) has analysed in a descriptive manner, an important event that changed the value chain of the Negros sugar industry to its present form took place in the early twentieth century. The US colonial government, through the Philippine National Bank (PNB), financed the construction of 'sugar centrals', large centrifugal mills that are still major landmarks in the Negros landscape. These large-scale industrial factories replaced the numerous small and inefficient muscovado (unrefined brown sugar) mills that were found on the haciendas. The shift towards centrifugal mills had serious impacts on the organisational structure of the sugar industry. First of all, the mills introduced the 'share system' in which the mill processes and transports the sugar in exchange for a share of the finished product rather than outright purchase of the raw cane. This system gave the sugar industry a highly non-competitive trading mechanism, as the sharing rates were fixed between planters and millers usually ran for multiple years. Furthermore, most sugar lands were divided up into milling districts. This meant that all planters in a district had to mill their sugar cane with the mill located centrally in that district (this explains the name 'central'). Since most sugar was transported by rail, a planter could not choose to transport his sugar cane to another central. As such, the planters in a district -who united themselves in a planters' association- dealt with a single monopsonistic mill (Billig, 1993: 161). This organisational change in the value chain also had repercussions for the positions and influence of its key actors: planters, millers and traders. Whereas the planters used to control all production stages on their haciendas, the emergence of the mills made them dependent upon these large-scale industrial processors. Secondly, large wholesale traders became a powerful group, as they used their market access to manipulate prices. While the large planters and millers initially formed a bloc to safeguard their interests, they soon split up after fighting over the terms of milling contracts. In order to solve this chaotic situation, in 1938 President Quezon created a National Sugar Board to coordinate the industry.

The contemporary sugar industry on Negros is more competitive through the issuance of short-term (one year) contracts between planters and millers. Furthermore, since almost all sugar cane is transported via roads by trucks, milling districts have disintegrated and planters can choose which mills and traders to deal with. As an effect, most planters' associations negotiate with multiple mills rather than just the one in their district. Despite this more flexible bargaining position, the planters have been unable to hold on to their dominant position in the value chain. Since sugar is mainly distributed on the domestic market, the major buyers of the commodity have become the new 'sugar elite'. These major buyers are national business conglomerates that control the food processing industry (Billig, 2007). They dominate the domestic trade in sugar via their control over the sugar mills. While these shifts in power have not drastically changed the structure and organisation of the sugar value chain, they did alter the position and dominance of its key actors, as well as their mutual relationships.

The agricultural value chain of Negros Oriental is hierarchical in structure, with local industrial processors as the dominating actors. These mills are owned by national business conglomerates that are major wholesale sugar traders in the country or involved in food production, among others (van Helvoirt and van Westen, 2009).[9] Based on their quasi-monopolistic position as the sole industrial processors in the province and prominent trading position on the domestic market due to their sheer size, these industrialists-cum-wholesale traders are the most powerful actors in the local sugar industry. This dominant position used to be a privilege of the large-scale planters in Negros Oriental, who collectively owned the largest mill in the province -UPSUMCO- before it was taken over by the business conglomerate that runs it today.[10] In response to their loss of price control, the planters have united themselves in various planters' associations that aim to improve their bargaining position versus the local mill in their respective districts (see boxes 5.1 and 5.2). Two of the largest and most influential planters' associations are the Negros Oriental Planters Association (NOPA) and the Asociacion Agricola de Bais y Tanjay (AABT). Both are located in Bais City, near the CAB and URSUMCO sugar mills, but differ in membership size and composition. Whereas NOPA represents over 2,000 mainly small-sized planters, AABT's membership consists of an approximate 800 predominantly large-scale planters. This dichotomy between the two associations that is based on their members' size of landownership reveals a hierarchical division in the value chain also exists among the planters. Members of both associations receive a significantly higher profit share from the mill than non-members (who are usually the smallest farmers and land reform beneficiaries). Still, there is also a gap between the profit margin of NOPA members and AABT members, with the latter generating a higher margin (see table 5.13).

These findings reveal that the hierarchical structure of the sugar industry also surfaces within the primary production stage of its value chain: there is a class division among local planters, with the large planters having a better bargaining position with the mills than the small planters. This class segmentation is a clear characteristic of a plantation economy as described by Beckford (1972).

Operating in between these two groups of actors in the value chain are the local traders. Unlike the industrial processors and wholesale traders who operate on the national market, the surveyed local trade firms are much smaller -in terms of their trade flows and turnover- and operate as middlemen between the local planters, the local mills and larger wholesale traders who cater to the national market. The traders operate in a local market with familiar counterparts with whom they have long-term trading relationships. By virtue of this spatial and social proximity, regular face to face contact with suppliers and clients is common, and little need is felt for written contacts. Coordination with suppliers and clients is done in an informal way by most (74%) of the surveyed SME traders in the province. The majority of

***Table 5.13:*** Sharing percentages (% claimed by the mill) by mill, crop year 2005-2006

| | **CAB** | **URSUMCO** |
|---|---|---|
| *NOPA-members* | 28.40% | 29.93% |
| *AABT-members* | 27.86% | 26.35% |
| *Unaffiliated planters* | 43.74% | 43.72% |

Source: Personal interview, 2007

the traders (59%) stated that they know their main suppliers and clients well and deal with them on a personal basis. The way the local traders operate as middlemen is also shaped by the protected and highly regulated market they operate in. As in many other sugar-producing countries, the trade of sugar in the Philippines is protected from the 'free world market' via import controls and tariffs. Furthermore, the domestic sugar trade is regulated by the use of a price sharing system between planters and millers. This system is controlled by the Sugar Regulatory Administration (SRA), a government organisation under the Department of Agriculture (see box 5.2).

Despite the controversy and conflict it causes between large producers and wholesale traders (see appendix 11), the regulated and protected marketing system is favoured by the producing actors in the sugar industry, since both planters and millers benefit from the price protection and stability. Furthermore, the planters appreciate that they remain control over 'their sugar' after it is milled and ready for trading, as they own the quedans that represent the sugar. The local traders in Negros Oriental are also in favour of the regulated trading system, as it offers them a stable marketplace with a relatively high level of security. However, in their role as middlemen they are also involved in local sugar trade that circumvents the regulated system by buying raw sugar cane directly from small planters -who prefer a direct cash payment over the more sluggish sale of their quedans- and sell it at a profit to the local mills that issue all the quedans to themselves.

Except for the sharing system, the organisational structure of the local coconut industry -the second major agro-industry in Negros Oriental- is similar to that of the sugar industry. It is a hierarchical system that is dominated by a monopsonistic coconut oil mill that receives its supplies via a trading network that contains various 'layers' of local traders, including its own local trading arm. The independent traders speculate on the price of copra, as they buy from farmers when the price is low and store it in their warehouse until buying prices at the mill have gone up.[11] Similar to sugar, the trade of copra and coconut oil has a history of strong intervention and regulation by the national government (see appendix 12). However, most of the public trade organisations that had a firm control over the trade in copra and coconut oil were dismantled after the ousting of President Marcos. While the Philippine Coconut Authority (PCA) is still mandated to regulate the industry and its trade via a pricing scheme based on the New Copra Classification Standard, the agency does not have any policy power or resources for strict implementation of this trading regulation. As such, the copra traders and mill in Negros Oriental rely on a pricing system that is more practical and is still beneficial to their interests (Bawalan, 2004).[12] The PCA is mainly involved in organizing small coconut farmers in local cooperatives that are aimed at improving their bargaining position versus local traders and the mill.

***Bohol***

While the marketing system of Bohol's agricultural economy resembles the general picture drawn in figure 5.1 like Negros Oriental, there are some striking differences between the organisational structures of the two provincial economies. Two factors are particularly important in explaining these differences: (1) the scale of its producers; and (2) the range and consolidation of its marketing network (figure 5.2).

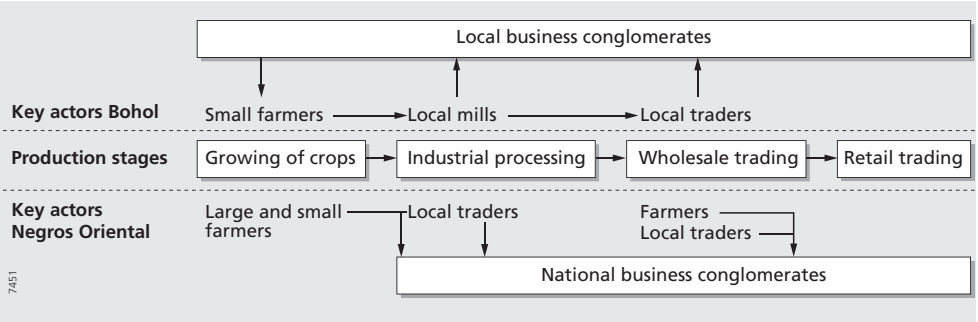



***Figure 5.2:*** Agricultural value chains in Bohol and Negros Oriental

Small farmers are the main producers of *palay* (unmilled rice). After harvesting, the palay is either bought by small local traders (sukis) in the villages who haul the dried palay to the nearby mill, or by the local millers themselves. Alternatively, there are also small subsistence farmers who pay local millers to mill their palay and take home the rice for their own consumption. Since harvest times create a peak in the supply of palay to the mills that causes the price offered by the mill to decline, local traders and millers -with sufficient financial reserves- wait for a higher price and store their dried palay at the mill's warehouse for processing and marketing later on when prices have risen due to decreasing supplies.

While Bohol's rice value chain is characterised by a large number of small farmers, traders and mills that operate on a local scale, consolidation has occurred through a strong vertical integration of processing and marketing activities by a duopoly of local business conglomerates, being the Alturas Group of Companies (Alturas) and Bohol Quality Corporation (BQ).[13] The two conglomerates have capitalised on their dominating sales positions -being the leading wholesalers and retailers on a highly localised market- to integrate other production phases along the agricultural value chain as well. By providing them with capital, the two conglomerates have incorporated networks of 'subcontracted' local mills and traders that specifically cater to their needs. The traders and mills use the capital to buy palay from local farmers and sell it (milled or unmilled) to one of the conglomerates. More recently, the conglomerates invested in large-scale processing plants that have allowed them to reduce their reliance on local mills, increasing their control over the supply of rice and its quality. Furthermore, to ensure their mills of a sufficient and stable supply of palay -and simultaneously bypassing local middlemen- the conglomerates have started to distribute production inputs such as seeds and fertilisers to farmers in return for their palay. As the patriarch of Alturas explains: 'For the farmers, it is their task to do the planting and harvesting and have the crop grown in a right way. We give them input, everything. Rice seeds, fertilisers, technical support, even our own tractors. So, that is how we do it' (Personal interview, 05-22-2007). Because of their economies of scale, the two conglomerates have large stocks of rice that allow them to control the supply of rice on the local market, as well as influencing its price.[14]

***The influence of ethnicity on the organisational structures of the two chains***

As discussed previously, the organisation of inter-firm relations within the two agricultural value chains largely depends on personal ties. As such, social relations are important for the local traders' economic activities. As discussed in the theoretical chapter, these relations

**Box 5.2 The regulation of sugar trade and the *quedan* system**

In the Philippines, to ensure high and stable prices of sugar, the trade in the commodity is protected and regulated. Protection via import control and quotas that shield the domestic market from the world market is common among sugar-producing countries. This is not true for the unique share-classification system in the Philippines that is controlled by the Sugar Regulatory Administration (SRA). This system serves two purposes: (1) apportioning sugar to different markets; and (2) maintaining price stability within and between crop years. It is through this system that the SRA acts to balance the interests of producers, traders and consumers in the industry. Despite its noble means, it is causing much controversy and conflict among the different actors, especially when producers feel that the agency is failing to protect their interests. The system functions as follows: In August or September of each crop year, the SRA issues Sugar Order No. 1. This is the division of sugar into five market categories: A-sugar, which is destined for export to the US as determined by that year's US quota (7% for crop year 2007-2008); B-sugar, immediately sellable on the domestic market (80%); C-sugar, the reserve portion that will be gradually converted to other classes by subsequent sugar orders (5%); and D-sugar, destined for the world market and used to unload surplus sugar to prevent supply from exceeding demand (8%). This latter category has almost never reached the world market in the past years due to shortfalls in domestic supply. The price of sugar in every category differs, with the highest price paid for A-sugar (Billig, 2003: 103-104).

When a planter delivers his cane to a central, it is weighed and sampled first to estimate the amount of sugar and molasses (a thick syrup by-product of sugar cane milling) that it will yield. Then, the mill -controlled and signed by an SRA officer- issues *quedans* to the planter and itself. These *quedans* are warehouse receipts or coupons representing ownership of a certain amount of sugar stored in the central's *bodega* (warehouse). The *quedans* are issued in the proportions of the different categories of sugar determined by the extant sugar order, so everybody benefits from the US quota premiums. The sharing arrangement varies between mills. On average, between 60 to 70 percent of the value represented by the *quedan* will go to the planter and 40 to 30 percent to the miller. Once the quedans are issued and the milled sugar is stored in a mill's warehouse, the planter can present his quedan at the warehouse to haul off the physical sugar that he owns to sell it on the market.

This is not what typically happens, however, since transport and marketing are usually carried out by a dense web of traders and brokers. Upon receipt of their *quedans*, planters (who are in need of cash after a planting period) usually sell them immediately to local traders who in turn sell them to larger traders. The major traders accumulate the *quedans* and subsequently sell them in volume to wholesalers, distributors, or processors. As an SRA official explains: 'if you are a producer, you do not need to bring your sugar into the market, but all you have to do is bring your *quedan* and sell it to the trader. Every Thursday in every mill is the *quedan* day, producers go to the office of their planters' association and the traders are also there. Together, they buy and sell *quedans* through an auction' (Personal interview, 03-29-

2006). There is a thriving secondary market in the trade for *quedans*, which often change hands multiple times. This is mainly caused by the conversions of the sugar categories. These are implemented by the SRA through periodical Sugar Orders that convert one class of sugar to another. In practice, it is almost always the reserve C-sugar that is converted to A or B. This reserve sugar is set aside by the SRA at the beginning of the milling season (when supply is high) and gradually converted to marketable sugar later on to regulate the supply of sugar on the market, thus stabilizing its price. However, since C-sugar is relatively cheap compared to A- and B-sugar, large wholesale traders speculate on these conversions. For example, a trader could buy C-*quedans*, wait for a conversion, and make a windfall profit when the cheap reserve sugar he bought becomes more expensive marketable sugar. This is a risky strategy, as the trader has to pay storage fees for leaving his sugar in the warehouse and the timing of the conversions is unclear. If the expected conversion does not happen on time, this would mean the trader incurs a loss (Billig, 2003).

can be structured along ethnic lines. Evidence of such exclusive social networking among firms can also be found in Bohol and Negros Oriental. Both agricultural economies are dominated by Filipino-Chinese business conglomerates. Owning multiple companies that are vertically integrated in the agricultural production chain, Filipino-Chinese family businesses in Bohol and Negros Oriental have a profound influence on the operation of the sector. In Bohol, the dominance of Alturas and BQ in the local marketplace is based on their extensive vertical integration in the agricultural economy accompanied by strong horizontal diversification of ventures in other sectors of the local economy as well (see textbox 4.1 for an overview of the ventures that are incorporated in the two conglomerates). In Negros Oriental, a similar position is claimed by the local Sy family, which is based in the province for two generations but originates from China. The diversified family business is involved in the processing and marketing activities of various agricultural commodities. It mainly operates on the national and regional level, but also exports some of its commodities (i.e. coconut oil and processed mangoes). The family is an important player in the domestic sugar trade, owning mills in Bukidnon and Leyte and a major wholesale trading firm.[15] In the province, the family is involved in the HTCI sugar mill in Sta. Catalina, owns the DUCOMI coconut oil mill in Bacong, operates a rice and corn mill and a fruit -mainly mango- processing company (Orient Foods Industries Corporation) in Sibulan and runs an agricultural commodities wholesale trading company in Dumaguete under the name of New Bian Yek. While the Sy family is more oriented towards the national market than the local conglomerates of the Ong family (BQ) and Uy family (Alturas) in Bohol, they have similar growth strategies that focus on vertical integration and horizontal diversification. By integrating the two phases in the agricultural value chain that add the highest value to the commodities (processing and trading), they not only can increase their profit margins, but it also allows them to obtain more control over the upstream producers in the chain as they are the main buyers. Furthermore, the horizontal diversification of their ventures in different commodities and sectors creates a corporate portfolio that has more growth opportunities and reduces risks.

### 5.4.2 Export-oriented manufacturing in Cebu

The 54 surveyed export-oriented firms in Cebu are involved in producing and exporting of furniture (21), fashion accessories (25), gifts, toys and housewares (5) and garments (3). Though the production processes of these goods are not completely identical, a general Cebuano manufacturing value chain can be drawn from this representative sample (see figure 5.3 below). The buyer-driven Cebuano value chain has a strongly hierarchical power structure that puts the local exporters in an intermediate position: they are dependant on foreign buyers but in turn dominate local suppliers of raw materials as well as subcontractors. The concentration in Metro Cebu of small-scale suppliers and subcontractors that cater to local exporters and the hierarchical organisation of their local inter-firm relations resembles the spatial and organisational configurations of a hub-and-spoke industrial district as depicted by Markusen (1996) (see figure 5.3). Interestingly, while Markusen discusses this type of district only within the organisational structure of TNCs, the example of Metro Cebu reveals that this type of networking can also exist among clustered SME exporters and their suppliers in a developing country.

The hierarchical and formal organisation of inter-firm relationships in Cebu's industrial district stems from its low-end position in a global consumer-driven value chain. For the Cebuano exporters, the contracts used by their foreign buyers impose hard and enforceable obligations with respect to these buyers: they have to accomplish on-time deliveries that meet specific quality standards. Clearly, the exporters are in a dependent and uncertain position here, as their buyers are flexible and can easily switch to other exporters for the products they need. For the exporters, on the other hand, it is far more complicated to find new wholesalers and retailers with access to foreign markets. This is a clear example of how power asymmetry influences the functioning of a global value chain (Gereffi, Humphrey and Sturgeon, 2005). In order to secure their fragile positions, frequent downstream business coordination is common among the surveyed Cebuano businesses, with 31% of the respondents stating that they have daily contacts with their overseas buyers. This frequent contact is considered necessary to exchange tacit information on specific product specifications that cannot be codified for design-based products such as furniture and fashion accessories. Therefore, the power asymmetry between the foreign buyers and

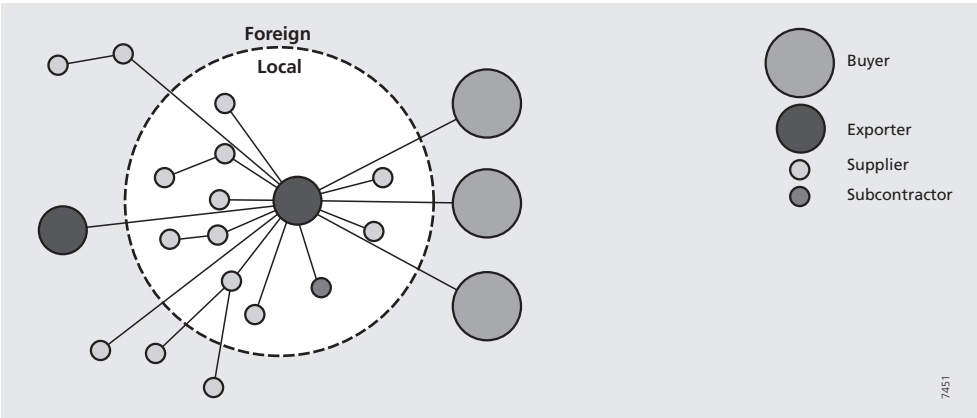



***Figure 5.3:*** Configuration of Cebu's hub-and-spoke industrial district - Source: Adapted from Markusen (1996)

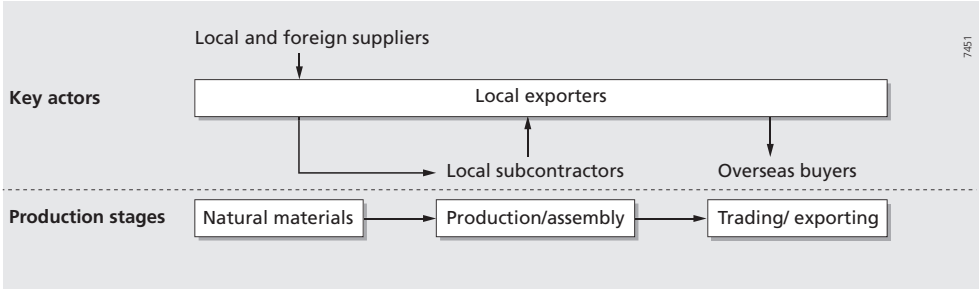



***Figure 5.4:*** Cebuano export-oriented manufacturing chain

Cebuano exporters is accompanied by a relatively high degree of explicit coordination (Gereffi, Humphrey and Sturgeon, 2005; Sturgeon, 2000).

In traditional Cebuano manufacturing branches such as furniture, fashion accessories, gifts, toys and housewares, a considerable part of the production process for exporting firms is in fact undertaken by a group of subcontractors (see figure 5.4). These are small-scale and home-based manufacturing entrepreneurs who assemble (semi-finished) goods on a piece-paid basis. A significant group (56%) of the surveyed exporters stated that they outsource (part of) their production work to these local firms.[16] A different survey held by the Canadian International Development Agency (CIDA) among 72 furniture manufacturers in Cebu reveals a similar picture: the majority of the companies (82%) acquire the services of subcontractors. Firms outsource almost half (48%) of their total work to these small businesses. On the average, a furniture business in Cebu employs 11 subcontracting firms in one year, each with about 36 workers (Pearl2 Project, 2007). When the exporters place an order with their subcontractors, contracts are again necessary to guarantee quality and on-time delivery. As the survey reveals, a relatively large portion (30%) of the Cebuano firms regulate their supply orders on a contractual basis. Additionally, upstream coordination with subcontractors occurs on a regular basis, with 26% of the surveyed firms stating that they have daily contact with their suppliers, discussing issues such as orders, deliveries and price updates on raw materials, while an additional 33% indicate having regular contacts on a weekly basis. For the exporters, outsourcing production work to local subcontractors is a way to reduce fixed labour costs, as the subcontractors are hired on a flexible pay-per-order contract basis, while their workers receive a piece-rate payment. This indicates that one of the important mechanisms for the exporters to deal with the dependencies and uncertainties caused by their vulnerable position on the world market -unprotected by government trade policies like the traders in Negros Oriental and Bohol (see appendix 12)- is by passing them on to their subcontractors who are at the bottom end of the global value chain (textbox 5.4).

While the exporters reduce their fixed labour costs and increase their production flexibility by using local subcontractors, there are also disadvantages and alternative costs that come along with subcontracting. The most common problems they encounter with subcontractors are the quality of work and the delivery dates. Therefore, most exporters have some system of quality control built in their operations structure. Another problem several exporters mentioned was disloyalty among subcontractors regarding the use of their

**Box 5.4 The vulnerable position of subcontractors in a buyer-driven global value chain**

While the furniture, fashion accessories and other manufactured goods from Cebu are traded by local exporters, much of the actual production of these goods is done by small-scale local producers. These producers are contracted by the exporters when they receive an order from a foreign client. As such, the subcontractors are at the lower end of the value chain, as they are entirely dependent upon orders from the exporters to keep their business up and running. Since there are many subcontractors in Cebu, competition among them is fierce. Furthermore, an emerging Chinese market exporting cheaper goods in larger quantities has worsened the situation by introducing a now widely accepted delayed payment schedule. A couple of years ago exporters received payment upon shipping goods out of Cebu's port. Today final payment is settled by arrival of shipment at the country of destination. This means Cebuano export companies have to pre-finance their production for two up to four months creating a tight budget with no opportunity to provide subcontractors down payments. The following comment was made by a female subcontractor, who operated a small production facility at her house in Mandaue City for assembly of necklaces and gift items when I visited her in May 2006. Her situation illustrates the vulnerable position of producers at the low end of a buyer-driven global value chain. 'We [family business] started as an independent exporting firm. Because of the high value of the Peso right now, we work as a subcontractor for larger exporters. Hopefully the Peso will go down and we will become cheaper and more competitive. For the time being, we try to survive. This is very difficult, since bank loans are not an option and we rely very much on the payments of our contractors. It is hard, because they pay us after we delivered the goods, after they received the whole order. We have a financial gap over time, since we need to pay our suppliers in cash advance. Then we have no money left and need to wait for our contractors' payments to be able to produce again, because we cannot buy any materials. Cancellation of orders by contractors is causing even worse problems for us' (Business survey, 2006). As this quote clearly shows, the main problem of the subcontractors is that they cannot control their production activities and rely heavily on assignments -and payments- from their contractors (who on their part depend on demand from foreign buyers). When I visited the woman's house in Mandaue City one year later, she no longer was in business as a subcontractor, but was employed by one as a piece-rate worker.

product designs (Business survey, 2006). This further explains the relatively strong use of contracts by exporters to regulate their supply relations.

### 5.4.3 Bohol's tourism industry

Different from the commodity-based agricultural and manufacturing chains discussed above, the tourism sector in Bohol is a service-providing chain. As such, trade relations between the key actors in the tourism value chain do not consist of physical goods.[17] To the contrary, these vertical relations are concerned with deals on room bookings, transportation, island tours, etc. Furthermore, the actors in the tourism chain are not only involved in business-to-business downstream trade relations, but also cater directly to

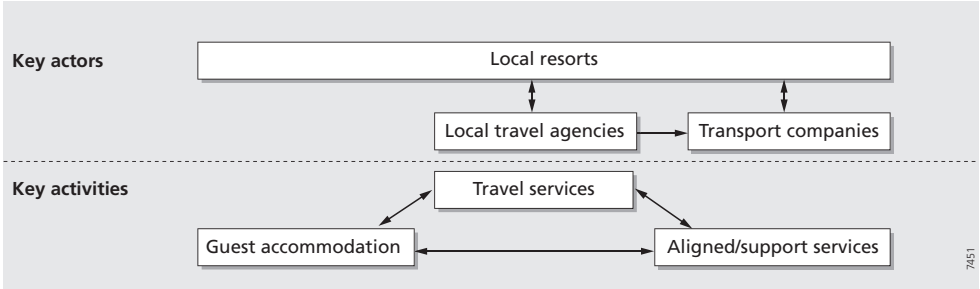



***Figure 5.5:*** Key actors and activities of Bohol's tourism chain

consumers. Except for some domestic travel agencies that are located in Manila and Cebu, the key actors in the tourism value chain are locally-based (see figure 5.5).

The beach resorts on Panglao Island are the actors positioned highest in the local tourism value chain. There is a wide range of resorts, ranging from (inter)national high-end resorts (approximately 10) mainly catering to foreign guests -particularly Koreans and Japanese- to locally-owned budget beach resorts (approximately 40) that mainly offer their cottages to domestic tourists and European backpackers. Local travel agencies are important intermediary trading partners for the resorts, because they are the front agents that market Bohol in the domestic tourism market and bring in tourists via their bookings. In this upfront marketing position, the local travel agencies are linked to overarching national and international travel organisations that enable them to expand their marketing reach on the domestic and global markets beyond their individual limits. Aside outsourcing their marketing activities to the local travel agencies, the high-end resorts also make use of individual marketing channels to attract new customers. Most of them have their own company websites, offering direct online booking tools that circumvent the travel agencies and their commission fees.

Secondly, the local travel agencies are also active as tour operators that contract local transport companies to organise island tours to entertain the guests in the resorts. Because of their close proximity, resort owners, travel agents and transport companies coordinate their trade relations via frequent personal contact. Some of the high-end resorts even have an office of a local travel and tour agency located on their premises to 'keep everything under one roof' and better serve their customers. Furthermore, they bypass local transport companies by offering their clients a shuttle service from and to the (air)port. Aside from increased service delivery to their customers, from a NIE perspective this vertical integration also allows the resorts to reduce transaction costs that stem from inter-firm coordination (Williamson, 1971): when firms integrate activities they have to coordinate less with other firms on business transactions, which reduces their transaction costs.

### 5.4.4 Qualifying the provincial chains

This section will use the previous value chain analyses to discuss the regional economies. It aims to demonstrate how the different positioning of local firms in different value chains effect their 'manoeuvring space', i.e. to what extent they have control over their trade activities on the market place. It analyses to what extent these chains can be qualified according to the theoretical insights discussed in chapter 2 and section 5.1. In this context,

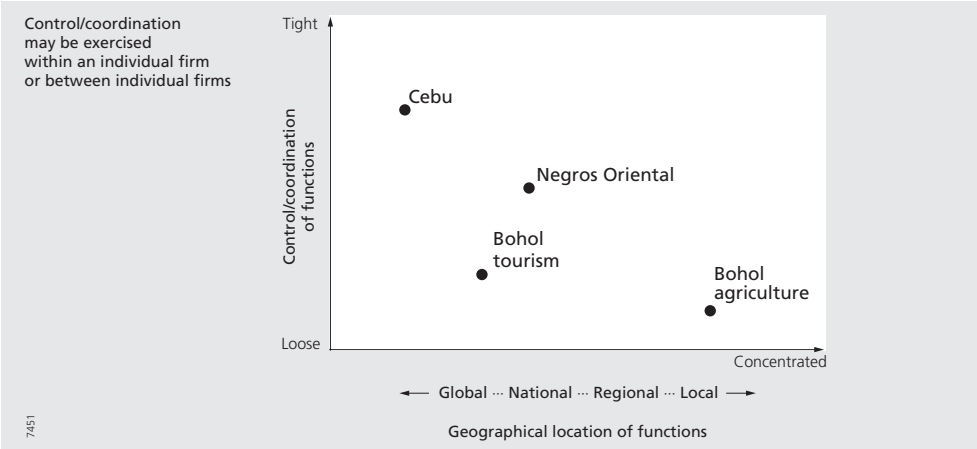



***Figure 5.6:*** Positioning of the provincial chains - Source: Adapted from Dicken, 1999.

complementing figure 2.1 (Dicken, 1999) with the insights from this chapter constructs a useful graphical tool to comparatively display the provincial production chains based on their two key characteristics: the geographical location of functions (x-axis), and the extent of control/coordination of functions (y-axis). This way, the geographical range and the functional coordination of the production chains are combined and set against each other in figure 5.6.

Cebu clearly separates itself from the other two provinces, being the most integrated into the global market. Though the manufacturing process itself is locally concentrated within a hub-and-spoke type of industrial district (Markusen, 1996), the local producers-cum-exporters are dependent upon demand from the global market. This is also true for Bohol's tourism industry, though to a lesser extent. The local industry is in an infant development stage and still depends much more on domestic travellers than foreign tourists. Its agricultural sector, on the other hand, is highly concentrated within provincial boundaries. Not only are all the actors in the value chain concentrated in the province, but also the trade they generate is highly localised. This is in contrast with the agricultural sector of Negros Oriental, whose trade flows are largely controlled by business conglomerates that operate on the national market.

Secondly, the organisation of inter-firm trade relations differs within the value chains. As figure 5.5 depicts, chain governance tends to become stricter when functions are more geographically dispersed. Recalling table 5.2 and its visual configuration by Gereffi, Humphrey and Sturgeon (2005) from chapter 2, different types of value chains can be identified according to their specific governance characteristics. Based on these governance characteristics, Cebu's value chain can best be described as a local export-oriented manufacturing district which is incorporated in a buyer-driven global value chain that is coordinated via *contractual* governance (see figure 5.7). Different from a relational value chain which is characterised by symmetrical dependence between suppliers and buyers, the asymmetrical dependence between the Cebuano exporters and foreign buyers is showcased in figure 5.7 by the dissimilar arrows between the two actors that vary in size according to their influence. The insertion into a value chain controlled by foreign buyers (lead firms)

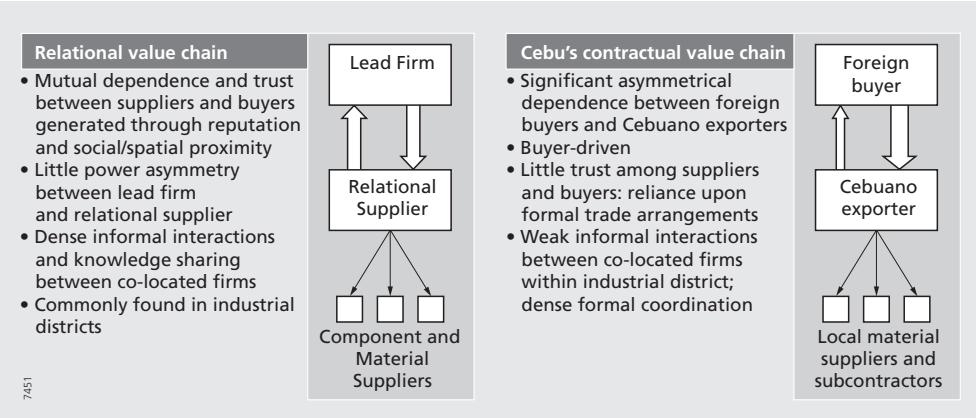



***Figure 5.7:*** Cebu's contractual governance - Source: Adapted from Gereffi, Humphrey and Sturgeon, 2005

has a major impact on the inter-firm relations within the local industrial agglomeration between local exporters, suppliers and subcontractors. It places the Cebuano exporters in an intermediate and vulnerable position that forces them to formalise their upstream and downstream trade relations via the use of contracts.

In Bohol, trade in its main agricultural commodity is dominated by two producers that have integrated various stages of the value chain and operate on a large scale. Chain governance can be described as an authority-based captive network type, with the leading conglomerates operative on a local scale. The lead firms enhance the 'captive state' of the small producers and traders through distribution of capital and production inputs. This top-down control undermines the traditional social production network (Sturgeon, 2000) that exists between the small farmers, traders and millers in the island communities. Based on spatial and social propinquity, informal relational networks are the most prevalent type of chain governance on the local level. The *suki* relations are a good example of this. However, the vertical insertion by local trading conglomerates is disrupting this traditional trade pattern, as it creates a hierarchical power structure in the value chain (see figure 5.8).

Bohol's picture resembles that of Negros Oriental, where trade in agro-industrial crops is dominated by national business conglomerates that have an integrated control over the crucial production and trading stages within the value chain. In this captive network, local farmers and traders have weak bargaining positions versus the market-controlling conglomerates. Trade regulations by the national government, however, are aimed at creating a more level playing field through a price-sharing system and market protection. As an effect, the power asymmetry in Negros Oriental's agricultural value chain is somewhat less prominent than in Bohol.

Finally, the vertical inter-firm relations among local tourism businesses in Bohol are organised via a relational network as depicted in figure 5.7. Vertical coordination of this service chain is based on the mutual dependence and spatial proximity of its key actors. While local resorts do hold the most eminent position in the value chain, they coordinate their operations with local tour operators and transporters as they depend on their services.

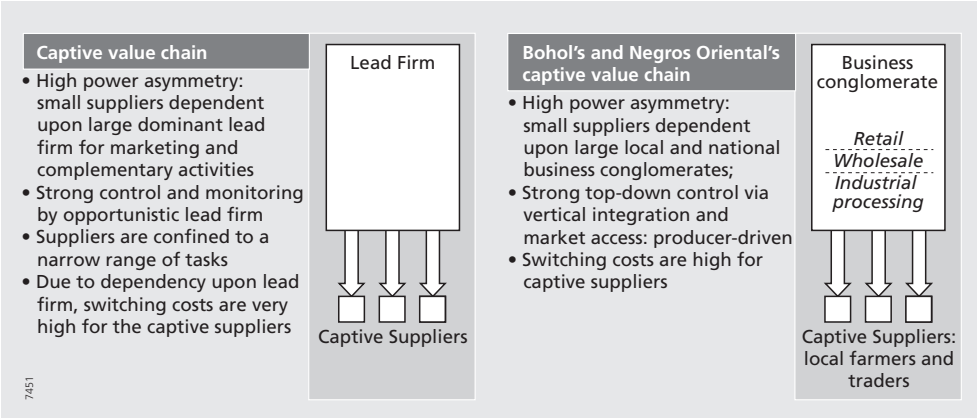



***Figure 5.8:*** Bohol's and Negros Oriental's captive governance - Source: Adapted from Gereffi, Humphrey and Sturgeon, 2005

Aside spatial and social proximity that harnesses mutual trust (Fukuyama, 1995), the common goal that binds the key actors in the value chain -attracting more tourists- is an important market driver that contributes to dense and smooth inter-firm coordination.

## 5.5 Concluding remarks

This chapter has applied a value chain analysis to comparatively outline the vertical inter-firm relations that define the three regional economies. The spatial spread of production and trade functions and the governance structure of the vertical inter-firm relations were two key characteristics in this analysis. As this chapter has indicated, both interdependent characteristics differ significantly among the provinces, leading to different networks of vertical inter-firm relations that affect local firms' performance. In Bohol, the dominant position of two local conglomerates explains the localised trading pattern. The two leading firms have a strong grip on the local agricultural economy that is not only based upon their control of the major processing facilities on the island; they also dominate the provincial wholesale and retail sectors. As a result, most local traders are 'encapsulated' as middlemen in the captive trade networks of one of the conglomerates, selling crops they bought from local small farmers to either Alturas or BQ. The two local conglomerates operate their supplies through a hierarchical network of middleman traders: small local traders in the municipalities buy the harvest from farmers and sell it to middlemen connected with Alturas or BQ. The deadlock position of the middlemen in a duopolistic market explains why most of them have irregular business meetings with suppliers and buyers to coordinate their trade flows. Cooperation does not occur.

Quite similar to Bohol, the trading network of the Negrense traders is to a large extent confined within provincial boundaries. The bulk of the SMEs' trade stems from their position between local farmers and mills: the traders buy the harvest from the farmers and sell it to the mills. The mills, as parts of national conglomerates, mainly cater to in-house downstream production plants. The traders operate in a local market with familiar counterparts with whom they have long-term trading relationships. By virtue of this spatial

and social proximity, regular face to face contact with suppliers and clients is common, and little need is felt for written contacts. However, apart from some sharing of market and product information, this informal coordination does not lead to strong vertical cooperative initiatives. In addition to the *quedan* system of auctioning shares in the supply of processed sugar, a further reason why local business people have little incentive to formalise chain coordination in the sugar trade, is the high level of national government control and regulation. In sum, the marketing of Negros produce is both regulated by government and very hierarchical in organisation, with a low degree of formalisation of exchanges. Upstream segments of the chain (farmers, then middlemen) have weak bargaining positions on the one hand but do have something of a guaranteed market for their products on the other.

The global buyer-driven Cebuano production network has a strongly hierarchical power structure that puts the local exporters in an intermediate position: they are dependant on foreign buyers but in turn dominate local suppliers of raw materials as well as subcontractors. The hierarchy in inter-firm relationships is reflected in the governance style of the exporters' downstream and upstream relations. For the Cebuano exporters, contracts impose hard and enforceable obligations with respect to their buyers: they have to accomplish on-time deliveries that meet specific quality standards. Clearly, the exporters are in a dependent and uncertain position here, as their buyers have the option to switch to other exporters more easily than most exporters are able to find alternative marketing channels. Therefore, frequent downstream business coordination is common among the surveyed businesses. Another way the exporters cope with their dependencies and uncertainties is by passing them on to their subcontractors. When the exporters place an order with their subcontractors, contracts are again necessary to guarantee quality and on-time delivery. As a result, upstream coordination with subcontractors occurs on a regular basis. This care for vertical coordination along the value chain does not, however, lead to closer cooperation: most SMEs do not engage in any joint activity with suppliers or buyers, be it in investment, marketing, knowledge or strategy formulation. Beyond chain governance, there is little that binds them together. The emphasis is on upstream control rather than cooperation within the value chain. A similar client-oriented relational pattern is apparent among Bohol's tourism firms that are also positioned in a global buyer-driven value chain.

With these concluding remarks, this chapter has discussed the different types of networking by local firms within their distinct (global) value chains. The following chapter will continue by analysing the relations that exist between local entrepreneurs who are not integrated within the same production chain. To what extent do firms coordinate with other local entrepreneurs, including their competitors? Furthermore, do local firms also cooperate with these firms, and if so, to what extent and in what fields? The following chapter seeks to find answers to these questions on horizontal inter-firm networking to further define the distinct relational patterns that characterise the provincial economies as distinct regional business systems.

## Endnotes

1 Parts of this chapter have been published elsewhere in an adapted version (van Helvoirt, 2008).

2 Based on Philippine law, foreigners do not have the right to own land titles or real estate properties in the Philippines. As an alternative for this group, however, marrying a Filipino national is considered one of the easiest ways to gain access to such properties and start a business. In such a partnership, at least 60% of the business property needs to be Philippine-owned.

3 The local-foreign owned agricultural family business in Negros Oriental is a sugar plantation and trading firm whose president has a dual citizenship: Spanish and Filipino.

4 Most workers that are employed by subcontractors cannot be members of a union, since the Philippine Labour Code states that only regular workers are allowed to form unions.

5 Many landless workers on the sugar lands in Negros receive their payments according to the *pakyao* system, an arrangement where seasonal farm workers are given tasks like wedding, planting, cutting or hauling of sugarcane in specific land areas or tons of production load, for a contracted price set by the landowner. Unlike regular workers, *pakyao* workers do not receive any benefits, such as for medical care or social security.

6 According to figures from the Bureau of Agricultural Statistics (BAS) in 2001, Negros Oriental is only 66.4 percent sufficient in rice, and 85.5 percent sufficient in corn, a condition which necessitates the importation of rice and corn from other provinces (Province of Negros Oriental, 2003).

7 After a contract is concluded between a foreign buyer and a Cebuano exporter, the buyer's bank can supply a letter of credit to the exporter. This letter states that the bank will transfer the order payment when the contract's terms and conditions are met by the exporter.

8 There are some foreign buyers who make use of local agents in Cebu to buy their furniture (Beerepoot, 2005).

9 All three sugar mills in Negros Oriental are owned by business conglomerates of national standing. The URSUMCO sugar mill in Manjuyod is a subsidiary of the Universal Robina Corporation (URC), a major food producer in the Philippines. URC is a subsidiary of JG Summit Holdings, Inc., a leading business conglomerate in the country with other business interests in: air transportation (Cebu Pacific Air); real estate development (Robinsons Land Corporation); banking (Robinsons Bank); telecommunications and internet (Sun Cellular and Digitel Philippines); and petrochemicals (JG Summit Petrochemical Corporation). JG Summit Holdings is founded by John Gokongwei, who was listed as the 34$^{th}$ wealthiest businessman in Southeast Asia by Forbes in 2005 with a net worth of $425 million. The second largest sugar mill in the province, CAB, is owned by another Filipino-Chinese family: the Chans. The family's leading man Jose Mari Chan is a major sugar trader in the country as he operates a vast sugar empire in Negros and Iloilo provinces. Aside the mill in Bais, the Chan family runs the Binalbagan-Isabela Sugar Company (Biscom, Inc.) in Negros Occidental and the Central Azucarera de San Antonio (CASA) in Iloilo and has interests in other sugar mills in the region as well. Thirdly, the smaller HTCI sugar mill in Sta. Catalina is owned by the local Teves family, which is involved in sugar trading and also owns sugar plantations, an ice plant and a rural bank in the province. All three business conglomerates' head offices are located in Metro Manila.

10 The URSUMCO sugar mill and refinery in Manjuyod has the largest production capacity and is the only central in Negros Oriental that can refine raw sugar. The mill started its operations in 1976 as the United Planters Sugar Milling Company (UPSUMCO) by a group of local planters with funding from the Philippine National Bank (PNB). In 1988, in the aftermath of the sugar crisis years, the central was acquired by Universal Robina Corporation, hence its new name.

11 DUCOMI is the single coconut oil mill in Negros Oriental and it consumes most of the local production of copra. Still, copra trade is not entirely confined within the provincial boundaries, as the

mill also imports copra from other regions of the Philippines and other wholesale traders and mills in the region (e.g. the Ludo & Luym Corporation in Cebu City) also buy copra from Negros Oriental.

12 The New Copra Classification Standard was introduced by the PCA in 1991 to provide guidelines for the pricing and quality criteria for the domestic trading of copra. The standard provided different pricing categories for copra based on their moisture and mould contents (Bawalan, 2004).

13 While there are no official figures available on their market values or revenues, various interviewees (including the two conglomerates' directors) stated that Alturas is the larger of the two local business conglomerates, controlling 60 to 70 percent of rice trade in the province. These statements were based on the size of its marketing network and production of its processing plant.

14 The domestic trade of rice is regulated by the national government via the National Food Authority (NFA). The NFA is tasked with regulating the trading of rice in order to protect both the small farmers and consumers. It does so by buffering stocks of rice -both bought domestically and abroad- and strategically distributing this subsidised rice at a low price into the market via NFA-registered outlets at appropriate times (when a supply-shortage is looming and the price of the staple food rises). To shield domestic producers from competition by cheaper world-market rice, the NFA has a near-monopoly position to import foreign rice via its imposition of a quota and import tariffs for private rice traders. However, this state monopoly on rice import is under increasing pressures from the WTO that pushes for free trade. Furthermore, in recent years the Philippines has become one of the largest importers of rice in the world, a trend that has raised voices from domestic traders to reduce state control over rice imports.

15 TAO Corporation is a holding company that has various subsidiaries involved in wholesale and retail trading of commodities (largest trader of molasses in the country), consumer goods and pharmaceuticals in the Philippines. The corporation (listed among the top-50 corporations in the Philippines with a turnover of US$500 million) is founded by Julio Sy, Sr. from Negros Oriental.

16 This percentage is drawn from a sample of 41 firms who were willing to respond if they used subcontractors or not. Of the 54 total surveyed firms, 13 did not respond.

17 The most significant trade flow of goods in Bohol's tourism industry is the supply of consumer goods to the resorts. These trade flows are largely local, as Alturas and BQ are the main suppliers of the surveyed resorts (Business survey, 2006).

# 6 Horizontal inter-firm relations and the role of business associations[1]

## Introduction

As the value chain analysis of the previous chapter revealed, most of the surveyed firms are active on a regional scale: the Boholano traders buy palay from local farmers and sell it to local conglomerates; in a similar manner, Negrense traders serve as middlemen in the local sugar industry; and the Cebuano manufacturers-exporters receive their raw materials and intermediate goods from local suppliers and subcontractors. Clearly, the home region is a major playing field for the entrepreneurs. However, this local playing field encompasses more key actors -e.g. local competitors- that have not been scrutinised in the previous analysis. As such, this chapter continues and extends the analysis of inter-firm relations by scrutinising the firms' networks of horizontal inter-firm relations that are restricted to their home regions. This issue is the subject of research question three, i.e. to what extent and how local firms are integrated in local networks of inter-firm relations? As in the previous value chain analysis, the extent and type of inter-firm contact and cooperation are the main analytical points of focus. These joint activities do not necessarily have to be bilateral between two individual firms, but can also be multilateral inter-firm undertakings that are initiated through interest groups like local business associations. An interesting complementary question is, then, how and to what extent do these forms of horizontal inter-firm networking generate collective efficiency gains that stimulate regional economic development?

After a brief theoretical discussion that outlines how bilateral and multilateral horizontal inter-firm relations are qualified, this chapter is divided in two empirical sections. First of all, the contact and cooperation between local entrepreneurs and competitors is analysed in section 6.2, with emphasis on both relational factors described above. Secondly, in order to scrutinise multilateral inter-firm relations section 6.3 analyses the presence and activities of business associations in the provinces. The concluding remarks of this chapter will discuss the development effects of the different forms of inter-firm networking.

## 6.1 Qualifying horizontal inter-firm relations

Using the concept of clusters (see section 2.6.2 for a definition), Porter (1990, 2000) and others (e.g. Maskell, 2001; Scott, 1996; Krugman, 1991) have extensively demonstrated how regional economies can be defined as integrated localities that are constructed by relational networks that interconnect local firms and aligned support organisations. Contrary to the vertical relations that exist between firms in a value chain, horizontal inter-firm relations within clusters do not form a hierarchical production network, but exist between local businesses that are operative on a similar level. This networking with

local peers can offer valuable competitive assets to firms, especially small-sized firms that cannot access these assets by themselves. Through horizontal networking with other firms, individual SMEs can address the problems related to their size and improve their competitive position. Small firms can collectively achieve scale economies beyond their individual reach, for instance via bulk-purchase of production inputs or combining production capacities to satisfy large orders. Alternatively, inter-firm coordination can also give rise to a collective learning space where knowledge is shared in a collective attempt to improve product quality and occupy more profitable markets. Furthermore, networking between firms, business support organisations and local policy makers can help to form a shared private sector development vision that strengthens the performance of a local cluster (Ceglie and Dini, 1999). As Porter (1990), Storper (1995; 1997), Krugman (1997), Scott (1998) and MacLeod (2001) have indicated, globalisation has not faded these location-specific agglomeration effects. Rather, the region has transformed into a 'porous territorial formation' (Coe et al., 2005) whose global competitiveness depends on endogenous assets -territorialised relational networks- and their interaction with global production networks. As such, after having studied the vertical relational value chains in the previous chapter, this chapter will analyse the region-based horizontal relational networks that exist between co-located firms.

Collective efficiency gains can be realised via different forms of inter-firm networking. Following Whitley's analytical business systems model, two sets of horizontal inter-firm relations that shape business systems are emphasised in this study: (1) the extent of collaboration between competitors; and (2) the extent of alliance coordination of sectors (Whitley, 1999). The first set is specifically focused on the coordination of firms with local competitors. Relations between local competitors are often multi-faced and are not restricted to competition only. In the work of Bengtsson, Hinttu and Kock (2003), four different types of relationships that can develop between competitors are identified: competition, coexistence, cooperation and co-opetition (see table 6.1).

In a competitive situation, firms undertake conflicting actions to maintain or enhance their positions, not concerned about the interests of the competitor. Coexistence occurs when local competitors know about each other, know the positions they have but do not challenge each other's positions. Therefore, the competitors seldom interact in rivalry with each other, and sometimes even help each other by referring buyers or suppliers. Relationships based on cooperation indicate a shared interest to work together towards a mutual goal. Cooperative relations may either have a more formal character, for instance strategic alliances, or a more informal character where the relation is based on trust and mutual

***Table 6.1:*** Types of relations among local competitors

| Type | Key characteristics |
|---|---|
| Competition | Rivalry, indirect relations, conflicting positions disable mutual benefits |
| Coexistence | Non-challenging relations, non-permanent complementary positions |
| Cooperation | Mutual interests, can be formal and informal in organisation |
| Co-opetition | Cooperation and competition, creating benefits and drawbacks simultaneously |

Source: Bengtsson, Hinttu and Kock, 2003

interests. It is assumed that when dealing with informal relations, the importance of social relations is stronger. The co-opetitive relationships, finally, are the most demanding of the four different relations among competitors, because firms cooperate as well as compete with each other. These two contradictive forms of interaction will simultaneously include benefits and drawbacks of both cooperation and competition (Bengtsson, Hinttu and Kock, 2003).

Secondly, alliance coordination of sectors refers to local inter-firm relations that cut across sectors and industries. Less based on strategic corporate behaviour and more on social and spatial proximity, these horizontal relational networks interconnect non-competing local firms with each other. As depicted in the conceptual model in chapter 2, the social embeddedness (Granovetter, 1985) of entrepreneurs in their local business communities, and the mutual trust (Fukuyama, 1995) and interdependence among local firms are important underlying determinants for the strength of the localised networks and their development impacts. Furthermore, as Putnam (1993) has argued, the role played by local business associations is crucial, as these organisations can stimulate coordinative and cooperative activities among local entrepreneurs. As such, they can be vital catalysts for social capital in a business community.

## 6.2 Horizontal business networks in the Central Visayas

After having discussed the theoretical insights on horizontal inter-firm networks, the focus in this empirical section shifts towards the three provinces in the Central Visayas again. To what extent can horizontal relations between local entrepreneurs be discovered and what do these relations consist of? Additionally, do they affect the behaviour of local SMEs, and if so, in which way? Following Whitley's model, a distinction is made between the relations local firms uphold with (a) local competitors and (b) other (non-competing) local entrepreneurs. First in this section, horizontal relations between non-competing local entrepreneurs are scrutinised, followed by an analysis of contact and cooperation among local competitors.

### 6.2.1 Contact and cooperation between local entrepreneurs

The horizontal relations networks of businesses in their community connect them with a wide variety of other local actors. These actors are not necessarily entrepreneurs, for instance in the case of family relations or neighbourhood friends. In order to create a proper overview of the relational networks, the analysis distillates the business-to-business relations out of the social networks of the local entrepreneurs surveyed. Therefore, the relational spheres depicted in figure 6.1 consist merely of inter-business relations. The radar chart shows the provincial compositions of horizontal inter-firm relations, i.e. which types of social networking the traders rely on to get in touch with other local entrepreneurs. Strikingly, both weak social ties (personal acquaintances) and strong social ties (family) (Granovetter, 1973) are prominent channels of inter-firm networking, especially in the provinces of Bohol and Negros Oriental. Although personal relations are also important in Cebu, there is a clear tendency among exporters to obtain more professional relations through formal business-to-business interactions or shared membership. What follows is a

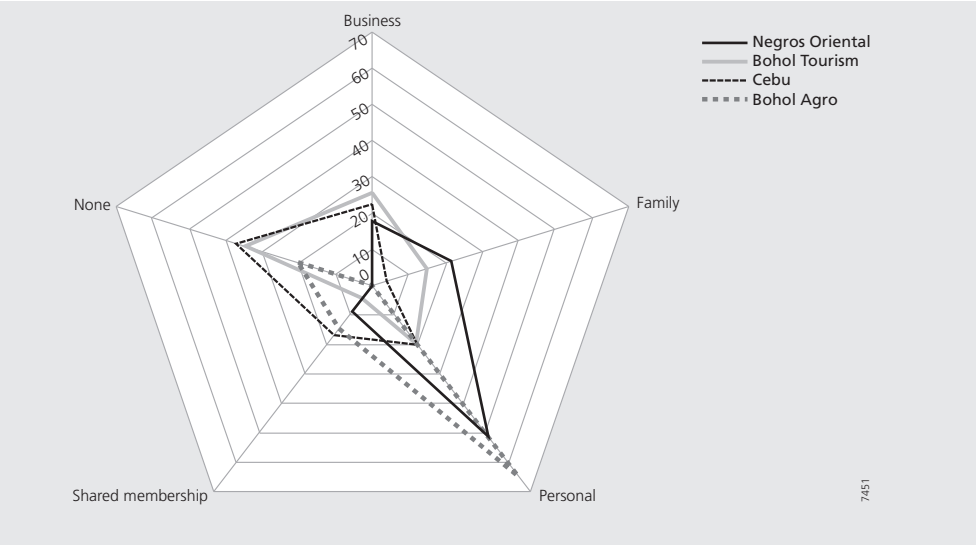



***Figure 6.1:*** Provincial compositions of horizontal business relations - Source Business Survey, 2006

discussion on the differences in horizontal relations, analysed from the varying provincial business environments.

A socio-spatial explanation for the strong presence of personal (often referred to as 'friendly' by surveyed entrepreneurs) horizontal relations can be found in the societal structures of the provinces. Bohol and Negros Oriental are rural provinces, with the bulk of their populations living in small settlements scattered along the coast (Negros Oriental) and island interior (Bohol). In these small communities, social cohesion among inhabitants is generally strong. Furthermore, in these rural municipalities the majority of the households' livelihoods depend on agricultural activities. This spatial socio-economic homogeneity, or 'being in the same place and situation', further contributes to dense social ties between local businessmen. As stated by many surveyed traders, they regularly meet at community activities, such as attending church masses, municipal fiestas or at the public market. Metro Cebu also has its fair share of similar social gatherings -from the city to the *barangay* and *sitio* level- where local entrepreneurs meet. Still, the socio-spatial context of a 'modern' individualistic urban society should not be ignored as a location-specific factor shaping inter-firm networks. Moreover, the myriad of business activities, together with the sheer size of the urban agglomeration, creates a more heterogeneous business arena.

Subsequently, there are cultural aspects that underlie social bonding among local entrepreneurs. In Philippine (business) culture, *pakikisama* (harmony and smooth interpersonal relationships) and *bayanihan* (helping each other in time of need) play important roles. Furthermore, through the principle of *utang na loob*, or debt of gratitude, Filipinos are expected to return favours to people who have helped them in the past (Enriquez, 1992). Aside from these 'national' cultural norms and values that characterise the Philippines' socio-cultural structure in general, there are also more region-specific business cultures that underlie the distinct relational patterns among co-located

entrepreneurs in the Central Visayas. Contrary to the 'home oriented', 'thrifty' and 'risk-averse' Boholano entrepreneurs who prefer to operate and gradually expand their business within the safe and known environment of their local community, much heard stereotypes of the Cebuanos in the Philippines are that they are 'entrepreneurial', 'outward looking', 'opportunistic' and 'risk-taking'. A common tale told by Cebuano entrepreneurs is that their strong outward orientation stems from the island's poor natural resources and limited fertile lands. As such, Cebuanos have always been searching the necessary supplies for consumption and production outside of their island's physical boundaries. The distinct Negrense business culture can be related to its historical development as well, as its plantation-style economy has generated a 'non-progressive' and 'non-entrepreneurial' elite class of landed families that tend to uphold exclusive (inter)family-based business interactions. Naturally, these generalising qualifications cannot properly explain the relational structures of the three provinces. Even so, these stereotypes, which were repeatedly used by respondents during personal interviews, do depict a general picture of the typical business cultures that exist in the three provinces.

Despite their relevance, endogenous socio-cultural factors seem to provide only a limited explanation for the distinct relational patterns depicted in figure 6.1. Clearly, there are additional dynamics that shape the extent and form of horizontal interconnectedness of entrepreneurs in their local business communities. One crucial exogenous factor is the extent and mode of local firms' insertion into the global market. Dependent as they are on foreign buyers and international markets for their sales, the typical Cebuano producer/exporter tends to be preoccupied with the outside world, rather than with what happens locally. A similar pattern can be found in Bohol's tourism industry, where the market focus of local resort owners and travel agents lies outside the island's boundaries. As they are less concerned with their home markets, these firms tend to operate more isolated in their local setting. Furthermore, the findings from the previous chapter indicated that the insertion of the firms into global buyer-driven value chains stimulates a more professional and strategic approach, not only to the foreign clients, but also towards co-located entrepreneurs. At first glance, these findings seem to correspond with the modernist and neo-classical assumption that globalisation has a determinant development effect via the societal and institutional changes they cause on the local level. However, they simultaneously dispute the generalising aspect of this assumption on globalisation as it shows that distinct regional cultures -in terms of entrepreneurship- have different coping abilities to exogenous changes that might lead to different paths of modernity and development in a globalising context (Keating, Loughlin and Deschouwer, 2003).

***Table 6.2:*** Horizontal inter-firm cooperation

| **Cooperative activity** | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Sharing information* | 9 | 4 | 23 | 15 |
| *Joint investment* | 0 | 0 | 1 | 1 |
| *Joint marketing* | 1 | 8 | 5 | 4 |
| *None* | 10 | 8 | 25 | 3 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

In terms of bilateral inter-firm cooperation, the local networks of horizontal relations displayed in figure 6.1 are mainly used by local entrepreneurs in the three provinces to share tacit business information (see table 6.2).

During encounters at social gatherings in the communities, local entrepreneurs discuss business issues in an informal way. Information on products and market prices are the most common points of discussion (Business survey, 2006). Aside from the rather loose and non-reciprocal sharing of tacit knowledge, more demanding forms of cooperation that requests mutual investments or the sharing of company resources are rare in all three regional economies. This finding indicates that the social pattern of horizontal networking in Bohol and Negros Oriental generates rather weak untraded interdependencies (Storper, 1995) for local firms. As the relations are often irregular and tend to be based on personal preferences, surveyed firms indicated that the biggest advantage of their dense social networks -aside the sharing of information- was that they operate in a 'friendly business environment' (Business survey, 2006).

***The influence of ethnicity on horizontal inter-firm relations***

In comparison with their Filipino peers, the horizontal relations maintained by the surveyed Filipino-Chinese entrepreneurs in the three provinces are more strongly embedded in family and membership ties (see figure 6.2).

As expressed in earlier studies on the position of Filipino-Chinese entrepreneurs in the Philippines, this finding of a distinct relational network based on shared membership and family ties is not unique to the Central Visayas. Explained as one of the pillars for the economic success of overseas Chinese in Southeast Asia by Liu (1998) and Mackie (1999), the ethnic business associations play an important role for at least the overseas Chinese themselves. In the Western Visayan city of Iloilo, Omohundro (1981) observed 'various types of merchant organisations, where social structural features of Chinese society provide a competitive advantage when doing business among Filipinos, who are without similarly developed institutions'. Also in the Central Visayas the Filipino-Chinese have organised themselves in their own business associations, as will be further discussed in section 6.3. In a study comparing Chinese and Filipino entrepreneurship, Wong (1985)

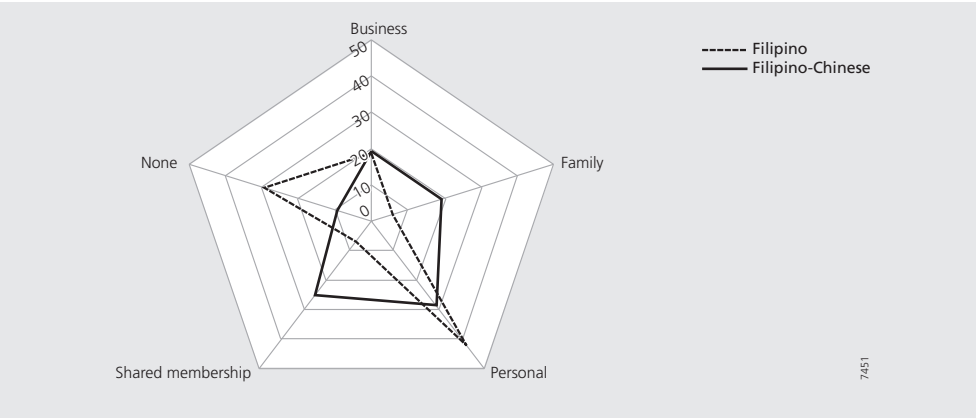



***Figure 6.2:*** Spheres of inter-firm relations along ethnic lines - Source: Business Survey, 2006

***Table 6.3:*** Filipino-Chinese retail businesses in capital cities

| Family name | Retail businesses |
|---|---|
| **Tagbilaran City** | |
| Uy | Island City Mall, Plaza Marcela department store and Alturas supermarket (Alturas Group of Companies) |
| Ong | BQ mall and supermarket (Bohol Quality Corporation) |
| Huan | Shoppers' Mart supermarket |
| **Dumaguete City** | |
| Cang | Cang's Inc. department store |
| Lee | Lee Super Plaza supermarket and department store |
| Quiamco | Trader's Lucky Mart supermarket |
| **Cebu City** | |
| Gaisano | Gaisano Malls (Main, South and Country Mall) |

Source: Interviews, 2006 and 2007

recalls earlier studies on Chinese entrepreneurs in Manila (Amyot, 1973) and Iloilo (Omohundro, 1981), which showed that most Chinese firms started as a family concern. As the family of the founder expanded, so did the firm, which remained in the hands of the family. Mackie (1999) also refers to the same study of Omohundro when stating that for the overseas Chinese 'business life and family life are still so closely interwoven as to be almost inseparable'. Such strong social networks along family lines are also recognisable in the Central Visayas. A fitting example is the pivotal position of Filipino-Chinese retail traders of consumable goods in the capital cities of the three provinces. In Dumaguete City, three Filipino-Chinese families (Cang, Lee and Quiamco) operate their retail stores along Perdices Street, the main commercial street in the heart of the city. Similarly, the local Uy, Ong and Huan families are the leading retailers in Tagbilaran City. Finally, the large population of Cebu City has attracted the attention of major national retail chains such as SM, Ayala and Robinson's. Still, the local Gaisano family has retained a firm position in the city's retail marketplace (see table 6.3).

As stated in section 2.6.4 of the theoretical framework, Putnam (1993) has described these tight socio-culturally embedded relational networks among overseas Chinese as *guanxi* that generates social capital and claims they are important factors for successful business communities of overseas Chinese in East Asia. The Chinese term *guanxi* generally refers to social networking among (overseas) Chinese entrepreneurs and is often translated as 'relationship' or 'connection' (Yeung and Tung, 1996). An important element of this traditional Chinese relational constellation is that it is based on mutual trust. This tends to create strong ties that bond the overseas Chinese, but also disrupt the formation of bridging weak ties (Granovetter, 1973) that connect them with other social groups in their host countries. As Redding (1995: 63) explains, 'the instinct of the overseas Chinese to trust friends but *no-one else* is very deep-rooted', even in the more open societies in the Asia-Pacific region such as the Philippines. While the survey findings indicate that the Filipino-Chinese entrepreneurs do rely on close-knit ties via family (like the two local tycoons in Bohol) and 'ethnic business associations' to organise their business-to-business interactions, it would be too straightforward to interpret this as a presence of exclusive *guanxi* networks that are deeply rooted in traditional Chinese culture and isolate them from

mainstream Philippine society. After all, most surveyed Filipino-Chinese entrepreneurs are well integrated in their local (business) societies and do not operate as secluded groups that are separated from their Filipino counterparts. Their strong involvement (44% membership) in local religious and civic organisations that have a broad basis in the local societies is characteristic for their participatory and interconnected position in the communities.

### 6.2.2 Contact and cooperation between local competitors

Having analysed the coordination between non-competitive local firms, this section investigates a second relational network that can generate cluster effects. How and to what extent do the traders communicate and cooperate with their local competitors, and what are the collective gains from this contact and cooperation? Many of the surveyed entrepreneurs stated they remain somewhat suspicious about the sharing of information with local competitors, because they do not want to lose sensitive company information that could damage the competitive edge of their businesses. In the competitive environment of Cebu this cautiousness is present most clearly, with market knowledge (esp. contacts with foreign buyers) and specific product information -such as furniture designs- considered as highly valuable by entrepreneurs and thus guarded carefully (see also Beerepoot, 2005). Local exporters tend to be reserved and only communicate with competitors they know personally, and whom they believe they can trust. This explains why the survey showed a large group of Cebuano entrepreneurs who stated they do not have any contact with local competitors at all (38%). As shown in figure 6.3, this percentage is considerably higher than in the other two provinces. The agricultural economies of Bohol and Negros Oriental reveal a different scenario, with significantly stronger networks of personal and business relations among local competitors. Being active in smaller business communities and not faced with global competition on the local level, entrepreneurs in the two provinces create more socially embedded business relations. As an effect, business-oriented relations among local competitors are also significantly higher in Bohol (25%) and Negros Oriental (43%) than in Cebu (20%). Additionally, the high percentages of personal relations among local competitors in the agricultural economies (Bohol: 75%; Negros Oriental: 39%) provide further plausible evidence that informal trust-based relations occur more often in the two rural provinces compared than in Metro Cebu (9%). Finally, the tourism industry in Bohol reveals a mixed relational pattern, characterised by a strong presence of strategic business-oriented (bilateral and via business associations) relations (55%) and personal ties (30%).

In Cebu many entrepreneurs (43%) stated they do not cooperate with local competitors individually. In Bohol and Negros Oriental these percentages are much lower (8% and 22% respectively). The survey shows that the single most important cooperative activity among

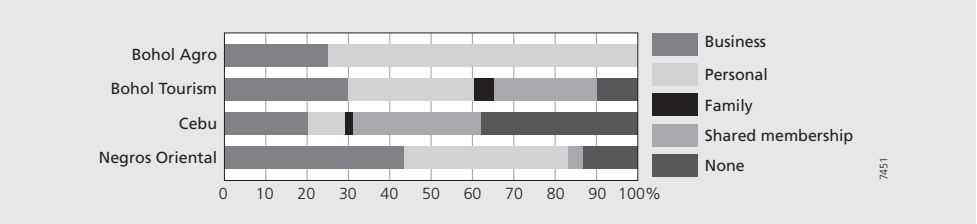



***Figure 6.3:*** Contact with local competitors (%) - Source: Business Survey, 2006

***Table 6.4:*** Cooperation between local competitors

| Cooperative activity | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Sharing information* | 20 | 8 | 20 | 16 |
| *Joint investment* | 0 | 0 | 0 | 0 |
| *Joint marketing* | 0 | 9 | 11 | 2 |
| *None* | 0 | 3 | 23 | 5 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

individual competitors is sharing of market information. In all three provinces, this non-restrictive form of cooperation is the most common one among competitors. However, the relational channels through which this information on products, prices, materials and technologies is shared vary among the provinces. In the rural business communities of Bohol and Negros Oriental, however, there is not such a strong tendency to withhold company or product information from other local competing entrepreneurs. Often stated by interviewed entrepreneurs as a 'friendly way' of doing business in the community (Business survey, 2006), personal ties create less thresholds to cooperative business interaction. In line with Fukuyama (1995) and Maskell (2001), the strong interconnectivity of the local business community has positive effects for the operation of the local economy. For the agricultural businesses, the close social ties create a 'safe' and transparent business environment, where uncertainty about other competing economic actors is low. Clearly, the socially embedded network of horizontal relations increases the flow of market information among local competitors (see table 6.4).

However, the collective efficiency gains of the informal ties are limited, as more demanding forms of cooperation such as joint marketing barely occur. This is more common practice in Cebu and Bohol's tourism sector. There are convincing explanations for this. For exporters and tourism operators to become 'known' on the global market, it is crucial to market themselves and their products aggressively. Since this is a costly activity that cannot be shouldered by most SMEs individually, collective efforts are necessary. Branch-specific business associations in Cebu enable and encourage local competitors to meet and participate in cooperative marketing (e.g. representation at trade fairs) and local branding activities (e.g. Bohol as an 'island paradise') that create collective benefits. This indicates that a more extensive and structural form of cooperation also requires a more professional and business-oriented relation between competitors.

Aside from mutual contact and cooperation, a third form of strategic interaction between local competitors is less focused on gaining mutual benefits and more on individual gains. In order to gather valuable market information on prices, clients, suppliers and products, entrepreneurs often try to look over the shoulders of their local competitors. Knowledge about their competitors' operations can give the entrepreneurs a competitive advantage. For instance, they can aptly adjust their pricing strategy to the competitor's moves, placing them in a more favourable position. Especially in a highly competitive economy in which a large number of businesses fight for their market shares, monitoring can be an effective and advantageous tool. However, the global orientation of the Cebuano exporters

***Table 6.5:*** Monitoring of local competitors

| **Monitoring technique** | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Via clients* | 9 | 2 | 15 | 5 |
| *Direct contact* | 8 | 8 | 4 | 15 |
| *Via business associations* | 0 | 0 | 16 | 0 |
| *None* | 3 | 10 | 19 | 3 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

and Boholano tourism firms seems to decrease their attention for local competitors, as respectively 35% and 50% of the surveyed firms do not monitor their local competitors. These are considerably higher figures than in the agricultural economies of Bohol (15%) and Negros Oriental (13%). Overall, references from customers are a common source of market information for the surveyed firms, as they have a good comparative view on the market, its players and their products and prices. However, in Bohol and Negros Oriental, a different monitoring technique prevails that does not occur in Cebu: direct contact (face-to-face) with local competitors. Again, in Cebu the business associations serve as the coordinative platforms used by the surveyed firms to interconnect locally, as well as to monitor their competitors (see table 6.5).

Having discussed the competitive relations in the provinces, is it possible to qualify these relational networks as competitive, coexistence, cooperative or co-opetitive as listed in table 6.1? The agricultural economies of Bohol and Negros Oriental, first of all, show much similarity with the situation of coexistence. The entrepreneurs know each other and each other's positions within the local economy, but do not extensively compete or cooperate with each other. Because of this localised trading pattern in a familiar setting, information on products and prices are shared informally among entrepreneurs. Still, more extensive forms of cooperation that require joint investments do not occur. The opposite occurs in Cebu, where informal relations among competitors are weak due to a lack of trust, but more extensive strategic alliances between competitors are undertaken more frequently. This fits the co-opetitive situation, where local competitors have contradictory relationships: both competitive and cooperative. The role played by local business associations is crucial here, as they function as the intermediary platforms that stimulate interaction among competitors. Finally, horizontal coordination among competitors in Bohol's tourism sector relies on both informal and formal ties, indicating a mix of trust-based and strategic coordinative activities that matches with a cooperative network.

## 6.3 The role of business associations

Complementing the previous sections that focused on individual forms of horizontal inter-firm coordination, this section will analyse collective forms of networking by local entrepreneurs. In particular, the role of local business associations in the regional economies is scrutinised here. Influenced by the dominant work of North (1990), there is a common negative presumption against 'special interest' groups within institutional

economics. Institutions are often only identified as rules (formal and informal) and not organisations such as business associations, because they embody particular interests. 'The point of departure, then, in much NIE work on business associations is that they represent interests and are thus part of the problem requiring some institutional reform in or by the state' (Doner and Schneider, 2000: 41).

Despite the wariness among institutional economists with regard to the positive effect of business associations (e.g. see the studies of Olson (1997) and Moore and Hamalai (1993) that have described business associations as wrong rent-seeking interest groups), recognition of business associations as potential catalysts of regional economic development continues to grow. This is especially true for developing countries. Helmsing (2001) has argued that business associations can be seen as 'meso-institutions' -i.e. institutions at the level of the sector or region- that can stimulate regional economic development as they facilitate inter-firm cooperation. Doner and Schneider (2000a) agree with this argumentation, stressing that business associations often fill the institutional gap left behind by the weak state apparatus in developing countries. According to these authors, the associations can play a central role in supporting the local business communities and thus stimulating economic development. The study of Goldsmith (2002) in Africa showed that business associations are doing reasonably well as policy advocates for better governance. Additionally, the associations also appear to be building social capital (defined as the ability to trust and work cooperatively with each other) among their member firms. This section will discuss the role of local business associations in the three regional economies as to what extent and how they contribute to networking among their member firms. Two 'market-enhancing' functions of local business associations are analysed below: (1) horizontal coordination amongst producers; and (2) vertical coordination of upstream and downstream linkages (Doner and Schneider, 1998; Nadvi, 1999).[2]

### 6.3.1 Types of local business associations

Aside from civic and religious organisations, three main types of business associations can be distinguished in the provinces, which can be typified as (a) general associations; (b) industry associations; and (c) ethnic associations. The first are generic business organisations that represent the entire local business community. As such, they differ from the industry-specific and ethnic associations, which represent more homogenous business groups based on the industry they are active in or their ethnic background respectively. Besides these business associations there are also local civic and religious organisations that serve as gathering platforms for local entrepreneurs. Table 6.6 provides an overview of the 23 surveyed and interviewed provincial associations, accompanied by their year of foundation and membership numbers (see table A10 in appendix 13 for an overview of the membership characteristics of the surveyed firms).

First of all, the civic and religious organisations in the provinces are important groups for local entrepreneurs to meet in an informal manner. Organisations such as the Rotary Club and the Brotherhood of Christian Businessmen and Professionals (BCBP) are well known and respected organisations in the provinces because of the social projects they initiate in the communities. While these activities are also undertaken by business associations, these organisations' prime focus lies within the economic sphere. The general chambers of commerce are the leading business associations in the provinces. Based on their large

***Table 6.6:*** Surveyed and interviewed associations

| | Type of association | Year of foundation | Membership size |
|---|---|---|---|
| **Bohol** | | | |
| Bohol Chamber of Commerce and Industry (BCCI) | General | 1959 | 138 |
| Bohol Filipino-Chinese Chamber of Commerce and Industry | Ethnic | 1940 | 120 |
| Bohol Association of Hotels, Resorts and Restaurants (BAHRR) | Industry | 1987 | 71 |
| Bohol Federation of Travel and Tour Operators (BOFETTO) | Industry | 1997 | 7 |
| Association of Bohol United Transport Services Incorporated (ABUTSI) | Industry | 1996 | 75 |
| Alona Beach Community Foundation Incorporated | Civic | 1997 | 38 |
| Brotherhood of Christian Businessmen and Professionals (BCBP) | Religious | 1992 | 200 |
| **Cebu** | | | |
| Cebu Chamber of Commerce and Industry (CCCI) | General | 1913 | 700 |
| Mandaue Chamber of Commerce and Industry (MCCI) | General | 1965 | 98 |
| Cebu Filipino-Chinese Chamber of Commerce and Industry | Ethnic | 1940 | 200 |
| European Chamber of Commerce and Industry, Cebu branch | General | 1991 | 150 |
| PHILEXPORT Cebu | Sectoral | 1983 | 7* |
| Cebu Furniture Industries Foundation (CFIF) | Industry | 1974 | 180 |
| Cebu Garments Industry Foundation (CGIF) | Industry | 1995 | 15 |
| Association of Food Industries (AFI) | Industry | 1985 | 27 |
| Mactan Export Processing Zones Chamber of Exporters and Manufacturers (MEPZCEM) | Industry | 1976 | 130 |
| Gifts, Toys and Housewares Cebu (GTH Cebu) | Industry | 1991 | 75 |
| Cebu Fashion Accessories Manufacturers and Exporters (Cebu FAME) | Industry | 1987 | 88 |
| **Negros Oriental** | | | |
| Negros Oriental Chamber of Commerce and Industry (NOCCI) | General | 1992 | 58 |
| Filipino-Chinese Chamber of Commerce and Industry Negros Oriental | Ethnic | 1945 | 47 |
| Rotary Club Dumaguete (East chapter) | Civic | 1991 | 31 |
| Asociación Agricola de Bais y Tanjay (AABT) | Industry | 1918 | 800 |
| Negros Oriental Planters Association (NOPA) | Industry | 1976 | 2,041 |

* PHILEXPORT Cebu is the umbrella organisation for industry associations in the local export-oriented manufacturing sector
Source: Business association survey, 2006

membership numbers and varying composition, they are the main representatives of the provincial business communities. The provincial chambers of commerce are all based in the provincial capitals, which influences their membership compositions. This is particularly relevant for the representation of the chambers of commerce in Bohol and Negros Oriental. Most of their members are based in the cities, and have members that are not active in the agricultural sector, except for trade in primary goods. As such, they represent the 'urban' local economies of Tagbilaran and Dumaguete rather than the agricultural economies and its rural actors. However, outside the urban centres there are no business associations that represent the local traders in the agricultural provinces. Furthermore, many of the surveyed agricultural traders are located in these urban centres. Being focused on one particular product group, the industry associations are smaller in

size and more homogenous in membership composition than the general associations. Unlike the chambers of commerce that have heterogeneous membership compositions with a diverse range of member firms, members of industry associations are often local competitors. This difference in membership composition between general and industry business associations creates different internal relations among members, which influences the functioning of these two organisations.

Finally, as figure 6.2 already revealed, a unique role is played by the Filipino-Chinese business associations which distinguish themselves from other local groups along ethnic lines. Since the Filipino-Chinese are well represented in the local business elites, the Filipino-Chinese business associations are also important organisations for the local business environments. Though smaller in membership size, the prominent position their members uphold in the provincial economies should not be underestimated (e.g. see tables 4.4 and 6.3). Recalling the NIE perspective, these restricted yet powerful business groups can function as exclusive interest clubs that do not create positive spin-offs for the entire local business community. From this stance, the exclusive organisation of Filipino-Chinese within ethnic business associations could be viewed as a deliberate effort of Filipino-Chinese entrepreneurs to minimise social interaction with their Filipino counterparts (Weightman, 1967). However, as indicated earlier in section 6.2.1, such deliberate ethnic segmentation is not evident in the business societies of the Central Visayas. A significant majority of surveyed Filipino-Chinese entrepreneurs (63%) in the provinces are member of a general or branch business association and 44% participates in local religious and civic organisations, while only 19% is solely member of an ethnic association. The spread membership of most Filipino-Chinese entrepreneurs demonstrates their active involvement in the local business communities.

Analysing the presence of business associations in the provinces depicted in table 6.6, the abundance of industry associations in Cebu's manufacturing sector and Bohol's tourism industry is striking. Particularly in Metro Cebu the local business society is heavily institutionalised through the myriad business organisations and business support organisations that are active in the region. The relatively strong presence of business associations in Metro Cebu can be explained by the different market forces local firms in the provinces have to cope with. For the global-oriented firms in Cebu and Bohol's tourism industry, the creation of business associations is deemed necessary to accomplish inter-firm coordination and cooperation in a highly competitive environment. Local export-oriented firms in Cebu are aware of the fact that they need to adapt and upgrade their operations so as to cope with world market competition. This brings along a more professional, formalised and business-minded approach towards other local businesses in their relational networks. As an effect, a wide variety of industry associations -aligned with a particular product(group)- is active in Metro Cebu. In Bohol's tourism industry, horizontal inter-firm alignment occurs in a similar manner as in Cebu: the different local actors (resorts, travel agents and transport firms) have initiated their own industry associations. As in Cebu, a key driving force behind this formal inter-firm coordination can be linked to the exposure to global competition: in their collective strive to attract foreign tourists the different actors need to join forces to streamline their activities and improve their services.

Among the agricultural traders in Bohol and Negros Oriental, however, there is little need to organise themselves in collective organisations. They prefer to interact through informal, personal relations, which sufficiently enable them to coordinate and inform each other on the local market. A typical example is the current hibernating status of the Rice and Corn Millers Association of Bohol, which can be attributed to a lack of interest and participation from local millers-cum-traders (Business survey, 2006). In Negros Oriental, planters' associations such as AABT and NOPA in Bais City are important collective organisations for local sugar planters to improve their market position. Trading firms in the area, however, have not formed any collective organisations as they can rely on their social networks for their trading activities. The following section will provide a closer examination of the business support activities that are undertaken by local business associations to stimulate inter-firm coordination.

### 6.3.2 Associations' organisation and activities

The organisational structures of the business associations vary due to their differences in membership size and financial resources. In general, the board of directors is composed of and elected by the members. Led by the association's president, the board outlines and oversees the long-term direction of the association, deciding on essential organisational and financial issues. In most cases, board representatives are leading entrepreneurs in the local business communities or branches and have been active members of the associations. For instance, the prestigious Cebu Chamber of Commerce has been chaired by businessmen of national stature such as Ramon Aboitiz (former patriarch of the Aboitiz Group, a major shipping and real estate conglomerate in the Philippines), Norberto Quisumbing (founder of the Norkis Group, an automotive giant in the Philippines that is based in Mandaue City) and, currently, Edward Gaisano (member of the Gaisano family, which owns the Gaisano retail chain that operates shopping malls nationwide). At small associations, financial resources are little due to low monthly membership dues. In practice, this means the association's president also coordinates daily activities from his or her own business address. The Cebu Garments Industry Foundation (CGIF) and Association of Food Industries (AFI) do not have an office and their presidents run the organisations from their own business offices. This not only limits the frequency and range of these associations' activities, it also increases the reliance upon the 'industry leader' (see also Mulder and Oldewarris, 2008). The large associations in Cebu have more members and financial resources, which enable them to professionalise their operations and organise more activities. Aside from owning or renting an office space, the daily operations of these associations are carried out by professional staff.

Apart from the size of their membership, the level of participation of members is evenly important for the business associations. Basic activities for associations are board meetings and general member meetings, in which organisational issues are discussed and decided upon. The overall trend in the provinces is that board members meet on a monthly basis, whereas member meetings occur quarterly. All interviewed associations indicated they have a high participation rate during these member meetings, except the CGIF. With Cebu's garments industry facing difficult times due to increased global competition from low cost garments producing countries such as China and Cambodia, the actions of the Cebuano garments manufacturers have become more individual and self-interested, focused on survival. This has led to a decline of interest and participation in the collective meetings

of the association (Interview CGIF, 2006). This is a clear example of how an industry's external focus affects local networking among the firms that are active in this industry. In the specific case of Cebu's garments industry, the global orientation of its firms hampers their mutual interaction, thus limiting the opportunity to generate collective gains that can strengthen their competitiveness (e.g. collective marketing at trade shows). Below, a brief analysis is given of two 'market enhancing' activities of the local business associations that foster inter-firm coordination: (1) horizontal coordination amongst producers; and (2) vertical coordination of upstream and downstream trade linkages (Doner and Schneider, 1998; Nadvi, 1999).

***Horizontal coordination amongst producers***

As discussed earlier, the local business associations are important platforms for local entrepreneurs to meet and discuss business issues. The majority (57%) of the surveyed businesses in the provinces that are members of a business association stated that the main reason to join the association was to create new and strengthen existing business relations. Especially in the competitive environment of Cebu where exporters act cautious and reserved towards co-located entrepreneurs, the branch-oriented associations are important platforms for interaction and coordination among local competitors. Through a variety of business-related and social activities, the associations function as social groups wherein bonding social capital (Coleman, 1988; Putnam, 2000) may help members in their business efforts (see Narayan, 1999). At returning business-related activities such as member meetings, presentations and lectures of guest speakers, technical training workshops and seminars or social events such as dinners, parties and community aid activities, competing entrepreneurs gather and have a chance to communicate in a neutral setting. As such, these business associations serve as important platforms for horizontal coordination among local firms. As described by Nadvi (1999: 5) in his study on business associations in developing country industrial clusters:

'[...] it needs to be noted that local associations within the context of industrial clusters not only provide a potential arena for collective coordination and local cooperation, but also have a social dimension. At the very least associations can provide a social forum, allowing local producers to meet and collectively discuss their problems. Moreover, the legitimacy and effectiveness of local associations in providing real services to their members and successfully undertaking regulatory functions can be influenced by the dynamics of local social ties and affective relationships. Thus, the business association, insofar as it represents an element of the landscape of an industrial cluster, is both an aspect of local 'institutional thickness' and, in Granovetter's sense, a socially embedded institution'.

A difference can be found here in the 'bonding activities' of the associations in the provinces. In the small urban communities of Tagbilaran and Dumaguete, social activities are the most frequent activities. During these informal meetings, local entrepreneurs share views and opinions on business issues that affect them. Although the associations in Cebu also have social gatherings, emphasis lies much more on business activities that are aimed at enhancing their members' competitive edge in the global marketplace. For the local entrepreneurs in Bohol and Negros Oriental, however, informal bonding is sufficient for maintaining the social networks they rely on when doing business.

Subsequently, there is also a difference in the extent associations create cross-cutting or bridging weak ties (Granovetter, 1973) with other associations (Narayan, 1999). For associations in a business community, mutual coordination on their activities could create mutual benefits -referred to as bridging social capital (Putnam, 2000) or inclusive social capital (Annen, 2001). There is a common goal among the sectoral associations in Bohol to promote it as a tourist destination and enhance the number of tourists. Therefore, they coordinate with each other on the possibilities of streamlining their business activities. For example, the Association of Bohol United Transport Association Inc. (ABUTSI) negotiates with the Bohol Association of Hotels, Resorts, and Restaurants (BAHRR) on fine-tuning the transportation of newly arrived tourists in the port of Tagbilaran to the resorts on Panglao Island. Subsequently, BAHRR coordinates with the Bohol Federation of Travel and Tour Operators (BOFETTO) on collective marketing and advertising of Bohol as a holiday destination. In Cebu, the branch associations are primarily focused on their product group, not having strong bilateral ties with other local business associations. There are, however, multilateral coordinative initiatives. First of all, PHILEXPORT Cebu serves as the umbrella organisation of all export-oriented manufacturing industries in Cebu. The branch associations are members of PHILEXPORT, whose purpose it is to 'promote, protect and advance the interests of Cebu's export industry'. The association is the main advocating body that lobbies with local and national government agencies for export-friendly policies that simplify export procedures and reduce trading costs. Through this collective advocacy, PHILEXPORT stimulates horizontal coordination between the associations. As in Bohol, a common goal (less costly export regulation) unites the branch associations. Even so, apart from lobbying through PHILEXPORT, which does only require little active participation of the branch members themselves, cross-cutting ties between the associations are scarce. In enhancing these relations, the Pearl2 Project plays a leading role. Initiated by the Canadian International Development Agency (CIDA) in 2003, the project aims to create business growth through the strengthening of both public and private business support organisations.

***Vertical coordination of upstream and downstream linkages***

A second important task for business associations lies in the coordination of vertical inter-firm relations. Though supply and demand relations are organised by their members individually, business associations can help to unify the interests of producers, suppliers and clients. The branch associations in Cebu's export-oriented industrial district and Bohol's tourism industry undertake such vertical streamlining efforts. All branch associations that represent the different actors of the local tourism value chain are represented in the Bohol Provincial Tourism Council, a public-private partnership that is mandated by the local government as the leading organisation to spur and regulate the development of tourism on the island. For the branch associations, the council provides a platform to coordinate with each other to better interconnect and improve their individual services and collectively advertise Bohol as a tourist destination on the global market. In Cebu's export-oriented manufacturing sector, similar vertical coordination efforts are undertaken by local business associations. With overseas clients as the most important trade partners, business associations seek ways to strengthen their client relations. Through collective marketing efforts, of which visiting and hosting trade shows are the most common, business associations enable exporters to create stronger relations with clients. Cebu X, the annual international furniture and furnishings exhibition for Cebu

manufacturers and exporters, is an exceptional regional marketing effort in this sense. Organised by the Cebu Furniture Industries Foundation (CFIF) in cooperation with DTI through its affiliated Centre for International Trade Expositions and Missions (CITEM), the exhibition offers a unique chance for local manufacturers and exporters to showcase their products. Being held nearby, the exhibition is a unique event since it also offers interested foreign buyers to visit factories. This way, suspicious buyers from the West get a better idea of the production capacity of the Cebuano manufacturers (Beerepoot, 2005). It is a major event for branding the furniture industry: 'being held for the 18th time in 2007, the exhibition draws international attention and markets Cebu as the furniture capital of the Philippines'. PHILEXPORT Cebu has services that help member firms with easing their international trade flows. The One-Stop Export Documentation Centre (OSEDC) houses different government agencies that are involved in the processing of export documents. This way, exporters can attain all the export documents at one address, instead of visiting the agencies separately. Subsequently, the exporters' association also operates a customs bonded warehouse, via which exporters can import their raw materials and accessorial requirements tax and duty free. Despite these initiatives, the influence of most local business associations on the international market is minimal. This can be attributed to the power asymmetry that exists within global buyer-driven value chains: the dependent and vulnerable position of the Cebu-based exporting industries on the global market does not leave much room for bargaining or mediating with overseas buyers. Even on the regional level, the influence of associations on their members' trade deals with upstream suppliers and downstream clients is limited. Interceding and advocacy activities of business associations tend to focus mainly on local government policies, while leaving trade arrangements up to individual member firms. However, when problems between local suppliers and producers occur, associations intervene and mediate to solve them (Personal interview, 05-10-2006).

As these findings suggest, the market vulnerability of a sector or industry can spur business associations to use rents they have secured to enhance the competitiveness of their member firms. In this context, Rogowski (1988) argued that in sectors characterised by 'quality export dependence' collective action was more likely to be efficiency oriented than driven by rent seeking (Doner and Schneider, 2000a). The competitive environment of export-oriented industries forces the business associations in developing countries to a higher level of organisation and facilitating. In the Central Visayas, this pattern can be identified when comparing the associations in Metro Cebu with the ones in Bohol and Negros Oriental. In Cebu, the high vulnerability and uncertainty among exporting firms has not only led to the founding of a large quantity of (sectoral) associations, the organisational quality and capacity of most of these associations is also high compared with associations from the other provinces. Still, it is important to note here that among the Cebuano business associations there are considerable disparities in effectiveness as well, which can be contributed to their varying level of professionalism and membership participation (Mulder and Oldewarris, 2008).

## 6.4 Concluding remarks

There is a clear interplay of firms' insertion and their position in value chains, as discussed in chapter 5, and their embeddedness (Granovetter, 1985) in locality-specific networks of inter-firm relations. The different horizontal relational networks in the provinces between entrepreneurs can be extrapolated from their business environment, in particular the market they operate in. Catering to local buyers, Boholano farmers and agricultural traders operate in a small home market. Entrepreneurs know each other, and each others' business operations. Despite strong and enduring trust-based horizontal relations based on personal ties, cooperative activities are limited to the sharing of business and product information. As in Negros Oriental, strong informal horizontal ties do not create a highly cooperative business environment with beneficial untraded interdependencies (Storper, 1997). The hierarchical compositions of the economies, described in chapter 5, can explain these weak cooperative outcomes. Both economies have a top-down power structure, with two provincial business groups controlling the agricultural trade flows in Bohol, while Manila-based conglomerates dominate the industrial processing and trading of sugar in Negros Oriental. For the small-scale rice millers and traders in Bohol, the prospected economic payoffs of cooperative activities for the entrepreneurs are small, because they are highly dependent on the local business conglomerates that buy their produce. The captive value chain (see figure 5.8) leaves little room for extensive horizontal cooperative activities among producers and traders, whose manoeuvring spaces are limited by the excessive top-down control of the local conglomerates. Furthermore, for the Negrense traders the protected and monopolistic market creates a non-competitive and protective environment, with no incentives for extensive inter-firm cooperation. There is no pressing need for the provincial traders to cooperate because they have some degree of certainty on prices and demand for their goods.

The outward focus of export-oriented Cebuano manufacturers and their inclusion in buyer-driven value chains (see figure 5.7) can be explanatory for the weak horizontal relations. Being active in a competitive environment where product design and marketing information can be a competitive edge on the international market, interaction and trust among entrepreneurs is low. Different from the informal personal ties in Bohol and Negros Oriental, horizontal relations in Cebu are the result of formal organisation. Business associations play a central role in this, initiating cooperative activities that reach beyond the sharing of information. Rather than being constructed through informal social channels as in Bohol and Negros Oriental, bonding and bridging social capital is created more or less artificially in Cebu via business associations. In line with Maskell (2001), the provincial climates of understanding and trust in the two agrarian provinces do lead to positive spin-offs such as sharing of reliable information, the honouring of agreements and less malfeasance among entrepreneurs. However, more demanding forms of cooperation that require reciprocal investments are not common, limiting the effect of the positive spin-offs. In Cebu, participation in a business association offers more cooperative opportunities for entrepreneurs who are hesitant to share information individually. The high level of organisation and orientation on one specific sector enables the associations to create bonding capital between member firms. Different from the strong socially embedded ties in Bohol and Negros Oriental that are based on personal relations, Cebuano firms become association members to pursue individual business interests. Still, the associations are set

up not only to cater to the needs of the individual member firms, but more so to strengthen the entire sector as a whole through joint activities. Taking these findings into account, the general conclusion of this chapter is that possible effects of horizontal inter-firm coordination such as learning, collective efficiency and direct or indirect economies of scale -organised via different relational channels and platforms- are limited in the three Central Visayan provinces. This can be related to the positions of local firms in their value chains that offer them little manoeuvring space.

Having discussed the two spheres of inter-firm relations from the conceptual model, the following chapter will shift the focus in this study towards the role of the local state in regional development. How is the local state positioned in relational networks that interconnect it with the local private sector and the national government? Consequently, how do these types of networking affect the ability of the local state to steer regional development? These questions will be tackled in the following chapter.

## Endnotes

1 Parts of this chapter have been published elsewhere in adapted versions (Andriesse and van Helvoirt, 2009; 2008).

2 While Doner and Schneider (1998) list four 'market-enhancing' functions of business associations, this study focuses on the two that are concerned with stimulating inter-firm coordination and cooperation. The other two functions, the setting and enforcement of product standards and the provision of information and technical learning, are not included as they are not directed towards encouraging inter-firm coordination.

# 7 The local state

## Introduction

While the previous two chapters focused on different types of inter-firm networking, this study does not identify local firms as the sole agents that shape the functioning and performance of a regional economy. Rather, the local state also plays a vital role in shaping the development path of a regional economy. As discussed in chapter 2, the local state is conceptualised in this study as a key agent that steers regional economic development in its role as a two-faced public entity that embodies the political arena of a local society and simultaneously serves as a local executive body of the national government.

Focusing on this dual role of the local state, this chapter will analyse two types of networking by the local state. Recalling the conceptual model, these are: (1) the horizontal relations that interconnect the local state with key representatives from the local private sector; and (2) the vertical relations that run between the local government and the national government. Before these two types of relations in the three regions are described and interpreted, sections 7.1 and 7.2 provide a conceptual and historical overview of the nature of the Philippine state and how it has evolved into its current shape. Subsequently, section 7.3 will start with similar historical overviews of the three political economies in the Central Visayas. Then, the provincial patterns of public-private relations are analysed before focusing on the hierarchical political relations that connect the provincial economies with the national government. Finally, section 7.4 will conclude by giving a summary of the different relational constellations that characterise the regional political economies.

## 7.1 The nature of the local state in the Philippines

In his classic comparative political economy perspective on the 'Third World state', sociologist Peter Evans (1995; 1989) identified three archetypes of the state: (1) the predatory state; (2) the intermediate state; and (3) the developmental state as depicted by Chalmers Johnson in his study on Japan (1995). The predatory state is depicted by Evans as one in which rent-seeking has become endemic and structural. Government employees use their legislature to maximise their accumulation of wealth in the shortest possible time. The state is led by a strong leader who functions as an absolutist patrimonial ruler, surrounded by an inner circle of personal and familial allies who control the state apparatus. Beyond this inner circle, state managers continuously seek to plunder society and pledge their allegiance to the presidential clique. As an effect, the predatory state undermines development. The intermediate state is recognised by inconsistency. While it exhibits the features of a predatory state at certain times and in specific sectors, it also reveals 'pockets of efficiency' where professional and competent state managers succeed in

completing projects. Finally, the key characteristic of the developmental state is embedded autonomy: a developmental state is endogenous in the sense that it is broadly embedded in society via a dense web of networks that interconnects it with various social groups. This embeddedness spurs a constructive negotiation of policies that move a society to a higher level of economic and social development. Still, embeddedness alone is not enough. The state must also have autonomy towards the social groups it interacts with in order to guard itself against the risk of being 'captured' by those very groups (Cypher and Dietz, 1997: 225-228). This corresponds with Whitley (1999), who also stresses that the 'strength' of a state depends on how autonomous it can operate vis-à-vis influences from external forces like a powerful business bourgeoisie or social elite. In Evans' conceptualisation, the varying states are the result of specific complex historical forces and relationships in specific societies. Additionally, they are also agents potentially capable to shape and influence the ongoing process of historical evolution of their specific societies.

Taking these conceptualisations into account, the Philippine state tends to be more of a 'predatory state' rather than a 'developmental' one. Hutchison (1997) argues that the Philippine state has little autonomy opposed to powerful social groups and combined with its lack of bureaucratic impartiality, it 'cannot steer the course of national economic development, since it is constantly subject to the particularistic policy and resource demands of a politically and economically powerful oligarchy' (Hutchison, 1997:65). Furthermore, as Morada and Tadem (2006) stress, without an extensive and internally coherent bureaucratic apparatus, the Philippine state lacks the capacity to resist the wishes of these societal forces. As such, it lacks an efficient administrative apparatus that has impartial rational-legal authority (Weber, 1978). While these conceptualisations of the state provide useful insights on how to analyse and qualify state organisation and capability, they offer only a shortlist of broadly identified state forms. Furthermore, they do not scrutinise the position of local governments within states of the South. In his study on historical state formation in the Philippines, Sidel (1995) cleverly uses the Evans' (1995) terminology to argue that it is too broad to properly identify the specific nature of the Philippine state:

'...the Philippine state may appear 'weak' in its failings as a 'developmental state' but is in fact 'strong' as a 'predatory state' (Sidel, 1995: 510).

Referring to studies by Anderson (1988) and Hutchcroft (1998; 1991), Sidel pleads for a context-specific perspective that highlights (1) the enduring institutional legacies of colonial -in particular American- rule in the Philippines and (2) the patrimonial nature of state-oligarchy relations in the archipelago (Sidel, 1999: 12). Based on the American political model, the Philippine state is recognised by a hierarchical organisational structure wherein local governments are highly dependent on the national government for the distribution of public resources and legislative decision-making. Vice versa, local political leaders serve as important mobilisers for grassroots electoral support to the national administration. This hierarchical government structure and its internal reciprocal dependency are structured along personal dyadic patron-client relations that characterise a second organisational dimension of the Philippine state: the strong embedding of political decision-making in personal and familial ties. This harnesses linking social capital (Woolcock, 2001) that enables certain social groups to leverage resources from the Philippine state. Hutchcroft (1998: 14) argues that political administration in the Philippines is often treated as a

personal affair, and one can find many parallels between the modern Philippine polity and Weber's description of patrimonial states:

'Instead of bureaucratic impartiality and of the ideal [...] of administrating without respect of persons, the opposite principle prevails in the patrimonial state. Practically everything depends explicitly upon the personal considerations: upon the attitude toward the concrete applicant and his concrete request and upon purely personal connections, favours, promises, and privileges' (Weber, 1981: 1041. Quoted in Hutchcroft, 1998: 14).

The combination of reciprocal political dependency and decision-making on personal considerations generates a high level of favouritism of public officials towards selected social groups with shared interests. Via relations of political patronage -such as nepotism and cronyism- the Philippine state is strongly interwoven with a diverse elitist oligarchy. As Hutchcroft (1998) argues, this has given rise to a patrimonial oligarchic state: the Philippine state lacks autonomy versus powerful 'oligarchs and cronies that plunder the state apparatus for particularistic advantage -a feature referred to by some as 'rent-seeking gone wild' (Hutchcroft, 1998: 15). Without a clear institutional separation of the 'private' and the 'official', the Philippine state continues to fail to insulate itself from the parochial interests of (landed) elite families, business tycoons, clans, social and religious groups that have dominated the Philippine state via relations of patrimonialism and clientelism at various levels in the national political spectrum.[1] In this regard, Sidel (1999) has convincingly described how various cases of local bossism -a system of political control centred on a single powerful figure (the boss) and a complex organisation of lesser figures (the machine) bound together by reciprocity in promoting financial and social self-interest- have emerged at different political levels, from small towns to congressional districts and provinces in the Philippines. In another insightful work, McCoy (1994) demonstrates the strong entrenchment of local elite families in various layers of the Philippine state. As Migdal (2001: 92) has pointed out, 'in societies in which social control is vested in numerous local level social organisations [...] the rules of behaviour have been dictated by critically placed strongmen- landlords, caciques, bosses, moneylenders, and others'. From the perspective of regional economic development, the Philippine state has produced weak government institutions that are unable to manage the ethnic, religious and socio-economic diversities in its society. The advent of globalisation not only aggravates these diversities, but also makes the Philippine state and its institutions of governance even weaker for their failure to forge a national consensus necessary for nation-building and socio-economic development (Banlaoi, 2004: 206).

Taking into account these theoretical conceptualisations, this chapter will scrutinise the specific organisational constellations of the Philippine state described above and how they have crystallised on the regional level in the Central Visayas. In their role as key agents that aim to steer regional economic development, the local states represent both the local political arena as well as the national state. This, then, raises the question how the local states position themselves vis-à-vis the local private sector and the national government and how does this affect their ability to steer regional economic development? Recalling the conceptual model, two relational spheres are emphasised here: (1) local public-private interconnections that shape local state autonomy; and (2) the reciprocal national-local political ties that run within the hierarchical structure of the Philippine state. By analyzing

these two relational spheres, this chapter will seek answers to research questions four (to what extent and how does the local state coordinate and cooperate with the local private sector in its efforts to promote regional economic development?) and five (to what extent and how is the local state dependent upon the national state in its efforts to promote regional economic development?).

## 7.2 Historical state formation in the Philippines

Recalling Sidel (1999), important characteristics of the contemporary shape and performance of the local Philippine state can be traced back to its historical state formation. The legacy of pre-colonial indigenous traditions, colonial administrative structures, and colonial and post-colonial concentrated land holding patterns have shaped economic and political power in the country (Lim and Stern, 2002). These historical processes did not occur in a national vacuum, but were brought along by external influences. As such, the ever changing 'place in the world' of the Philippines has been a determining factor in shaping its power structures; not only within the national context but on the local level as well (Kelly, 1997). This section will use these historical processes as guidelines to discuss the evolution of the Philippine state and its diverse manifestations on the local level.

### 7.2.1 Colonial legacies

When the Spanish arrived in 1521 in the Philippines, they found thriving socio-economic units clustered along the island coasts called *barangays*. These small socio-political entities were under the control of local chieftains, or *datus*, who retained power over their communities only insofar as they were able to provide the material resources needed by these communities (Sidel, 1999:13).[2] Rather than destroying these small societal institutions, the Spanish used them as a foundation for building a highly centralised colonial administration seated in the new capital Manila (Bundgaard, 1957). Here, the Spanish population flocked together and the conquerors made it their administrative, religious and economic centre, while largely neglecting the rest of their colony (Larkin, 1982).[3] Furthermore, the Catholic Church had a firm control over much of the productive land, which created a situation of economic standstill in most parts of the archipelago. The church also had a strong say in the formation of provincial governments and the transfer of control from native Filipino leaders to Spanish civilians, soldiers, and priests.[4] Many of the native aristocracy retained their privileged positions, but lost their formal control over their land and its people. The datus, for example, were often appointed tax collectors and in this capacity became mere executors of Spanish policy.[5] With the establishment of formally constituted local government in the seventeenth century, the native aristocracy became the *principalia* (chief citizens) who elected the municipal officials. Although Filipinos did occupy municipal offices, they had no real authority, as this belonged to the Spanish clergy. The late and half-hearted attempts by the Spaniards to increase the autonomy of local government administrations, as documented in the Maura Law of 1893, were implemented only weakly.[6]

Ironically, while Spanish rule was highly centralised it paved the road for the emergence of local politico-economic powerbrokers across the archipelago. By confirming their political authority, the Spaniards converted most of the local chieftains into willing allies and useful

intermediaries between themselves and the indigenous people. The descendants of the datus gained exemption from paying the taxes and furthermore, they won appointments as village headmen and town executives. 'With the subsequent monetisation of the economy, those who amassed proprietary wealth through money-lending, landownership, and marketing of commercial crops exercised considerable influence in local politics' (Iglesias, 2003: 542). 'This way, these chieftains and their families formed a ready reservoir of reliable minor civil servants whose former status was now bolstered by colonial recognition, as evidenced by their title of principales (Constantino, 1975: 60). When in the late eighteenth century the Philippines finally opened to the world market for the trade of agricultural goods, this agricultural commercialisation further boosted the emergence of increasingly powerful landed elites in the rural provinces. During the final years of Spanish colonisation, this group of wealthy local elites had already obtained a strong economic base outside the control of the central government in Manila.

As Sidel (1999), Hutchcroft (2000) and Iglesias (2003) have shown, the arrival of the Americans meant a major expansion of the political and economic foothold of these local elites. Similar to the Spaniards who had won over the indigenous chieftains to become their local administrators, the Americans used the handpicked elites as their local intermediaries (Cullinane, 1994). They began to provide extensive opportunities for political power to these elites that already had established a strong economic base throughout the major economic regions in the country (e.g. Negros' Sugarlandia). The land reforms by the Americans reinforced the economic base of the ruling principalia class that used to be friendly with the Spanish colonisers and now was also cooperating with the American colonial government. This clientelism by the Americans further stimulated the rise of a powerful landed elite (Fradera, 2004). A careful restriction on the privilege of suffrage enabled the new colonisers to station these local 'cooperative elites' in a seemingly democratic elected way (Constantino, 1975). The Americans steadily gave the elites a strong role at all levels of government, placing them not only in local and provincial positions, but also creating seats of political power at the national level. By 1941, just before the Japanese invasion, the American colonial regime and its Commonwealth successor had transformed the former centralised colonial government into a multitiered hierarchy of elected officials (Sidel, 1999).

As both Sidel (1999) and Anderson (1988) argue, this American form of late-colonial administration contrasted sharply with the large, centralised white-run bureaucracies of the other colonial regimes in Southeast Asia at that time. For the local elites, the hierarchical American-style political system provided platforms for political advance at the national level. Lower-level local politicians could -and would- always aspire to higher positions in the political hierarchy (De Dios, 2007).[7] Furthermore, by granting preferential access to the US market for Philippine primary products, American colonialism also ensured that the national economy remained largely dependent upon agricultural exports, a sector dominated by the landed elites. 'As a result, until the last few decades it has been elite control of agricultural export commodities, combined with the political power wielded by the land-owning class, that has defined the Philippine political economy and has provided a strong basis for an outward-oriented, export-based economy' (Kelly, 1997). When the Philippines gained independence in 1946, the centuries under colonial rule had left a clear mark on its government and economic structure. Not only did it leave the new republic

with a hierarchical government apparatus entrenched with elitist politicians operating through systems of patron-client relations and patrimonialism, 'political independence was granted to a country firmly dependent on agricultural exports, with just four crops accounting for nearly 90 percent of all Philippines exports (as in 1894)' (Kelly, 2000: 28). As such, the colonial period has provided ample opportunities for an oligarchy of local elite families to claim both political and economic power, giving rise to the patrimonial oligarchic state.

#### 7.2.2 Post-colonial trajectories

When Ferdinand Marcos was elected the tenth president of the Philippines in 1965, this initially meant a breach with the past. For the first time in the history of the independent Philippine Republic, 'an ordinary Filipino' (Marcos was a lawyer from Ilocos Norte) who was regarded an outsider by the oligarchic political establishment of his predecessors, succeeded to claim the highest political seat in the country. Aiming to create a 'strong' Philippine state that could operate independent from his rival local elites, Marcos embarked on a program of political centralisation and economic nationalisation. However, as it turned out, these programs created a new oligarchy that enabled Marcos to stay in power. With local elections frozen for eight years after his declaration of Martial Law in 1972, Marcos made it possible for himself to replace local officials with his vassals. Even when local elections were resumed in 1980, his hand-picked candidates were all elected in 'landslide victories' (Iglesias, 2003). Being the 'supreme cacique' (a Spanish term for leader) of a predatory state à la Evans (1989), Marcos surrounded himself with a group of loyal elites to ensure that he controlled all patronage: crony capitalism was born (Anderson, 1988). While dispensing favours to his inner circle of trustees, Marcos aggressively attacked rival political clans, strategically aiming at their economic resources. An important tool in accomplishing this was the monopolisation of production and trade of traditional agricultural export commodities that were before dominated by the landed elites. Simultaneously, Marcos opened the doors for foreign investors to come in, making him less dependent on the traditional domestic capitalists. Through these schemes, Marcos weakened the political and economic base of local elites, while giving him the necessary grassroots support from the local level by his local straw men. The traditional political clans either capitulated or abstained from active politics until Marcos was removed from power in 1986 by a popular revolt (Iglesias, 2003).

While Marcos' successor Corazon Aquino succeeded in her strive for a more decentralised democratic political system with the implementation of the Local Government Code (LGC) in 1991 and the return of elections for Congress in 1987 and local governments in 1988, the outcome of these elections meant a revival of state control by traditional elite families. As Mojares (1994: 312) strikingly revealed, 169 of the 200 newly elected Congressmen in 1987 were related to the so-called cacique families, with 67 of them belonging to pro-Marcos parties and families. This revival of a political stronghold by the traditional elite was also evident in local public offices. As such, 'People Power' failed to bring a new representative government that was willing to establish the necessary social reforms. The half-hearted implementation of the Comprehensive Agrarian Reform Program (CARP) in 1988 was one of the clearest signs that the traditional elite was back in power. Especially the land reform exclusion of the large Hacienda Luisita estate in Tarlac, owned by President

Aquino's landed Cojuangco family, is still considered to be the most evident proof of this (see Bello, 2004).

While the administration under President Fidel Ramos (1992-1998) -a former army general under Marcos who played a key role in his downfall- did not change the elitist government structure, its successful 'Philippines 2000' reform program did restore public confidence in the national government.[8] However, this trust quickly vaporised under the presidency of Joseph 'Erap' Estrada, who after winning the presidential seat (backed by powerful political strategists and financiers who recognised the former movie star's electoral potential among the poor masses) soon started to return the favour to his inner circle of supporters via excessive patronage and cronyism. Important decision-making was done behind the closed doors of Malacañang Palace by the infamous 'midnight cabinet', consisting of Estrada's close rent-seeking business friends and political allies. The short-lived Estrada administration (1998-2001) was ended by a second popular revolt. Behind the scenes, most members of the political elite and the military had already switched their allegiance to Estrada's vice president, Gloria Macapagal-Arroyo. Being a daughter of former President Diosdado Macapagal (1961-1965), again a member of the traditional political elite has claimed the seat of power with the support of an oligarchy of elitist families. Once more, this revealed the persistence of the patrimonial oligarchic rule (Hutchcroft, 1999) in the Philippine state, which McCoy (1994) fittingly has described as 'an anarchy of families'.

As this short historical outline has indicated, local elites have gained a strong foothold in the Philippine state throughout history, both locally and nationally. As such, local political constellations have a determining impact on the diverse politico-economic landscape of the Philippines. Before analyzing the specific local political constellations in the three Central Visayan politico-economies, section 7.3 will give a brief overview of the administrative structure and authorities of the local state in the Philippines.

## 7.3 Role of the local government in the Philippine state

Based on the American government structure, the Philippines is a presidential republic with a bicameral legislature. It has a unitary form of government with a hierarchical multitiered structure (see figure 7.1). The first tier is the national government, operating through 19 departments (National Government Agencies or NGAs). The country is divided in 17 administrative regions, in which the NGAs hold their regional offices. However, except for the Autonomous Region of Muslim Mindanao (ARMM), the regions are simply administrative subdivisions and do not have elected governments (this explains the dotted line in figure 7.1). The second tier of government is composed of the three layers of Local Government Units (LGUs): (1) provinces; (2) municipalities and component cities; and (3) barangays (villages), which are the smallest political units.[9] The Philippines also has a number of highly urbanised, chartered cities that share the same functions and authorities as provinces. They are divided into barangays directly (Manasan, 2007).

Already indicated in the previous section, the most significant boost to the existing local government system in the Philippines is the enactment of the 1991 Local Government Code (LGC), which has devolved significant powers from the provincial offices of NGAs

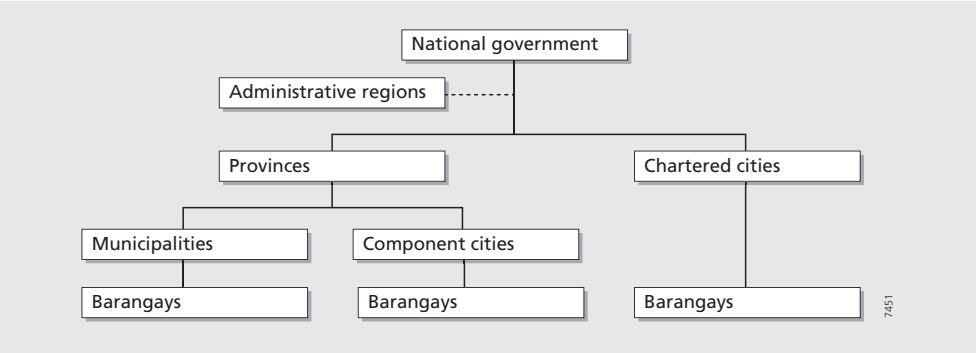



***Figure 7.1:*** The structure of local governments in the Philippines - Sources: Atienza, 2006; Hill Balisacan and Piza, 2007

to LGUs.[10] First of all, LGUs gained responsibility for the delivery of various aspects of basic services (most importantly, health, agriculture, environment and natural resources, social services and public works funded by local funds). Second, certain regulatory and licensing powers were transferred to local governments. These include the reclassification of agricultural lands, enforcement of environmental laws, inspection of food products and quarantine, enforcement of the National Building Code, operation of tricycles, processing and approval of subdivision plans, and establishment of cockpits and holding of cockfights. Third, the direct involvement of civil society -in particular, Non-Governmental Organisations (NGOs) and People's Organisations (POs)- in the process of local governance was enabled via representation in local government bodies and participation in local decision-making.

Fourth, and most importantly, the financial resources available to LGUs were increased by (a) broadening their local taxing powers, providing them with a specific share of the national wealth exploited in their area (e.g. via mining, fishery and forestry); and (b) increasing their automatic share from national taxes, i.e. the Internal Revenue Allotment (IRA) shares, from a low 11 percent to as much as 40 percent. Of the IRA automatically transferred from the national government to LGUs, 20 percent goes to the barangay, 34 percent to municipalities, 23 percent to cities and 23 percent to the provinces. Furthermore, LGUs were allowed and encouraged to be more entrepreneurial by providing them with more opportunities to enter into joint ventures with the private sector, engage in Build-Operate-Transfer (BOT)[11] arrangements, float bonds, obtain loans from local private institutions, etcetera. All of these measures were initiated to encourage LGUs to be more 'business-like' and competitive in their operations (Atienza, 2006: 427-428).

While these fiscal decentralisation measures have stimulated more local autonomy, there are still some drawbacks. As both De Dios (2007) and Atienza (2006) argue, for many LGUs the local tax base does not generate sufficient income to finance their expanded service tasks, making them still very much dependent upon the national government for their resources. However, the skewed IRA distribution formula among various levels of local government has resulted in 'cities gaining a windfall while municipalities and provinces, which bear 92.5 percent of all devolved services, find it harder to cover the cost of devolution'. (Atienza, 2006: 435).[12] Moreover, the traditional system used to level the

local disparities of national-local intergovernmental finance transfers is highly arbitrary as it maintains patrimonialism and feeds corruption within the Philippine state. The allocation of Priority Development Assistance Funds (PDAF) or 'pork barrel' by the president to congressmen is meant to equally spread funds throughout the archipelago, as the congressmen can freely use these funds for development projects in their respective districts. However, the distribution of pork barrel is often criticised as being a tool for the president to buy support from legislators, who in turn use their pork barrel to buy grassroots support from the constituents in their districts or spend it on corruptive projects for their personal benefit. This top-down distribution of funds exemplifies that, despite political and fiscal decentralisation, the national Philippine government is still of major importance for local economic development.

## 7.4 Local political economies in the Central Visayas

### 7.4.1 The natures of the local states: historical political embeddings

As discussed in section 7.2, the contemporary political landscape of the Philippines can only be properly understood when knowing the country's history of state formation. Similar historical forces have also shaped political constellations on the local level in the Central Visayas. As such, this section will start by discussing the different historical patterns of local state formation and political leadership in Cebu, Negros Oriental and Bohol.

***The urban bourgeoisie of Cebu***

Cebu has a long history as an island of political-economic pre-eminence. The settlement of the Spanish in Cebu made it one of the few colonial outposts that were set up outside Manila to support the religious orders in their efforts to gain control over the hinterlands and bring the indigenous people to the Catholic faith. During these early colonial years, the local Spanish elite settled in the *ciudad* (old downtown Cebu) as well as on the friar estates that were set up in surrounding areas of the city such as Mandaue-Banilad and Talisay-Minglanilla. From here, they not only controlled the economic and political affairs in the province, but in the entire central Visayan region as well. The opening up of Cebu's port to the world market in 1860 and the breakdown of Spanish trading monopolies gave way to a new breed of local powerbrokers: an oligarchy of Chinese mestizo merchants based in Cebu City whose export trade of commercial crops turned Cebu into a regional emporium.[13] From their dominance in inter island, retail and wholesale trade, these merchants became landlords as well by extending credit to farmers in need of cash to expand their cultivation of commercial crops such as sugar, tobacco and abaca. Through their mortgage agreements the urban elite not only gained control over the trade of these export commodities, they also became landlords with properties spread out along the coastal areas of rural Cebu. At the beginning of the twentieth century, a Chinese mestizo dominated commercial-landowning elite had evolved into a Cebuano oligarchy with firm strongholds in both town and countryside. Using their vast economic base, it was the same group that emerged as a political oligarchy as well. Over time, a multi-layered political-economic pattern crystallised in the province that consisted of small-town bosses, district-level dynasties and a provincial dynasty based in Cebu City (Sidel, 1999).[14]

***Table 7.1:*** Cebu's political dynasties

| Family name | Years in office | Key offices | Key economic activities |
|---|---|---|---|
| Cuenco | 1912-1928<br>1931-present | Senate<br>House of Representatives<br>Provincial Government | Transportation (bus), publishing |
| Durano | 1949-present | House of Representatives<br>Danao City Government | Sugar planting and milling, ice plant, cement factory, mining |
| Garcia | 1968-present | House of Representatives<br>Provincial Government<br>Cebu City Government | Law offices |
| Gullas | 1925-1928<br>1976-present | House of Representatives<br>Provincial Government<br>Talisay City Government | University, newspaper |
| Kintanar | 1935-1969<br>1978-1984<br>1998-2007 | House of Representatives | Beach resort |
| Martinez | 1971-present | House of Representatives<br>Bogo City Government | Sugar planting |
| Osmeña | 1907-present | President<br>Senate<br>House of Representatives<br>Provincial Government<br>Cebu City Government | Real estate development |

Source: www.i-site.ph

The resilient oligarchic pattern in Cebu has survived the test of time, among strong economic and political transformations. The Cebuano economy has evolved from a resource frontier for Manila and agricultural product exporter during the nineteenth- and early twentieth century to a highly urbanised global trading hub for export-oriented manufacturers and service providers. Furthermore, the authoritarian regime under Marcos meant a huge blow to the political and economic base of many traditional political elites in the country that could pose a threat to his rule. Simultaneously, his patronage politics towards willing allies on the local level boosted the formation of new elite families in Cebu.[15] These external political-economic processes affected the composition of the traditional oligarchic political elite in Cebu, but did not dissolve the pattern of oligarchic rule by family dynasties (see table 7.1).

In this fractioned political landscape, Cebu City has persisted to be the ultimate centre of political-economic power in the province and the wider Visayan region. One of the most dominant political families of this local oligarchy is inextricably linked with Cebu City's pre-eminent socio-economic position: the Osmeñas. Not only has this family been dominating the local political scene in urban Cebu for three generations, the real estate driven growth agenda of the Osmeñas and their close relations with other influential public and private powerbrokers have often been identified as important factors for Cebu's local economic vibrancy and position in the world economy (among others, e.g. see Mojares, 1994; Churchill, 1993; Markillie, 1996).

***Negros Oriental's planters' elite***

When Negros Island became an *alcaldia* (province) under the supervision of a Spanish *alcalde mayor* (governor) in 1795, a clear socio-economic divide was noticeable between the north western and south eastern side of the island. With sugar cane plantations rapidly increasing in the north western part of the island after Iloilo's opening up to the world market, political power also established in Bacolod, the urban centre of the sugar industry. With Bacolod as the capital and the official residence of the governor, the western side of the island had the preference in almost all political and economic matters. As such, the east side suffered from neglect. The administrative division of the island in 1890 and the continued spread of large-scale agricultural commercialisation to the eastern shores spurred the lagging development of Negros Oriental in the late nineteenth century.[16] The new plantation economy brought along a social class division that consisted of a few *peninsulares* (people from mainland Spain), small groups of *Españoles-Filipinos* (Spanish born in the Philippines) and pure Chinese, *mestizos* (people of mixed ancestry) and a majority of *Indios* (indigenous Filipinos). While based on ethnicity, this class division also drew the lines of the political-economic hierarchy in the province. Only in places where industrious Españoles-Filipinos resided, such as in Dumaguete, Bais, Tanjay, Bayawan and Vallehermoso, did agriculture develop and prosper. Their favoured position in colonial society helped them in various manners: 'These founding fathers of the Negros sugar industry were farsighted entrepreneurs who, by shrewd investments and extraordinary efforts, acquired lands and wealth. But they could not have succeeded without the sweat of the labourers and the assistance of the officials, clergy and military' (Aldecoa-Rodriguez, 1983: 48). Ironically, it was from this wealthy and landed entrepreneurial elite class that a group of educated *ilustrados* emerged which claimed political power in the province after playing a leading role in the revolution against the Spanish authoritarian ruler seated in Dumaguete.[17]

This entrepreneurial and educated class became the new political elite of the province and laid the foundations for some of the most influential political dynasties in the province.[18] Similar as in Cebu, many of these patrimonial dynasties have their roots in the main economic centres of the province that have historically controlled the cash crops economy. The city of Bais and the capital Dumaguete were the urban commercial hubs where the entrepreneurial elite concentrated during the heydays of the lucrative sugar industry.[19] Another similarity with Cebu is the resilience of this patrimonial pattern vis-à-vis drastic socio-economic change such as the collapse of the local sugar industry. While there have been changes in the names of the prominent political actors, due to newcomers but also as a result of intermarriages, the 'agricultural elite' remains a powerful political force in Negros Oriental (see table 7.2).

***Bohol's small-scale politics***

A Filipino joke about Bohol is that when you are deported from the Philippines, you will be sent to Bohol. Another one tells you that Filipinos who want to visit the island will need a visa. While this is only a joke, it does reveal a common feeling among Filipinos about Bohol: it holds a quaint, secluded position in the archipelago. This can be related to the island's political history. While local resistance against the Spanish occurred on other islands as well, the popular revolt in Bohol started by Francisco Dagohoy in 1744 was not only a military success, it also led to the proclamation of the Republic of Bohol

***Table 7.2:*** Negros Oriental's rural elite dynasties

| Family name | Years in office | Key offices | Key economic activities |
|---|---|---|---|
| Arnaiz | 1988-present | House of Representatives<br>Provincial Government | Sugar planting |
| Macias | 1953-present | House of Representatives<br>Provincial Government | Hospital and rural bank |
| Paras-Villegas | 1916-1922<br>1986-present | House of Representatives<br>Provincial Government<br>Guihulngan Municipal Government | Sugar planting |
| Teves | 1919-1922<br>1946-present | Cabinet<br>Senate<br>House of Representatives<br>Provincial Government | Sugar planting and milling, ice plant, power plant, rural bank |

Source: www.i-site.ph

that lasted until 1829 (Dumont, 1995). In recent days, the term 'republic' is still frequently used by Boholanos when referring to their home province. There is also another political characteristic in which Bohol separates itself from other provinces. A common finding throughout the archipelago is the presence of elite families that dominate local politics (Hutchcroft, 2000; Sidel, 1999; McCoy, 1994). In provinces such as Cebu and Negros Oriental, these patrimonial dynasties have nested themselves in a prime economic position as well, by controlling key local economic activities. Through this dual power hold some local elite families have ensured themselves of a political-economic influence that is passed on from one generation to another. While there is no doubt about the existence of political dynasties that have emerged over time on Bohol, they seem to have developed in a different, less decisive manner than in Cebu and Negros Oriental.

An important aspect in this is that the political families in Bohol have remained small-town dynasties since their dominance does not exceed the municipal level. This political localism can be explained by the economic localism that has persisted in Bohol until recently. The neglect by Spanish and American colonisers to invest in economic activities in Bohol left the island with a rather homogeneous rural population that lacks an evident hierarchical socio-economic class division. Unlike Cebu where an urban-based commercial bourgeoisie of Chinese mestizos emerged as a powerful political bloc or Negros Island where Spanish and Chinese mestizos formed an upper class of landed political powerbrokers, Bohol has not experienced a historical rise of such powerful local groups. For long, the small-scale agricultural and fishery sectors consisted of highly fragmented subsistence production that provided the livelihood for majority of the Boholano households. Furthermore, this fragmented production structure was not integrated in larger networks of inter-island or international trade, creating few opportunities for a local commercial elite to emerge as happened in Cebu and Negros. It is only recently that the two local Filipino-Chinese tycoons (Alturas and BQ) have claimed this role. However, different from the elites that dominate the politico-economies of Cebu and Negros Oriental, the tycoons in Bohol have not fortified their control over the local economy by also claiming political power.

As such, Bohol's political history has not seen the rise of one or several political family clans to claim ultimate local power, a pattern commonly found in other provinces

throughout the country. Unlike influential local dynasties such as the Osmeñas from Cebu, whose political foundations can be traced back to the clan's patriarch and former President Sergio Osmeña Sr., the presidency of Carlos Garcia from Bohol did not leave the province with a political dynasty for the decades to come. As such, the 'lone star from Bohol' seems to be a well-fitting title for this former Philippine president.[20] A contemporary example of this 'individual' style of political leadership in Bohol is embodied by the incumbent Governor Erico Aumentado, who is regarded by Boholanos as one of the most distinguished statesmen Bohol has seen (Personal interviews, 2007). Like Garcia, Aumentado can be regarded as an 'individual' politician who did not have a broad patrimonial political or economic platform that catapulted his public career. Rather, from various civic positions he worked his way up in local politics. Reversely, his prime political position has not served as the starting point for familial protégés to enter the political arena either. Therefore, both Garcia and Aumentado can be qualified as self-made politicians who have earned the status of provincial patriarchs. In a country with a strong tradition of political power being entrenched in relations of patronage and patrimonialism, the individualism of Bohol's key political leaders can be regarded as a local exception.

### 7.4.2 Public-private coordination

As discussed in section 7.1, a key characteristic of the patrimonial oligarchic state is the strategic coupling of public and corporate activities by local strongmen or elite families, a feature also depicted by authors who have analysed local political economies in the Visayas (Billig, 2003; Sidel, 1999; McCoy, 1994; Larkin, 1993).[21] Although the following observation was made by a scholar of the Philippines in 1959, it has held most of its validity until the present day:

'Business is born, and flourishes or fails, not so much in the market place as in the halls of the legislature or in the administrative offices of the government' (McHale, 1959: 217. Originally quoted in: Hutchcroft, 1998: 13).

Due to the varying political- and socio-economic structures of Bohol, Cebu and Negros Oriental, different patterns of local public-private interplay that have a strong effect on regional economic development can also be identified in the three provinces. Using various prime development projects in the provinces as narratives, these different patterns are described below.

***Bohol: a dual politico-economic system***

The position of the local state vis-à-vis the local private sector in Bohol has a dualistic character that can be related to the different compositions of the province's two main economic sectors and their key actors. In various ways, the dominant economic position of the two agribusiness conglomerates over the numerous small-scale farmers also gives these local capitalists a strong position vis-à-vis the local state. Alturas' control over the rice sector does not only affect the operations of the numerous rice farmers, millers and traders in the inlands of the province, it also shapes a certain level of dependency of the local government upon its vast network. This public dependency, which severely limits the local government's embedded autonomy, stems from various difficulties the local government encounters in implementing its policies. First of all, as expressed by the provincial agriculturist, the local government does not have a clear view on the sector. Based on their

estimations, 70% of the local trade in rice is controlled by Alturas, while the other 30% is in the hands of BQ (Personal interview, 05-29-2007). For more accurate figures on production and trade that are used for their policy papers, the office of the provincial agriculturist relies on the figures from these two private parties. As stated by one of the owners of Alturas: 'If you ask the local government about figures on the production of corn or rice, what these government people do, they go to our plant and they ask: "oh, what is your production, what quantities do you buy from the farmers?" You know, there are about 500,000 farmers [people dependent upon agriculture] in Bohol' (Personal interview, 05-22-2007). The last remark stresses another difficulty for the local government: the highly fragmented production structure. How to address the needs of such a large number of small-scale farmers? Two major development activities of the provincial government are technical training and educating farmers on how to use new production inputs and technologies (e.g. on planting distance, fertilisation, kind of rice seed, water usage, and pest control). These are actor-oriented extension services that are offered directly to farmers in the countryside. The problems surrounding the local government's capacities to overview the agricultural sector and provide extension services to farmers are partly caused by the devolution of the Department of Agriculture (DA) in 1993 (following the Local Government Code) that has left the province with a scattered organisation of public agricultural support services.[22] More importantly, however, the difficulty of the local governments in reaching their farmers can be explained by the powerful position of Alturas. Due to the captive structure of its production network, farmers are discouraged to participate in joint efforts such as farmers' cooperatives. As an effect, the majority of the farmers remain unorganised, which severely hampers the range of the local government's service delivery. These mismatches also stem from weak public-private coordination. While the management team of Alturas sits in the Provincial Technical Working Group together with local officials, the outcome of this coordinative body is limited. There seems to be disagreement between the two actors on what seeds and farming technologies are the proper ones to distribute to the farmers (Personal interview, 05-29-2007). While the government pushes for organic farming, using organic seeds and fertilisers, Alturas distributes hybrid rice seeds and chemical fertilisers.[23] Relatively few farmers participate in the government program since most of them already receive their seeds, along with their fertilisers, from Alturas that demands (a portion of) the farmers' harvest in return. This is a clear example of corporate clientelism by Alturas, as the farmers who make use of its seeds and fertilisers distribution scheme automatically become its clients: in order to repay their debt the farmers have to sell their produce to their 'patron' Alturas.

The strong position of the agribusiness conglomerates also expresses itself in political alliances. The patriarchs of the Filipino-Chinese family conglomerates Alturas and BQ prefer to maintain arm's length relationships with local politicians, since they do not want to become 'involved in politics' (Personal interviews, 05-22-2007; 06-07-2007). As such, an important intermediary role is played by the president of BCCI. Within the BCCI, Alturas and BQ have a strong say.[24] Additionally, both conglomerates are represented in the Bohol Investment Board, which is co-chaired by the BCCI president. More importantly, he serves as the personal economic consultant of the Governor, an influential function that is based upon a long-term companionship between the two. Having informal dinner meetings at the Governor's mansion two or three times a week, the two discuss the latest and most pressing economic affairs in the province (Personal interview, 05-29-2007).

Still, the business rivalry between the two Filipino-Chinese tycoons also creates local political favouritism, which surfaces mainly in Tagbilaran. Here, the two conglomerates have their main retail outlets and the city is a key hub for inter-island trade. The position of the city mayor is said to be favourable towards Alturas, while the interrelations with BQ are less constructive.[25] The development of Alturas' Island City Mall (ICM) in the outskirts of Tagbilaran can be regarded as the clearest expression of this skewed public-private understanding. The ICM, inaugurated in 2005, is located in barangay Dampas, an inland outskirt district of the city, which has been targeted by the city government as the new satellite Central Business District. In 2003, the new City Government Centre was erected in this uptown district, which also gained important functions as the provincial bus terminal and public market. The location of ICM has boosted the commercial development of the mayor's personal 'satellite city' priority plan, an accidence that has given birth to the 'Island City Hall' play of words, which stresses the friendly relation between the mayor and Alturas (Personal interview, 06-27-2006). Simultaneously, there is another side to this development, as it draws many middle-class consumers and tourists away from the old city centre.[26] Here, the main contester of ICM, the BQ mall, is located. Furthermore, the commercial development in Dampas is allegedly holding back the development of the Agora market site, which is a prime commercial location in downtown Tagbilaran (Personal interviews, 2006; 2007).[27] While the development of this site into a new central public market was a priority project of former Tagbilaran City mayor Torralba, its construction has come to a standstill under incumbent mayor Lim up to date. Since a new central public market near the BQ mall would pose a threat to the ICM and the commercial success of the new satellite district, the Agora site has remained an undeveloped eyesore in the city centre. According to he latest development plans, the city government will give an alternative business function to the Agora market and further diversify and boost the economic activities in the uptown business district surrounding the ICM.[28]

Being the leading marketer of Bohol as a global tourist destination, the provincial government has been a forefront engineer that has stimulated the development of the local tourism industry. Importantly, this has occurred in close coordination with key local private stakeholders via the Provincial Tourism Council.[29] This public-private partnership, mandated by law, serves as the main decision-making body of the local tourism sector. Its monthly meetings bring together key local public and private actors who set out the developmental course of the local tourism industry. With a strong representation of the private sector by presidents of the various tourism industry associations and individual 'Boholano trail blazers' Alturas and BQ, the tourism council is an influential negotiation body with administrative and legislative powers. Strikingly, however, one of the closest private allies of the provincial government in its quest for more tourism development is not a Boholano, but an Ilocano. Anos Fonacier is lauded as the 'Father of Bohol Tourism' since he built the first high-end beach resort on Panglao back in the 1980s and has been a frontrunner in local tourism development ever since.[30] A major tourism project that has been collectively and fiercely pushed by the provincial government and Fonacier is the construction of a new airport on Panglao Island. This airport is part of the larger Panglao Island Tourism Estate (PITE), a PEZA-registered 2,023 hectares special economic zone designated for tourism activities (e.g. resorts) that has been proclaimed as a national flagship project by President Arroyo. Despite its grandeur and prestige the airport project has aroused fierce local opposition and have led to power struggles that have altered

**Box 7.1 Panglao's troubled tourism politics**

Ever since the tourism industry has 'boomed' on Panglao Island, its development prospects and issues have turned the municipality of Panglao into a scene of public-private rifts and political bickering. The Panglao Airport Development Project (PADP) intensified these tensions and led to the fall of a local political leader. Doloreich Dumaluan was vice-mayor and mayor of Panglao for two consecutive terms before losing the 2007 elections from his predecessor and rival Benedicto Alcala. His disappearance from the local political stage cannot be seen separately from his troubled relations with two powerful local public and private actors: Governor Aumentado and Bohol Beach Club owner Anos Fonacier. The political rift between mayor Dumaluan and his opponents in the municipal council over the construction of a waterworks system in Panglao caused complaints from resort owners, among them Fonacier, which prompted the Governor to personally step in to break the impasse. However, the mayor and the Governor could not agree on how to solve the water problem (Bohol Sunday Post, 11-26-2007; The Province of Bohol, 07-10-2006; The Bohol Chronicle, 07-09-2006). Dumaluan's relations with Fonacier went sour before during his early years as a mayor over a business dispute. The Dumaluan Beach Resort, owned by the former mayor, is separated from the neighbouring Bohol Beach Club by a vacant lot that is also owned by Fonacier. When Fonacier decided to open up this lot as a public beach with no entrance fee, this ignited a fierce business war with Dumaluan's private resort that did charge an entrance fee and regarded the public beach as unfair competition. Several cases were filed in court against each other, with Fonacier using the political opposition of former mayor Alcala's allies in the municipal board to weaken Dumaluan's position as mayor. Vice versa, Dumaluan tried to use his mayoral executive powers to appropriate a portion of the vacant lot by stating that, being a former cemetery, it belonged to the municipality of Panglao (Personal interview, 05-21-2007). On top of these disputes, mayor Dumaluan opposed the Aumentado-Fonacier-pushed plans of a new airport on Panglao, arguing it would be devastating for the natural environment and the peace and quiet on the island (Personal interview, 06-06-2007). While he was not the only opponent to the construction of an airport on Panglao, he was one of the most vocal ones: 'It's easy for Aumentado to recommend projects in Panglao because he has no risk as he has no beach resorts in our town' (Sun Star Cebu, 01-06-2006). Moreover, his local executive control as mayor of the municipality where the airport was planned to be constructed was holding back one of the personal priority projects of the Governor and the President. However, as the Governor personally stated after a one-on-one meeting with the President on the issue at that time: 'President Gloria Macapagal-Arroyo strongly pushed for the implementation of the Panglao Airport Development Project (PADP) despite the reported opposition expressed by [...] Mayor Dumaluan as reported in the Cebu media' (Province of Bohol, 01-08-2006). Faced by such strong private and public opposition, Dumaluan lost his re-election bid in the May 2007 elections to Alcala, a fellow pro-Arroyo party member of the Governor who was in favour of the provincial airport development plans. With additional backing from his private ally Fonacier, Alcala won by a landslide victory (Personal interview, 05-21-2007; The Bohol Chronicle, 10-21-2007). Dumaluan's 'removal' from office and the instalment

of the 'cooperative' Alcala has spurred the development of the new airport, with initial clearing operations of the proposed site having started in October 2007 (The Bohol Chronicle, 10-21-2007). As the water deadlock is concerned, Governor Aumentado has expressed renewed optimism on resolving this issue, so it will not delay the development of the new airport (The Bohol Chronicle, 02-17-2008). On the losing end, the repeated order for closure of his Beach Resort after the elections was viewed by Dumaluan as another form of political harassment carried out by his opponents (The Bohol Chronicle, 06-03-2007).

Panglao's political arena. As discussed in textbox 7.1, the airport project serves as a fitting example of how a large development project with conflicting interests for local and non-local powerbrokers can have a disturbing impact on the functioning of a localised politico-economy like Bohol.

***Public-private coordination for a 'Ceboom'***

While Cebu has a long history as an international trading hub, its global insertion has not been a gradual process, particularly not for its export-oriented industrial base that experienced a period of rapid growth at the end of the twentieth century. The fall of the Marcos dictatorship heralded an unprecedented influx of FDI and export-driven growth. Between 1986 and 1990, capitalisation of new businesses grew by 1,287%, while the Board of Investment (BOI) registered a rise of investments by an incredible 3,730%. In contrast to the national capital region, Cebu became a net exporter: even after the devastating typhoon Ruping had left the island largely in ruins a year before, a 19% growth of manufactured exports heavily contributed to an overall export growth of 5.8% in 1991. Furthermore, while the Mactan Export Processing Zone (MEPZ) was already established on Mactan Island since 1979, it did not take off until 1986, after the fall of Marcos. The number of foreign companies grew from eight in 1986 to 36 in 1991, including prominent manufacturers like General Motors, Timex and NEC (Churchill, 1993). In many ways, the 'economic miracle' or 'Ceboom' that happened in Cebu during the late 1980s and early 1990s was shaped by local initiatives. As will be illustrated below, dynamic political leadership and strong private sector involvement have been the key ingredients for a decisive public-private Cebuano growth alliance. This alliance has radically transformed the local economy and repositioned Cebu in the global economy in a manner that parallels the more general model of development pursued in Southeast Asia (most notably, Singapore) during the eighties and nineties: export- and FDI-driven industrialisation through strong government action on pro-growth economic policies (World Bank, 1993). A noteworthy aspect of Cebu's growth is that it occurs on the local level: different from the national 'city-state' of Singapore, Cebu has accomplished to pursuit a unique model of regional economic growth within the national politico-economic context of the Philippine state.

After Marcos was forced to step down and went into exile in Hawaii, this gave way for many of his political rivals to revive their public activities. This was especially true for one of his most prominent political enemies that were hit hard during the years of Martial Law: the Osmeñas from Cebu.[31] The peaceful removal of Marcos not only cleared the path for the Osmeñas to return to the political stage, it also created a global wave of positive

attention on the Philippines that had long suffered from a terrible reputation under the former dictator (Personal interview, 03-28-2007). In Cebu, these two movements seem to have been critical ingredients for its economic growth. A central role in the post-Marcos development of Cebu is played by Emilio 'Lito' Osmeña, who served as Governor of Cebu from 1988 to 1992 and subsequently became the economic advisor of President Ramos for national government flagship projects from 1992 to 1998.[32] Lito was accompanied by his cousin Tomas 'Tommy' Osmeña, who was a two-term mayor of Cebu City from 1988 to 1995 and supporter of his pro-growth agenda.[33] Both were 'successful real estate specialists with projects in the Philippines and on the US West Coast' (Mojares, 1994: 336). Being a businessman himself, Lito Osmeña had first hand experience with the troublesome and confusing regulatory framework in his country. Therefore, his pro-business administration initially focused on finding innovative solutions to cut through or circumvent red tape. By promising minimum regulation and intervention, the provincial government started to attract new investors. Moreover, these investors were welcomed with streamlined application procedures and a relative freedom to exercise their business operations (Law, 1997).

While these local pro-business policies have certainly been important in attracting new investors, it would not have become a success without a proper physical business environment. To push their ambitious and costly pro-growth development agenda, the Osmeña-tandem broke with the traditional ways of fundraising by the local government. Impatient with waiting for funds to trickle down from the national government in Manila for the much-needed capacity upgrade of key infrastructural facilities, new funding partners and schemes needed to be found by the local leaders.[34] One way was to look abroad: through an extensive public-private lobby from Cebu and guarantees of the national Philippine government, the Japanese Overseas Economic Cooperation Fund and the Asian Development Bank provided extensive loans. Additionally, some of the most innovative funding schemes were coordinated in close partnership with major national property corporations that had significant ties with international sources of capital and technology (Sajor, 2003).[35] In 1988, the provincial government offered to sell via public bidding a 45-hectares golf course in Cebu City. Previously, this had been leased by the provincial government to Club Filipino, a small group of fortunate Cebuanos, at a mere P800 a month (Churchill, 1993: 9). The winning bid from a consortium of big investors exceeded the set floor price threefold, leaving the provincial government with P551 million to spend on its infrastructural plans.[36] Today, the business park hosts office towers, five star hotels and the luxurious Ayala shopping mall. A second major land deal of the Osmeña administration was the selling of the former Lahug airport site on the equity market in 1991 through the issuance of convertible bonds with a total value of P300 million. These bonds were exchangeable for shares of Cebu Property Ventures and Development Corporation (CPVDC), a joint venture of the provincial government and Ayala Land Incorporation. This site has been developed into the Asiatown IT Park, a PEZA registered economic zone with Japanese and American call centres and software R&D.[37] Also outside Cebu City's perimeters similar developments under the build-operate-transfer scheme took place under the Osmeña administration: in Balamban, the West Cebu Industrial Park was opened as a site for heavy industrial activities. Nowadays the special economic zone is better known as the Tsuneishi shipbuilding wharf, a joint venture between the Japanese company and the Aboitiz Group of Companies.[38] The latter also developed

the 800-hectares expansion of the Mactan Export Processing Zone. In Naga, a town 20 kilometres south of Cebu City, another 123-hectares special economic zone emerged under the name of New Cebu Township One. At first sight, the urban development approach of the Osmeñas via land reclamation and urban development projects seems to correspond with the 'corporate approach to city design' pursuit by Imelda Marcos during her term as Governor of Metro Manila (1976-1986): an ambitious and pro-growth oriented vision to transform Metro Manila into a world-class metropolis. One of Imelda's most prestigious projects has been the World Bank-funded land reclamation project in the Bay of Manila, which was envisioned as the new administrative and business centre for the metropolis. However, unlike the Osmeñas' approach to rely on public-private cooperation to accomplish such a project (e.g. Cebu's North Reclamation Area) Marcos used state power in her role as authoritative 'urban designer-cum-director' to control and steer the project (van den Muijzenberg and van Naerssen, 2005).

While effective in its operations, the strong involvement of the private sector in Cebu's land development-driven economic boom also raised controversy with the rent seeking behaviour of the Osmeñas, being real estate developers and politicians at the same time. This controversy about rent seeking via major land reclamation and development projects has always surrounded the Osmeñas.[39] As such, the direct involvement of Lito Osmeña's own property firm in various government-initiated land developments during his term as Governor is no isolated case.[40] When confronted with accusations of rent seeking, Lito personally responded by saying: 'If I don't move because it will benefit my family, then nothing moves in Cebu' (Mojares, 1994: 339). This quote should not be seen as an exaggeration, since intermarriages, socializing and alleged kinship ties have connected the Osmeñas with some of the most influential traditional business-family dynasties in the country. Over the years, these dynasties have consistently supported the Osmeña clan, while refraining from entering Cebu politics themselves. In exchange, the Osmeñas provided these dynasties access to government financing and contracts and guaranteed friendly regulation of their business operation (Sidel, 1999: 132).[41] Besides making deals with major national business conglomerates like Ayala and Aboitiz, Governor Lito Osmeña also surrounded himself with leading members of Cebu City's merchant dynasties. One of his closest private associates was Michel Lhuillier, owner of a national chain of pawnshops and jewelry stores, whom he appointed deputy governor (Personal interview, 04-11-2007; 04-12-2007).

Aside from joint ventures and long term personal relations with major business dynasties, Lito and Tomas Osmeña also institutionalised the coordination with the local private sector in various forms, laying the foundations for an urban growth alliance that resembles an urban regime as depicted by Stone (1989): an assembly of political, business and community elites who form an urban growth coalition. The regime is an informal yet relatively stable group of actors with access to institutional resources, and which has a significant impact on urban policy and management. It is not a coherent organisation or association, but an informal group of influential persons who derive their power from different sources, who share some policy objectives such as promoting growth in their city, and who can gain some economic, political or social rewards from their involvement. The regime is formed as an informal basis for coordination and without an all encompassing structure of command (Stoker, 1995: 59).[42] In Cebu, Lito Osmeña initiated weekly

informal fellowships with local business leaders to sit down and discuss the issues that were important for the local private sector (Personal interview, 04-11-2007). One of the key activities that were undertaken by the local public and private sector together was the marketing of Cebu as an investment destination, using the catch phrase of 'Cebu: an island in the Pacific'.[43] Their close ties with the local business community enabled Lito and Tomas to personally lead overseas trade missions of businessmen, represented by the Cebu Filipino-Chinese Chamber of Commerce and Industry (FCCCI) and the Cebu Chamber of Commerce and Industry (CCCI). During these missions, the public-private Cebu delegation networked with chambers of commerce in the NICs of Southeast Asia (Sajor, 2003). Additionally, a local marketing vehicle was founded in 1994 under the name of the Cebu Investment Promotion Centre (CIPC). This public-private initiative is a joint undertaking of the Province of Cebu, the Local Government Units of Metropolitan Cebu and at least 50 of the largest corporations operating in Cebu, with the primary function of promoting Cebu to foreign direct investors. CIPC was the fruit of Cebu, Inc., an informal organisation of local business and civic leaders that served as a think-tank for the development of Metro Cebu.[44] Moreover, after the EDSA Revolution the local private sector also started to organise itself formally, particularly through the CCCI. With extensive financial and technical aid through the Philippine-German Chamber Cooperation Program (PGCCP) that lasted from 1986 to 1993, the Chamber professionalised and rapidly grew in terms of membership.

The major transformations described above have laid the foundations for an economic vibrancy that still exists in Cebu today. While the Asian crisis put a stop to the fast paced economic growth in 1997, the public-private alliance has remained alive. There have been changes, however, in the composition of the urban regime as the Osmeñas have lost political ground in Cebu to their self-raised apprentices of the Garcia clan. This political 'power shift' demonstrates the temporal nature of urban regimes as they devolve and transform over time (Stoker, 1995). Even so, Cebu City has remained the bailiwick of Tomas Osmeña, who was elected as city mayor for his third consecutive term in 2007.[45] Moreover, he has contributed to the legacy of his family's reign through the completion of the 300-hectares South Road Properties (SRP). This prestigious reclamation project has all the ingredients that make it a true Osmeña-development: a major land development project that has been executed with funds from abroad and strong private sector involvement and is surrounded by controversy.[46] Secondly, while during the early '90s it was the strong political leadership of Lito Osmeña that pushed for development, nowadays this leading role has been taken over by the local private sector (Personal interview, 05-01-2007). The CCCI is instrumental in this, having evolved into a highly esteemed and influential advocator of the Cebuano business community that is well entrenched in local and regional government bodies and actively pushes for the development of IT and tourism in the province.[47]

***Negros Oriental's elite-alliance politics***

While Negros has had strong direct linkages with the global economy during the booming era of the local sugar industry, the outcomes of these international trading and investment ties have not triggered an economic dynamism such as the one in neighbouring Cebu. Rather, it has left the island with the outdated remnants of a once successful plantation economy that collapsed under global competition. The Sugarlandia of contemporary times suffers from an institutional lock-in that generates little economic diversification away from

the troubled industry. As Beckford (1972) has analysed, plantation economies in developing countries are characterised by various internal obstacles to sustainable development that can be related to the socio-political structure of the plantation system: a polarised accumulation of wealth and income by a small elite class of plantation owners who have little progress-oriented and entrepreneurial values, but prefer to invest in non-productive assets. Furthermore, another important stumbling block can be found in the 'excessive power of the planter and associated class that is exercised more in the interest of the small dominant class than in that of the society as a whole' (Beckford, 1972: 217). In Negros, the obstinate political lock-in continues to place political decision making in the hands of a powerful oligarchy of elite families with roots in the sugar industry. One important way in which the elite families have securely entrenched themselves in political power is through the creation of extensive alliances with each other that has allowed them to hold a firm grip on local public offices on the island. The most extensive of these alliances is the United Negros Alliance-Nationalist People's Coalition (UNA-NPC), a regional offspring of its national mother organisation Nationalist People's Coalition (NPC). NPC was founded by the business tycoon Eduardo 'Danding' Cojuangco, Jr. who is a key stakeholder in the Philippine sugar industry and has major agricultural business interests in Negros.[48] By supporting the local agricultural elite through his political machinery, NPC-affiliated candidates have been dominating the political scene in the two provinces of Negros Island.[49]

Under the umbrella of this powerful island-wide alliance, which is regarded as a heavyweight in national politics, Negros Oriental has its own political coalition that binds the key political powerbrokers in the province. The 'sunshine coalition' between Negros Oriental's two major political parties NPC and Lakas-CMD has proven to serve as a solid basis for provincial agricultural elites to retain their political influence by grooming and endorsing new candidates and supporting each other during elections.[50] A contemporary offspring of this inter-elite coordination and collaboration is the MAP (Macias-Arnaiz-Perdices) alliance that has been filling the public positions in the 2nd congressional district for the last 20 years. It is important to note here that a crucial factor behind the success story of the MAP alliance is the support coming from the traditional elites in the province. While Mayor Perdices belongs to these elites, being the son of former three-term Governor Mariano Francisco Perdices (1960-1972), Macias and Arnaiz were both groomed as apprentices by the influential Teves and Villegas dynasties. Later, as executive political neophytes, they received support from these dynasties.[51] This alliance proved its strategic value once more during the May 2007 elections, when three-term Governor George Arnaiz and three-term 2nd district congressman Emilio Macias II switched their positions unopposed and Dumaguete City Mayor Augustin Perdices won his third consecutive term against an alleged 'dummy candidate'.[52]

The coordination between traditional elites does not only serve to consolidate their political positions. Rather, it serves as an effective tool to take care of their economic interests as well. After all, various members of the contemporary leading elite have vested business interests in the agricultural economy.[53] Moreover, the public positions have allowed these elites to initiate new business ventures that diversify their economic base and strengthen their control over the provincial economy. Ever since colonial times, the control over land has been a crucial tool in this interplay of private and public interests. In 2007, the Teves

and Sy families embarked on a major land development project to support a new bio-fuel plant in the Teves-ruled 3rd congressional district. The Tamlang Valley Agricultural Development Corporation, a joint venture of Herminio Teves and Company, Inc., the Sy-owned Tao Corporation and the National Development Company (the investment arm of the Department of Trade and Industry), served as the public-private vehicle for the project that is involved in the land lease for a 25,000-hectares jatropha, cassava and sugar plantation that covers the towns of Siaton, Sta. Catalina, Sibulan and Pamplona. The project is further supported by other key public officials: members of Congress Arnaiz, Teves and Sy-Limkaichong have authored various House bills that propose an upgrade of the provincial roads in the key agricultural areas into national roads. According to Arnaiz, still Governor at the time of the interview, the most important way Congressmen contribute to the local sugar industry and agricultural development in the province is in the construction of farm to market roads and bridges (Personal interview, 03-13-2007). While the project finds many supporters from the local and national government, it is seen by criticasters as another classic example of land grabbing by a landlord elite that constantly seeks new ways to circumvent the land reform program.[54] Another prime business project in the province is also initiated by the Sy family. The 24-hectares Dumaguete Business Park sits on a formerly vacant piece of land in the southern outskirts of Dumaguete City, owned by the Sy family. It has brought in new outside investments into the province, being host to the province's second BPO centre (Teletech, a US-based global outsourcing company) and a large Robinson's mall (an investment by the Gokongwei-owned Robinsons Land Corporation).[55] Its development has been given full support by the provincial and city government and the business community through NOCCI's President Emmanuel Teves Sagarbarria (who also sits in the board of the city government) and the local Filipino-Chinese Chamber of Commerce and Industry, of which Julio Sy's brother Alex is the president. Still, as the latter stressed, the Dumaguete Business Park is a family initiative in the first place and its development is steered by the family. The involvement of government leaders in the project should be regarded as politically motivated (Personal interview, 02-27-2007).

While the business ties between the leading elites ignites new projects that spur biased economic growth and property value increase, the intermingling of public and private interests has also proved to be an ingredient for friction between members of the elite alliance. As a matter of fact, business interests were the underlying factor for the political replacement of the traditional elite by a new elite during the 2007 elections. After having controlled the 1st congressional district for nearly 20 years, the Paras-Villegas brothers lost their stronghold to 'political neophyte' Jocelyn Sy-Limkaichong, the former mayor of the town of La Libertad and daughter of Julio Sy. While the Parases were put into power in 1987 by Herminio Teves himself, it was the same Teves who dropped his long-term support for the Parases in favour of their new rival.[56] In a newspaper interview, Teves stated that their province-wide alliance did 'not include wives and grandchildren'.[57] Additionally, he condemned the lack of improvements in the 1st district during by saying that 'the people remain poor but the leaders are rich' (The Visayan Daily Star, 04-29-2007). While plausible reasons, Teves' support for Sy-Limkaichong can also be regarded as political payback (*utang na loob*) for the business support he received from Julio Sy. Aside their joint venture in the bio-fuel project, Sy has provided financial assistance to Teves by becoming a major shareholder of his sugar mill in Sta. Catalina (Personal interview, 02-28-2007; 02-26-2007). Furthermore, the strength of Teves' influence in the 1st district does not

only stem from his large political clout in the entire province, but is also partly business-related, owning a large ranch in the northern town of Ayungon. After the violence-ridden elections in the 1st district, Paras was quick to blame Teves as the 'master cheater who had done everything in order for his Chinese candidate to win by hook or by crook' (Sun Star Dumaguete, 05-28-2007). While this exemplifies that political control does change hands over time and the local elite is not an enduring group, it also showcases how the coordination among local elites generates an institutional lock-in that hinders the local economy to break with its past and divert away from the sugar industry.

### 7.4.3 National-local ties

A common view among Filipinos living in the provinces is that the development policies, constructed by the technocrats in Manila, have historically favoured the island of Luzon and discriminated against the 'peripheral' island groups of Visayas and Mindanao (Balisacan and Fuwa, 2004). The term 'imperial Manila' is often mentioned when discussing this issue, referring to the favoured position of Manila during Spanish colonisation (Personal interviews, 2007). Since the independence, a major issue for Philippine policy makers has been how to promote broad-based regional and local development in such a diverse setting, and what sort of centre-region-local structures would be optimal to achieve this (Balisacan and Hill, 2006). In present times, there are still ample reasons to consider the NCR to be the ultimate political powerbroker; it is host to the presidential Malacañang Palace and the bicameral legislature in the Congress, being the Senate and the House of Representatives. Furthermore, all the executive head offices of the different ministries are settled in the NCR, making it the bureaucratic capital region as well. Since the NCR is also the prime business location in the country with Makati City as its upscale business district, it has remained the politico-economic core of the country in many ways.

Even so, the common assumption of an overly centralised Philippine state has been contested by authors who emphasise the historic and contemporary importance of localism in Philippine politics (see Hutchcroft, 2000; Sidel, 1999; Rood, 1998; Cullinane, 1994; McCoy, 1994). Political centre-periphery relations were not new to the post-colonial Philippines and as such, the enactment of the Local Government Code must not be seen as an abrupt break from a centralised past (Atienza, 2006). It should rather be viewed as a formalisation of informal ties between central and local authorities that have existed for a long time already. Despite this formalisation, personal ties remain extremely important in contemporary Philippine politics. Alongside the hierarchical bureaucratic lines that run from the ministerial head offices in the NCR down to their regional and provincial subsidiaries, there are other, more personal political ties that connect the local with the central. These relations prosper in a two-way dependence scheme: the president needs political grassroots support from the provinces, cities and municipalities, while the local officials need financial support from the coffers of Malacañang for their development projects. In the three Central Visayan provinces, smooth vertical personal political ties prove to be crucial for the successful implementation of key development projects.

***Bohol: local support for national dole-outs***

Bohol's localised economic development has made it dependent upon the national government for financial support. However, not being a vote-rich island and having no strategic economic significance, Bohol has never had a prime position on the development

agenda of the national government. As such, the recent focus of President Arroyo on Bohol can be considered as a break with the past that has put Bohol prominently on the radar screen of the national government. The investments in various flagship infrastructural projects by the Arroyo administration are significant: the 262-kilometer Bohol Circumferential Road Project (P1.2 billion), the Leyte-Bohol Interconnection Power Project (P2.1 billion) and the Bohol Irrigation Project (P2.3 billion) are the three largest of these projects. Additionally, Bohol is targeted to become one of the key tourist destinations in the country under Arroyo's ambitious 'Super Region' regional development program that has identified the Central Philippines as tourism cluster.[58] Again, Bohol receives prominent attention in this program, with the Panglao International Airport worth approximately P3.2 billion as the biggest flagship project of President Arroyo. The president wants the airport to be constructed before the end of her term in 2010 and in order to achieve this she has made some personal interventions that have speeded up the process (Cebu Daily News, 06-06-2006).[59] Additionally, she has upgraded it from a domestic airport to an international one.

The recent arise of attention from Malacañang is embedded in the alliances between the president and Bohol's key political officials. With the strong endorsement of Arroyo, Governor Aumentado was elected unopposed as president of the League of Provinces of the Philippines (LPP) and the Union of Local Authorities of the Philippines (ULAP) in 2004. In this privileged position, Aumentado sits as a member in Arroyo's Cabinet and can negotiate directly with her. In Aumentado's own words, it has placed Bohol 'closest to the corridors of power in Malacañang' (Office of the President, 06-03-2004). Simultaneously, Bohol's Vice-Governor Julius Caesar Herrera was re-elected president of the League of Vice-Governors of the Philippines (LVGP) with the backing of the first lady's son Juan Miguel 'Mickey' Arroyo. Furthermore, with 1st district Congressman Edgardo Chatto as chairman of the tourism committee in Congress, Panglao's development as a prime tourist destination receives ample attention in the national government.

The financial and political support for key infrastructure projects and the prominent positions of Bohol's representatives in the Arroyo administration mainly stem from these representatives' supportive attitude towards Arroyo whom they are dependent upon.[60] The pro-administration Lakas-CMD alliance in Bohol between the five top officials in the province (Congressmen Edgardo Chatto, Roberto Cajes, Eladio Jala, Governor Aumentado and Vice-Governor Herrera) that was forged inside Malacañang in 2003 has always openly given its support to Arroyo (see textbox 7.2).

The support of the local leaders towards Arroyo is not only vocal. While Bohol is a medium-sized province that ranks 17th in terms of population size, it gave the 4th largest margin of votes to the president (68% of all votes) of all provinces nationwide. During the 2007 senatorial elections, Bohol again proved to be an Arroyo bailiwick by delivering a 7-seats victory for the pro-administration candidates that ran under Arroyo's Team Unity (The Bohol Chronicle, 05-27-2007). This local electoral support in exchange for financial dole outs from the national government exemplifies the dependent position of a small and localised island economy in the national politico-economy and the patron-client relations this bears within the Philippine state: in order to gain access to national funds the local political leaders of Bohol are obliged to show unconditional support.

**Box 7.2 Bohol's unfading support for Arroyo amidst political turmoil: a timeline**
Governor Aumentado on Arroyo's landslide victory in the 2004 elections:
*'The Chief Executive posted a big marginal win in this province because of her being Bohol's Patroness of economic development and her adoption as "Daughter of Bohol"* (Office of the President, 06-03-2004).

Governor Aumentado on the alleged massive vote rigging during the 2004 elections that initiated an impeachment trial in 2005 to oust Arroyo:
*'We will stand by the president. We will support the president because there is no evidence linking her to any of these charges that have been hurled against her'* (Sun Star Cebu, 06-08-2005).

A united front of Bohol local officials on the ongoing political turbulence surrounding the election fraud of the 2004 elections and the fertiliser scam:
*'We have supported the Malacañang administration before, during the last election, with more reason that we will express our support to the administration now, when it is most needed. We believe that President Arroyo will take full responsibility for her actions under the rule of law, that she is credible to govern this administration and we believe in her efforts to earn the trust of the people'* (Office of the President, 07-05-2005).

Governor Aumentado on the ZTE broadband corruption scandal in which the president is allegedly personally involved (speaking out over Bohol's radio stations):
*'In recent history, our province has never had set up the most number of infrastructures, and it is the president who made it possible for us to have them. For all her support, it is just right that we will support her until the end of her term'* (Philippine Information Agency, 02-15-2008).

***Cebu's controversial relationship with Malacañang***

Unlike Bohol, Cebu has always been in the limelight of national politics. Its strategic economic position combined with its powerful political dynasties backed by a large pool of voters has always made Cebu a 'first-class' province. However, the position of Cebu vis-à-vis Manila has a two-faced character. Cebuanos have always contested the concept of a 'Filipino national identity' (Banlaoi, 2004). The island has a strong history of self-awareness and 'Cebuano pride' that discards intervention and control from 'imperial Manila'. On the other hand, while many Cebuanos want to believe they truly are 'an island in the Pacific' that operates independently from Malacañang, the development of Cebu as an economic powerhouse in the southern Philippines could not have been realised without the strong support from leaders in Malacañang. This contradictive duality of national-local political relations between Manila and Cebu has been particularly strong during the 'Ceboom' era. As discussed below, local political leadership played an essential role in this through their close and rather independent connections with national powerbrokers that allowed them to pursue an 'autonomous' local growth agenda.

While based in Cebu, the Osmeñas are a political dynasty of national standing. Ever since the family patriarch Don Sergio Osmeña climbed his way up to the presidential seat in 1944, the Osmeñas have kept their contacts and influence in national politics. While the Marcos era forced the Osmeñas to retreat from the political arena, they quickly recaptured their prominent position under President Aquino. In close coordination with then DTI assistant secretary Joel Mari Yu, Lito and Tomas Osmeña started to push their local agenda at the national level (Personal interview, 03-28-2007). While Lito only served for one term as Governor of Cebu, he remained important for the development of the province. Though he lost his bid for vice president to Joseph Estrada, President Ramos kept Osmeña in his administration by giving him the position of Presidential Chief Economic Adviser. In this role, Osmeña was in charge of flagship projects and had a powerful voice in NEDA and DTI. This assured a continued and expanded national government dedication to the development of Cebu as the prime economic centre of the southern Philippines.[61] Moreover, it allowed Cebu to gain easier access to international development project financiers that made the island less dependent upon financing from the national government. While today Cebuano politicians hold a less prominent position in the Arroyo administration, Cebu still receives much attention from Malacañang. Cebu has been instrumental in giving Arroyo the much-needed margin of votes to win against her contestant Fernando Poe, Jr. in the 2004 presidential elections.[62] Expressing her gratitude, President Arroyo not only took her oath and set up the 'Malacañang of the South' in Cebu City; she is also supportive towards her key Cebuano allies Governor Gwendolyn Garcia and Cebu City Mayor Tomas Osmeña.

Opposed to these close harmonious relations between Manila and Cebu is the push for more Cebuano autonomy by local officials. Governor Lito Osmeña's local growth-oriented agenda was partly based on his Manila-defiant entrepreneurial attitude, making him 'a Cebuano first, a businessman second, and a politician third' (Churchill, 1993: 10).[63] Although his vision of an independent 'Republic of Cebu' was never really pursued, Osmeña did foster a Cebuano belief in self-reliance and the persistent pursuance of a local growth agenda, even if this caused conflicts with neighbouring provinces in the region (see textbox 7.3). Furthermore, for his presidential bid in 1998 he founded the PROMDI (Probinsya Muna Development Initiative – Provinces First Development Initiative) party that was aimed at creating more local authority through federalism. While Osmeña lost for a second time to Joseph Estrada, President Arroyo's push for Charter Change answered the Cebuano call for a federalist system. This call for federalism also stems from the recurrent political unrest in Manila that poses a threat to Cebu's economic growth. In 2005, when pressure on Arroyo was mounting in Manila after an election scandal, Governor Garcia issued a proclamation with her fellow Visayan Governors that the Visayas would separate from the Philippines if the president would be removed from power, stating that 'Manila is not the Philippines' (Sun Star Cebu, 07-15-2005). A more moderate comment of Mayor Osmeña on the political turmoil surrounding Arroyo after a different corruption scandal is an opinion shared by most Cebuanos: 'I'd rather concentrate on our own problems. Cebu City will save itself. We'd rather talk about traffic problems here than discussing problems in Manila. We'll just be disappointed' (Sun Star Cebu, 06-08-2005). These statements indicate that Cebu's political leaders, unlike those in Bohol, do not serve as subservient clients to the national government but have more manoeuvring space for local agenda setting. Importantly, this local autonomy can also be attributed to the fact that Cebu's

**Box 7.3 Intra-regional relations: 'Imperial Cebu'**

From its national capital hood under early Spanish rule, Cebu City has been marked as the regional economic centre and capital from where the national government controls the Central Visayas. It is host to all regional head offices of the national government's line agencies such as DTI and NEDA. Additionally, it has a strong say in regional development policies through the Regional Development Council (RDC), the highest policy-making body in the region that serves as the counterpart of NEDA at the subnational level. Except for the past two terms, the RDC has always been headed by a Cebuano public official (Etemadi, 2001: 34). Aside from public participation, the private sector in Cebu is represented by the CCCI that steadily delivers several key executive seats like co-chairman of the council and chairmen of the Economic Development and Infrastructure Development Committees (Personal interview, 05-01-2007).

Under former RDC Development Plans, Cebu's economy has been integrated with the economies of Bohol and Negros Oriental in such a way that Cebu industries depend on raw materials from the other two provinces, while they depend on Cebu for the input that is needed in production. This core-periphery arrangement, which emphasises Cebu's historical role as the heart of the region and prime investment area, has caused some antipathy among representatives from Bohol and Negros Oriental against 'imperial Cebu' (Etemadi, 2001; Law, 1997). After all, Bohol supplies Cebu with fresh water and Negros Oriental delivers geothermal power to Cebu, both fundamental contributions to Cebu's economy. In order to curb Cebu's rising water shortage during the nineties, Lito Osmeña (first as Governor, later as Chief Economic Adviser of President Ramos) pushed for the construction of a submarine pipeline that would transport fresh water from Bohol to Cebu. This project caused much protest from Boholano representatives like Governor Rene Relampagos, who 'stood up against the project's powerful backers, in a show of Bohol's increasing determination to control its own destiny' (PCIJ, 1998). The traditional focus of the national government on Cebu also contributes to the aversion. For instance, in marketing the Central Visayas as a prime tourist destination, the Department of Tourism uses the CCCI-initiated 'Cebu plus' concept that targets Cebu as its main focus point and includes Bohol and Negros Oriental in its package deals (Personal interview, 05-03-2007; 05-17-2007).

political leaders have generated access to international funds that makes it less dependent upon national state coffers.

***Negros Oriental's national orientation***

In a country that has an extensive history of political domination by landed elites, the island of Negros has played a central role. While sugar has become 'just one of those products now' and the powerful position of the Negros 'sugar bloc' of wealthy landed Congressmen has crumbled off with the industry's downturn, traditional politicians from landed elite families have retained considerable influence in national politics (Personal interview, 02-21-2007; Philippine Daily Inquirer, 04-28-2007). Being a member of a landed family herself,

Arroyo receives considerable support from the landlord dominated NPC-Lakas alliance in Negros, in which her brother-in-law Ignacio 'Iggy' Arroyo serves as Congressman. Furthermore, some of the key positions in Arroyo's cabinet are taken by members of the same elite, such as Finance Secretary Margarito 'Gary' Teves, son of Negros Oriental's political king pin Herminio Teves.[64]

Aside from the personal ties that bind the landed elite with the Arroyo administration, Arroyo has supported the landlords by signing the Biofuel Act that offers an alternative market for the sugar industry through the production of ethanol. Besides the marketing opportunities, the Act also serves as the policy tool of the landed elite to contain or even expand their properties.[65] Under the National Bioethanol Program of the Department of Agriculture that indicates an increase of sugar cane areas is necessary for a sustainable supply of bioethanol, the Sugar Regulatory Administration (SRA) has identified 29,000 hectares of expansion areas from existing sugar mill districts and 41,450 hectares from new or green areas. Under the co-existing National Biodiesel Program, new lands will be opened up for the planting of jatropha. Furthermore, the conversion of sugar plantations for ethanol production will be a major consideration of the Department of Agrarian Reform (DAR) in the exemption of lands under the Comprehensive Agrarian Reform Program (CARP). Additionally, while Arroyo has vowed to extend the 20-year old CARP in 2008, this does not seem to threaten the landlords. The program has largely failed to meet its goals as landlords have found various loopholes to exempt their lands from being reformed. As leftist parties argue that 'for almost two decades of its implementation, land grabbing intensified in the form of land-use conversions', they reject the proposed extension of CARP (Philippine Daily Inquirer, 07-08-2007). To what extent the land reform program will be continued will largely depend upon the members of Congress, who have to decide whether to allow it to push through or what form it should take. Either way, as many critics have already stated, it will most likely benefit the landlords.

As can be noted from the examples above, the development and future of the sugar industry in Negros largely depends on national rather than local political decision making. The sugar industry in Negros Oriental is steered by the SRA and its future is coloured by landmark acts such as CARP and the Biofuel Act. Through these national policies that are shaped by local politicians, the local sugar industry in Negros has gained new opportunities to secure its future. Moreover, with a large portion of the population being dependent upon the commercial crop, the 'pro-sugar agenda' has a strong public support. An example of this support: Biofuel Act-initiator Miguel Zubiri paid a visit to Bais City to show his gratitude to the city's voters who helped him win a seat in the Senate.[66] However, the true beneficiaries of his act and the other national development programs are the local politicians who are involved in the sugar industry. This shows local landed elites -such as those from Negros Oriental- still can make strong claims in the national government that protect their business interests.

## 7.5 Concluding remarks

This chapter has comparatively analysed the positions of and roles played by the local states in the three provincial economies. In this analysis, emphasis has been put on the interplay

of the local state with: (1) the local private sector; and (2) the national government. As the empirical findings have indicated, these two relational spheres are different in the three provinces, leaving them with divergent political-economic structures that have different development impacts.

In Bohol, the local state has little influence on the rural economy that is dominated by the two local Filipino-Chinese tycoons. Their extensive value chain control hinders the local government to implement its development policies contradict with the business interests of the tycoons. Rather than sustainable production and shared trade, these interests are aimed at increasing production and consolidating trade. A different scenario is noticeable in Bohol's tourism industry, wherein the local government has played a leading role in marketing Panglao Island as a destination for investors and tourists. In this role, the local government has also been successfully using its close relationship -based on its undisputed loyalty- with the national administration to gain political and financial support for major infrastructural projects -e.g. an international airport- that are meant to further boost economic development on the island and to open it up for external investors. Additionally, the local government has been incremental in creating a local public-private partnership that serves as the main coordinating body that steers local tourism development. Such a strong public-private alliance is also present in Cebu, of which the growth as a regional centre for international business activity has been spurred by a local boosterism agenda that unites the local government's interests with that of (inter)national land and property developers, creating a suitable infrastructure for attracting foreign investors. A second crucial dimension of Cebu's growth alliance is the way local elites are able to manage their relationship with higher levels of government and the wider political environment. The unique position of Cebu in the political economy of the Philippines allows its political leaders to be a somewhat less compliant 'autonomous' province that does not entirely depend on top-down dole-outs by the national government, but can actually make bottom-up claims for national support as well. These dimensions have generated economic growth characterised by opportunism and exclusiveness. In Negros Oriental, rent seeking by an oligarchy of political leaders is done via their dual role in the local government and private sector: they use their key positions in the local government to manage economic development in a direction that benefits their own business activities. As an effect, little economic diversification has occurred that moved the local economy away from the obsolete sugar industry. This generates polarised economic growth opportunities that mainly benefit members of the rural oligarchy.

In conclusion, this chapter has shown that the role of the local state in steering regional economic development is heavily shaped by its position vis-à-vis and interrelation with the local private sector and the national government. Complementing chapters 5 and 6 that discussed two types of inter-firm networking, this chapter has provided further empirical indications that the extent and type of networking among economic actors has a determining impact on regional development. The following chapter will couple the different relational networks and their institutional arrangements to qualify the different politico-economic structures that they have generated as distinct regional business systems. Furthermore, it will discuss how and to what extent they lead to divergent development outcomes.

## Endnotes

1 While this study does not deny the continuous political influence of a traditional 'national oligarchy' that has its roots in large landholdings, it agrees with Sidel's (1999: 10) argumentation that this perspective on state-oligarchy relations in the Philippines is too simplistic and overdrawn, depicting the country as another classic example of a post-colonial weak state dominated by traditional landed elites of national status. Rather, this heterogeneous oligarchy is composed by a stratified group of power brokers who operate on various levels of scale, have different economic bases and interests and rely on distinct tactics to dominate their bailiwicks.

2 According to Sidel (1999), these pre-Hispanic 'datu-ships' were polities with political authority that was entirely personal and confined to local settlements; they were early versions of the local strongmen who remain found throughout the Philippines of today.

3 Within the first century of Spanish colonisation, Manila had become the principal trading city of the archipelago and the seat of colonial administrative and religious power. Manila's economic dominance was mainly derived from its status as a trading port for the highly lucrative galleon trade between Asia and Spain's colony in Mexico. It was only in the late-eighteenth century when commercial activities expanded outside the Manila region and by the mid-nineteenth century the cultivation and trade of cash crops had become widespread across the archipelago (Kelly, 2000).

4 In order to gain control over the hinterlands of the archipelago, a top-down government structure was created. The *provincias* (provinces) served as intermediaries between the central government and the *pueblos* (municipalities), which in turn supervised the barangays that were reduced to the status of a village or *barrio* (Iglesias, 2003).

5 Tribute payments to the Spanish rulers were arranged by imposing a head tax, which collection was a task of the datus, now called *cabezas de barangay*.

6 The Maura Law was promulgated on May 19, 1893. It was aimed at making municipal governments more effective and autonomous. Furthermore, Filipinos were allowed more active participation in local governments. In spite of this law, a centralised Spanish-dominated regime still prevailed with the 'retention of rights and prerogatives by the principalia class, the straight-laced centralisation of powers, the continued intervention of the church in State affairs, the limited franchise granted, the inadequate election method devised and enforced, and the defected (sic) financial system instituted' (Laurel, 1926: 289. Quoted in: Brillantes and Moscare, 2002: 2). In spite of these severe limitations, the Maura Law has a significant legacy in Philippine local government formation, since it created the basic municipal organisation that was later adopted and revised by the American and Filipino governments.

7 Aside from the local elites, the hierarchical political structure also offered opportunities for relative unknown and upstart professional local politicians. De Dios (2007: 200) underlines this argumentation with the example of Manuel Quezon (the second president of the Philippines) who was not born in prosperity but came from remote Tayabas where his parents were school teachers. Furthermore, this suggests that property and status could be acquired through the political process.

8 The Medium Term Philippine Development Plan (MTPDP) socio-economic reform program (1993-1998) was more commonly promoted by President Ramos as the ambitious 'Philippines 2000' vision: turning the Philippines into a Newly Industrialised Country (NIC) by the turn of the century. International competitiveness and people empowerment were targeted as the twin development goals, emphasizing both the importance of foreign private capital as well as public responsibilities.

9 With four layers of LGUs, ARMM forms and exception. Unlike other regions, ARMM has an elected regional government that tops the three other layers of local government bodies.

10 Before the implementation of the code, the functions assigned to LGUs were limited to the levying and collection of local taxes, the issuance and enforcement of regulations governing local business

activities, and the administration of certain services and facilities (e.g. garbage collection, public cemeteries, public markets and abattoirs (Manasan, 2007: 278-279).

11 Build-Operate-Transfer (BOT) is a form of project financing, wherein a private entity receives a franchise from the local government to finance, design, construct and operate a public facility (e.g. water supply or power plant) for a certain period, after which ownership is transferred to the local government. During the time that the private sector entity operates the facility, it is allowed to charge facility users a fee to regain its investment costs, as well as operating and maintenance expenses.

12 The formula of the horizontal distribution of IRA resources to individual provinces, cities, and municipalities is calculated on the basis of 50 percent by population, 25 percent by land area and 25 percent equal share to all (Atienza, 2006: 427).

13 Earlier in 1844 the trading monopoly of Spanish governors was abolished, allowing non-Spanish merchants to embark on commercial inter-island trade (Sidel, 1999).

14 John Sidel (1999) vividly describes how during the postcolonial years the pattern of oligarchic dynastic rule in Cebu province has persevered. He starts by describing the small-town dynasty on Bantayan Island of the Escario family. The rise to long-term congressional district power by different elite families is depicted by detailed analyses of the Duranos from Danao, the Bogo-based Martinezes and the Abines-clan from the southern town of Oslob. Finally, the provincial dynasty of the Osmeñas that has lasted for more than a century is elaborately described.

15 Noted contemporary political elite families in Cebu who strongly benefited from their allegiance with President Marcos are the Durano and Gullas families (Sidel, 1999).

16 After a petition from priests stationed in the south-eastern side of Negros Island and an official investigation confirming its lagging socio-economic progress, the Governor General decided to divide Negros Island into two political units in 1890: Negros Occidental, with Bacolod as its capital; and Negros Oriental, with Dumaguete as its capital.

17 As Aldecoa-Rodriguez (1983) describes, many families in Negros prospered when Iloilo was opened to world trade and the sugar business became lucrative. As such, they were able to send their sons for higher education in Manila and abroad. Here, they got in touch with the liberal ideas of the Age of Enlightenment. These young *ilustrado* men could now clearly see the injustices of Spanish rule. When they returned to Negros, they became important players in the successful revolution against the Spanish authoritarian rule in the province.

18 Among the young *ilustrados* who joined the revolution in the province in 1898 were: Esperidion Villegas, Pedro Teves and Hermenigildo Villanueva (Aldecoa-Rodriguez, 1983). In the present political scene, the Villegas family, the Teves family and the Villanueva family still hold important positions.

19 The city of Bais has produced a long list of prominent politicians who have their roots in the sugar industry. From 1901 until Bais became a city in 1968, the province of Negros Oriental had 15 governors; seven of them belonged to the elite group of entrepreneurial *ilustrado* families from Bais.

20 Former President Carlos P. Garcia was born in Talibon, Bohol in 1896. To honour the political achievements of Garcia, he is featured as the lone star in the Bohol provincial flag as the only Philippine president (from 1957 to 1961) produced by the province. Another star will be added for every Boholano who becomes president of the Philippines.

21 The works of Sidel (1999) and McCoy (1994) describe the presence of local strongmen and political dynasties in the province of Cebu in a detailed and lively manner. Furthermore, the historical rise of the landed sugar elite and its political influence on Negros Island is discussed by Billig (2003) and Larkin (1993).

22 Most agricultural extension services were devolved to the local government units, placing DA extension workers in the municipalities under the control of municipal mayors, while their coordinative body -the Office of the Provincial Agriculturalist (OPA)- was placed under the supervision of the province.

This scattered devolution has a hampering effect on the coordination and consistency of the extension services, due to a lack of administrative control between the different layers of local government (province and municipalities). Furthermore, it also hampers the collection of data on provincial agricultural output. As the provincial agriculturist explains: 'we used to have a very efficient system before that would enable us to gather the data for planning and decision making from the people in Manila. Now, we could hardly get that. The feedback system has been affected' (Personal interview, 05-29-2007).

23 By stimulating farmers to go into organic farming, the DA strives for sustainable agricultural production that benefits the environment. For the farmers, the use of organic seeds and fertilisers would mean that they become less dependent upon expensive hybrid seeds and chemical fertilisers. Alturas' main concern is to increase the yields of the small-scale farmers. Therefore, it distributes large quantities of highly productive hybrid seeds and chemical fertilisers.

24 Due to the weak financial situation of BCCI, it largely depends on the goodwill of its members. It does not have an office, so each activity requires sponsors for funding. 'Each meeting needs a sponsor. You cannot expect a lot of attendance if everyone has to pay for their own meal. So, someone has to pay for this and you cannot expect the small businesses to shoulder this. Even with small things like that, you cannot escape the influence and clout of the big local businesses. You have to rely on them. So, it is very understandable why they have control' (Personal interview, 05-21-2007).

25 The position of Tagbilaran City mayor Dan Neri Lim, a Filipino-Chinese himself, within the local Chinese business community is controversial. As expressed by key representatives of the BFCCI, he is an authoritarian and 'communist-like' leader who wants to dominate the local Chinese businessmen. As further argued by the representatives, the support he receives from Alturas allows him to hold this position. The relations between the mayor and BQ are said to be less friendly, with legal cases filed by the City against the BQ management on construction developments, business operations and tax implementation.

26 The flow of people towards the ICM is allegedly stimulated by some controversial traffic rerouting in the city, through an abundant use of 'no entry', 'turn left' and 'turn right' signs, that directs tricycles and jeepneys to the Dampas district (Personal interview, 05-21-2007).

27 The Agora site is centrally located in Tagbilaran, across the BQ mall. It served as the central public market until it burnt down in 1975. A new public market was erected in barangay Dampas (Acejo, del Prado and Remolino, 2004).

28 The development of the Agora site has been targeted by the 2007 re-elected mayor Lim as one of his priority projects. Different from the plans of his predecessor that were aimed at reconstructing the Agora site as a public market place for retail vendors, the Lim administration will convert the site into a business centre that will offer space to service-oriented firms like banks, call centres, and insurance firms. Furthermore, the mayor is pushing for the construction of a multi-purpose sports- and convention centre, dubbed the City Astrodome project, in the new uptown business district.

29 The tourism council was a personal initiative of Governor Aumentado, which he chaired for several years before this task was handed over to a key private sector representative (Personal interview, 05-22-2007). The incumbent chairman of the tourism council is the local 'media-tycoon' Mr. Peter Dejaresco, owner of the largest local (bi-weekly) newspaper The Bohol Chronicle and DYRD-AM radio station. Since his wife operates a travel agency, Mr. Dejaresco sits as a private representative in the council (Personal interview, 05-22-2007).

30 Both coming from Sarrat, Ilocos Norte, Anos Fonacier is best known in the Philippines as a crony of former President Marcos. However, in Bohol and Cebu he is more recognised as the pioneer of tourism development by constructing the first beach resort on Mactan Island (Tambuli Beach Resort) in 1979 and Panglao Island (Bohol Beach Club) in 1984 (Sun Star Cebu, 01-16-2004). In present days,

Mr. Fonacier has a seat in the Provincial Tourism Council, as well as in the Bohol Investment Board. Furthermore, he has been the host to and joined the Governor in meetings with President Arroyo on the development of the Panglao Island Tourism Estate (PITE) and the Panglao airport.

31 Marcos' strongest rival in his second presidency bid in the 1969 elections was Sergio 'Serging' Osmeña, Jr., the son of former President Sergio Osmeña Sr. After Marcos won the fraud-filled election and declared Martial Law three years later, Serging went into exile in the US until his death in 1984. He brought along his son Tomas and daughter Minnie. Other Osmeñas who remained in the Philippines were victimised by Marcos: Sergio 'Serge' Osmeña III, Serging's other son, was imprisoned until his daring escape to the US together with Eugenio 'Geny' Lopez, Jr. of another powerful anti-Marcos family: the Lopez family from Iloilo. Senator-at-that-time John Henry 'Sonny' Osmeña, Serging's nephew, also fled to the US. John's brother Emilio 'Lito' Osmeña, Jr. was also imprisoned for nine months. To stop him from fleeing the country, he was placed under house arrest for two years by Marcos (Mojares, 1994: 316).

32 As Sajor (2003) argues, this latter position enabled Lito Osmeña to attract significant national government support and resources for Cebu-based development projects. As such, he was able to get generous subsidies from the national government to upgrade the island's telephone lines, electric power facilities, transport terminals, traffic management, garbage collection, police force and airport terminal.

33 Additionally, the Cebu City Council was dominated by Bando Osmeña – Pundok Kauswagan, Tomas Osmeña's local party: it held eight of the sixteen seats in 1988, fourteen in 1992 and all sixteen in 1995 and again in 1998 under Mayor Alvin Garcia, a former vice-mayor under Osmeña (Etemadi, 2000: 38). Moreover, John Henry 'Sonny' Osmeña, Lito's elder brother, was Senator from 1987 to 1995 and Raul del Mar, a cousin of Tomas Osmeña, was Congressman of the 1st district of Cebu City from 1987 to 1998.

34 Lito Osmeña's provincial administration had drawn up an ambitious P1 billion plan to tackle Cebu's poor infrastructure, its major bottleneck in drawing outside investors. The plan included the construction of major infrastructural facilities such as: a 300-hectares industrial and residential site in Naga, south of Cebu City; a 1,000-hectares container port, a 600-hectares resort island; an 800-hectares expansion of the existing MEPZ; and a 180-hectares land reclamation project off Mandaue City. Furthermore, there were plans to repair and expand roads, as well as create new water and electricity sources (Churchill, 1993). Alongside these provincial plans, mayor Tomas Osmeña pushed for ambitious infrastructural plans in the Metro Cebu Development Plan (Personal interview, 04-16-2007).

35 Two of the biggest Manila-based firms that operated in Cebu during the 'Ceboom' are Ayala Land Incorporation and Aboitiz Group of Companies. Based on total sales, these two national conglomerates are ranked as the 3rd and 12th largest companies in the Philippines. Ayala has international partnerships with Hong Kong-based, Dutch and French land development and construction corporations. Aboitiz has substantial partnerships with Japanese corporations (Sajor, 2003).

36 The business consortium consisted of the following major international investment and real estate firms: Ayala Land, Inc., Bank of the Philippine Islands (owned by the Ayala family), Kuok Philippines Properties, Inc. (owned by Robert Kuok, a Malaysian Chinese business tycoon with investments throughout Southeast Asia), A. Soriano Corporation (owned by the Soriano family that ran the largest copper-mining complex in Southeast Asia: the Atlas Consolidated Mining and Development Corporation in Toledo City, on the East Coast of Cebu), and the Philippine Long Term Equity Fund. After winning the bid, Cebu Holdings Inc. was formed to act as the holding company of the consortium with Ayala Land as the project manager for the development of the property of Cebu Holdings in Cebu City.

37 In 1995, Cebu Holdings also became majority shareholder of the CPVDC.

38 A key infrastructural development that preceded the development of the special economic zone in Balamban was the construction of the Talamban-Balamban transcentral highway that connects Balamban with Cebu City. This is said to be a personal endeavour of Lito Osmeña, who was able to finish the troubled project in four years (Personal interview, 04-20-2007).

39 The line between public service and private gain through major land and real estate developments has been a blurred one for all three generations of Osmeñas. Don Sergio Osmeña Sr. was criticised by his opponents for his speculative role in the restoration of Cebu City's burnt downtown district in 1905. Additionally, controversy surrounded the Cebu Heights Company, controlled by Don Sergio. The company owned a big tract of land (37 hectares) in Banilad, then an uninhabited outskirt of Cebu City. However, when Don Sergio located the new Capitol complex in 1936 in this area (he donated the lot), a real estate boom started in Cebu Heights (Mojares, 1986: 67). During the 1950s, similar accusations were held against Sergio 'Serging' Osmeña, Jr. for the 'highly questionable exchange of urban properties between the Osmeña-controlled provincial government and the Osmeña-owned Cebu Heights Company, as well as public works projects allegedly designed to enhance the value of Osmeña lands' (Sidel, 1999: 131). One of these controversial projects was the North Reclamation Area in Mandaue and Cebu City that was executed by Serging's own real estate company, the Cebu Development Corporation (Personal interview, 04-29-2007).

40 The biggest local company involved in the property construction of Cebu during the '90s was the MRO Development Corporation, owned by Lito Osmeña and his sister Annabelle Osmeña Aboitiz (Sajor, 2003). The development of the New Cebu Township One was a familial affair: MRC Allied Industries, with Lito's son Mariano as CEO, owns the property, while MRO (which is an abbreviation for Mary Renner Osmeña, Lito's mother and founder of the company) is the developer of the economic zone in Naga (Saniel, 1996). Additionally, MRO is involved in the development of the Maria Luisa Estate Park, a 200-hectares high-end residential subdivision in the hills of barangays Banilad, Busay and Talamban in Cebu City.

41 A first-tier relationship between Lito and the Aboitiz family is established through the marriage of his sister Annabelle with Luis Aboitiz. A similar connection also exists between the Osmeñas and the Lopez family through the marriage of Tomas' elder brother Sergio 'Serge' Osmeña III with Isabel Lopez. John Sidel accurately describes the alleged historical kinship and social ties of the Osmeñas with powerful national business dynasties: the retail-and real estate empire owning Gaisanos; the Filipino Chinese tycoons John Gokongwei and Andrew Gotianun; the Aboitizes; the Chongbian shipping giants; the Lu's (owners of the Lu Do & Lu Ym Corporation in Cebu, the largest coconut oil refinery in Asia after World War II); and the Visayan Electric Company (VECO)-controlling Escaños. Furthermore, the Soriano family (Atlas mining), and Asian taipan Robert Kuok (developer of the Shangri-La resort on Mactan Island) tied up with the Ayalas through the Osmeñas-initiated development of the Cebu Business Park (Sidel, 1999: 132-138).

42 It is important to note here that Stone's (1989) depiction of an urban regime was based on the example of Atlanta City in the US. Different from the US context, local governments in the Philippines are highly dependent upon the national government and cannot easily surpass it when making decisions on local economic development policies.

43 The catch phrase was initially used by Anos Fonacier, who built the prestigious Cebu Plaza Hotel in Cebu City and the Tambuli Beach Resort on Mactan Island during the '70s under the Marcos dictatorship. In order to attract foreign tourists to Cebu in the tumultuous time of martial law, he coined the catch phrase 'Cebu: an island in the Pacific', ignoring the fact that it was within the Philippines. Using his overseas connections with Jensen Mogens (one of the biggest tour wholesalers in the US west coast) and H.P. Kong (the biggest tour agency in Hong Kong), the catch phrase became

an instant success in drawing in foreign tourists with charter flights from Hong Kong, Japan and the US directly to the Mactan-Cebu International Airport. During his term as Governor, Lito Osmeña used the phrase for drawing the attention of foreign investors. For his contribution to Cebu tourism and business in general, Fonacier was named 'adopted son of Cebu City' by Mayor Tomas Osmeña in 1994 (Sun Star Cebu, 01-16-2004; Personal interview, 05-01-2007).

44 Cebu, Inc. was founded early after the EDSA Revolution by prominent members of the CCCI such as Lito Osmeña (who served as its first chairman until he was elected Governor in 1988) and Norberto Quisumbing, Jr., a local Filipino-Chinese motor vehicle giant of the Norkis Group and former president of CCCI during the '70s (Sun Star Cebu, 2005). Though an informal organisation, the influence of Cebu, Inc. to Cebu's development has been substantial in the sense of public-private networking and ventilating of development ideas. As stated by the second chairman of Cebu, Inc. and former CCCI president Efren Valiente: 'we helped to structure the public-private cooperation as it was. Because, we put people in their positions: Lito, as a Governor. We helped him to run his campaign, business-like also. And then, Tomas Osmeña, we also ran his campaign. The campaign of Raul del Mar [before becoming a Congressman, Del Mar was president of the CCCI during the '80s]. There is a merger between politics, government and business'. Another alleged outcome of this think tank is the concept of developing the South Reclamation Project (SRP) (Personal interview, 04-02-2007).

45 As during his previous terms as city mayor, Tomas Osmeña's BOPK party continues to dominate the city government. During the 2007 elections BOPK party members won all the seats in the city council. Furthermore, his close ally Michael Rama won his third consecutive bid as vice-mayor under Tomas, just like his cousin Raul del Mar did as Congressman of the city's 1st district. Furthermore, the seat for the second congressional district was won by Antonio Cuenco, another BOPK member.

46 The SRP is one of the pet projects of Tomas Osmeña during the first period as mayor of Cebu City (1988-1995). He started lobbying for the project in 1989 and it was approved three months after the end of his second term. The reclamation of the property, just off the shores of downtown Cebu City, was funded with a P2.8 billion loan from the Japan Bank for International Cooperation (JBIC). From 1998 to its delayed completion in 2004, the land use purpose of the SRP was changed from an export processing zone to an integrated commercial and entertainment complex (van Naerssen, 2004). The SRP is a highly controversial land development because of its huge costs. The Cebu City government is paying a daily interest of more than P1 million, while the total debt ballooned to P4.33 billion in 2005 (Sun Star Cebu, 02-19-2005). Since only one investor has located on the SRP so far, payments for the loan and interest are almost completely coming from the City's general funds (tax revenues), consuming 20 percent of the City's annual budget (Cebu Daily News, 02-27-2008). Recently, the CIPC has been handed a budget increase from the City government and help from the Japan International Cooperation Agency (JICA) to market the SRP more aggressively. Furthermore, the SRP was the subject of a political rift between Tomas Osmeña and former Talisay Mayor Eduardo Gullas, who claimed a portion of the SRP was lying within his city's boundaries.

47 CCCI is seated in 16 local government organisations, and 10 local Non-Government Organisations (NGOs). Aside participating in local public councils like the Cebu City Development Council and the Cebu procedure, bidding and awards committee, CCCI is also co-chairing the Regional Development Council of the Central Visayas. Pushing IT and tourism, which have been targeted by CCCI and the provincial government as the two economic drivers of Cebu's future growth, CCCI organises the yearly Cebu Business Month (CBM).

48 Eduardo Cojuangco, Jr. holds a key position in the business and political scene of the Philippines. The former Marcos crony owns the San Miguel Corporation, the largest food and beverage conglomerate in the Philippines. Cojuangco is also a major player in the sugar industry, owning large plantations and sugar mill in his home province of Tarlac and plantations (allegedly over 5,000 hectares) in Negros.

The Cojuangcos are an important political family as well, with former President Corazon Cojuangco-Aquino as its most famous former public official. In Negros Occidental, Eduardo's son Carlos Cojuangco has been congressman from 1998 to 2007.

49 The influence of Cojuangco's NPC in Negros political scene is strong. Ombion (2004) reveals that during the 2004 elections all six congressional bets in Negros Occidental and all three in Negros Oriental were 'contested by aspirants from UNA-NPC party, with some of them running under the Lakas-CMD-NPC "sunshine coalition" and LDP-KNP coalition party. All are also backed by Cojuangco and his associates'. Furthermore, both provincial governors belonged to the NPC and ran unopposed, as well as the provincial board members. Finally, the local executive posts in 13 of 16 cities and 31 of 41 towns on Negros Island were contested by NPC-affiliated candidates. The outcome of the 2007 elections did not harm the influence of Cojuangco's NPC in Negros. In Negros Oriental, NPC-member and three-term Congressman Emilio Macias II reclaimed his former position as the governor from his ally and provincial NPC chairman George Arnaiz who became congressman. Furthermore, the Lakas-CMD-NPC 'sunshine coalition' remained intact in Negros Oriental with the two other congressmen belonging to Lakas-CMD.

50 The last three Governors that ruled the province from 1987 to the present day either belong to Lakas or NPC. Herminio Teves (1987-1990) is the provincial chairman of Lakas, while Emilio Macias II (1990-1998) is a member of NPC. His successor George Arnaiz (1998-2007) is the provincial chairman of NPC. In 2007 he was succeeded by his predecessor Macias.

51 Emilio Macias II, a medical doctor by profession, served as a provincial board member under Governor William Villegas from 1975 to 1978. From 1980 to 1984 he served as Vice Governor under Lorenzo Teves, and became Governor himself in 1988 to succeed Lorenzo's brother Herminio Teves. After serving three consecutive terms as Governor, Macias was elected Congressman of the 2nd district of Negros Oriental in 1998. That was the right time for George Arnaiz, a lawyer and sugar planter by profession, to take over the position as Governor from Macias. Before, Arnaiz served as a provincial board member from 1988 to 1992 before he became Vice Governor up to 1998, both under Governor Macias. During both Macias's and Arnaiz's three consecutive terms as Governor, representatives of the Teves and Villegas families were seated in the provincial board or served as Vice Governor. Furthermore, they received the support from the other two congressmen in the province: Margarito Teves and his father Herminio Teves (3rd district, 1987-1998 and 1998-2007 resp.) and Jerome and Jacinto Paras-Villegas (1st district, 1987-1998 and 1998-2007, resp.) (Province of Negros Oriental, various years).

52 Arturo Umbac, the opponent of Perdices during the 2007 elections for Dumaguete City Mayor, was a candidate put forward by Perdices' ally Macias. After losing his bid for city mayor, Umbac gained a seat in the provincial board under Governor Macias (Personal interview, 02-21-2007).

53 The Teves family controls the Herminio Teves Company Inc. sugar mill in Santa Catalina. Additionally, it owns vast tracks of agricultural land throughout the province. Former governor-turned-congressman Arnaiz is also a large landowner and sugar planter. The Villegas family is also a major landowner in the province involved in sugar growing. Aside being a sugar planter, former 1st district congressman Jacinto Paras-Villegas is also involved in other commercial agricultural activities such as aquaculture (fish ponds) and game fowl breeding. His incumbent successor, Jocelyn Limkaichong, is the daughter of the sugar tycoon Julio Sy who owns sugar mills in Bukidnon (Mindanao) and Leyte. Like Teves, Sy is a member of the Philippine Sugar Millers Association (PSMA), a national organisation of sugar producers that has institutional linkages with various public and private organisations such as the Department of Agriculture, the SRA and the Makati Business Club.

54 According to a provincial DAR official, the personal interference of landlord politicians in Negros Oriental creates much difficulties and delays in the acquisition of lands that fall under CARP. In the

1st district, where the most militarised (NPA) areas in Negros Oriental are in Guihulngan because of fierce land struggles, the former Paras Congressmen allegedly have filed several exemptions to protect their lands and the lands of their supportive fellow-landlords from 'being CARPed'. In return, the Paras brothers received the votes from these landlords and their tenants. In the 3rd district, Congressman Herminio Teves has allegedly circumvented the land reform program in another way to protect his sugar lands: he appointed selected land reform beneficiaries who receive his reformed land. Since these beneficiaries are workers on his plantations, he does not lose control over the lands (Personal interview, 03-01-2007).

55 The first outside BPO venture to locate in Negros Oriental is SPi, another US global service provider that has multiple offices in the Philippines. In 2006 it opened an office in Bacong (a few miles south of Dumaguete) for editorial services. Teletech's Dumaguete branch functions as a call centre. The two offices have created an approximate 1,500 jobs.

56 The Parases were introduced to President Corazon Aquino by Herminio Teves. Running under the administration's slate, Jerome Paras won the position of 1st district congressman. His brother Jacinto was selected by the Aquino administration as Officer-In-Charge of Guihuilngan (The Negros Chronicle, 12-16-2007; The Visayan Daily Star, 04-09-2007).

57 Jacinto's wife Olive Paras was put forward as candidate for Congresswoman of the 1st district. Ironically, Herminio Teves endorsed his grandson Henry Pryde Teves as candidate for Congressman of 'his' 3rd district.

58 The five 'super' regions and their primary development themes are the following: (1) Northern Luzon Agribusiness Quadrangle (agribusiness); (2) Luzon Urban Beltway (industrial and service sector); (3) Central Philippines (tourism); (4) Agribusiness Mindanao (agribusiness); and (5) Cyber Corridor (information and communication technology and knowledge economy), which traverses the above "super" regions from Baguio to Cebu to Davao.

59 Arroyo seems to be very insistent with the airport project. On 29 December 2004, she created a project management office for the Panglao Airport Development Project (Memorandum Order No. 157). Roughly seven months later, she signed Memorandum Order No 178 that sought to establish the Panglao Tourism Special Infrastructure Program with the development of the airport as a major function. A year later, she expressed her wish to finish constructions in 2010.

60 There are also some personal-historical ties between President Arroyo and Bohol. During one of her speeches held in Tagbilaran, Arroyo commemorated her family's 'close ties' with Bohol, referring to her parents' friendship with former Boholano President Garcia and his wife (Office of the President, 11-04-2003).

61 In 1993, the Regional Development Council (RDC) of the Central Visayas (chaired by Cebu City Mayor Tomas Osmeña) presented its Regional Development Plan to NEDA, which distinguished Cebu as the dominant industrial, commercial, administrative, financial and service centre of the southern Philippines. In this plan, the RDC endorsed the development of an enlarged Regional Industrial Centre (RIC) stretching from Consolacion to Carmen in the districts north of Cebu. However, strong opposition to the plan came from NEDA's regional director and his co-officials in Manila who argued that the focus should remain on the MEPZ. Despite this strong opposition, the decision in favour of the RDC was 'steered' by Lito Osmena, 'who argued that the original RIC or a focus on MEPZ were visions of "Manila bureaucrats" (that is, the DTI and NEDA) who had a "sari-sari store mentality" and not a broad picture of development' (Law, 1997: 249).

62 During the 2004 presidential elections, Arroyo won by a total margin of 1,123,576 votes. Of this margin, 1,004,000 votes came from the province of Cebu and Cebu City (Manila Standard Today, 01-19-2006).

63 A fitting example of Governor Osmeña's Cebuano patriotism is that he filed protests at the Regional Trial Court against the instruction from the Department of Education, Culture and Sports (DECS) to use Filipino (Tagalog) as the official language and not allow Cebuano. As a form of protest, Osmeña initiated the singing of the Philippine national anthem in Cebuano rather that in Filipino in Cebu.

64 Tourism Secretary and Team Unity spokesman Joseph 'Ace' Durano from Danao City, Cebu belongs to the landed and sugar-mill owning Durano clan that has controlled politics in Danao and Cebu's 5th district ever since independence (Sidel, 1999). Additionally, Defense Secretary Gilberto 'Gilbert' Cojuangco Teodoro, Jr. is a nephew of Eduardo Cojuangco.

65 In 2010, a tariff reduction on imported sugar will be implemented as called for by the Association of Southeast Asian Nations Free Trade Agreement (AFTA).The Biofuel Act, which requires that all liquid fuel for vehicles sold in the country will have local biofuel components produced from domestic sugar, coconut, and other raw materials, has been authored by landlords-sugar millers-Congressmen Juan Miguel Zubiri, Herminio Teves and Ignacio Arroyo, among others. While the first two have embarked on major projects to set up a biofuel plant in their home provinces Bukidnon and Negros Oriental, Arroyo has used the Act to convert the land of his family-owned hacienda on Negros for ethanol production in an attempt to exempt it from land reform (Philippine Daily Inquirer, 03-15-2006).

66 During the 2007 Senatorial election, Zubiri won the 12th and final spot in the Senate by a total margin of 17,000 votes over his closest rival. Of this total margin, over 8,000 came from the voters of Bais City, which lies in the heart of Negros Oriental's sugar area (The Negros Chronicle, 09-09-2007).

# 8 Regional business systems?[1]

## Introduction

In the previous three chapters the key relational 'business systems' characteristics of Bohol's, Cebu's and Negros Oriental's economies have been comparatively analysed: (1) inter-firm relations, and (2) the role of the local state. Furthermore, (3) the influence of ethnicity, i.e. the role of ethnic Chinese entrepreneurs in these relations, has been integrated in the discussion as it is assumed to be an important factor in shaping these relations. This reflective chapter picks up where the explorative data analyses of the previous chapters left off. Combining the empirical findings of the previous chapters for a more holistic application of Whitley's (1999) analytical framework, it investigates to what extent the three regional economies constitute different business systems (research question 5). Here, Hall and Soskice's (2001) concept of institutional complementarities -as discussed in chapter 2- provides a useful analytical tool that identifies business systems based on the interconnectivity of their different institutional arrangements.

While a qualification of the regional economies as distinct business systems is useful for comparative means, it does not give plausible explanations for disparities in regional economic development. Therefore, this chapter will also aim to provide insights into the dynamics and causalities between these regional institutional constellations and regional economic development. This will provide answers to research question six: to what extent do the regional business systems lead to varying regional development outcomes in terms of private sector development and distribution of wealth? Again referring to the concept of institutional complementarities: to what extent do the institutional arrangements complement each other's -positive or negative- effect on regional development?

Tackling these questions will help to achieve the aim of this chapter: to shed a new light on how and to what extent the key institutional 'business systems' characteristics create different economic systems that contribute to the varying development trajectories of Bohol, Cebu and Negros Oriental. This chapter is structured as follows: first, section 8.1 will aggregate the empirical findings of the three preceding chapters and analyse the institutional characteristics as to what extent they jointly form distinct 'regional business systems'. Then, section 8.2 analyses the institutional complementarities inherent to these business systems and their impacts on regional economic development. This last step will help to distillate to what extent the different regional business systems lead to different development trajectories in the Central Visayas.

## 8.1 Composing the business systems in the Central Visayas

Having analysed the relational patterns of the regional economies, the next analytical step is to combine these patterns and to investigate to what extent they form economic systems that operate different from others. The empirical analyses of the previous chapters have provided ample data for an integrated presentation of the regional institutional characteristics. Aiming to do this in a synoptic manner, this section will discuss the different regional economies one by one. First, the three institutional arrangements of the provinces are briefly discussed. Then, they are assembled for qualification as 'regional business systems', discussing their institutional complementarities and using analytical models to showcase the different systems. This second step is done using the conceptual framework of chapter 2.

### 8.1.1 Bohol

In chapter 4, Bohol was introduced as an island economy that has experienced a modest and localised development process. Unlike Cebu and Negros Oriental, it has not undergone major socio-economic shifts during past centuries of colonisation; neither has it found itself in the limelight of foreign investors in the more recent age of economic globalisation. The island's agricultural sector, which still very much serves as the backbone of the economy, is recognised by its small-scale production structure and (largely) island-bound trading network that is controlled by a duopsony of local Filipino-Chinese business conglomerates Alturas and BQ. As far as in- and outgoing trade is concerned, Alturas and BQ serve as gatekeepers to the local economy as both are the main importers of consumer goods and Alturas ships its agricultural commodities to other provinces in the Philippines. Though the tourism cluster on Panglao Island is still in an infant stage, it has experienced considerable growth over the past decade and could become an additional economic driver that will position Bohol more prominently on the global investment map. It is this specific setting that contributes to a unique dual Boholano business system.

*Inter-firm relations*

Within the provincial agricultural trading network, middleman traders of the key agricultural commodity -rice- strongly rely on informal contact with their suppliers (small-scale farmers) and buyers (Alturas and BQ). Based on long-term personal relationships or *sukis* that harness trust and mutual commitment among trade partners, middleman traders do not use formal arrangements to manage their supply and demand. As traders operate on a small home market and mainly do business with well known and nearby trading partners, the use of formal contracts is not so urgent. Simultaneously, as Alturas and, in a lesser extent, BQ have a firm hand in the local demand of the main agricultural crop, they prefer to rely on flexible verbal agreements to govern their upstream relations. This way, they can easily alter or terminate these agreements according to their shifting needs. In a different manner, the insertion of the middleman traders into a top-down controlled value chain also has serious impacts on their strategic behaviour vis-à-vis local competitors. As noticed in chapter 6, coordination among competitors is commonly structured along personal relations and described by entrepreneurs as a 'friendly way' of doing business on the island. The strong social embeddedness of local entrepreneurs and their dense interpersonal ties are certainly important social constellations that foster the close informal coordination among competitors. In addition, a second underlying factor for the strong

reliance on informal coordination can be traced to the weak position that these competitors hold in the value chain. The market dominance of the 'big two' creates a relatively non-competitive and non-challenging situation for the middleman traders. Non-competitive, as they are all dependent upon the demand from one of the two conglomerates that control the market and set its prices, and non-challenging since there are few opportunities to expand or upgrade their activities within the top-down controlled value chain. As an effect of these rather bleak growth prospects, there is little need for the traders to exceed their coordination and cooperation beyond casual informal talks in which non-competitive market information is shared and discussed. This weak urgency among entrepreneurs for more extensive collaboration could also explain the frail collective efforts that are undertaken via local business associations.

Bohol's tourism sector is characterised by a different set of inter-firm relations, which can be explained by the influence of global market forces on the local level. Unlike its localised and monopolised agricultural sector, Bohol's tourism industry finds itself positioned in a highly competitive buyer-driven global market. In their quest for a larger number of domestic and foreign tourists, the cluster of beach resorts and dive shops on Panglao Island have much to gain from collective efforts, i.e. marketing, upgrading and standardisation of their services and advocacy with the local government. Therefore, the tourism sector shows a relatively high level of inter-firm coordination and cooperation, both via informal linkages and through the various business associations that are active in the sector.

*The role of the local state*

The role of the local government in Bohol's two key economic sectors appears to differ significantly, a duality that can be related to the different organisational structures of the sectors and their key actors. In agriculture, the dominance of the two local business conglomerates clearly affects the local government's position towards and influence upon this sector. In implementing its key agricultural policies and programs, the local government cannot surpass Alturas, as it has a firm and province-wide hand in production and trade activities. Furthermore, the local tycoons are well connected with local political leaders, holding seats in various public-private boards and via personal alliances. Still, public-private coordination and cooperation seems to be rather ineffective in Bohol's agricultural sector, as both parties have different development agendas -a private approach to increase productivity versus a public sustainable livelihoods approach- which are heading in different directions. This weakens the influence of the local government on the development of the agricultural sector. In contrast, the local government -and the incumbent governor in particular- holds a central position in the development of the tourism sector. Not only has it been important in boosting the marketing of Bohol as a tourist destination, it has also been the initiator of the Provincial Tourism Council. Aside from the governor, the most influential local businessmen and tourism stakeholders sit in this council that is authorised as the main decision-making body for local tourism development. Furthermore, the governor has been successfully using his close relationship -based on his undisputed loyalty- with President Arroyo to gain political and financial support for major infrastructural projects that are meant to further boost economic development on the island and open it up for investors, i.e. the circumferential road and the Panglao international airport.

*The influence of ethnicity*

The dominant position of the two Filipino-Chinese tycoons in the provincial economy has a strong effect on the patterns of inter-firm and public-private relations. The two conglomerates represent growth and management characteristics that have been associated more generally with overseas Chinese entrepreneurship in Southeast Asia by various authors: family ownership and control, a highly diversified but simple organisational structure with centralised decision making, close relationships with the public sector and strong reliance on informal and familial networks (Ahlstrom et al., 2004; Bjerke, 2000; Haley, 1997). As Redding (1995) has argued, these business practices are rooted in Chinese culture and related institutions, which have been strengthened by the refugee experience of the overseas entrepreneurs. The three cultural influences Redding describes, paternalism, personalism and insecurity, also seem to shape the two Boholano conglomerates and their relational networks. The conglomerates are family-owned and managed, but the ultimate decision makers are the family patriarchs, Marlito Uy (Alturas) and Frederick Ong (BQ). Their firm grip on the agricultural production and trade in the province has been achieved through pursuance of vertical integration strategies: the incorporation of production and processing activities in combination with -this is particularly true for Alturas- an aggressive expansion of the marketing network. This enables the tycoons to stay in control, not only over their own business ventures, but even the entire sector and its private actors involved in the lower ends of the value chain. The extensive control of the two tycoons has a decisive impact on the behaviour of lower-end actors in the value chain -farmers, millers and middleman traders- because they all rely on the demand from Alturas and BQ. Furthermore, as an effect of their economic dominance, the Filipino-Chinese entrepreneurs are also well connected in the local political scene. Here, the cultural influences of personalism and insecurity seem particularly evident. As they have little corporate protection from the Philippine legal infrastructure and prefer to operate within their 'narrow radius of trust' (Fukuyama, 1995) that mainly consists of fellow Filipino-Chinese entrepreneurs, Filipino-Chinese entrepreneurs tend to seek protection from local political leaders by offering -often secretive financial- support to these leaders. In return, the Filipino-Chinese entrepreneurs gain privileged access to the local politicians who repay their debts via decision making that favours their business interests.

*The Boholano business system: localised comprador system*

Figure 8.1 provides an analytical overview of the business system that can be drawn up in Bohol, assembling the key relational features discussed above. For a better understanding of this figure -and figures 8.2 and 8.3 as well- some clarifying remarks will be made before discussing and interpreting these figures. The figure consists of various boxes that are connected with each other via arrows. The boxes represent the key stakeholders of the provincial economy. These stakeholders are not necessarily local, but can be national or international agents -such as the national government in figure 8.1. The arrows represent the institutional relations between the stakeholders. They vary in thickness according to the relation's strength, which is explained as the importance of the relationship for the agent in the box where the arrow is directed to. Following this, it is important to note here that not all relations are equal in their reciprocal importance. In such a scenario, two opposite one-way arrows are drawn between two boxes that vary in thickness.

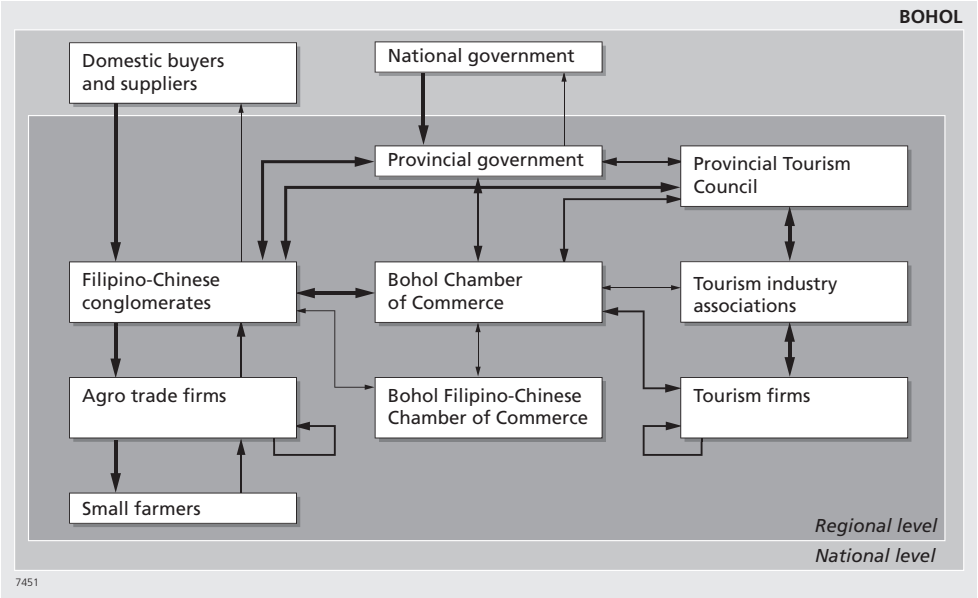



***Figure 8.1:*** Bohol's business system

One of the defining characteristics of Bohol's business system clearly emerges from figure 8.1: its highly localised setting. Almost all the key public and private stakeholders of the regional economy are local players whose activities and networks are largely confined within the island's boundaries. This makes it a *localised* business system, with relatively few relations exceeding the regional level. This strong inward orientation can -to a large extend- be explained by a second key characteristic of the Boholano business system: the dominant position of the Filipino-Chinese business conglomerates in the provincial economy. Whereas Cebu's and Negros Oriental's early experiences with insertion into global value chains have drastically changed their economic landscapes, Bohol remained in the background during these decisive developments. This lack of external interest in Bohol's agricultural smallholders' economy has enabled the local Filipino-Chinese merchants to emerge as *comprador capitalists* who serve as the gatekeepers of the local market and have a firm grip on its internal trade network as well (Yoshihara, 1988). The term comprador (Portuguese for 'buyer') was originally used for Chinese merchants operating as buyers for foreign trading companies that had a monopoly in imperial China. When the monopolies of the foreign trading houses ended, the Chinese compradors took over their positions (Heartfield, 2005). Furthermore, Bohol's Filipino-Chinese tycoons have used their dominant market positions to extend their vertical upstream control over production processes and diversify their ventures to become true local business conglomerates. The close ties with local government leaders are also important in this. To some extent, the local state can be seen as a partner of the ethnic Chinese tycoons via their personal ties with local political leaders and their seats in public-private decision-making bodies. In this regard, the Bohol Tourism Council serves as an important vehicle for the tycoons to have a say in the developments in the new industry that is increasingly opening up the island to outside investors. As the influx of foreign and domestic investors could pose a threat to the firm grip of the tycoons on the island's trade network -as it can also offer new opportunities for

***Table 8.1:*** Key business system characteristics of Bohol's dualistic economy

| | **Bohol agro** | **Bohol tourism** |
|---|---|---|
| **Inter-firm relations** | | |
| - coordination within value chains | Limited: top-down directed | Weak: buyer-driven global value chain |
| - horizontal inter-firm coordination | High: personal ties | High: both individual and organised collective contact |
| - coordination among competitors | Limited: informal contact | High: formal and informal contact |
| - collaboration among competitors | Low: coexistent relations | Low: cooperative relations |
| - the role of business associations | Weak: no collective organisations | Strong: various industry associations |
| **The role of the local state** | | |
| - public-private coordination | Limited: restricted to personal 'elite alliances' | Strong: via public-private organisation |
| - central-local ties | Unbalanced: dole-out dependency | Unbalanced: dole-out dependency |
| **The influence of ethnicity** | Strong: corporate dominance of local Filipino-Chinese tycoons | Moderate: modest influx of foreign entrepreneurs |

growth as well- they are actively involved in the policy making that shapes the development course of this industry. Still, this influx of external tourism investors tends to transform Bohol into a somewhat *dualistic* business system with a twofaced character (see table 8.1).

The economic dualism (Boeke, 1953) in Bohol is present by its traditional small-scale and labour-intensive agriculture sector that has little linkages or interdependencies with the modern, capital-intensive and outward-oriented tourism industry that positions Bohol in the global market and is emerging thanks to the influx of investments from outside. Furthermore, the local state seems to be biased towards the modern new industry, as it has a high (short-term) growth potential and a relatively high level of internal organisation, which makes it more interesting and less complicated to steer its development than the modest-growing, fragmented and tycoon-controlled agricultural sector. Interestingly, the tycoons are key stakeholders in both sectors. As such, they are in the position to link up the 'old with the new' in Bohol and fortify their position in the local economy.

### 8.1.2 Cebu

Contrary to Bohol, Cebu has a rich experience of integrating into the world economy. Chapter 4 discussed how this integration has occurred in different waves of such integration throughout history, from Spanish colonisation to American imperialism and the Ceboom of the early 1990s. The contemporary Cebuano economy is shaped by these historical events, with international trade as an engine for growth. The island's urban-based manufacturing industry has taken full advantage of Cebu's prominent trade position and facilities, as well as its easy access to natural resources. The industry is recognised by a large number of local SME exporters who rely mainly upon American and European demand and employ local subcontracting manufacturers to assemble (parts of) their goods. The institutional arrangements and their complementarities that form the Cebuano business system will be elaborated below.

*Inter-firm relations*

The trade network of the Cebuano exporters is spatially diverse and multi-scalar, as it encompasses both local and international trade flows. Local, as the supply of natural resources mainly comes from the province and the surrounding southern Philippines. An additional local flow of supplies comes from the subcontractors who deliver (intermediate) goods to the exporters. Internationally, foreign buyers are the most influential trading partners of the exporters. This multi-scalar interplay of trade flows creates a dynamic web of inter-firm relations with the exporters positioned in the middle. Being positioned in a buyer-driven value chain, the Cebuano exporters are particularly focused on their international downstream relations and adapt their more localised upstream relations to foreign demand. As such, the strong reliance upon foreign demand has serious implications on the exporters' organisation of inter-firm relations. First of all, there is a relatively strong use of formal trade agreements, particularly short-term contracts. These offer foreign buyers more security on their trade agreements concerning product quality, quantity, design, prices and on-time delivery. For the exporters, these contracts are written obligations that need to be fulfilled to secure their market position abroad. In order to meet these obligations, the exporters pass them on to their suppliers and subcontractors, either using similar short term contracts or verbal per order agreements. As a result of this buyer-driven hierarchy, particularly the subcontractors are in a vulnerable position at the lower end of the chain: local exporters pass their risks on to them. These predatory relations can be regarded as a form of clientelism, as it makes the subcontractors dependent upon local exporters. When an order is withdrawn or rejected, the subcontractors are hit the hardest, as they do not receive their order payment from the exporter, while they have already made investments in production materials. In order to prevent such an unfortunate mismatch, regular contact with buyers and suppliers is important. Still, a significant number of exporters expressed that they only have irregular, arm's length contact with their buyers and suppliers, which can be explained by their reliance upon contracts that contain the 'codified' mutual trade agreements. The little coordination corresponds with the relatively weak cooperative activities that are undertaken by the surveyed exporters. This can be attributed both to distance (in the case of the foreign buyers), and to the fact that the exporters are mainly focused on surviving on the competitive global market and cannot -or simply do not want to- spend additional time and resources on cooperative activities.

Strikingly, this competitive and outward oriented attitude also seems to hamper local inter-firm contact among entrepreneurs in Cebu, especially competitors. The most important relations for the firms are the international trade linkages, rather than contact with local peers. This non-coordinative behaviour is further strengthened by the design-sensitivity of the exported goods. Competitors are cautious to talk to local counterparts about the in-house details of their products, production techniques or natural materials used. These are regarded as increasingly important competitive edges of their businesses, especially since the Cebuano exporters no longer can compete on price alone with low-cost producers from China, Vietnam and Cambodia. The industry-specific business associations in Cebu have been set up to stimulate coordination and cooperation among local competitors, in order to strengthen the industry's competitiveness as a whole. They enable local inter-firm interaction as they function as neutral platforms for local firms (competitors) to coordinate. While there are significant differences between the different associations in terms of their level of professional organisation, leadership capabilities, resources and membership (see

Mulder and Oldewarris, 2008), they do create a more coordinative business environment through various joint activities, both business-oriented and social gatherings. These bring entrepreneurs together and encourage collective undertakings, i.e. in marketing, knowledge sharing and branch strategy formulation. As such, the business associations function as socio-economic portals (Mulder and Oldewarris, 2008) that (partially) fill the coordinative gap between individual entrepreneurs. For the horizontal inter-firm network in Cebu this means that it is much more based on formal arrangements enabled by official organisations than informal ties that originate from personal and kinship relations.

*The role of the local state*

Cebu's strong position in the global economy -unique for a provincial Philippine city outside Metro Manila- has been shaped by its local political leaders. They have been influential in stimulating Cebu's export-oriented economic development during the 20th century via a public-private growth alliance. The strong connectivity of Cebu's urban elite politicians with the private sector -local, national and even international- has been crucial in this, creating an FDI flow into the local economy that boosted export-oriented business activities on its special economic zones. Furthermore, national business elites -many with their roots in Cebu- appreciate the 'pro-business' policies and personal 'hands on' management-type of governance pursued in Cebu. The rent seeking behaviour of local political leaders via major public-private land and real estate development projects -e.g. the Cebu Business Park and West Cebu Industrial Park- has transformed Cebu into the second largest business centre of the country. Finally, public-private coordination on the local level has been strong, with the Cebu Chamber of Commerce as the leading representative of the local business community.

Aside from the well entrenched position of local political leaders in the business scene, their close ties with national political leaders has been a second strategic relational asset that has influenced the development of the Cebuano economy. Former governor Lito Osmeña was closely aligned with President Ramos -whose administration was focused on globalizing the Philippine economy under its 'Philippine 2000' policies- and the incumbent local officials support President Arroyo, who is grateful to the Cebuanos for their massive support during the 2004 presidential elections. These cordial central-local ties have been instrumental in gaining the necessary financial and political support from Malacañang for major infrastructural projects such as the expansion and modernisation of the international sea- and airports. Contrary to these reciprocally supportive central-local ties, the Cebuanos -including their leaders- oppose the dominant political decision-making in 'imperial Manila'. This sentiment has its roots in cultural and linguistic differences and has been strengthened by Cebu's inferior position in the past as an 'opposition island' that was neglected by the leaders in Malacañang. Additionally, Cebu's economic progress is partially accredited to strong local political leadership -particularly by the Osmeñas- that intensely pushes for a local development agenda, without 'waiting' for approval or support from Manila. These contradictory relations, in combination with its economic pre-eminence, account for Cebu's unique position within the Philippine political arena.

*The influence of ethnicity*

Metropolitan Cebu is host to a relatively large concentration of Filipino-Chinese and they are well integrated in both its business and political scene. They can even be considered

to be an important group of the 'urban elite' that has a strong influence in the political economy of Metro Cebu. On the one hand they are well entrenched and influential in the business community of Cebu via their strong grip on key business ventures (e.g. Cebu's vital shipping sector, but also a significant portion of the surveyed small and medium sized exporters are Filipino-Chinese). Furthermore, they are well represented and have a strong voice in influential local business interest groups such as CCCI and its Filipino-Chinese equivalent. Simultaneously, the Chinese business community maintains firm ties with the political leaders of Cebu. These ties are strategic relations that enable the ethnic Chinese entrepreneurs to ventilate their business concerns and protect their interests. Furthermore, as shown in chapter 7, these ties are also embedded in familial -e.g. via the influential and extensive Go family of Cebu- and personal spheres that connect Cebu's 'urban political elite' -in particular, the Osmeñas- to the Chinese business community.

*The Cebuano business system: urban growth alliance*

In Cebu, as depicted in figure 8.2, the relational network has a strong multi-scalar dimension. The *global* business system connects local stakeholders directly with national and international agents. Two multi-scalar linkages are particularly important here: (1) the insertion of local firms in global value chains; and (2) the strong connectedness of local government leaders with private and other public stakeholders. These two forms of international connectedness are not separate dynamisms, but are bonded patterns in a business system that can be identified as an *urban growth alliance*, not unlike Stone's (1989) urban development regime. A decisive dynamism that makes an urban regime is the interplay between public and nongovernmental (often private) actors. Regime analysis views power as fragmented and regimes as the collaborative arrangements through which local governments and private actors assemble the capacity to govern (Mossberger

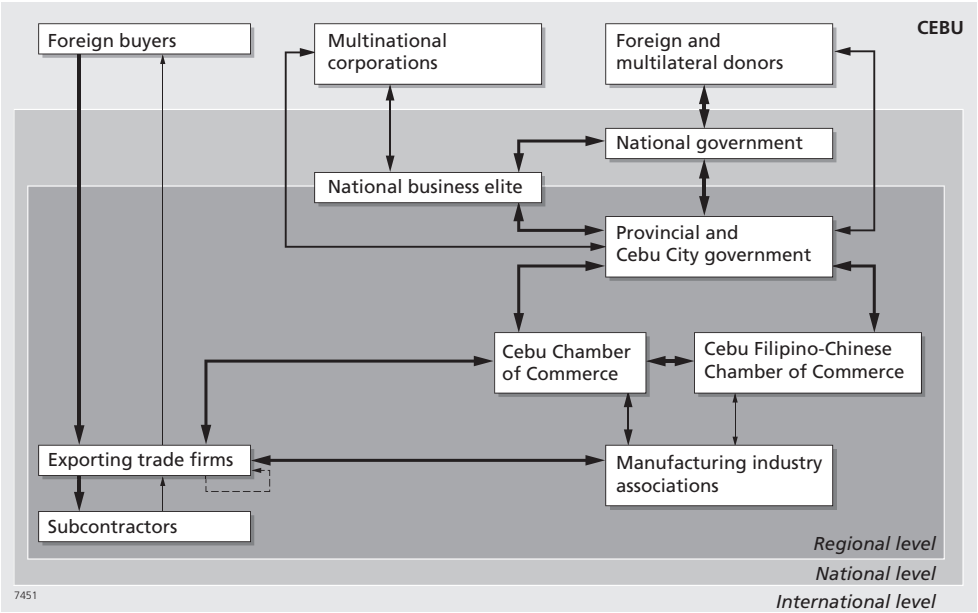



***Figure 8.2:*** Cebu's business system

and Stoker, 2001: 812). Different from elite theories, regime theory recognises that it is unlikely that any single group is able to exercise comprehensive control in a complex, globalised environment like Metro Cebu (Stoker and Mossberger, 1994: 197). Chapter 7 discussed how the political elite of Cebu play an instrumental role in the positioning of Metro Cebu as a modest 'world city' (Friedmann, 1997). Nevertheless, it can only do so by closely coordinating with other key stakeholders from the private sector -local, national and international- and the national government. As such, it is this multi-actor coalition, on a multi-scalar level, that is essential to Cebu's business system.

While the multi-scalar public-private coalition forms the core of the Cebuano business system, there are some features that further shape its specific identity. First, the coalition seems to privilege the participation of certain business interests over others, as it is particularly concerned with promoting economic growth via projects that are aimed at converting land use. The growth of Cebu as a regional centre for international business activity has been spurred by a local 'boosterism'[2] (Short, 1996) agenda that unites the local government's interests with that of (inter)national land and property developers, creating a suitable infrastructure for attracting foreign investors (Sajor, 2001). On the local level, business associations are important mediators for the local business community, as they connect the local export-oriented entrepreneurs with the local government leaders.

A second crucial dimension of Cebu's urban regime is the way local elites are able to manage their relationship with higher levels of government and the wider political environment (Stoker and Mossberger, 1994). The contrasting specifics of this dimension in Cebu's business system seem to resemble a comment made by Keating (1991: 66), who argues that 'the central state can be oppressive, or it can be a resource allowing localities to escape other forms of dependence. [...] This, in turn, depends on the weight of local elites in the national political system and their ability to forge coalitions to extract resources on their own terms'. The unique position of Cebu in the political economy of the Philippines enables its political leaders to rule a less compliant 'autonomous' province that does not

***Table 8.2:*** Key business system characteristics of Cebu's export-oriented economy

| | **Cebu** |
|---|---|
| **Inter-firm relations** | |
| - coordination within value chains | Weak: low road insertion into buyer-driven global value chain limits vertical coordination |
| - horizontal inter-firm coordination | Low: outward orientation hinders coordination among local firms |
| - coordination among competitors | Low: competitive relations |
| - collaboration among competitors | Low: competitive relations |
| - the role of business associations | Strong: serve as socio-economic portals that stimulate local inter-firm coordination |
| **The role of the local state** | |
| - public-private coordination | Strong: public-private growth alliance |
| - central-local ties | Strong: mutual dependency |
| **The influence of ethnicity** | Moderate: well integrated, large group of Filipino-Chinese entrepreneurs |

entirely depend on top-down dole-outs by the national government, but can actually make bottom-up claims for national support as well.

### 8.1.3 Negros Oriental

Negros Oriental's present economic condition and position in the global economy is strongly influenced by historical developments, as has been elaborated in chapter 4. Negros' turbulent entry as a major producer of agricultural cash crops -in particular sugar- for the world market at the end of the 19th century was strongly directed by foreign players and spurred by the opening up of Cebu's and Iloilo's ports for international trade. Unlike Cebu's ability to diversify its economic base that has enabled it to secure its position in the global economy, Negros' vested elite interests in a once highly profitable industry have prevented this. No longer able to compete on the international market, the island's industry has been able to survive on a protected domestic market. As such, Negros represents a classical example of a path-dependent development trajectory that has led to a lock-in of the regional economy.

*Inter-firm relations*

The trading network of surveyed firms in Negros Oriental -as discussed in chapter 5- reflects that of Bohol's agricultural sector: largely confined within the provincial boundaries and only occasionally exceeding the Visayan region. An explanation for this condensed trade network can be found in the spatial concentration of production and trade activities in the province. However, different from the Boholano trading network, the province does not function as the main market place for the processed agricultural goods. Rather, the mills in Negros Oriental belong to national business conglomerates that mainly sell the sugar and coconut oil on the domestic market. These conglomerates are the dominant players in the agricultural economy, which is not as extensively vertically integrated as in Bohol, but it does have a strong top-down hierarchy. For the middleman traders who are mainly concentrated in the urban centres of Dumaguete, Tanjay and Bais, the insertion into a buyer-driven value chain affects their forms of mutual coordination. The traders mainly rely on informal, personal relations to coordinate occasionally with their local competitors, which can be related to the 'we know our' atmosphere in the small rural cities. However, additional reasons for this 'friendly way' (as stated in chapter 6) of being in business among local peers can be found in the market position of the middleman traders and the specific nature of the market they are active in. The trade of sugar and copra is largely controlled by the four major mills in the province, creating a top-down structure that places the local middleman traders in a less powerful bargain position. This is particularly true for the provincial trade in copra, which is a DUCOMI-controlled monopoly. The protective measures of the national government -i.e. the SRA- to regulate and stabilise the trade of sugar on the domestic market make it a 'secure' marketplace with less volatile prices than on the free (world) market. For both agricultural commodities, the specific non-competitive market features reduce the need among local traders to coordinate more extensively than sharing market information via informal meetings and social get-togethers. As an effect, coordination among local competitors creates few benefits for the parties involved, as the shared information is not considered a valuable competitive asset that can improve a firm's market position. The pattern of coexistent relations is also present at the local business associations, which mainly function as platforms for social gatherings and advocacy with the local government.

*The role of the local state*
In Negros Oriental, as in Cebu, personal interests of the key political leaders in the local economy tend to shape its public development agenda, but here the focus is on agriculture. As discussed in chapter 4, this dense interwoven pattern of public-private positions concentrated within a small group of elite families can be traced back to Negros' historical development as a plantation-style economy dominated by a landed mestizo upper-class. For these traditional elite, public office has proven to be a good vehicle to consolidate their business interests and maintain their prominent position in the province. While the economic landscape of the province has altered gradually over the past decades and new influential players -Filipino-Chinese industrialists- have entered the arena, the traditional elite is still firmly in place through the formation of mutual alliances. This overlap of public-private interests influences the decision-making of the local government on policies aimed at stimulating economic growth and diversification. Their prominent positions in the local government enable the elite to embark on new business initiatives that diversify and strengthen their economic base in the province. The examples of the Tamlang Valley plantation and the Dumaguete Business Park (see chapter 7) indicate that major development projects can be related to individual or multilateral business interests of the political elite. Importantly, these projects can be realised through the mutual elite alliance that evens the path for unified political decision making. Furthermore, these forms of rent seeking by local officials-cum-entrepreneurs are justified to the public as projects that create new livelihood opportunities and contribute to the diversification of the local economy. While these are plausible motivations, these undertakings can also be related to the elite's continuance of their political-economic reign over the province.

The position of the Negrense political elite vis-à-vis the national government is also shaped by business-oriented motivations, as they seek to influence policies that have a profound effect on the local sugar industry. While the infamous 'sugar bloc' of landed congressmen from Negros has lost most of its former influence in national politics, there still are ties -both personal and political- that align the Negrense elite with Malacañang. This is particularly true for the incumbent administration under President Arroyo, whose family also belongs to the traditional landed elite. These central-local ties are important for the local politicians, as national level policy making is affecting their ventures in the sugar industry the most. More specifically, landmark bills on land reform extension and biofuel production will have a serious impact on the industry's prospects.

*The influence of ethnicity*
In Negros Oriental, the influence of ethnicity does not only refer to the position of ethic Chinese entrepreneurs in the local political economy. Here, a second ethnic group has a strong say in the private and public sector: Spanish mestizos.[3] As was explained in chapter 4, the prominent position of the Spanish mestizos has historical roots that run parallel with the emergence of the agro-industrial economy in the province. Today, the political-economic elite of Negros Oriental still largely consist of families from this ethnic group. Via a system of mutual aligning they have maintained control over local politics, a position that enables them to protect their local business interests. Interestingly, the only family that has successfully infiltrated this enclosed small group of traditional elite is a local ethnic Chinese merchant family. The Sy family's business background as major trader and processor of the province's key agricultural commodities has allowed them to acclaim

this eminent position. Chapter 7 revealed that via strategic business alliances with leading members of the traditional elite, i.e. the Teves family, the Sy family has gained a significant political foothold in the province aside from their pivotal business position.

*The Negrense business system: national rural oligarchy*

Evolved from a classical plantation system as described by Beckford (1972), the structure of the contemporary Negrense business system is shaped by its formerly imposed colonial system of exploitation. Most importantly, the provincial political economy is dominated by a clique of traditional agricultural elite families. These families have enabled themselves to gain this powerful position from their original role as *hacenderos* who control agricultural production and trade. While the sugar industry has lost much of its former glory and the local elite no longer controls every facet of the provincial economy, they still are the key stakeholders in the Negrense business system through their combined political and business weight. This *rural oligarchy* is visualised in figure 8.3, which places them at the centre stage of the Negrense business system via their involvement in the provincial government and interests in the regional economy (via national business conglomerates, processing plants and farming).

The *national* orientation of the elite has a twofold character, which is embedded in their dual role as politicians-cum-businessmen. As politicians, they seek support from the national government for their business interests in an agro-industrial industry that is dependent upon domestic demand, regulation and protection. As businessmen, their interests in the agricultural sector have been complemented with new business activities in the province. Both of these connect them to national business conglomerates.

In spite of the substantial personal interests of the local political elite in the local economy, table 8.3 indicates that local public-private coordination is relatively weak. This weakness mainly stems from the exclusivity that surrounds the local elite: they primarily coordinate with each other -as they rely on each other for their public positions and business interests- and less with the 'lower classes' of the local business community. The intermediary position of the provincial Chamber of Commerce and its Filipino-Chinese counterpart in

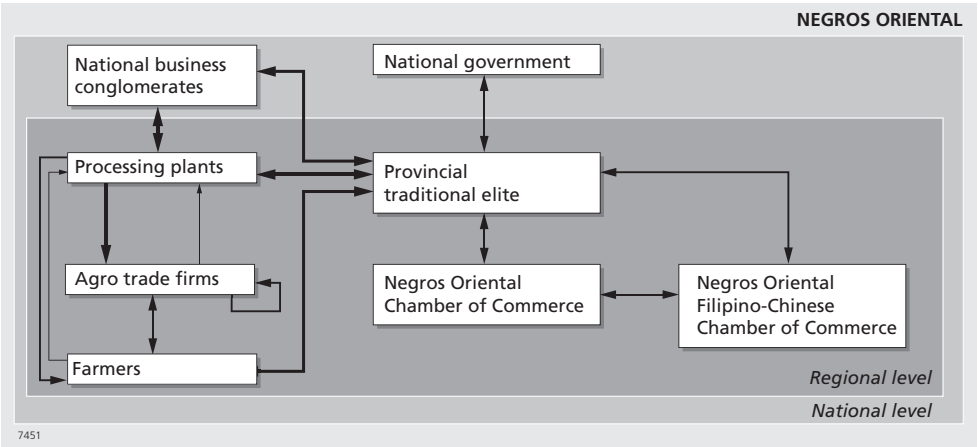



***Figure 8.3:*** Negros Oriental's business system

***Table 8.3:*** Key business system characteristics of Negros Oriental's agricultural economy

| | **Negros Oriental** |
|---|---|
| **Inter-firm relations** | |
| - coordination within value chains | Limited: regulated hierarchical trade |
| - horizontal inter-firm coordination | High: personal ties |
| - coordination among competitors | Limited: informal contact |
| - collaboration among competitors | Low: coexistent relations |
| - the role of business associations | Limited: weak representation |
| **The role of the local state** | |
| - public-private coordination | Weak: political leaders with personal business interests |
| - central-local ties | Strong: personal and strategic alliances |
| **The influence of ethnicity** | Strong: economic and political dominance by Spanish and Chinese mestizo elite |

Dumaguete is limited because of this exclusivity, as their most eminent members belong to the (urban) elite. This antagonises the associations' roles as business organisations that represent all layers of the local business community.

## 8.2 Regional business systems and regional development

The previous paragraph has discussed the three different regional business systems that have emerged in the Central Visayas. As indicated above, Bohol, Cebu and Negros Oriental reveal substantial disparities in terms of their economic structures and dynamics among their key stakeholders. This paragraph will continue the discussion of the three regional business systems in search for answers to the final research question 'to what extent and how do these different business systems shape varying patterns of regional economic development in the Central Visayas?' In order to answer this question, the institutional complementarities of the regional business systems are analysed to determine how the presence of one specific institutional arrangement either increases or decreases the return or efficiency of the other. Whereas enabling institutional complementarities generally contribute positively to economic growth and development, disabling complementarities slow down or damage these processes. With these observations in mind, the concept of institutional complementarities is useful to demonstrate how the business systems shape different patterns of regional development in terms of private sector development and distribution of wealth.

As discussed in the previous paragraph, the most distinctive characteristic of Bohol's business system is the role played by two local business conglomerates. The Filipino-Chinese tycoons can be qualified as local comprador capitalists who control the local market and its (modest) external trade flows. Their strong grip on the island's agricultural sector -with rice as its staple crop- has major repercussions for the numerous small scale farmers and middleman traders/millers. These impacts have both an enabling and disabling effect on the local economy in terms of private sector development and wealth distribution. On the one hand the strong top-down value chain control places the middleman traders in an equal, non-competitive position that allows them to coordinate freely in an informal manner. As such, there seem to be enabling institutional

complementarities that foster an understanding of coexistence among local traders. This level playing field encourages an equal distribution of corporate gains and wealth among the local entrepreneurs, as they each have their own niche in the local market -with a group of *sukis* as suppliers-cum-buyers- in a secure and familiar marketplace. However, this situation also has its disabling complementing effects, as the market domination by Alturas and BQ does not encourage local middlemen to expand or upgrade their activities as they have little growth opportunities on the local market. As a result, coordination among local peers does rarely exceed informal business talks at social gatherings, severely limiting the effect of the strong ties among local traders on their business activities. The demise of a local branch association for rice millers-cum-traders is a striking example of this lack of a need to coordinate among local entrepreneurs.

To some extent, the concept of 'shared poverty' as defined by Geertz (1963) seems to fittingly describe the position of the Boholano rice farmers and traders: their traditional small-scale production and trade system functions as an inclusive trading network that allows for a more or less equal distribution of corporate gains among a growing rural population. However, this traditional system of income-redistribution is distorted by the dominant presence of the local Filipino-Chinese conglomerates, in particular Alturas. Their extensive marketing network and major post-harvesting facilities put the farmers and traders in a more hierarchical and dependent market situation that weakens their mutual solidarity. As discussed earlier, the contemporary agricultural economy in Bohol resembles a localised form of *comprador capitalism* in the sense that it is largely driven by (localised) Chinese capital that dominates the traditional indigenous system of subsistence farming and marginal trade. Furthermore, the ethnic Chinese compradors -again, this is especially true for Alturas- are primarily focused on raising output via scaling of their in-house production facilities and marketing networks and the distribution of yield-increasing hybrid rice seeds and chemical fertilisers to farmers. While these revenue-oriented measures are effective in increasing production, they do not contribute to a structural technological upgrading of the agricultural sector that raises its competitive edge. Furthermore, the upstream distribution of production supplies by the tycoons amplifies the comprador-dependency among farmers and traders that paralyses possible innovative initiatives and growth potential. All in all, this situation results in a lack of dynamism that limits the sector's prospects of becoming competitive in a more global setting.

Bohol's localism also stems from the compradors' connections with local political leaders, which enable them to protect their interests on the local market via personal alliances and representation in key public-private organisations. However, the sustainability of Bohol's 'controlled' localism is highly questionable, particularly with the recent transformation of its traditional rural smallholders' economy into a dualistic economy. The recent emergence of a local tourism industry has opened up the local economy to new economic actors from outside. This late move of the Boholano economy onto the global market does not only attract external capital and its global or domestic players, it also repositions its key actors from their former controlled state of isolation into larger, more open and competitive market constellations. These external influences will most certainly affect Bohol's localised comprador capitalism. A study by Yeung (2006) suggests that the increasing international interconnectivity of Southeast Asian Chinese capitalists has transformed them from 'uncompetitive comprador capitalists' who protect their monopolistic positions via alliances

with local (indigenous) political elites into more globally competitive actors. While Yeung acknowledges that most Southeast Asian economies have not moved beyond ethnic Chinese-controlled comprador capitalism, he argues that under the increasing competitive pressures of economic globalisation -as well as increasing pressures from international agencies after the Asian economic crisis- this traditional form of capitalism under major Southeast Asian Chinese capitalists has evolved into a form of hybrid capitalism that encapsulates both some elements of the past and new elements brought in through its globalizing actors. While their localism has allowed the compradors of Bohol to remain largely untouched by these global forces so far, opening up of the island's economy to outside investors will directly expose Bohol and its key players to these forces. How they will cope with this repositioning will certainly shape the future of Bohol's business system and its development trajectory that might lead towards a more hybrid form of capitalism.

The definition of Cebu's business system as an urban growth alliance is predominantly shaped by two key characteristics: (1) international orientation; (2) public-private coordination. These two business system characteristics have a major impact on the development trajectory of the local economy via both enabling and disabling institutional complementarities. First, their strong focus on foreign markets does create more growth opportunities for the Cebuano traders of manufactured goods. However, it also positions them on a global market where they compete not only with each other, but also with price-fighting producers from other Southeast Asian countries. Their position at the lower end of the global value chain makes the local traders highly dependent upon their foreign clients, an uncertainty that is passed on further upstream to their subcontractors. This creates patron-client relations that result in the exclusion or inclusion of local subcontractors by the Cebuano exporters. Furthermore, the vulnerable insertion of local firms in global value chains has a strong disabling effect on local inter-firm coordination and collaboration. The lack of collective action among local entrepreneurs tends to stimulate a 'low road' form of insertion into global value chains, since firms are hesitant to coordinate with each other, e.g. by sharing new technologies or market knowledge. Participation in a local business association offers cooperation opportunities for entrepreneurs who are hesitant to share information with individuals. The relatively high level of organisation and orientation on a specific product range enables the associations to stimulate bonding social capital between member firms that have matching needs. However, these common goals become less apparent among the local firms, as they are first and foremost concerned with their own survival on an increasingly competitive global market. An important outcome of the international and formative inter-firm relational pattern in Cebu is that it has given rise to a selective environment that simultaneously creates adaptive/connected 'winners' and dependent/fractured 'losers' who cannot cope with external shocks. As such, the development pattern of Cebu can be described as an opportunistic and uneven growth model that has a polarizing effect on its distribution of wealth.

Undeniably, Cebu's urban growth alliance has been successful in generating economic growth -in terms of FDI and export-oriented trade- via projects that have also benefited the traditional local export-oriented industries. Most importantly, it has created infrastructures that allow the local firms direct access to foreign markets. Additionally, it has encouraged cooperation and partnership between the local government and the private sector 'imbued with entrepreneurial spirit' (Etemadi, 2001: 33). These influential dynamics have

transformed Cebu into the southern Philippines' leading economic centre with a large educated labour pool and global accessibility that allows it to respond relatively fast to global challenges and trends. A good example of Cebu's flexibility is its recent shift of focus from export-oriented manufacturing to ICT-related services, which has led to a new influx of FDI such as call centres. However, as elaborated in the former paragraph and more extensively by Sajor (2001; 2003), the public-private coalition is largely focused on stimulating a land and real estate development-driven economic growth; a pro-business strategy that weakens the redistribution function of the local state. As such, the strong public-private coalition has a contradictory developmental impact in the sense that it spurs rapid economic growth. However, the opportunities to benefit from this growth are not accessible to all actors in the local economy, but remain largely restricted to the elite members of the urban regime. In more general terms, the two developmental impacts that originate from Cebu's global-urban development regime resemble van Naerssen's (2004) observation -referring to earlier work of Berner (2002)- that the exposure of Cebu to global forces has intensified local mechanisms of inclusion and exclusion. Clearly, the strong economic growth Cebu has experienced in the past decades has increased the opportunities for local entrepreneurs to 'go out and explore' their chances on the lucrative global market. It has also raised the level of well-being for the many Cebuanos who work in the city's global-oriented service and manufacturing sectors. Even so, the mechanism of local exclusion within these social groups can be observed as well, for instance in the subcontractors who do not receive a compensation for their investment in materials when an order is cancelled or the labourers who are laid off when production on the export processing zones slows down. As such, Cebu exemplifies that the pursuance of a globalisation-oriented growth agenda does not always result in an inclusive form of regional development that benefits local people from all social strata.

As in Cebu, the crucial position and interconnectivity of the local elite in Negros Oriental puts a stamp on its business system and the development trajectory this system yields. Despite this resemblance, the rural oligarchy of Negros Oriental that still has extensive control over public and private spheres of the local business system differs from the urban elite in Cebu that has to cooperate with other stakeholders in the global arena. This can be explained by the fact that the local economy is operative on a less complex, protected domestic market. This 'local elite control' has major development implications, as it consolidates public-private power that steers the development pattern of the local economy. This pattern resembles a form of *ersatz capitalism*, which is characterised by a non-dynamic and dependent development trajectory (Yoshihara, 1988). The lock-in (e.g. Arthur, 1989) of the local economy into a once thriving but now globally uncompetitive industry can be related to the vested interests of the rural elite in this industry and the protected status it has been granted by the national government. This institutional persistence (Acemoglu and Robinson, 2006) has a definitive impact on the development of the local private sector and the distribution of wealth.

The local middleman traders in Negros Oriental appear to be in a similar position as their peers in Bohol, leading to equally enabling and disabling institutional complementarities. However, these complementarities happen for altogether different reasons. Operating in a 'distorted pattern of capitalist development' (Yoshihara, 1988), the traders are positioned in a highly regulated, non-competitive value chain that is controlled by national business

conglomerates and members of the local elite. To a certain extent, the traders benefit from this market situation as it is marked by a relatively high level of purchase certainty and price stability. While this stimulates mutual contact among local entrepreneurs on an informal basis, few cooperative spillovers result from this contact. Additionally, while the equal market position of the local traders gives rise to a relatively even division of wealth, their position is dependent upon external forces (market protection) and the strategic behaviour of national business conglomerates -food and beverage industry- that control demand on the domestic market.

When looking at the division of wealth from a broader perspective that includes all social strata of the Negrense society, the business system in Negros Oriental can be qualified as highly unequal, with large disparities between the numerous small scale farmers -mainly land reform beneficiaries- and the small elite group of large landholders and industrialists. Furthermore, the sustainability of Negros Oriental's business system is questionable in the light of recent global developments. The combination of the sugar industry's dependency upon protective market measures and its lack in technological upgrading could be devastating to the local industry when it is forced to compete unprotected on the global market under ASEAN free trade regulations.

## 8.3 Concluding remarks

In this analytical chapter, the strategic coupling of the relational networks of firms and state has made it possible to identify the regional economies as different regional business systems. Furthermore, it has generated insights on how regional development trajectories emerge and persist or change over time.

In terms of relations between firms and business people, roughly two contrasting patterns have been observed in the three island provinces. One set of networks is somewhat distribution-oriented, favouring open exchange of information and work. These have been observed mostly in relatively marginal pockets of the agricultural economies of Bohol and Negros Oriental that are shielded from fierce competitive pressure to some extent. Relations are informal and friendly but also shallow, as the scope for growth as a result of this type of networking is limited. It may help people gain access to income but will not do much for regional development. The second set of relations observed consists of the competitive and selective networks associated with export production. Here, access to international markets (buyers) is carefully controlled; benefits may be substantial and precisely for this reason such links are jealously guarded against potential competitors. The latter type of relations is typical for export industries in Cebu. Most likely the nature of the prevailing export-oriented development model – essentially a 'low-road' strategy of producing relatively unsophisticated commodities by competing on cost price – is the reason why such exclusion mechanisms abound in the Cebuano export economy. The relational patterns observed suggest there is a trade-off between opportunities for growth and distribution effects in inter-firm networking in the research area. In contrast with famous examples such as the 'Third Italy' type of clusters thriving on collective efficiency, networking with other firms in our example tends to serve more as a means to dilute risk: external shocks (fluctuations in price and global demand) may be passed on to

subcontractors while minimizing consequences for the internationally-connected exporting firms.

Market-state relations in the Visayan provinces are to a large extent shaped by local elites. This is no surprise in the Philippines, which is notorious for elite capture and clientelism. Interestingly, the three case studies show highly distinctive patterns of elite composition and performance. The role of provincial elites have been observed to differ in at least two major respects: first, in the way in which state and market are linked, and second, in the implications of such constellations for regional development trajectories. Political and economic power are linked differently in each of the three cases, from being united in the same hands (Negros Oriental) to separation of the two (Bohol), even if the latter does not imply that the two are unconnected. Cebu holds a middle position here, with leading political dynasties involved in specific parts of the economy. This state of affairs is reflected in developmental outcomes, most specifically the 'lock-in' into an obsolete economic model in Negros, and attempts at diversification (tourism) undertaken by the local state in Bohol. These outcomes reflect the importance attached to 'autonomy', or the ability of the state to manoeuvre independently from specific interest groups in the pursuit of the public interest, in the literature on 'developmental states' (e.g. Evans, 1989). Cebu's case is exceptional, because it is an entity where the local political and business elite had an interest in real estate development, which prompted them to stimulate diversification and attraction of foreign and national capital. In Cebu, it was a relative degree of autonomy from 'imperial Manila' that helped to foster growth, and this was realised by establishing direct business links with foreign corporations as well with the national government in the post-Marcos era.

In sum, the integrated and comprehensive analysis of the empirical findings from the previous three chapters has yielded explanations for the divergent development patterns of the Visayan regional economies. To conclude this study, the following chapter will discuss these findings in order to interpret their theoretical implications, their relevance for policy makers and the suggestions for further research they invoke.

## Endnotes

1 Parts of this chapter have been published elsewhere in adapted versions (van Helvoirt and van Westen, 2009; 2009a).

2 Short (1996: 210; quoted in Sajor, 2001: 7) defined contemporary pro-growth boosterism as the aggressive promotion of a pro-business agenda for a particular city against the background of competing cities and alternative investment opportunities. Its leading players – usually influential politician and local government leaders, corporate chairpersons, realtors, local banks and chambers of commerce – all seek to define the city as an economic growth machine. These players have a strong consensus on stimulating investment and economic growth while limiting the redistributional function of the state.

3 Under the Spanish colonial caste system in the Philippines, a mestizo was originally identified as a person of mixed Spanish and indigenous Philippine ancestry. However, the term was soon applied more generically to encompass all Filipinos of mixed indigenous and foreign ancestry. Furthermore, it is important to stress that there are also prominent Spanish (mestizo) business families operative in

the Cebuano economy. The local Aboitiz family is a major stakeholder in the local economy, especially in the shipping industry. Secondly, the Ayala family from Manila has large investments in the Cebu economy through their interests in the Cebu Business Park and private property developments.

# 9 Conclusions and discussion

## Introduction

This chapter provides a summary of this study as well as a discussion of its research findings. Furthermore, it will interpret these findings with respect to their relevance in terms of the existing literature on business systems and regional development issues that occur more generally in the Southeast Asian region. This chapter consists of four paragraphs; first a brief retrospect on the contents of the study, followed by an overview of its findings that are arranged along the seven research questions. Thirdly, section 8.3 will interpret these findings using the two hypotheses that underlie this study. Finally, policy implications and suggestions for further research on regional business systems will be discussed in the last section of this closing chapter.

## 9.1 A retrospective view on the study

Paradoxically, the study of the interrelationships between regional development and varying capitalist systems has gained momentum in a world that has become increasingly 'capitalist' in terms of its economic organisation. The advancement of a global market economy is marked by increasing disparities in regional development, a pattern particularly noticeable in the diverse region that is Southeast Asia. While capitalist institutional arrangements have gained significant ground in this region as it has become increasingly active in the global economy -with the Socialist Republic of Vietnam's 2007 entry into the World Trade Organisation (WTO) as the latest showcase- there are still large and consistent disparities in economic organisation between the Association of Southeast Asian Nations (ASEAN) member states that shape their distinct development patterns. The most striking difference in this regard can be found between the prosperous 'world city' economy of Singapore and the impoverished state and isolated position of Myanmar. Hence, the assumption that formed the starting point for this study is that in spite of the 'equalizing' impact of economic globalisation (as claimed by hyperglobalists such as Ohmae, 1990) Southeast Asia has not transformed into a homogenous capitalist region (see also Rutten, 2003) with an equivalent level of socioeconomic development. Rather, significant disparities in economic development persist not only between the capitalist economies of the Asia-Pacific, but also between regions *within* these individual countries. The sizeable intra-country regional disparities in development that persist in Southeast Asia have been discussed by Hill (2002), who quotes Krugman (1991: 3) to emphasise the importance of scrutinising these regional disparities for a clearer understanding of the divergent national economic performances:

'...one of the best ways to understand how the international economy works is to start by looking what happens *inside* nations. If we want to understand differences in national growth rates, a good place to start is by examining differences in regional growth; if we want to understand international specialisation, a good place to start is with local specialisation'.

The study of capitalist varieties certainly has gained momentum among academics in recent years with the help of useful analytical approaches such as Whitley's (1999) Comparative Business Systems and Hall and Soskice's (2001) Varieties of Capitalism. These approaches start from a relational view on economies; they qualify economic systems from a firm-oriented perspective and argue that the way a firm organises its relations with other economic actors is decisive for economic growth. Additionally, recent studies in political economy have emphasised how regional politico-economic systems are spatially embedded and shaped by their specific socio-cultural contexts (see e.g. Jessop and Sum, 2008). While these approaches have offered valuable new insights into the institutional foundations behind disparities in economic development, these approaches have largely been used for empirical studies of national economies from the industrialised, developed world. However, fewer efforts have been made to apply such an institutional-relational approach to regions in developing countries.

Inspired by a recent comparative empirical study by Andriesse (2008) on regional varieties of capitalism in Thailand and Malaysia, this study has tried to shed light on the underlying institutional factors of regional disparities in development *within* developing countries. More specifically, this study has scrutinised the local economies of three neighbouring island provinces in the central Philippines to examine to what extent institutional arrangements contribute to their divergent development trajectories. The provinces of Bohol, Cebu and Negros Oriental in the Central Visayas island region in the Philippines were thought to be promising research sites for a comparative analysis of regional business systems. While the islands are within close proximity of each other and share the national institutional framework of the Philippines -an important source of regulation and public expenditure- they reveal a considerable variety in socio-economic composition and performance.

In order to investigate the regional institutional frameworks, this study has applied key elements of Richard Whitley's (1999) Comparative Business Systems approach. This approach offered useful analytical tools to examine the organisational characteristics of the relational networks of local firms, both locally embedded and within (global) value chains. This boundless relational view has allowed this study to explore how the different positions of three regions in the global economy affect their functioning and performance. Nonetheless, some modifications to the original model -designed for analysis of national industrialised economies- were necessary to make it suitable for a regional comparison in a developing country. These adaptations relate to the specific institutional, political-economic and socio-cultural contexts that distinguish the Philippines from the industrialised economies of the North. More specifically, the adjusted model recognises the position of the local state vis-à-vis the local private sector and the national government and the influence of ethnicity as two important institutional dynamics that shape regional business systems in the Philippines and the wider Southeast Asian region as well.

The structure of the study has been as follows. After an introduction that explained the underlying thoughts and motivations of the study, an extensive discussion on its theoretical backgrounds was provided in chapter 2. Here, the central thoughts of institutional economics were elaborated upon before discussing the various comparative approaches and theoretical concepts that are incorporated into the conceptual model are explained. In chapter 3, the theoretical foundations were used to provide a justification for the research questions. It continued with a brief discussion on the key concepts and definitions, followed by a clarification of the different methodologies applied for the empirical analysis. Chapter 4 introduced the research area, initially by positioning the Central Visayas in the national socio-economic and political contexts of the Philippines. Then, attention zoomed into the region, focusing on the provincial economies of Bohol, Cebu and Negros Oriental and their distinct economic structures. Consequently, the historical dynamics underlying these differences were outlined, particularly focusing on the changing positions of the island economies on the global market. In order to unravel the institutional arrangements that form the present-day regional business systems, three empirical topics were explored: inter-firm relations; the role of the local state; and the influence of ethnicity on these two realms of relations. Chapter 5 discussed inter-firm relations within (global) value chains, i.e. the vertical coordination of firms with suppliers and buyers. Chapter 6 continued the analysis of inter-firm relations, focusing on the local firms' horizontal coordination with local competitors and other local entrepreneurs. Here, specific attention was paid to the role of local business associations. Chapter 7 analysed the role of the local state in the regional economies, by investigating the realm of local public-private interrelationships and the position of the local state towards the national government. In all three chapters, the influence of ethnicity -in particular, the role of ethnic Chinese in the three relational networks- was scrutinised. In chapter 8, the outcomes of these empirical chapters were gathered and integrated to construct three coherent regional business systems. This was followed by a discussion on how and to what extent these distinct business systems impact the regional patterns of economic development and performance.

## 9.2 Answers to the research questions

This section provides a recapitulating overview of the answers on the seven research questions that were formulated in paragraph 3.1.

*I. What do the key characteristics that distinguish the contemporary provincial economies of Bohol, Cebu and Negros Oriental (structure, composition, and position in wider -regional, national and international- contexts) look like? How have these characteristics emerged over time?*

The three neighbouring provinces are located in the centre of the Philippines and belong to the Central Visayas Island region or Region VII in administrative terms. The distinct structures of the contemporary provincial economies are -to a substantial extent- shaped by their different historical experiences with integration into the global economy.

Bohol's rural smallholder economy has shown little dynamism or diversification beyond its agricultural economy. The island was largely neglected by colonising powers, who

found its rolling interior less suitable for agricultural exploitation as in Negros. Neither has it been the stage for extensive inter-island and international trade as neighbouring Cebu. Small-scale farming on family farms has remained the main source of livelihood for many Boholanos, with rice as its staple crop. Some rice and other agricultural produce are sold to other parts of the country, but the island economy is hardly integrated in non-local production networks. So far the local economy has remained both essentially rural and relatively inward-looking. This localism can be connected to the role of two sizeable Filipino-Chinese business conglomerates based in the provincial capital of Tagbilaran City, who dominate the Boholano economy. They have extensive and vertically integrated control over agricultural production, transportation, industrial processing, wholesale and retail sales, and act as intermediaries between the mass of small rural producers and urban traders and service providers on the one hand and the world outside of Bohol on the other. As such, they also serve as 'gatekeepers' to the island economy. The position of both local tycoons highlight an aspect in which the Bohol regional economy is unique vis à vis those of Cebu and Negros Oriental: it is essentially locally embedded, in terms of ownership and control, with a limited degree of integration in wider regional, national and international value chains. The recent emergence of a tourism industry -mainly consisting of beach resorts clustered on Panglao Island- can be seen as a breach of the island's economy with its secluded past. The opening up of the province for non-local investors has spurred a modest influx of foreign and domestic capital into the province that most certainly will alter the localised duopsony-structure of the local economy.

Negros stands for sugar in the Philippines, and this crop has indeed been the cornerstone of the local economy of Negros Oriental. As in Bohol, Negros' physical geography has been crucial for its economic development path: the island has extensive, flat coastal plains that are very suitable for large-scale plantation agriculture. Sugar plantations are a legacy of the late colonial period, having been established since the mid 19$^{th}$ century, when the Spanish colonial rulers first allowed direct trade between localities in the Philippines and foreign destinations. This early globalisation wave of the Victorian era encouraged the settlement of Negros from neighbouring islands, with Cebuano traders opening up the eastern part of the island (Negros Oriental). The result was 'Sugarlandia', near monocropping of sugar in large estates, originally for exports (Billig, 2003; Lopez-Gonzaga, 1991). This pattern was reinforced after 1898 (especially in Negros Occidental), when the US took over from Spain as the colonial power, presenting a vast new market for Philippine producers. The more recent history of Negros sugar is a story of gradual decline. Lack of investment in new farming techniques and processing technologies as well as a rent-seeking rather than entrepreneurial outlook among sugar barons have eroded the competitive position of Negros sugar. This is exacerbated since decolonisation put an end to preferential access to the American market. Once an export crop, it is now mainly sold on the domestic market by large national business conglomerates that control the mills. Even maintaining in the home market, however, Negros sugar is dependant on protective measures against foreign competition. Despite this gradual decline, diversification of the agricultural economy remains relatively limited to the large-scale production and processing of a different commercial crop (coconut) and the small-scale production of food crops such as corn and rice. Non-agricultural economic activities are less apparent and mainly confined to the provincial capital Dumaguete City and its vicinity, where a modest diversified urban economy exists that is mainly based on educational services -the city is host to

various universities and colleges- and trade. More recently, the city has embarked on the IT-bandwagon in order to lessen the brain-drain that results from the out migration of educated people who do not see enough job opportunities in the provincial economy.

The third island, Cebu, has a long and intense experience with economic globalisation. The island is an unsuitable location for extensive agricultural production with its rugged mountainous interior and shallow coastlines, physical features that have urged the Cebuanos to look outside for their necessities and focus on commercial trade as a means of livelihood. During the pre-colonial era Cebu City already held a strategic position as an important shipping hub for inter-island trade within the present-day Philippines and international trade with China. While the city suffered from an initial neglect by the Spanish colonisers who focused solely on Manila, Cebu reclaimed and amplified its prominent trade position in the middle of the 19th century when its port was opened once more for international trade. More recently, Metro Cebu -Cebu City and its urban vicinity, which forms the main urban centre of the Visayas- has emerged as a consequence of economic globalisation and the 'global shift' of manufacturing to low-cost locations. Successful alliances with foreign capital (especially Japanese), its position as the hub of domestic shipping and its strong entrepreneurial class are important factors behind its economic dynamism. Metro Cebu has become a significant centre of manufacturing and service industries in the last 15 years or so, attracting both foreign and domestic investments. Furthermore, a significant local entrepreneurial class of small and medium sized manufacturers has emerged that produces its goods for world markets. These local entrepreneurs have benefited from Cebu's direct global connections (aviation, shipping and telecommunications) which have transformed it into a second (after Metro Manila) global trading node in the Philippines.

In sum, the three provinces have experienced varied historical development trajectories that have left them with remarkably different socio-economic profiles. This study has investigated to what extent these profiles can be identified from an institutional-relational perspective and how they lead to divergent development outcomes.

*II. To what extent and how are local firms inserted in global value chains and what are the (dis) advantages these firms derive from their insertion into such vertical relational networks?*

This question refers to the 'extent of alliance coordination of production chains', a key business system characteristic of Whitley's (1999) original model. In order to operationalise this variable, additional insights from the literature on value chain analysis have been implemented in this study. More specifically, the geographical scope of the value chains and their governance structures are crucial dynamics that impact the organisation of inter-firm relations within a contiguous production process (Gereffi, 1999; Henderson et al., 2001). These two dynamics differ significantly among the three provincial economies of the Central Visayas, affecting the structure and functioning of the regional business systems.

Bohol's agro-based economy is largely confined within the island's boundaries, creating a highly localised value chain that merely exists of local actors: farmers, millers, middleman traders and wholesalers and retailers who mainly cater to the local market. Aside from its

spatial concentration, decision-making power in the value chain is also concentrated among two local Filipino-Chinese business conglomerates. From their position as leading retailers these two conglomerates have gained a firm grip on the most value adding phases of the value chain via extensive marketing networks and the vertical integration of processing activities. As such, the middleman traders are inserted into a captive value chain that offers them little room for negotiating on trade deals with the two lead firms (Sturgeon, 2000). While Bohol's island economy has maintained a strong local market focus, in recent times it has enhanced its outward orientation via the emergence of a local tourism industry. This industry competes on a global buyer-driven market in its quest to attract domestic and foreign tourists. The value chain is diverse in its organisation, with certain high-end resorts integrating all phases in package deals, while other resorts and hotels rely on local subsidiaries such as tour operators, travel agents and transport providers.

The scope of Negros Oriental's agro-based value chain is national, with the production of sugar and coconut oil mainly destined for the domestic market. The trade of sugar is largely confined to the Philippines since it is fenced off from the global market by trade barriers and only a marginal portion is destined for export to the US market. Furthermore, the industrial processing and trading of sugar and copra is controlled by Filipino-Chinese business conglomerates that mainly cater (their food products) to the national market. The agricultural traders in Negros Oriental serve as middlemen in the value chain, positioned in between the farmers and mills in the province. Since these mills are controlled by the national business conglomerates that dominate the market, the governance style of the value chain can be qualified as captive producer-driven (Sturgeon, 2000).

Producing consumer goods for world markets, the Cebuano exporters are inserted in global value chains that connect them downstream with foreign buyers and upstream with local suppliers and subcontractors. This governance structure resembles that of a buyer-driven value chain as described by Gereffi and Korzeniewicz (1994). Coordination along the fragmented value chain is highly hierarchical and relatively formalised with the Cebuano exporters being dependent upon contract-based orders from foreign clients who are at the top-end of the value chain where most value is added (by selling the end product on the US market). In order to cope with the volatile demand on the competitive global market, the exporters largely outsource the production of their goods to local subcontractors who work on a pay per order basis. This way, they have an increased flexibility and few fixed costs.

Focusing on their key trading sectors, the research findings have indicated that the varying insertion of the three regional economies into the global economy leaves them with different networks of production and trade. In general, it can be concluded that the most 'globalised' regional economy of Cebu that offers the largest market opportunities for local trading firms also generates the highest level of market insecurity for these firms. This puts them in a more vulnerable position compared to their peers in the 'less-globalised' economies of Negros Oriental and Bohol.

*III. To what extent and how are local firms integrated in local networks of inter-firm activity and what are the (dis)advantages these firms derive from this form of localised horizontal networking?*

This third research question relates to the two other 'non-ownership coordination' characteristics that shape business systems: (1) the extent of alliance coordination of sectors; and (2) the extent of collaboration between competitors (Whitley, 1999). These forms of inter-firm networking can partly overlap with the interrelationships of firms within value chains, especially in 'less-globalised' economies such as Bohol and Negros Oriental. Following Whitley, the role of local business associations in these horizontal relations is also scrutinised, focusing on their market-enhancing functions (Doner and Schneider, 1998). Horizontal inter-firm relations are shaped by local social constellations and the strategic behaviour of firms. The embeddedness (Polanyi, 1944; Granovetter, 1985) of firms in their local social structure is an important determinant of these horizontal relations, just as trust-based social capital (Coleman, 1988; Putnam, 1993; Fukuyama, 1995). In Cebu these social inter-firm structures are relatively weak as local entrepreneurs tend to operate individually. This is particularly true for competitors, who seldom coordinate with local peers. Various business associations in Cebu try to fill this coordinative gap by positioning themselves as socio economic portals (SEPs) that support firms in their activities and stimulate their mutual interaction and cooperation (Mulder and Oldewarris, 2008). The relatively high level of organisation and orientation on a specific product branch enables the associations to stimulate bonding social capital between member firms and cater to their mutual needs in marketing, technical training and advocacy. As an effect, most local inter-firm interconnectivity in Cebu is strategically organised in a formal setting that is advantageous to the firms. However, this collective action is fragile and can be shattered when its members become more self-interested due to increased global market competition.

The rural economies of Bohol and Negros Oriental reveal a different pattern with close informal relations -based on personal and family ties- among local entrepreneurs. These strong social ties are appreciated by the Boholano and Negrense entrepreneurs as they encourage familiar and 'friendly' business environments. Local competitors seldomly interact in rivalry with each other and do not challenge each other's positions. This condition of coexistence (Bengtsson, Hinttu and Kock, 2003) among local competitors leads to positive spin-offs for them, such as the sharing of reliable market information and supplies and, by honouring verbal agreements, a low level of mutual malfeasance. However, this harmonious situation discourages them to invest in their facilities and strengthen their competitive edge. Furthermore, the strong formal organisation of competing firms in Cebu in various branch associations has not taken shape in Bohol and Negros Oriental because of their reliance on informal personal networks. While there are chambers of commerce -as well as their Filipino-Chinese counterparts- active in the provinces, these are weak in their organisation and representation of the rural economies as they are mainly comprised of and oriented towards the urban business communities in the provincial capitals Tagbilaran and Dumaguete. In Bohol, the horizontal organisation of the local tourism industry can be marked as a cooperative one, combining a strong formalised relational network between various branch associations and constructive informal personal ties.

The analysis of the horizontal inter-firm networks that exist in the provinces has shown that dense social interrelations among local firms do not necessarily lead to important collective efficiency gains, as has been noticed in Bohol and Negros Oriental. Rather,

a more formal and professional organisation of horizontal inter-firm coordination can generate more collective benefits, especially in a competitive environment like Cebu. Aside from analysing different types of inter-firm networking, the role of the local state in steering and promoting regional economic development has been investigated along two additional research questions. An integrated answer will be given to these research questions (no. 4 and 5) below.

*IV. To what extent and how does the local state coordinate and cooperate with the local private sector in its efforts to promote regional economic development?*

*V. To what extent and how is the local state dependent upon the national state in its efforts to promote regional economic development?*

Following Whitley's discussion on how the 'strength' of the state vis-à-vis the private sector influences the structure and functioning of national business systems, this study has scrutinised the position of the local state in relation to the local private sector. Secondly, the more vertical interrelation of the local state with the national government has been analysed since the latter is a key regulatory body and distributor of financial resources for the local state. These two relational spheres in which the local state operates vary significantly in the three Central Visayan provinces.

In Bohol, the dominant position of the two local Filipino-Chinese tycoons on the local market allows them privileged access to local political leaders. While the tycoons refrain from seeking public positions themselves, they do use their privileged political access as a strategic tool in their mutual business rivalry. Additionally, the dominance of the local tycoons in the agricultural sector seems to hamper the local state's influence on the development of this sector. The tycoons prefer different development trajectories -oriented towards increasing production- than the local state -focusing on environmental and livelihood sustainability. This coordinative mismatch contradicts with the strong public-private coordination that exists in the tourism sector, in which the local government plays an essential role in the development of the local industry. This can be related to the ability of the local government to draw in funds from the national government via a political alliance that is based on absolute bottom-up support.

In Cebu, the urban political scenery has been dominated by an urban elite with a strong foothold in the local economy as well. For a considerable part, their control has been built on a preferential access to the national state that enables them to channel central government resources -as well as funds from international agencies such as the Japan Bank for International Cooperation- into the province, particularly in the form of major infrastructural projects. This has allowed them to build a reputation as the undisputed local leaders who operate as 'fiscal brokers' for the benefit of Cebu, in policy arenas that would otherwise have been biased towards Luzon and 'imperial Manila' (De Dios, 2007). For Cebu's evolution into an important economic centre this privileged access to national funds and political support has been a definite factor. Aside from their close and reciprocal central-local ties, the urban elite members are also well connected within the (local) private sector and its key stakeholders. In part, this also stems from their position as a member of the political elite in the country. The prominent local Osmeña family, for instance, finds

itself among leading (Filipino-Chinese and Spanish mestizo) business families that have major interests in the local economy. Their political positions have enabled the Osmeñas, real estate brokers by profession, to obtain rents from Cebu's economic growth via public-private schemes that involved their ventures in the realisation of major infrastructural projects. Aside from this personal interconnectivity, public-private coordination is institutionalised in Cebu through various organisations -in particular, CCCI and FCCCI- and their coherent meetings.

In Negros Oriental a traditional rural elite with Spanish roots has enabled itself from their original positions as landlords to gain control over the local political scene. In order to secure their political positions, the members of the rural elite have aligned and support each other via an exclusive and strategic form of political power-sharing. This elite has its roots in the sugar industry and has used its public positions to embark on new business activities that diversify their economic bases. As such, the local state has been a decisive -and somewhat schizophrenic- player in the development trajectory of the local economy. To a large extent, the public-private symbiosis embodies the pattern of public-private coordination in the province: it is personal, strategic and exclusive. These are also well-fitting characteristics of the central-local ties that connect the Negrense elite with the rest of the traditional landed political oligarchy of the country.

An important characteristic that identifies the three local politico-economies is the role of local elites and the way and extent to which they 'capture' the regional economies. Clearly, such elite capture is evident in Negros Oriental, where political leaders also have a firm grip on the local economy. While the urban elite in Cebu also have business interests that lead to rent seeking behaviour, they are not in the position to fully capture the local politico-economy. Rather, they need to negotiate with other (non)local stakeholders. Such partial elite capture is also present in Bohol, where the local tycoons maintain close ties with local government leaders to strengthen their market positions.

*VI. To what extent do the three provincial economies constitute different regional economic systems, characterised by their specific institutional (relational) arrangements?*

Having described the different institutional arrangements of the regional economies by analysing the different relational networks and their organisation, the next analytical step is to see to what extent these arrangements form different economic systems. In this analysis, the way the institutional arrangements complement each other is essential. As discussed in chapter 8, the different institutional arrangements discussed in the study do lead to different regional business systems in the sense that they characterise the way the regional economies function and perform. In the case of Bohol, a localised dualistic business system can be identified. Whereas the traditional agricultural sector is locally oriented, hierarchically organised and controlled by a duopsony of local Filipino-Chinese compradors, the newly emerging local tourism industry -its key stakeholders are local- is outward-looking and has a horizontal organisation with a strong participation by the local government. The Cebuano business system is characterised as an urban growth alliance that is focused on positioning Cebu in the global economy. A key facet in this business system is the strong interconnectivity between the various public and private stakeholders who operate in a multiscalar setting. On the local level, the intermediary role of business

associations is important, not only to create coordinative ties among the (competing) export-oriented firms but also to link them to local government offices. The role of the local government is another crucial characteristic of Cebu's business system, as it is well positioned in both networks of public-private coordination and national-local government ties. Due to strained market forces, the business system of Negros Oriental has a strong national orientation. The central role played by a traditional oligarchy of local rural elite families is decisive in this business system, as they claim both crucial public and private positions in the local political economy. This overlap has created a system that is recognised by exclusiveness: public-private coordination is mainly constricted among the members of the elite and their ties with national government leaders are rooted in personal business commonalities.

*VII. To what extent and how are these business systems explanatory for the varying patterns of regional economic development in the Central Visayas?*

In the three provincial economies of the Central Visayas, key institutional complementarities can be found in the economies' levels of insertion into global value chains and their governance types; their structures of local inter-firm coordination; their patterns of public-private coordination; and their political ties with the national government. The complementarities between these institutional arrangements have different developmental outcomes in the provinces with regard to private sector development, wealth division and economic diversification. Bohol's weak insertion into the global economy has allowed two local ethnic Chinese family corporations to gain extensive control over the localised agricultural value chain. Furthermore, the dominant position of the two local business conglomerates also affects the local pattern of public-private coordination, as they use their privileged access to political leaders to consolidate their leading market positions. It can be concluded that the modest economic growth in Bohol's agricultural economy has been accompanied with a gradual transformation of a traditional system of 'shared poverty' among smallholders and middleman traders to a 'localised comprador system' that concentrates corporate gains among two local Filipino-Chinese tycoons. They have succeeded in preventing external investors from penetrating the local market. Aside from its diverging effect on wealth division, the captive system also affects the course of private sector development. The tycoons use their extensive reach within the value chain to distribute production necessities that are aimed at increasing output. However, the upstream distribution of chemical fertilisers and hybrid rice seeds increases the dependency of smallholders upon the tycoons and it can be environmentally unsustainable. Furthermore, the sustainability of the 'localised comprador system' is questionable with the opening up of the local economy due to the emerging tourism industry.

The disabling institutional complementarities that influence Negros Oriental's economic development originate from the decisive role played by a traditional rural elite that has contained its prominent economic position via its extensive local political control and connections with the national government. This exclusive public-private coordination has resulted in an institutional lock-in that has contained the non-dynamic and dependent system of ersatz capitalism. The local sugar industry has become dependent upon import tariffs that protect the domestic market from global competition. This distorted market

situation has created a non-challenging entrepreneurial environment that is reflected in the coexistent inter-firm relations that do not exceed beyond informal coordination. The non-competitive situation is further enhanced by the producer-driven value chain that is dominated by national business conglomerates which control processing and trade. Due to these circumstances, Negros Oriental's private sector development has been stagnant. Furthermore, local economic growth has been modest as economic diversification has been minimal and is controlled by the rural elite which has assembled a disproportionally large part of the wealth.

The strong insertion of Cebu into the global economy has given rise to a versatile business system with contrary institutional complementarities. These lead to controversial development outcomes. First of all, the outward orientation of Cebu's growth alliance has generated a strong influx of investments that have transformed Cebu into a diversified economy. Moreover, access to foreign markets offers extensive growth opportunities to local firms. However, the uncertain position of Cebuano firms at the lower end of highly competitive global buyer-driven value chains paralyses their mutual coordinative and cooperative efforts. This hampers collective private sector development, as firms are selective in their strategic alliances and prefer to cooperate only within specific interest groups. Furthermore, this selective environment has given rise to an unequal division of corporate gains among local entrepreneurs. This unequal division of wealth is further enhanced by the urban growth alliance that is focused on its property development-driven growth agenda and less on its redistribution tasks. In all, the exposure of Cebu to global forces has intensified local mechanisms of inclusion and exclusion as firms behave opportunistic. This leads to a polarizing pattern of economic growth with a diverging distribution of wealth between 'connected winners' and 'excluded losers' (van Helvoirt and van Westen, 2009).

## 9.3 Interpretation of the findings

The answers to the research questions are interpreted below to scrutinise their implications on a variety of relevant socioeconomic dynamics as well as methodological and theoretical viewpoints.

**Divergent regional business systems in a global context**

An important interpretation of the findings is that there is a strong interdependence between the extents of insertion of the regional economies into global value chains and the quality of the regional business systems in terms of horizontal inter-firm coordination (see also Andriesse and van Helvoirt, 2009). In turn, this dynamic process of 'glocalisation' (Swyngedouw, 2004) has serious repercussions for regional development.[1] In the Central Visayas the different forms and gradations of global-local interdependence has led to distinct patterns of local inter-firm relations. The entrenched position of Boholano agricultural traders in a localised captive value chain has created a pattern of coexistence, in which non-challenging informal ties lead to little valuable cooperative activities that enhance competitive strengths. The locked-in Negrense entrepreneurs find themselves in a similar position, but for different reasons. On the one hand national institutional arrangements create a lack of incentives to break the path dependency and foster new

competitive strengths and on the other hand, the weak insertion in global markets hampers institutional renewal. One can expect that such informal types of inter-firm networking are not unique to the Central Visayas, but can be found in other non-core rural regions in the South as well. Finally, the dependent position of Cebuano exporters in buyer-driven global value chains has an evident disabling effect on their coordinative behaviour amongst local counterparts. This finding reveals there is a strong relation between the extent and type of insertion of firms within global value chains and their networking on the local level. It suggests that direct exposure to competitive global markets can amount in a selective cooperative environment that prompts mechanisms of inclusion and exclusion. Such individualistic and selective behaviour of local firms might also be prevalent in other export clusters in the South that are involved in a 'race to the bottom' to survive on the global market. This dynamic perspective on multilevel institutional complementarities coincides with the suggestion of Deeg and Jackson (2007: 172-173) who stress that capitalist diversity involves 'multilevel governance and heterogeneity of practices across firms'. Therefore, the literature on varying capitalist systems needs to step back from the initial conceptual notion of 'stable nationally organised models'.

**The decisive role of business elites and ethnicity in business systems**

The position of the local state vis-à-vis the local private sector and the national government is a second major determinant of the varying regional business systems in the Central Visayas. This study has indicated that local elites have enabled themselves -via different strategies- to maintain a strong influence in the local political economies. As such, the role played by local elites is a recurrent and decisive underlying factor that has helped to explain the divergent patterns of regional development. These findings stress the importance of socio-political aspects of regional economic development as depicted by Weber (1981). In many economic studies there is little attention paid to the political economy side of economic development, partly due to the difficult incorporation of this 'soft' side of economic life into quantitative economic analyses. This creates a gap in our knowledge on the functioning of economic systems, particularly in the developing world where business and politics are often densely interwoven with each other as political economy studies in Latin America (e.g. Vellinga, 1999), Africa (Chazan et al., 1999) and Asia (Jayasuriya, 2004; Pempel, 1998) have shown.

The findings seem to correspond with studies on the political economy of the Philippines that emphasise the role of local elites. Hutchcroft (1999: 474), for one, has argued that the political economy of the Philippines cannot be analysed as a variation within the continuum of 'rational-legal' capitalist states that runs from statist capitalism (developmental state) to laissez-faire capitalism (regulatory state). Rather, with its weak separation between private and official spheres and 'personal considerations' overriding 'bureaucratic impartiality', the Philippines can be seen as a relatively more 'patrimonial state' under the control of an elite oligarchy. Furthermore, in line with the work of Sidel (1999) this study indicates that the strong position of the local elites is further enhanced by the reciprocal ties they uphold with the national government. These are still very much based on personal relations of patronage, with grass-roots electoral and political support being rewarded with financial dole-outs -e.g. via the pork barrel- from the national budget. Importantly, these personalistic political mechanisms are not solely confined within the realm of the Philippine state: similar important roles of local elites in regional political

economies have been noticed in Thailand and Indonesia in a comparative study by Sidel (2005) on 'local strongmen' and bossism.

The comparative analysis further reveals that ethnicity shapes the institutional arrangements of the regional business systems. In all three provinces, ethnic groups have nested themselves in powerful positions within the local political economies. Somewhat different from studies (e.g. Bjerke, 2000; Crawford, 2000) that stress a typical Chinese culturally embedded 'way of doing business' (e.g. corporate finance, management) as an important determinant of how ethnic Chinese entrepreneurs operate in Southeast Asia, this study underlines that the performance of ethnic Chinese entrepreneurs can also be explained by their distinct way of networking. In the Central Visayas, local Filipino-Chinese businessmen have gained extensive control over the agricultural trading networks in Bohol and Negros Oriental via a strong reliance on family ties and informal relations with local politicians. However, as the case of Cebu clearly reveals, these traditional ethnic ways of networking are not definitive. Facing increased global competition, the behaviour of Filipino-Chinese exporters is more based on strategic, opportunistic decision-making. Furthermore, trade relations are not embedded in informal trust-based personal ties but occur via arm's length contract-based connections. This dichotomy suggests that the entrepreneurial behaviour of ethnic Chinese is not necessarily always dictated by a homogenous set of cultural values. Rather, the ethnic Chinese entrepreneurs adapt their business strategies to better cope with global market circumstances. This finding corresponds with Yeung (2006: 241), who argues that the internationalisation of Southeast Asian Chinese firms requires them to be less organised around 'highly stereotyped' cultural principles and shift more towards professionalisation and bureaucratisation. As he continues, the 'ethnic Chinese firms find it much harder to establish a competitive position in today's global economy on the basis of these ethnic-centric principles'. To conclude, this study underlines the suggestion of Andriesse (2008: 194) who stresses that 'views of Southeast Asian-wide homogenous entrepreneurial patterns among ethnic-Chinese as put forward by predominantly management scholars should be nuanced'. With this in mind, it will be interesting to investigate how ethnic Chinese traders in rural Southeast Asia will adapt their management strategies to their increasingly 'global' business environment.

**Uncertain pathways of regional development**

The findings suggest that among the three provinces in the Central Visayas there are considerable disparities in economic development that can be attributed to their divergent institutional arrangements. Interestingly, there does not seem to be one regional business system that leads to a more sustainable and balanced pattern of regional development. Furthermore, the regional business systems are facing increasing external pressures and it remains to be seen how they will cope with these pressures. Cebu's urban growth alliance has been instrumental in directing its export-driven economic growth over the past two decades. However, this growth has been accompanied by an increasing divergence of wealth among Cebu's constituents and it has led to an unsustainable run on -already scarce-natural resources. The recent emergence of newly industrializing Asian countries -most notably China and Vietnam- forces Cebu's export-oriented entrepreneurs to make crucial strategic choices. Do they mingle in the fierce global price-based competition of mass production or do they shift towards high-end niche markets? And how does the growth alliance reposition Cebu in the current global marketplace as an attractive investment

destination? These are relevant questions, not only for Cebu, but also for other export-oriented manufacturing clusters in the developing world that are inserted into global buyer-driven value chains (see Bair and Gereffi, 2001; Schmitz and Knorringa, 2000; Schmitz, 1999a).

The development pattern of Bohol's localised comprador system reveals a mirror image of Cebu, recognised by a modest economic growth that is evenly shared among middleman traders. However, the extensive control of the compradors over the local production and trade networks leaves them with only a small piece of the pie and few opportunities to increase it. How sustainable is this enclosed comprador system with a local government that is increasingly trying to attract foreign and domestic investors in its tourism industry? Will the entry of these new players lead to alternative trade flows that circumvent the comprador-dominated networks? Furthermore, the Philippines -with its rapidly expanding population and shortage of suitable land for growing food crops- has become the largest importer of rice in the world in recent years, making it ever more dependent upon rice exporting countries such as Vietnam and Thailand. While the import of rice has been under government control to protect the domestic market, the growing dependence upon foreign rice has mounted calls to give the private sector a free hand to import rice. Could this reinforce the compradors' roles as gatekeepers to Bohol's economy or will they loose their ground to other major rice traders in the country?

A similar sustainability issue is relevant for Negros Oriental's elite-ruled agricultural economy. The distinct regional business system has emerged from a strong concentration of economic and political power in the hands of a small rural elite. Their vested interests in the agricultural sector have created a path dependent development pattern that is facing major challenges. The viability of the local sugar industry is uncertain in the face of losing its protected market status under ASEAN free trade regulations. Simultaneously, rising global energy costs has spurred a run on alternative biofuels. The approval of the Biofuels Bill by the Philippine Senate in 2006 have created new opportunities to the sugar industry: the production of ethanol. How will the local industry cope with these global threats and opportunities? The issues raised for the rural economies of Bohol and Negros Oriental are also valid for other non-core rural economies in the South, whose traditional and localized trading networks are increasingly influenced by pressures from the global market (see Rigg (2001) for a comprehensive overview on rural change in Southeast Asia).

**Theoretical insights**

This comparative study has provided indications that regional institutional arrangements play an intrinsic role in regional economic development. The institutional perspective on spatial disparities in development has proven to be useful in generating additional insights on the underlying factors of these disparities. More specifically, the relational view that has been adapted in this study has generated a better understanding on the different performances of regional economies based on their organisational characteristics. The comparative analysis of the three provincial economies in the Central Visayas has excavated relevant differences in institutional arrangements and their mutual complementarities, leading to varied regional business systems that foster different patterns of economic development.

There are various theoretical implications that can be drawn from this study. First, the findings indicate that an interrelationship exists between a region's position in the global economy and its endogenous organisation. More specifically, the insertion of local firms in global value chains has a strong impact on how these firms position and organise themselves in local networks of inter-firm coordination and cooperation. Consequently, this global-local institutional complementarity has a decisive impact on regional economic performance and development in terms of growth and equity. In this sense, this study agrees with Wad (2001: 96-97), who remarks that while Whitley (1994) 'acknowledges that the world economy does change with the establishment of distinct global systems of coordination and competition' such as within global value chains, he argues that this 'internationalisation of firms and markets will not alter the characteristics of contemporary business systems'. By integrating a global value chains analysis into the business systems approach, this study has shown that, contrary to Whitley's argumentation, the integration of firms into global value chains does have a strong impact on the business system they operate in. This finding suggests that the institutional perspective of the business systems approach needs to be complemented with an international perspective such as the global value chains analysis when studying business systems in the contemporary global economy. A similar comment regarding to analytical thoroughness can be made on the political economy dimension of regional business systems. Both horizontal public-private coordination and the hierarchical political relations between the local government and the national state are vital in shaping regional business systems and their development outcomes. Hence, this study has shown that the socio-political dimension should not be shunned in economic analyses as it provides valuable qualitative insights on the functioning of economies. This is particularly relevant for the developing world, where politics often forms an important and integrated part of the business environment. Therefore more attention should be paid to political economy aspects, not only in studies that focus on business systems, but also in economic analyses in general.

Third, aside from its emphasis on the impact of institutional arrangements this study has also indicated that other non-institutional factors have a significant impact on divergent regional development trajectories, such as location, physical geography and history. Therefore, it is suggested here to speak of the relative influence that institutional arrangements have on economic development. Still, the institutional-relational perspective provides a vital contribution to the debate on what factors cause spatial disparities in economic development. Institutions do matter. Naturally it is necessary to be cautious with this statement and not overemphasise the role of endogenous institutions and relational networks at the cost of other explanations of spatially uneven economic growth (see also Sunley (2008) and Sachs (2003) for further reading on this matter). To prevent such an 'institutional overkill' in development studies, the conceptualisation and definition of institutions need further clarification. As Portes and Smith (2008: 102) rightfully comment, this is necessary to prevent institutional analyses from using 'ad hoc typologies that highlight some features of what needs to be explained, while obscuring others'. This calls for an interdisciplinary debate between sociologists and economists to jointly clarify what North's (1990) 'rules of the game' represent.

A fourth implication lies in the scale on which institutional arrangements appear. Most institutional approaches focus on the nation state, assuming that (almost) all institutional

arrangements are constructed and evenly distributed on the national level. However, this study has shown that there are considerable regional variations in these national institutional constellations that lead to regional disparities in economic development. These findings correspond with prior work on institutions and regional development in Southeast Asia that has been carried out by Andriesse (2008: 196) within the International Development Studies department at Utrecht University. He argues that the complex interplays between national institutions, regional institutions and regional diversity are likely to be found in the region, demonstrating that multiple levels of spatial scale should be taken into account when studying the impact of institutions on regional development. This argumentation is in line with Hollingsworth (1998: 482), who argues that economic actors are increasingly nested in institutional arrangements which are linked at various levels'.

As this study has further shown, this multiscalar perspective on institutions has become increasingly relevant with the unbalanced interconnectivity of regional economies within the global economy. This issue is not only relevant for export-oriented developing countries in Southeast Asia -such as the Philippines and Indonesia- but also for the new 'global giants' in the world. For instance, the spectacular economic growth that China has experienced over the past decades after its central government has been deregulating international trade since 1979 has increased its regional inequality (Wan et al., 2007). Similarly, Fujita and Hu (2001) indicate that globalisation -measured by export and FDI- and economic liberalisation have a significant influence on the increasing regional disparity in the country. Singh and Srinivasan (2002) reveal that economic reform and the simultaneous interaction of the different layers of Indian government -national and subnational- with foreign governments and corporations in a global economy help to explain the growing regional inequalities in India, where certain regions seem to be more successful in capturing FDI than others. What can be distilled from the findings of these papers is that the forces of globalisation have a decisive impact on regional economies and their institutional embeddings. As this study has shown, such disparities in global connectivity can occur within a relatively small geographical area and they seem particularly evident between core (urban) and non-core (rural) regions. These dynamics call for a re-conceptualisation of regional development and their increasingly fluid institutional foundations, as argued by Coe et al. (2004). They conceptualise regional development as 'a dynamic outcome of the complex interaction between territorialised relational networks and global production networks within the context of changing regional governance structures' (ibidem, 469). It is argued here that such a holistic and multiscalar conceptualisation of regional development can serve as a useful starting point to develop alternative theoretical models that scrutinise the institutional embeddings of development without a single scale prejudice. In addition, it is important to stress here that ample attention should be paid to the political dimensions of the 'territorialised relational networks'.

In sum, this study has shown that for studies on regional development in a global context it is vital to obtain a multi-scalar and multi-actor perspective that takes into account both endogenous and exogenous institutional arrangements. Regions are not isolated or bounded entities; they are integrated and function in larger economic and political systems that shape the behaviour of their key agents and thus influence their overall functioning

and performance. This institutional-relational view offers exciting insights for such a holistic approach towards regional development. However, as this study has also indicated, it needs further conceptualisation to become a solid approach that can be widely used. As of now, the relational view is based on concepts that are too broadly defined and used, a weakness also noticed by Sunley (2008: 3), who argues that because of this high level of abstraction 'it suffers from the failure to offer analytical models that prioritise causes and identify causal mechanisms'. As such, further debate on the conceptualisation of the relational view, as well as more empirical studies that apply a relational perspective, are needed to construct a solid and uniform relational analytical model that can be applied broadly to generate more insights on divergent regional development in the contemporary global economy.

## 9.4 Policy implications and suggestions for further research

The closing section of this chapter briefly discusses the policy implications of the research findings. Subsequently and finally, suggestions for further research are presented.

**Policy implications**

*Reducing the dependence on volatile personal political ties*

The study has revealed that the realms of public-private relations and central-local political ties are partly dependent upon networks of personal relations among influential stakeholders. The strong informal interconnectivity of public stakeholders such as provincial Governors, Congressmen and City Mayors with key private agents and national government representatives has been discussed in chapter 7. In this chapter it has been labelled as a typical characteristic of a neo-patrimonial state. This is particularly relevant for central-local ties, in which the reliance on personal political alliances hinders rational policy making and its longitudinal implementation. These personal relations within the government hierarchy can contribute to regional development in times of smooth mutual understanding. However, what will happen when such personal relations turn sour or favourable counterparts are replaced by less advantageous operators? Such shifts of allegiances in a subjective political system hinder the continuity of public decision making, which has a crippling effect on the government's ability to promote and steer regional development. There have been various attempts to redesign the hierarchical Philippine bicameral political system into a parliamentary-federal system via a revision of the 1987 constitution (Charter Change). This could lead to more regional autonomy and less top-down political patronage. However, as constitutional changes largely depend on the approval by traditional powerbrokers in Congress and the Senate, 'cha-cha' will most likely continue to remain an idle attempt.

*Breaking with disabling institutional persistence*

An important finding of the study is that there are certain persistent institutional complementarities that hinder regional economic development as their presence seems to tone down economic progress and changes in the region. This finding corresponds with Acemoglu and Robinson's (2006) concept of institutional persistence, which refers to the persistence of a cluster of institutions in a changing environment. In the Central Visayas, the persistent entrenchment of elites in both the political and private sectors

has a strong effect on it divergent pattern of provincial development as it affects public-private coordination, privileged access to national funds and the distribution of wealth. This disabling institutional persistence is not unique to the region, but can be traced all over the Philippine political economy (e.g. see Bello, 2004). While several anti-dynasty bills have been filed to reduce the stranglehold of traditional political clans in the Philippines, none has been approved in an elite-dominated Congress. This despite the Constitution states that 'the state shall grant equal access to opportunities for public service, and prohibit political dynasties as may be defined by law'. Therefore, as political analyst Jose Rocamora of the Institute for Popular Democracy in Quezon City argues, the implementation of electoral reforms and upgrading of the elections infrastructure (resulting in a stronger Commission on Elections or Comelec) seem more urgent matters which can change this disabling institutional persistence (PCIJ, 2001).

*Stimulating inclusive private sector development*

The divergent patterns of inter-firm coordination that partly stem from the different positions local firms have in their value chains can provide some clues on how to stimulate inclusive private sector development. Inclusive here refers to the situation when all local firms (in a specific industry) are involved in local inter-firm coordination, rather than only the firms that are positioned higher in the value chain. This can be a particularly important issue for a local export-oriented industry as in Cebu, which competes on the global market and needs to keep up with the volatile global standards on quality, prices and design trends. Participation within branch associations helps local exporters to coordinate with their local peers on market information and joint marketing tools. As this study has indicated, such collective action at the meso-level can be particularly useful for regions whose local firms are exposed to global market forces, as it can help them to strengthen their position in global value chains. However, since most subcontractors and other local suppliers are not members of these associations, their role as vehicles for industry-wide -both horizontal and vertical- private sector development is limited. The strengthening of local business associations' capabilities via initiatives such as the Pearl2 Project in Metro Cebu -initiated by the Canadian International Development Agency (CIDA)- can contribute to enhancing inclusive private sector development in export-oriented industrial clusters in the South. Still, as Schulpen and Gibbon (2002) warn, an important requisite for such donor-driven initiatives is that the donor agency needs to have a great understanding on the specific regional context in order to foster inclusive private sector development.

*Tackling the rural-urban divide in regional development*

Economic globalisation has spurred the urban concentration of economic activity in the Central Visayas. Being the key trading and manufacturing hub that connects the Central Visayas with global markets, Metro Cebu is the undisputed economic centre of the wider region: a vast share -estimated at nearly 80 percent- of the Gross Regional Domestic Product (GRDP) is generated within the perimeters of this urban agglomeration. This pattern of polarised urban growth resembles the general observation by Scott and Storper (2003: 581) that metropolitan areas in less-developed countries are 'the most important foci of national growth', as they are 'the places where export-oriented industrialisation is most apt to occur'. In the Philippines, regional economic policies have mainly been focused on increasing the infrastructure of urban centres, in particular the National Capital Region (Hill et al., 2007). While these growth pole strategies have been instrumental for

the emergence of regional economic centres such as Metro Cebu, they have fostered a polarised regional development pattern with urban pockets of growth (Llanto, 2007). This rural-urban divide within regional development planning could be tackled by adopting an alternative policy perspective as argued by McGee (1998). He has argued that 'the concept of rural-urban division based on spatial demarcation is artificial and needs to be restated within a broader theory of growth and urbanisation. This assertion accepts that the new emphasis must be upon the ongoing analysis of the *linkages* between agricultural and non-agricultural activities and that particular attention should be paid to the flows of people, commodities, capital and information' (McGee, 1998: 471; emphasis added). This would mean that more attention in regional planning should be on how to create a stronger network of reciprocal economic linkages -e.g. physical via infrastructure and organisational within regional bodies of government- between urban growth poles and their surrounding rural hinterlands.

**Suggestions for further research**

This comparative regional study of the Central Visayas has aimed to contribute to a better understanding of regional diversities in economic development and their underlying institutional mechanisms. In its attempt to do so, it also exposes opportunities for additional research on a variety of affined issues.

This study has been explorative in nature as it has applied a relational-institutional approach on a regional level in a developing context. Since the findings of this study are based on restricted case studies, more empirical research is needed to test these findings and better grasp the impact of regional institutional frameworks on regional economic development. This is particularly relevant for developing countries that are marked by significant internal disparities in regional economic growth. Similar diverging trends in regional economic development are expected to be found in other countries in Southeast Asia. The emerging economies of Vietnam, Laos and Cambodia that are transforming from enclosed socialist economies towards export-oriented market economies provide an exciting setting for such studies as this transformation creates disparities between core and non-core regions in terms of their integration into global value chains. A more extensive and international database of regional empirical studies will provide insights for international comparative analyses, for instance within Southeast Asia between the Philippines and Indonesia. Such a database and international comparison will allow for a categorisation of regional politico-economies; it will allow for a better generalisation of the findings of regional case studies such as this one. Another limitation to this study is that it has provided a snapshot of regional institutional arrangements to scrutinise their impact on regional development patterns. It would be interesting to perform a longitudinal study that analyses the possible changes of these regional institutions. For one, an evolutionary perspective on regional performance (see Boschma, 2004; Boschma and Lambooy, 1999) could offer insightful theoretical handles. Such a longitudinal approach could generate vital insights on the dynamics of regional economies and how they change over time and adapt to external shocks.

Globalisation studies in Southeast Asia have predominantly been focused on the insertion of core economic regions such as (capital) cities in global networks. However, the insertion of (SMEs situated in) rural non-core regions into an ever increasing global

agricultural market has received less attention so far. Still, this is a vital issue, especially with the increasing and competing global demand for food and biofuels. As such, more empirical research on global-local institutional complementarities in rural non-core regions in developing countries can contribute to our understanding as to how these regions are affected by globalisation. Similar, another impact of globalisation that affects regional development -particularly in the non-core regions- is the outflow of labour from the regional economies. This form of translocalism interconnects regions on a global scale via alternative international flows of people, money and goods aside from business-to-business trade that occurs within global value chains. How do these flows affect the regional business systems? It is often argued that international labour migration contributes to regional development in the South as the expatriate labourers bring the knowledge and money they have acquired back to their home region. While this is true for Saxenian's (2007) 'new argonauts' who have caused a spread of dynamic high technology clusters across the globe from Silicon Valley to Bangalore, Taipei and San José, it would be interesting to investigate the possible negative effects of international labour migration on regional economic development. After all, it is not unimaginable that it could also hinder regional economic development as it makes home regions dependent upon remittances that boost local consumption rather than private sector development. Furthermore, it could contribute to local elite capture, as the people's reliance on external funds allows them to maintain control over the regional economy. This is a relevant issue for a 'sending country' such as the Philippines, where remittances from overseas Filipino workers (OFWs) contribute to more than ten percent of the GDP. As such, extended empirical research on regional business systems in the South should take these new global networks into account to see what their regional development effects are.

## Endnote

1 According to Swyngedouw (2004: 25), the term 'glocalisation' refers to 'the twin process whereby, firstly, institutional/regulatory arrangements shift from the national scale both upwards to supra-national or global scales and downwards to the scale of the individual body or to local, urban or regional configurations and, ssecondly, economic activities and inter-firm networks are becoming simultaneously more localised/regionalised and transnational'. Also see Boekema, van Naerssen and Zoomers (2008) that serves as an introduction into a special issue on this subject.

# References


Acejo, I., del Prado, F. and Remolio, D. (2004) *Tourism fuels an emerging city: the case of Tagbilaran City, Bohol*. Makati City: Philippine Institute for Development Studies.

Acemoglu, D. and Robinson, J.A. (2006) De facto political power and institutional persistence. *American Economic Review*, vol. 96, no. 2, pp. 325-330.

Aldecoa-Rodriguez, C. (1989) *Negros Oriental, from American rule to the present: a history (volume II). Part I: the American period*. Cebu City: Jose Clavano Incorporated.

Aldecoa-Rodriguez, C. (1983) *Negros Oriental and the Philippine revolution*. Cebu City: Jose Clavano Incorporated.

Ahlstrom, D., Young, M.N., Chan, E.S. and Bruton, G.D. (2004) Facing constraints to growth? Overseas Chinese entrepreneurs and traditional business practices in East Asia. *Asia Pacific Journal of Management*, vol. 21, no. 3, pp. 263-285.

Allen, J., Massey, D. and Cochrane, A. (1998) *Rethinking the region*. London: Routledge.

Allen, M. (2004) The varieties of capitalism paradigm: not enough variety? *Socio-Economic Review*, vol. 2, pp. 87-108.

Amin, A. (2002) Spatialities of globalisation. *Environment and Planning A*, vol. 34, no. 1, pp. 385-399.

Amin, A. and Thrift, N. (1997) Globalisation, socio-economics, territoriality. In: Lee, R. and Wills, J. (eds.) (1997) *Geographies of economies*. London: Arnold.

Amyot, J. (1973) *The Manila Chinese: familism in the Philippine environment*. Quezon City: Ateneo de Manila University Press.

Anderson, B. (1998) Cacique democracy in the Philippines: origins and dreams. *New Left Review*, no. 169, pp. 3-31.

Andriesse, E.H.S. (2008) *Institutions and regional development in Southeast Asia*. PhD dissertation at International Development Studies, Utrecht University, the Netherlands.

Andriesse, E.H.S. and Helvoirt, B.J. van (2009) Regional business systems and private sector development in Southeast Asia. Article in press, *Asia Pacific Business Review*.

Andriesse, E.H.S. and Helvoirt, B.J. van (2008) Institutional frameworks and economic activity: a comparative analysis of regional economies in Thailand, Malaysia and the Philippines. *Asia Pacific Viewpoint*, vol. 49, no. 2, pp. 254-269.

Andriesse, E.H.S. and Westen, A.C.M. van (2007) Comparing institutional frameworks on both sides of the Malaysia/Thailand border: regional development in Perlis and Satun. *Geographical Studies of Development and Resource Use*, 2007-1.

Andriesse, E., and Westen, A.C.M. van (2006) Coping with institutions in regional development: capitalist varieties along the Malaysia-Thailand border. In: Lindert, P. van, De Jong, A., Nijenhuis, G. and Westen, A.C.M. van (eds.) (2006) *Development matters: geographical studies on development processes and policies*. Utrecht: Utrecht University.

Annen, K. (2001) Inclusive and exclusive social capital in the small-firm sector in developing countries. *Journal of Institutional and Theoretical Economics*, vol. 157, no. 2, pp. 319-330.

Antonio, E.T., Padojinog, W.C.B., Rodolfo, C.S. and Molina, L. (2001) Directions for industrial restructuring in the twenty-first century: the Philippine case. In: Masuyama, S., Vandenbrink, D. and Chia, S.Y. (eds.) (2001) *Industrial restructuring in East Asia: towards the twenty-first century*. Tokyo: Institute of Southeast Asian Studies.

Arthur, W.B. (1989) Competing technologies, increasing returns, and lock-in by historical events. *The Economic Journal*, vol. 99, no. 394, pp. 116-131.

Asheim, B., Cooke, P. and Martin, R. (2008) Clusters and regional development: critical reflections and explorations. *Economic Geography*, vol. 84, no. 1, pp. 109-112.

Atienza, M.A.L. (2006) Local governments and devolution in the Philippines. In: Morada, N.M. and Tadem, T.S.E. (2006) *Philippine politics and governance: an introduction*. Quezon City: University of the Philippines Diliman.

Austria, M.S. (2002) *Philippine domestic shipping industry: state of competition and market structure*. PASCN Discussion Paper No. 2002-04. Makati City: Philippine Institute for Development Studies.

Auty, R.M. (1995) *Patterns of development: resources, policy and economic growth*. London: Edward Arnold.

Backman, M. (1999) *Asian Eclipse: exposing the dark side of business in Asia*. Singapore: John Wiley & Sons.

Bair, J. and Gereffi, G. (2001) Local clusters in global chains: the causes and consequences of export dynamism in Torreon's blue jeans industry. *World Development*, vol. 29, no. 11, pp. 1885-1903.

Balisacan, A.M. (2007) Local growth and poverty reduction. In: Balisacan, A.M. and Hill, H. (eds.) (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar.

Balisacan, A.M. (1998) What do we really know -or don't know- about economic inequality and poverty in the Philippines. In: Balisacan, A.M. and Fujisaki, S. (eds.) (1998) *Growth, poverty and income inequality in the Philippines*. Tokyo: Institute of Developing Economies.

Balisacan, A.M. and Fujisaki, S. (1999). *Causes of poverty: myths, facts and policies. A Philippine study*. Quezon City: University of the Philippines Press.

Balisacan, A.M. and Fuwa, N. (2004) *Changes in spatial income inequality in the Philippines: an explanatory analysis*. Helsinki: United Nations University World Institute for Development Economics Research (UNU-WIDER).

Balisacan, A.M. and Fuwa, N. (2003) *Is spatial income inequality increasing in the Philippines?* Paper prepared for the UNU-WIDER Project Conference on Spatial Inequality in Asia, United Nations University Centre, Tokyo, 28-29 March 2003.

Balisacan, A.M. and Hill, H. (eds.) (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar.

Balisacan, A.M. and Hill, H. (2006) *Regional development dynamics and decentralisation in the Philippines: ten lessons from a 'fast starter'*. Departmental Working Paper from Research School of Pacific and Asian Studies. Canberra: Australian National University.

Balisacan, A.M. and Hill, H. (eds.) (2003) *The Philippine economy: development, policies, and challenges*. Quezon City: Ateneo de Manila University Press.

Balisacan, A.M. and Pernia, E.M. (2002) *Probing beneath cross-national averages: poverty, inequality, and growth in the Philippines*. ERD Working Paper Series no. 7, Asian Development Bank.

Banlaoi, R.C. (2004) Globalisation and nation-building in the Philippines: state predicaments in managing society in the midst of diversity. In: Sato, Y. (ed.) (2004) *Growth and governance in Asia*. Honolulu: Asia-Pacific Centre for Security Studies.

Bawalan, D.D. (2004) Copra: the Philippines. In: Hodges, R. and Farrell, G. (eds.) (2004) *Crop post-harvest: science and technology. Volume 2: durables*. Oxford: Blackwell Publishing.

Beerepoot, N.P.C. (2005) *Collective learning in small enterprise clusters*. PhD dissertation at Amsterdam Institute for Metropolitan and International Development Studies, Universiteit van Amsterdam, the Netherlands.

Beerepoot, N.P.C and Westen, A.C.M. van (2001) The Mactan Export Processing Zone in Comparative Perspective. *Philippine Quarterly of Culture & Society*, vol. 29, pp. 226-251.

Beckford, G.L. (1972) *Persistent poverty: underdevelopment in plantation economies of the Third World*. New York: Oxford University Press.

Bell, L.A. de (2005) *Globalisation, regional development and local response: the impact of economic restructuring in Coahuila, Mexico*. PhD dissertation at International Development Studies, Utrecht University, the Netherlands.

Bello, W. (ed.) (2004). *The anti-development state: the political economy of permanent crisis in the Philippines*. Quezon City: CORASIA Inc.

Bengtsson, M., Hinttu, S. and Kock, S. (2003) *Relationships of cooperation and competition between competitors*. Work-in-progress paper submitted to the 19th annual IMP Conference, September 4-6, 2003, Lugano, Switzerland.

Bernaldez, R.C. (1997) Tigayon: the Cebuano economy. In: Mojares, R.B. and Quimpo, S.F. (1997) *Cebu, more than an island*. Makati City: Ayala Foundation.

Berner, E. (2002) Global citadels and ghettos: the dynamics of inclusion and exclusion in Metro Cebu. *Philippine Quarterly of Culture and Society*, vol. 29, no. 3, pp. 211-225.

Bersales, J.E.R. (2005) Contested space: tourism, power, and social relations. In: Alampay, R.B.A. (ed.) (2005) *Sustainable tourism: challenges for the Philippines*. Makati City: Philippine APEC Study Centre Network.

Billig, M.S. (2007) The interests of competing elites: fighting over protectionism and "free markets" in Philippine sugar. *Culture and Agriculture*, vol. 29, no. 2, pp. 70-77.

Billig, M.S. (2003) *Barons, brokers, and buyers: the institutions and cultures of Philippine sugar*. Honolulu: University of Hawai'i Press.

Billig, M.S. (1993) The rationality of growing sugar in Negros. *Philippine Studies*, vol. 40, no. 2, pp. 153-182.

Bjerke, B.V. (2000) A typified, culture-based, interpretation of management of SMEs in Southeast Asia. *Asia Pacific Journal of Management*, vol. 17, no. 1, pp. 103-132.

Boeke, J.H. (1953) *Economics and economic policy of dual societies as exemplified by Indonesia*. New York: International Secretariat, Institute of Pacific Relations.

Boekema, F, Naerssen, T. van and Zoomers, A. (2008) Global circulation and territorial development: introduction to the special issue. *European Planning Studies*, vol. 16, no. 7, pp. 893-898.

Boggs, J.S. and Rantisi, N.M. (2003) The 'relational turn' in economic geography. *Journal of Economic Geography*, no. 3, pp. 109-116.

Bohol Tourism Office (2006) Powerpoint presentation on annual visitor arrivals.

Boschma, R.A. (2004) Competitiveness of regions from an evolutionary perspective. *Regional Studies*, vol. 38, no. 9, pp. 1001-1014.
Boschma, R.A. (2001) *Social capital and regional development: an empirical analysis of the Third Italy*. Paper presented at the ERSA-conference in Barcelona, August 2001.
Boschma, R.A. and Frenken, K. (2006) Why is economic geography not an evolutionary science? Towards an evolutionary economic geography. *Journal of Economic Geography*, vol. 6, pp. 273-302.
Boschma, R.A. and Kloosterman, R.C. (2005) (ed.) *Learning from clusters: a critical assessment from an economic-geographical perspective*. Berlin: Springer Verlag.
Boschma, R.A. and Lambooy, J.G. (1999) Evolutionary economics and economic geography. *Journal of Evolutionary Economics*, vol. 9, pp. 411-429.
Bourdieu, P. (1985) The forms of capital. In: J.C. Richards (ed.) *Handbook of theory and research for the sociology of education*. New York: Greenwood Press.
Boyer, R. and Saillard, Y. (eds.) (2002) *Regulation Theory: the state of the art*. London: Routledge.
Braczyk, H.J., Cooke, P. and Heidenreich, M. (eds.) (2003) *Regional innovation systems: the role of governance in a globalizing world*. London: Routledge.
Brillantes, A.B. and Moscare, D. (2002) *Decentralisation and federalism in the Philippines: lessons from global community*. Discussion paper presented at the International Conference of the East West Centre, Kuala Lumpur, Malaysia, July 1-5, 2002.
Bundgaard, L.R. (1957) Philippine Local Government. *The Journal of Politics*, vol. 12, no. 2, pp. 262-283.
Burki, S.J. and Perry, G.E. (1998) *Beyond the Washington consensus: institutions matter*. Washington, D.C.: The World Bank.
Ceglie, G. and Dini, M. (1999) *SME cluster and network development in developing countries: the experiences of UNIDO*. Vienna: United Nations Industrial Development Organisation (UNIDO).
Chandler, A.D. (1990) *Scale and scope: the dynamics of capitalism*. Cambridge: Harvard University Press.
Chazan, N., Lewis, P., Mortimer, R.A., Rothchild, D. and Stedman, S.J. (1999) *Politics and society in contemporary Africa*. Boulder: Lynne Rienner Publishers.
Churchill, P.R. (1993) Cebu: abberation or model for growth? *Philippine Quarterly of Culture and Society*, vol. 21, no. 1, pp. 3-16.
Coase, R.H. (1937) The nature of the firm. *Economica*, vol. 4, no. 16, pp. 386-405.
Coe, N.M., Hess, M., Yeung, H.W.C., Dicken, P. and Henderson, J. (2004) 'Globalizing' regional development: a global production networks perspective. *Transactions of the Institute of British Geographers*, vol. 29, no. 4, pp. 468-484.
Cohen, S.S and Fields, G. (1999) Social capital and capital gains in Silicon Valley. *California Management Review*, vol. 41, no. 2, pp. 108-130.
Coleman, J.S. (1988) Social capital in the creation of human capital. *The American Journal of Sociology*, vol. 94, no. 1, pp. 95-120.
Constantino, R. (1975) *A history of the Philippines: from the Spanish colonisation to the Second World War*. New York: Monthly Review Press.
Cooke, P.N. (1997) Regions in a global market: the experiences of Wales and Baden-Württemberg. *Review of International Political Economy*, vol. 4, no. 2, pp. 349-381.
Cooke, P.N. and Morgan, K. (1998) *The associational economy: firms, regions, and networks*. London: Routledge.

Crawford, D. (2000) Chinese capitalism: cultures, the Southeast Asian region and economic globalisation. *Third World Quarterly*, vol. 21, no. 1, pp. 69-86.
Crouch, C., Le Gales, P., Trigilia, C. and Voelzkow, H. (2001) *Local production systems in Europe: rise or demise?* Oxford: Oxford University Press.
Cullinane, M. (1994) Patron as client: warlord politics and the Duranos of Danao. In: McCoy, A.W. (ed.) (1994) *An anarcy of families: state and family in the Philippines*. Madison: University of Wisconsin Centre for Southeast Asian Studies.
Cypher, J.M. and Dietz, J.L. (1997) *The process of economic development: theory, institutions, applications and evidence*. New York: Routledge.
Davis, W.G. (1973) *Social relations in a Philippine market: self interest and subjectivity*. Berkeley: University of California Press.
De Dios, E.S. (2007) Local politics and local economy. In: Balisacan, A.M. and Hill, H. (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar.
Deeg, R. and Jackson, G. (2007) The state of the art: towards a more dynamic theory of capitalist variety. *Socio-Economic Review*, vol. 5, no. 1, pp. 149-179.
Denzau, A.T. and North, D.C. (1994) Shared mental models: ideologies and institutions. *Kyklos*, vol. 47, no. 1, pp. 3-31.
Dicken, P. (1999) *Global shift: transforming the world economy*. London: Paul Chapman Publishing Ltd.
Dicken, P., Kelly, P.F., Olds, K. and Yeung, H.W.C. (2001) Chains and networks, territories and scales: towards a relational framework for analysing the global economy. *Global Networks*, vol. 1, no. 2, pp. 89-112.
Dijk, M.P. van and Rabellotti, R. (eds.) (1997) *Enterprise clusters and networks in developing countries*. London: Routledge.
Doner, R.F. and Schneider, R.S. (2000) The new institutional economics, business associations, and development. *Brazilian Journal of Political Economy*, vol. 20, no. 3, pp. 39-62.
Doner, R.F. and Schneider, R.S. (2000a) Business associations and economic development: why some associations contribute more than others. *Business and Politics*, vol. 2, no. 3, pp. 261-288.
Doner, R.F. and Schneider, R.S. (1998) *Business associations and economic development*. Paper presented at the SSRC/IILS Conference, Geneva, November 1998.
Dore, R.P. (1983) Goodwill and the spirit of market capitalism. *British Journal of Sociology*, vol. 34, no. 4, pp. 459-482.
Dumont, J.P. (1995) Far from Manila: political identities on a Philippine island. *Anthropological Quarterly*, vol. 68, no. 1, pp. 14-20.
Dwyer, D. and Drakakis-Smith, D. (1996) *Ethnicity and development: geographical perspectives*. Chichester: J. Wiley.
Enriquez, V. (1992) *From colonial to liberation psychology: the Philippine experience*. Diliman, Quezon City: University of the Philippines Press.
Ensminger, J. (1997) Changing property rights: reconciling formal and informal rights to land in Africa. In: Drobak, J.N. and Nye, J.V.C. (eds.) *The frontiers of the new institutional economics*. San Diego: Academic Press.
Escobal, J. and Torero, M. (2005) Adverse geography and differences in welfare in Peru. In: Kanbur, R. and Venables, A.J. (eds.) (2005) *Spatial inequality and development*. Oxford: Oxford University Press.

Etemadi, F.U. (2001) *Towards inclusive urban governance in Cebu*. Working paper 25 of the urban governance, poverty and partnership programme. Birmingham: University of Birmingham.
Etemadi, F.U. (2000) Civil society participation in city governance in Cebu City. *Environment and Urbanisation*, vol. 12, no. 57, pp. 57-72.
Evans, P.B. (1989) Predatory, developmental, and other state apparatuses: a comparative political economy perspective on the Third World state. *Sociological Forum*, vol. 4, no. 4, pp. 561-587.
Evans, P.B. (1995) *Embedded autonomy: states and industrial transformation*. Princeton: Princeton University Press.
Faasen, F.M. and Vries, M.J.C. de (2000) *Maximising Matching: Supplier Relations of Small & Medium Sized Enterprises in Metro Cebu*. Master thesis at International Economics & Economic Geography, Utrecht University, the Netherlands.
Fafchamps, M. (2003) Ethnicity and networks in African trade. *Contributions to Economic Analysis & Policy*, vol. 2, no. 1, art. 14.
Fenner, B.L. (1985) *Cebu under the Spanish flag, 1521-1896: an economic-social history*. Cebu City: San Carlos Publications.
Forster, M., Jesuit, D. and Smeeding, T. (2005) Regional poverty and income inequality in Central and Eastern Europe: evidence from the Luxembourg income study. In: Kanbur, J. and Venables, A.J. (eds.) (2005) *Spatial inequality and development*. Oxford: Oxford University Press.
Fradera, J.M. (2004) The historical origins of the Philippine economy: a survey of recent research of the Spanish colonial era. *Australian Economic History Review*, vol. 44, no. 3, pp. 307-320.
Friedmann, J. (1997) *World city futures: the role of urban and regional policies in the Asia-Pacific region*. Hong Kong: Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong.
Fujita, M. and Hu, D. (2001) Regional disparity in China 1985-1994: the effects of globalisation and economic liberalisation. *The Annals of Regional Science*, vol. 35, no. 1, pp. 3-37.
Fukuyama, F. (1995) *Trust: The social virtues and the creation of prosperity*. New York: Free Press.
Gallup, J.L., Sachs, J.D. and Mellinger, A.D. (1999) Geography and economic development. *International Regional Science Review*, vol. 22, no. 2: 179-232.
Gambe, A.R. (2000) *Overseas Chinese entrepreneurship and capitalist development in Southeast Asia*. London: Macmillan.
Geertz, C. (1963) *Agricultural involution: the processes of ecological change in Indonesia*. Berkeley: University of California Press.
Gereffi, G. (1999) *A commodity chains framework for analyzing global industries*. Durham: Duke University.
Gereffi, G. and Korzeniewicz, M. (1994) *Commodity chains and global capitalism*. Westport (CT): Praeger.
Gereffi, G., Humphrey, J. and Sturgeon, T. (2005) The governance of global value chains. *Review of International Political Economy*, vol. 12, no. 1, pp. 78-104.
Gibson-Graham, J.K. (2005) Surplus possibilities: postdevelopment and community economies. *Singapore Journal of Tropical Geography*, vol. 26, no. 1, pp. 4-26.

Goldsmith, A.A. (2002) Business associations and better governance in Africa. *Public Administration and Development*, vol. 22, no. 1, pp. 39-49.
Gomez, E.T. and Hsiao, H.H.M. (eds.) (2001) *Chinese business in South-East Asia: contesting cultural explanations, researching entrepreneurship*. Richmond: Curzon.
Grabher, G. (ed.) (1993) *The embedded firm: on the socioeconomics of industrial networks*. London: Routledge.
Granovetter, M.S. (1985) Economic action and social structure: the problem of embeddedness. *The American Journal of Sociology*, vol. 91, no. 3, pp. 481-510.
Granovetter, M.S. (1973) The strength of weak ties. *American Journal of Sociology*, vol. 78, no. 6, pp. 1360-1380.
Gregory, P. and Stuart, R. (1989) *Comparative economic systems*. Boston: Houghton Mifflin.
Greif, A. (1997) On the interrelations and economic implications of economic, social, political, and normative factors: reflection from two late medieval societies. In: Drobak, J.N. and Nye, J.V.C. (eds.) (1997) *The frontiers of the new institutional economics*. San Diego: Academic Press.
Grunsven, L.M.J. van (ed.) (1998) *Regional change in industrializing Asia: regional and local responses to changing competitiveness*. Aldershot: Ashgate Publishing.
Haley, G.T. (1997) A strategic perspective on overseas Chinese networks' decision making. *Management Decision*, vol. 35, no. 8, pp. 587-594.
Hall, P.A. and Soskice, D.W. (2001) *Varieties of capitalism: the institutional foundations of comparative advantage*. Oxford: Oxford University Press.
Handfield, R.B. and Bechtel, C. (2002) The role of trust and relationship structure in improving supply chain responsiveness. *Industrial Marketing Management*, vol. 31, no. 4, pp. 367-382.
Handfield, R. and Nichols, E. (2002) *Supply chain redesign*. Upper Saddle River: Prentice-Hall.
Heartfield, J. (2005) China's comprador capitalism is coming home. *Review of Radical Political Economics*, vol. 37, no. 2, pp. 196-214.
Helmsing, A.H.J. (2003) Local economic development: new generations of actors, policies and instruments. *Public Administration and Development*, vol. 23, no. 1, pp. 67-76.
Helmsing, A.H.J. (2001) *Partnerships, meso-institutions and learning: new local and regional development initiatives in Latin America*. Unpublished paper, June 2001. The Hague: Institute of Social Sciences.
Helvoirt, B.J. van (2008) The diversity of local business networks: experiences from the Philippines. *Journal of Development Alternatives and Area Studies*, vol. 27, no. 3-4.
Helvoirt, B.J. van and Westen, A.C.M. van (2009) Inter-firm relations and regional development: experiences from the Central Visayas, Philippines. *European Journal of East Asian Studies*, vol. 8, no. 1, pp. 91-120.
Helvoirt, B.J. van and Westen, A.C.M. van (2009a) *Configurations of economic relations and regional development: implications of cross-regional comparison in the Philippines*. Paper presented at the Regional Studies Association Annual Conference, April 6-8, Leuven, Belgium.
Henderson, J.V., Shalizi, Z. and Venables, A.J. (2001) Geography and development. *Journal of Economic Geography*, vol. 1, no. 1, pp. 81-105.
Henderson, J., Dicken, P., Hess, M., Coe, N. and Yeung, H.W.C. (2002) Global production networks and the analysis of economic development. *Review of International Political Economy*, vol. 9, no. 3, pp. 436-464.

Hendriks, M. (1994) Trade relations and interlinked credit in the Philippines. In: Bouman, F.J.A. and Hospes, O. (1994) *Financial landscapes reconstructed: the fine art of mapping development*. Boulder: Westview Press.
Herrigel, G. (1996) *Industrial constructions*. Cambridge: Cambridge University Press.
Higgins, B. and Savoie, D.J. (1995) *Regional development theories and their application*. New Brunswick: Transaction Publishers.
Hill, H. (2002) Spatial disparities in developing East Asia: a survey. *Asian-Pacific Economic Literature*, vol. 16, no. 1, pp. 10-35.
Hill, H. (2000) *Intra-country regional disparities*. Paper for presentation at the Second Asian Development Forum, June 6-8, 2000.
Hill, H., Balisacan, A.M. and Piza, S.F.A. (2007) The Philippines and regional development. In: Balisacan, A.M. and Hill, H. (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar Publishing.
Hodgson, G.M. (2006) What are institutions? *Journal of Economic Issues*, vol. 40, no. 1, pp. 1-25.
Hollingsworth, J.R. (1998) New perspectives on the spatial dimensions of economic coordination: tensions between globalisation and social systems of production. *Review of International Political Economy*, vol. 5, no. 3, pp. 482-507.
Hollingsworth, J.R. and Boyer, R. (eds.) (1997) *Contemporary capitalism: the embeddedness of institutions*. Cambridge: Cambridge University Press.
Holmström, M. (2001) Business systems in India. In: Jakobsen, G. and Torp, J.E. (eds.) (2001) *Understanding business systems in the South*. London: Sage Publications.
Hooghe, L. and Marks, G. (2001) *Multi-level governance and European integration*. Lanham: Rowman & Littlefield.
Huisman, H. (1991) *Planning environment and rural development in Indonesia: some key aspects*. Yogyakarta: Faculty of Geography, Gadjah Mada University.
Humphrey, J. and Schmitz, H. (2001) Governance in global value chains. *IDS Bulletin*, vol. 32, no. 3, pp. 1-16.
Hutchcroft, P.D. (2001) Centralisation and decentralisation in administration and politics: assessing territorial dimensions of authority and power. *Governance*, vol. 14, no. 1, pp. 23-53.
Hutchcroft, P.D. (2000) Colonial masters, national politicos, and provincial lords: central authority and local autonomy in the American Philippines, 1900-1913. *The Journal of Asian Studies*, vol. 59, no. 2, pp. 277-306.
Hutchcroft, P.D. (1999) After the fall: prospects for political and institutional reform in post-crisis Thailand and the Philippines. *Government and Opposition*, vol. 34, no. 4, pp. 473-497.
Hutchcroft, P.D. (1998) *Booty capitalism: politics of banking in the Philippines*. Ithaca: Cornell University Press.
Hutchcroft, P.D. (1994) Booty capitalism: business-government relations in the Philippines. In: MacIntyre, A.J. (1994) *Business and government in industrializing Asia*. Ithaca: Cornell University Press.
Hutchcroft, P.D. (1991) Oligarchs and cronies in the Philippine state: the politics of patrimonial plunder. *World Politics*, vol. 43, no. 3, pp. 414-450.
Hutchison, J. (1997) Pressure on policies in the Philippines. In: Rodan, G., Hewison, K. and Robison, R. (eds.) (1997) *The political economy of South-East Asia*. Melbourne: Oxford University Press.

Iglesias, S. (2003). Colonial and indigenous influences on local power structure in the Philippines. *Asia Europe Journal*, vol. 1, no. 4, pp. 541-549.
Iterson, A. van and Olie, R. (1992) European business systems: the Dutch case. In: Whitley, R.D. (ed.) (1994) *European business systems: firms and markets in their national contexts*. London: Sage Publications.
Jackson, G. and Deeg, R. (2006) *How many varieties of capitalism? Comparing the comparative institutional analyses of capitalist diversity*. MPIfG Discussion Paper 06/02. Cologne: Max Planck Institute for the Study of Societies.
Jakobsen, G. and Torp, J.E. (2001) Business in development: an introduction. In: Jakobsen, G. and Torp, J.E. (eds.) (2001) *Understanding business systems in developing countries*. London: Sage Publications.
Jansen, L. (2007) *The promises and dangers of tourism: an analysis of cluster theory as applied to tourism development in Bohol, the Philippines*. Master thesis at International Development Studies, Utrecht University, the Netherlands.
Jayasuriya, K. (ed.) (2004) *Asian regional governance: crisis and change*. New York: Routledge.
Jessop, B. (2003) *State theory: putting the capitalist state in its place*. Cambridge: Polity Press.
Jessop, B. and Sum, N.L. (2008) *Towards a cultural political economy*. Cheltenham: Edward Elgar Publishing.
Johnson, C.A. (1995) *Japan: who governs? The rise of the developmental state*. New York: Norton.
Joskow, P.L. (2003) *New institutional economics: a report card*. MIT paper. Cambridge: Massachusetts Institute of Technology.
Kanbur, R. and Venables, A.J. (2005) *Rising spatial disparities and development*. UNU Policy Brief, no. 3, 2005.
Kanbur, R. and Zhang, X. (2005) Fifty years of regional inequality in China: a journey through central planning, reform and openness. *Review of Development Economics*, vol. 9, no. 1, pp. 87-106.
Keating, M. (1991) *Comparative urban politics*. Aldershot: Edward Elgar.
Keating, M., Loughlin, J. and Deschouwer, K. (2003) *Culture, institutions and economic development: a study of eight European regions*. Cheltenham: Edward Elgar.
Kelly, P.F. (2000) *Landscapes of globalisation: human geographies of economic change in the Philippines*. London: Routledge.
Kelly, P.F. (1997) Globalisation, power and the politics of scale in the Philippines. *Geoforum*, vol. 28, no. 2, pp. 151-171.
Kerkvliet, B.J.T. (2002) *Everyday politics in the Philippines: class and status relations in a central Luzon village*. Lanham: Rowman & Littlefield.
Kerkvliet, B.J.T. (1995) Toward a more comprehensive analysis of Philippine politics: beyond the patron-client, factional framework. *Journal of Southeast Asian Studies*, vol. 26, no. 2, pp. 401-419.
Keynes, J.M. (1936) *The General theory of employment, interest and money*. Cambridge: Harcourt, Brace and Company.
Knack, S. and Keefer, P. (1997) Does social capital have an economic payoff? A cross-country investigation. *The Quarterly Journal of Economics*, vol. 112, no. 4, pp. 1251-1288.
Knorringa, P. (1999) Agra: an old cluster facing new competition. *World Development*, vol. 27, no. 9, pp. 1587-1604.
Knorringa, P. (1996) *Economics of collaboration: Indian shoemakers between markets and hierarchy*. New Dehli: Sage.

Kogut, B., Shan, W. and Walker, G. (1993) Knowledge in the network and the network as knowledge. The structuring of new industries. In: Grabher, G. (ed.) (1993) *The embedded firm: on the socioeconomics of industrial networks*. London: Routledge.
Krugman, P. (1997) *Pop internationalism*. Cambridge: MIT Press.
Krugman, P.R. (1991) *Geography and trade*. Cambridge: MIT Press.
Krugman, P. and Venables, A.J. (1995) *Globalisation and the inequality of nations*. National Bureau of Economic Research (NBER) Working Paper no. 5098, April 1995.
Lambooy, J.G. (1997) Knowledge production, organisation and agglomeration economies. *GeoJournal*, vol. 41, no. 4, pp. 293-300.
Lane, C. (2007) National capitalisms and global production networks: an analysis of their interaction in two global industries. *Socio-Economic Review*, vol. 6, no. 1, pp. 227-260.
Lane, C. (1992) European business systems: Britain and Germany compared. In: Whitley, R.D. (ed.) (1994) *European business systems: firms and markets in their national contexts*. London: Sage Publications.
Larkin, J.A. (1993) *Sugar and the origins of modern Philippine society*. Berkeley: University of California Press.
Larkin, J.A. (1982) Philippine history reconsidered: a socioeconomic perspective. *The American Historical Review*, vol. 87, no. 3, pp. 595-628.
Latour, B. (2005) *Reassembling the social: an introduction into actor-network-theory*. New York: Oxford University Press.
Laurel, J.P. (1926) *Local government in the Philippine Islands*. Manila: La Pilarica Press.
Law, L. (1997) Cebu and *Ceboom*: the political place of globalisation in a Philippine city. In: Rimmer, P.J. (ed.) (1997) *Pacific Rim development: integration and globalisation in the Asia-Pacific economy*. St. Leonards: Allen & Unwin Australia Pty Ltd.
Lee, C.M., Miller, W.F., Hancock, M.G. and Rowen, H.S. (eds.) (2000) *The Silicon Valley edge: a habitat for innovation and entrepreneurship*. Stanford: Stanford University Press.
Liebowitz, S.J. and Margolis, S.E. (1995) Path dependence, lock-in, and history. *Journal of Law, Economics and Organisation*, vol. 11, no. 2, pp. 205-226.
Lim, L. (1996) Southeast Asian business systems: the dynamics of diversity. In: Safarian, A.E. and Dobson, W. (eds.) *East Asian capitalism: diversity and dynamism*. Toronto: University of Toronto Press.
Lim, L.Y.C. and Stern, A. (2002) State power and private profit: the political economy of corruption in Southeast Asia. *Asian-Pacific Economic Literature*, vol. 16, no. 2, pp. 18-52.
Limão, N. and Venables, A.J. (1999) Infrastructure, geographical disadvantage, and transport costs. *The World Bank Economic Review*, vol. 15, no. 3, pp. 451-479.
Liu, H. (1998) Old linkages, new networks: the globalisation of overseas Chinese voluntary associations and its implications. *The China Quarterly*, no. 155, pp. 582-609.
Llanto, G.M. (2007) Infrastructure and regional growth. In: Balisacan, A.M. and Hill, H. (eds.) (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar Publishing.
Lopez-Gonzaga, V.B. (1991) *The Negrense: a social history of an elite class*. Bacolod City: Institute for Social Research and Development, University of St. La Salle.
Luhmann, N. (1979) *Trust and power*. Chichester: Wiley.
Mackie, J.A.C. (1999) Entrepreneurship and Institutions: the Southeast Asian experience. In: Barlow, C. (ed.) (1999) *Institutions and economic change in Southeast Asia: the context of development from the 1960s to the 1990s*. Cheltenham: Edward Elgar Publishing.

MacLeod, G. (2001) New regionalism reconsidered: globalisation and the remaking of political economic space. *International Journal of Urban and Regional Research*, vol. 25, no. 4, pp. 804-829.
MacLeod, G. and Goodwin, M. (1999) Space, scale and state strategy: rethinking urban and regional governance. *Progress in Human Geography*, vol. 23, no. 4, pp. 503-527.
Manasan, R.G. (2007) Decentralisation and the financing of regional development. In: Balisacan, A.M. and Hill, H. (eds.) (2007) *The dynamics of regional development: the Philippines in East Asia*. Cheltenham: Edward Elgar Publishing.
Manasan, R.G. and Chatterjee, S. (2003) Regional development. In: Balisacan, A.M. and Hill, H. (eds.) (2003) *The Philippine economy: development, policies and challenges*. New York: Oxford University Press.
Markillie, P. (1996) The miracle they call Ceboom. *The Economist*, vol. 339, no. 7965, pp. 14-16.
Markusen, A. (1996) Sticky places in slippery space: a typology of industrial districts. *Economic Geography*, vol. 72, no. 3, pp. 293-313.
Martin, R. (2000) Institutional approaches in economic geography. In: Sheppard, E. and Barnes. T.J. (eds.) (2000) *A companion to economic geography*. Oxford: Blackwell Publishers.
Maskell, P. (2001) Towards a knowledge-based theory of the geographical cluster. *Industrial and Corporate Change*, vol. 10, no. 4, pp. 921-943.
Maskell, P. and Malmberg, A. (1999) Localised learning and industrial competitiveness. *Cambridge Journal of Economics*, vol. 23, no. 2, pp. 167-185.
Massey, D. (1984) *Spatial divisions of labour*. London: Macmillan.
McCoy, A.W. (ed.) (1994) *An anarchy of families: state and family in the Philippines*. Madison: University of Wisconsin Centre for Southeast Asian Studies.
McCoy, A.W. (1982) A queen dies slowly: the rise and decline of Iloilo City. In: McCoy, A.W. and de Jesus, E.D. (eds.) (1982) *Philippine social history: global trade and local transformations*. Quezon City: Ateneo de Manila University Press.
McGee, T.G. (1998) Globalisation and rural-urban relations in the developing world. In: Lo, F.C. and Yeung, Y.M. (eds.) (1998) *Globalisation and the world of large cities*. New York: United Nations University Press.
McHale, T.R. (1959) *An econecological approach to development: the Philippines*. PhD dissertation, Harvard University.
Migdal, J.S. (2001) *State in society: studying how states and societies transform and constitute one another*. New York: Cambridge University Press.
Mitchell, K. (2000) Networks of ethnicity. In: Sheppard, E.S. and Barnes, T.J. (eds.) *A companion to economic geography*. Oxford: Blackwell, pp. 392-408.
Mojares, R.B. (1994) The dream goes on and on: three generations of the Osmeñas, 1906-1990. In: McCoy, A.W. (ed.) (1994) *An anarchy of families: state and family in the Philippines*. Quezon City: Ateneo de Manila University Press.
Mojares, R.B. (1986) *The man who would be president: Serging Osmeña and Philippine politics*. Cebu City: Maria Cacao Publishers.
Moore, M. and Hamalai, L. (1993) Economic liberalisation, political pluralism and business associations in developing countries. *World Development*, vol. 21, no. 12, pp. 1895-1912.
Morada, N.M. and Tadem, T.S.E. (2006) *Philippine politics and governance: an introduction*. Diliman, Quezon City: University of the Philippines.

Mossberger, K. and Stoker, G. (2001) The evolution of urban regime theory. *Urban Affairs Review*, vol. 36, no. 6, pp. 810-835.
Muijzenberg, O. van den, Streefland, P., Wolters, W. (eds.) (1982) *Focus on the region in Asia*. Rotterdam: Comparative Asian Studies Program, Erasmus University.
Muijzenberg, O. van den and Naerssen, T. van (2005) Designers or directors of urban development? In: Nas, P.J.M. (ed.) (2005) *Directors of urban change in Asia*. London: Routledge.
Mulder, M. and Oldewarris, L. (2008) *Business associations in Metro Cebu*. Master thesis at International Development Studies, Utrecht University, the Netherlands.
Nadvi, K. (1999) *Facing the new competition: business associations in developing country industrial clusters*. Geneva: International Institute for Labour Studies.
Naerssen, T. van (2004). Cebu City in the global arena: its governance and urban development policy. *Philippine Quarterly of Culture and Society*, vol. 32, no. 3-4, pp. 179-202.
Narayan, D. (1999) *Bonds and bridges: social capital and poverty*. Policy Research Working Paper 2167. Washington, D.C.: Poverty Reduction and Economic Management Network, the World Bank.
Nelson, R.R. and Winter, S.G. (1982) *An evolutionary theory of economic change*. Cambridge: Harvard University Press.
Nishida, J.M. and Redding, S.G. (1992) Firm development and diversification strategies as products of economic cultures: the Japanese and Hong Kong textile industries. In: Whitley, R.D. (ed.) (1992) *European business systems: firms and markets in their national contexts*. London: Sage Publications.
North, D.C. (1990) *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
Ohmae, K. (1990) *The borderless world*. New York: Harper.
Olson, M. (1997) The new institutional economics: the collective choice approach to economic development. In: Clague, C. (ed.) (1997) *Institutions and economic development: growth and governance in less-developed and post-socialist countries*. Baltimore: John Hopkins University Press.
Ombion, K.G. (2004) Negros in Cojuangco's grips. *Bulatlat*, vol. III, no. 9, retrieved from www.bulatlat.com on 11-06-2007.
Omohundro, J.T. (1981) *Chinese merchant families in Iloilo: commerce and kin in a central Philippine city*. Quezon City: Ateneo de Manila University Press.
Oosterhout, A.T.H. van (1985) *Region and reign: regionale ongelijkheid en regionaal beleid in de Filipijnen*. PhD dissertation at Geografisch en Planologisch Instituut, Katholieke Universiteit Nijmegen, the Netherlands.
Oosterhout, H.J.Z. van (2005) *Where does the money go? From policy assumptions to financial behavior at the grassroots*. PhD dissertation at International Development Studies, Utrecht University, the Netherlands.
Orrù, M., Biggart, N.W. and Hamilton, G.G. (1997) *The economic organisation of East Asian capitalism*. Thousand Oaks: Sage Publications.
Pater, B. de, Groote, P. and Terlouw, K. (eds.) (2002) *Denken over regio's: geografische perspectieven*. Bussum: Uitgeverij Coutinho.
PCIJ (2001) *Political clans make a comeback*. Online publication, retrieved from www.pcij.org on 12-10-2007.

PCIJ (1998) *The politics of water: Bohol frets while Cebu thirsts*. Online publication, retrieved from www.pcij.org on 11-14-2007.
Pearl2 Project (2007) *State of the sector reports*. Makati City: Pearl2 Project.
Pedersen, P.O. and McCormick, D. (1999) African business systems in a globalizing world. *The Journal of Modern African Studies*, vol. 37, no. 1, 109-135.
Pempel, T.J. (1998) *Regime shift: comparative dynamics of the Japanese political economy*. Ithaca: Cornell University Press.
Pernia, E.M., Paderanga, C.W., Hermoso, V.P. and Associates (1983) *The spatial and urban dimensions of development in the Philippines*. Manila: Philippine Institute for Development Studies.
Piore, M.J. and Sabel, C.F. (1984) *The second industrial divide: possibilities for prosperity*. New York: Basic Books.
Plas, H.K. (2007) *Analysis of the commodity chain of the Negros Oriental sugar industry*. Master thesis at International Development Studies, Utrecht University, the Netherlands.
Polanyi, K. (1944) *The great transformation: economic and political origins of our time*. Boston: Beacon Press.
Porter, M.E. (1985) *Competitive advantage*. New York: The Free Press.
Porter, M.E. (1990) *The competitive advantage of nations*. New York: Free Press.
Porter, M.E. (2000) Location, competition, and economic development: local clusters in a global economy. *Economic Development Quarterly*, vol. 14, no. 1, pp. 15-34.
Portes, A. and Smith, L.D. (2008) Institutions and development in Latin America: a comparative analysis. *Studies in Comparative International Development*, vol. 43, no. 2, pp. 101-128.
Province of Bohol (2003) *Medium-term development plan cy 2004-2009*. Tagbilaran City: Province of Bohol.
Province of Negros Oriental (2003) *Provincial development and investment plan 2003-2007*. Dumaguete City: Province of Negros Oriental.
Province of Negros Oriental (various years) *Annual performance reports*. Dumaguete City: Province of Negros Oriental.
Prybyla, J.S. (1998) Book review of 'contemporary capitalism: the embeddedness of institutions'. *Journal of Comparative Economics*, vol. 26, no.1, pp. 196-200.
Puga, D. and Venables, A.J. (1999) Agglomeration and economic development: import substitution versus trade liberalisation. *The Economic Journal*, vol. 109, no. 455, pp. 292-311.
Putnam, R.D. (2000) *Bowling alone: the collapse and revival of American community*. New York: Simon & Schuster.
Putnam, R.D. (1995) Bowling alone: America's declining social capital. *Journal of Democracy*, vol. 6, no. 1, January 1995.
Putnam, R.D. (1993) The prosperous community: social capital and public life. *The American Prospect*, vol. 4, no. 13, pp. 35-42.
Rademakers, M.F.L. and Valkengoed, J.R. van (2001) The institutional embeddedness of inter-firm relations in Indonesia. In: Jakobsen, G. and Torp, J.E. (eds.) (2001) *Understanding business systems in the South*. London: Sage Publications.
Redding, G. (2005) The thick description and comparison of societal systems of capitalism. *Journal of International Business Studies*, vol. 36, 123-155.
Redding, G. (1995) Overseas Chinese networks: understanding the enigma. *Long Range Planning*, vol. 28, no. 1, pp. 61-69.

Relampagos, R. (2002) Ecotourism in the Bohol Province: the Philippines. In: Hundloe, T. (ed.) (2002) *Linking green productivity in ecotourism: experiences in Asia Pacific region*. Tokyo: Asian Productivity Organisation.
Ricardo, D. (1817) *On the principles of political economy and taxation*. Cambridge: Cambridge University Press.
Rigg, J. (2001) *More than the soil: rural change in Southeast Asia*. Harlow: Pearson Education.
Ring, P. and Ven, A. van de (1994) Developmental processes of cooperative interorganisational relationships. *The Academy of Management Review*, vol. 19, no. 1, pp. 90-118.
Rivera, T.C. (1994) *Landlords and capitalists: class, family and state in Philippine manufacturing*. Quezon City: University of the Philippines Press and Centre for Integrative and Development Studies in cooperation with PCPS.
Rogowski, R. (1988) Structure, growth and power. In: Bates, R. (ed.) (1988) *Toward a political economy of development*. Berkeley: University of California Press.
Rood, S. (1998) An assessment of the state of knowledge concerning decentralized governance under the Philippines' 1991 Local Government Code. *Philippine Journal of Public Administration*, no. 1 and 2.
Rutten, M. (2003) *Rural capitalists in Asia: a comparative analysis on India, Indonesia and Malaysia*. London: Routledge.
Sachs, J.D. (2003) Institutions matter, but not for everything. *Finance and Development*, vol. 40, no. 2, pp. 38-41.
Sachs, J.D. and Warner, A.M. (2001) The curse of natural resources. *European Economic Review*, vol. 45, no. 4-6, pp. 827-838.
Sahn, D. and Stifel, D. (2003) Urban-rural inequality in living standards in Africa. *Journal of African Economies*, vol. 12, no. 1, pp. 500-532.
Sajor, E.E. (2003) Globalisation and the urban property boom in Metro Cebu, Philippines. *Development and Change*, vol. 34, no. 4, pp. 713-742.
Sajor, E.E. (2001) *The real estate boom in the 1990s and land use allocation for socialized housing in Metro Cebu, Philippines*. UMP-Asia Occasional Paper No. 52. Pathumthani: Urban Management Programme, Regional Office for Asia and the Pacific.
Saniel, J.D. (1996) Cebooooom: development for whom? The high cost of development aggression. *Human Rights Forum*, vol. 6, no. 1, pp. 5-18.
Savitch, H.V. and Kantor, P. (2002) *Cities in the international marketplace*. Princeton: Princeton University Press.
Saxenian, A.L. (2007) *The new argonauts: regional advantage in a global economy*. Cambridge: Harvard University Press.
Saxenian, A.L. (1994) *Regional advantage: culture and competition in Silicon Valley and Route 128*. Cambridge: Harvard University Press.
Schamp, E. (2003) Raum, interaktion and institution. Anmerkungen zu drie grundperspektiven der Deutschen wirtschaftgeographie. *Zeitschrift für Wirtschaftgeographie*, vol. 37, no. 3-4, pp. 145-158.
Schaumburg-Müller, H. (2001) Firms in the South: Interactions between national business systems and the global economy. In: Jakobsen, G. and Torp, J.E. (eds.) (2001) *Understanding business systems in the South*. London: Sage Publications.
Schmitz, H. and Knorringa, P. (2000) Learning from global buyers. *Journal of Development Studies*, vol. 37, no. 2, pp. 177-205.

Schmitz, H. (1999) From ascribed to earned trust in exporting clusters. *Journal of International Economics*, vol. 48, no. 1, pp. 139-150.
Schmitz, H. (1999a) Global competition and local cooperation: success and failure in the Sinos Valley, Brazil. *World Development*, vol. 27, no. 9, pp. 1627-1650.
Schmitz, H. and Nadvi. K. (1999) Clustering and industrialisation: introduction. *World Development*, vol. 27, no. 9, pp. 1503-1514.
Schulpen, L. and Gibbon, P. (2002) Private sector development: policies, practices and problems. *World Development*, vol. 30, no. 1, pp. 1-15.
Shankar, R. and Shah, A. (2001) *Bridging the economic divide within nations: a scorecard on the performance of regional development policies in reducing regional income disparities*. Policy Research Working Paper November 2001, The World Bank.
Scott, A.J. (1998) *Regions and the world economy: the coming shape of global production, competition and political order*. Oxford: Oxford University Press.
Scott, A. (1996) Regional motors of the global economy. *Futures*, vol. 28, no. 5, pp. 391-411.
Scott, A.J. and Storper, M. (2003) Regions, globalisation, development. *Regional Studies*, vol. 37. 6&7, pp. 579-593, August/October 2003.
Short, J. (1996) *The urban order*. Oxford: Blackwell Publishers.
Sidel, J.T. (1999) *Capital, coercion and crime: bossism in the Philippines*. Stanford: Stanford University Press.
Sidel, J.T. (1998) The underside of progress: land, labour, and violence in two Philippine growth zones, 1985-1995. *Bulletin of Concerned Asian Scholars*, vol. 30, no. 1, pp. 3-12.
Sidel, J.T. (1995) *Coercion, capital, and the post-colonial state: bossism in the postwar Philippines*. PhD dissertation, Cornell University.
Sidel, J.T. (2005) Bossism and democracy in the Philippines, Thailand, and Indonesia: towards an alternative framework for the study of 'local strongmen'. In: Harriss, J., Stokke, K. and Tornquist, O. (eds.) (2005) *Politicising democracy: local politics and democratisation in developing countries*. Basingtoke: Palgrave Macmillan.
Singh, N. and Srinivasan, T.N. (2002) *Indian federalism, economic reform, and globalisation*. UC Santa Cruz Centre for International Economics Working Paper No. 02-13.
Smakman, F. (2003) *Local industry in global networks: changing competitiveness, corporate strategies and pathways of development in Singapore and Malaysia's garment industry*. PhD dissertation, Utrecht University, the Netherlands.
Smith, A. (1776) *An inquiry into the nature and the causes of the wealth of nations*. Oxford: Clarendon Press.
Solow, R. (1995) But verify. *The New Republic*, September 11, p. 36.
Steiner, M. (ed.) (1998) *Clusters and regional specialisation: on geography, technology and networks*. London: Pion.
Stoker, G. (1995) Regime theory and urban politics. In: Judge, D., Stoker, G. and Wolman, H. (eds.) (1995) *Theories of urban politics*. London: Sage.
Stoker, G. and Mossberger, K. (1994) Urban regime theory in comparative perspective. *Environment and Planning C: Government and Policy*, vol. 12, no. 2, pp. 195-212.
Stone, C.N. (1989) *Regime politics: governing Atlanta, 1946-1988*. Lawrence: University Press of Kansas.
Storper, M. (1997) *The regional world: territorial development in a global economy*. New York: Guilford Press.

Storper, M. (1995) The resurgence of regional economies, ten years later: the region as a nexus of untraded interdependencies. *European Urban and Regional Studies*, vol. 2, no.3, pp. 191-221.
Sturgeon, T. (2000) *How do we define value chains and production networks?* MIT IPC Globalisation Working Paper 00-010. Cambridge: Massachusetts Institute of Technology.
Subianto, B. (2001) From marginal traders to capitalists: Chinese-Filipinos join the mainstream. In: Abad, R.G. (ed.) (2001) *The Asian face of globalisation: reconstructing identities, institutions and resources*. The Papers of the 2001 API Fellows. Tokyo: The Nippon Foundation.
Sunley, P. (2008) Relational economic geography: a partial understanding or a new paradigm? *Economic Geography*, vol. 84, no. 1, pp. 1-26.
Swyngedouw, E. (2004) Globalisation or 'glocalisation'? Networks, territories and rescaling. *Cambridge Review of International Affairs*, vol. 17, no. 1, pp. 25-48.
Szanton, M.C. (1972) *A right to survive: subsistence marketing in a lowland Philippine town*. University Park: Pennsylvania State University.
The Economist (1997) Oh, for the old Cadillac days: the Philippines. *The Economist*, June 1997.
Tickell, A. and Peck, J.A. (1995) Social regulation after Fordism: regulation theory, neo-liberalism and the global-local nexus. *Economy and Society*, vol. 24, no. 3, pp. 357-386.
Titus, M. and Burgers, P. (2008) *Rural livelihoods, resources and coping with crisis in Indonesia*. Amsterdam: Amsterdam University Press.
University of San Carlos (2004) *Cebu: a demographic and socioeconomic profile based on the 2000 census*. Cebu City: Office of Population Studies, University of San Carlos.
University of San Carlos (1992) *Panglao community needs assessment*. Cebu City: Area Research and Training Centre, University of San Carlos.
Velinga, M. (1999) *The changing role of the state in Latin America*. Boulder: Westview Press.
Verkoren, O. (2002) *Terug naar de regio: Beschouwingen over regionale/lokale ontwikkeling in Spaanssprekend Latijns-Amerika*. Utrecht: Faculty of Geosciences, Utrecht University.
Visser, E.J. & Boschma, R.A. (2002) *Clusters and networks as learning devices for individual firms*. Paper presented at the Euram-conference in Stockholm, May 2002.
Wad, P. (2001) Business systems and sector dynamics: the case of the Malaysian auto industry. In: Jakobsen, G. and Torp, J.E. (eds.) (2001) *Understanding business systems in the South*. London: Sage Publications.
Wallerstein, I.M. (1979) *The capitalist world-economy*. Cambridge: Cambridge University Press.
Wan, G., Lu, M. and Chen, Z. (2007) Globalisation and regional income inequality: empirical evidence from within China. *Review of Income and Wealth*, vol. 53, no. 1, pp. 35-59.
Weber, M. (1981) *General economic history*. New Brunswick: Transaction Books.
Weber, M. (1978) *Economy and society: an outline of interpretive sociology*. Berkeley: University of California Press.
Weightman, G.H. (1967) The Philippine-Chinese image of the Filipino. *Pacific Affairs*, vol. 40, no. 3-4, pp. 315-323.
Whitley, R.D. (2005) How national are business systems? The role of states and complementary institutions in standardizing systems of economic coordination and control at the national level. In: Morgan, G., Whitley, R. and Moen, E. (eds.) *Changing*

*capitalisms? Internationalisation, institutional change, and systems of economic organisation*. Oxford: Oxford University Press, 190-231.
Whitley, R.D. (2001) Developing capitalisms: the comparative analysis of emerging business systems in the South. In: Jakobsen, J. and Torp, J.E. (eds.) (2001) *Understanding business systems in developing countries*. London: Sage Publications.
Whitley, R.D. (1999) *Divergent capitalisms: the social structuring and change of business systems*. Oxford: Oxford University Press.
Whitley, R.D. (1998) Internationalisation and varieties of capitalism: the limited effects of crossnational coordination of economic activities on the nature of business systems. *Review of International Political Economy*, vol. 5, no. 3, pp. 445-481.
Whitley, R.D. (1992) *Business systems in East Asia: firms, markets and societies*. London: Sage Publications.
Whitley, R.D. (ed.) (1992a) *European business systems: firms and markets in their national contexts*. London: Sage Publications.
Whitley, R.D. (1996) Business systems and global commodity chains: competing or complementary forms of economic organisation? *Competition and Change*, vol. 1.
Whitley, R.D. (1996a) *Continuity and change in East Asian capitalism: the limited effects of internationalisation and domestic change on the business systems of Japan, Korea and Taiwan*. Discussion Draft Paper. Manchester: Manchester Business School, University of Manchester.
Whitley, R.D. (1996b) Business systems and global commodity chains: competing or complementary forms of economic organisation? *Competition and Change*, vol. 1, no. 4, pp. 411-425.
Whiteley, P.F. (2000) Economic growth and social capital. *Political Studies*, vol. 48, no. 3, pp. 443-466.
Williamson, O.E. (1985) *The economic institutions of capitalism: firms, markets, relational contracting*. New York: Free Press.
Williamson, O.E. (1971) The vertical integration of production: market failure considerations. *The American Economic Review*, vol. 61, no. 2, pp. 112-123.
Wong, S. (1985) The Chinese family firm: a model. *The British Journal of Sociology*, vol. 36, no. 1, pp. 58-72.
Woolcock, M. (2001) The place of social capital in understanding social and economic outcomes. *ISUMA Canadian Journal of Policy Research*, vol. 2, no. 1, pp. 11-17.
World Bank (1993) *The East Asian miracle: economic growth and public policy*. New York: Oxford University Press.
Yeung, H.W.C. (2006) Change and continuity in Southeast Asian ethnic Chinese business. *Asia Pacific Journal of Management*, vol. 23, no. 3, pp. 229-254.
Yeung, H.W.C. (2002) *Towards a relational economic geography: old wine in new bottles?* Paper presented at the 98th Annual Meeting of the Association of American Geographers, Los Angeles, USA, 19-23 March 2002.
Yeung, H.W.C. (2000) Organizing 'the firm' in industrial geography 1: networks, institutions, and regional development. *Progress in Human Geography*, vol. 24, no. 2, pp. 301-315.
Yeung, H.W.C. (2000a) The dynamics of Asian business systems in a globalizing era. *Review of International Political Economy*, vol. 7, no. 1, pp. 399-432.
Yeung, I.Y.M. and Tung, R.L. (1996) Achieving business success in Confucian societies: the importance of *guanxi* (connections). *Organisational Dynamics*, vol. 25, no. 2, pp. 54-65.

Yoshihara, K. (1988) *The rise of ersatz capitalism in South East Asia*. Singapore: Oxford University Press.
Zenger, T.R., Lazzarini, S.G. and Poppo, L. (2001) *Informal and formal organisation in new institutional economics*. SSRN Working Paper Series, October 2001.
Zucker, L. (1986) The production of trust: institutional sources of economic structure. In: Shaw, B. & Cummings, L. (eds.) (1986) *Research in organisational behavior*. Greenwich: JAI Press.

**Newspapers (various articles)**

Manila Standard Today, Philippine Daily Inquirer, The Philippine Star, Cebu Daily News, Sun Star Cebu, The Freeman, Dumaguete Post, Sun Star Dumaguete, The Negros Chronicle, The Visayan Daily Star, Bohol Sunday Post, The Bohol Chronicle, The Bohol Standard.

**Internet sources**

Asian Development Bank: http://www.adb.org
Bureau of Agricultural Statistics: http://www.bas.gov.ph
Bulatlat: http://www.bulatlat.com
Cebu Chamber of Commerce and Industry: http://www.cebubusinesswebportal.com
Cebu Investments Promotion Centre: http://www.cebuinvest.com
Department of Agriculture: http://www.da.gov.ph
Department of Trade and Industry: http://www.dti.gov.ph
Information site on Philippine politics and government: http://www.i-site.ph
Mactan-Cebu International Airport Authority: http://www.mactan-cebuairport.com.ph
National Economic Development Authority: http://www.neda.gov.ph
National Statistical Coordination Board: http://www.nscb.gov.ph
National Statistics Office: http://www.nso.gov.ph
Office of the President: http://www.op.gov.ph
Pearl2 Project: http://pearl2.net
PHILEXPORT Cebu: http://www.philexportcebu.org
Philippine Centre for Investigative Journalism: http://www.pcij.org
Philippine Economic Zone Authority: http://www.peza.gov.ph
Philippine Information Agency: http://www.pia.gov.ph
Philippine Ports Authority: http://www.ppa.com.ph
Sugar Regulatory Administration: http://www.rsa.gov.ph
The World Bank: http://www.worldbank.org
United Nations: http://www.un.org

## 1 Administrative map of the Philippines

***Map A1:*** Administrative map of the Philippines

## 1 Six major types of business systems

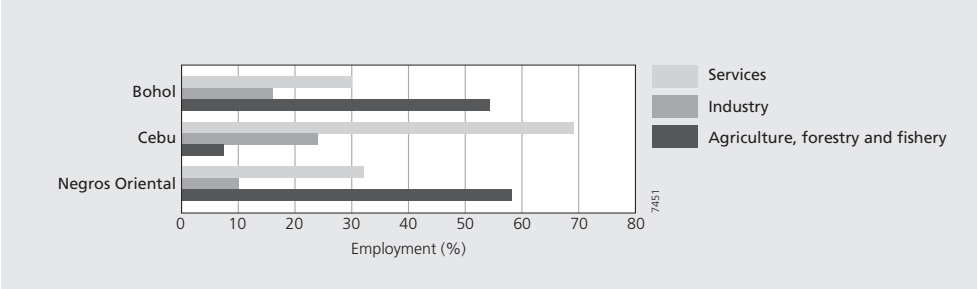
***Table A1:*** Major types of business systems

| Business-system characteristics | Businesssystem type | Coordinated industrial district | Compartmentalized | State organized | Collaborative | Highly coordinated |
|---|---|---|---|---|---|---|
| **Ownership coordination** | | | | | | |
| Owner control | Direct | Direct | Market | Direct | Alliance | Alliance |
| Ownership integration of production chains | Low | Low | High | High | High | Some |
| Ownership integration of sectors | Low | Low | High | Some to high | Limited | Limited |
| **Non-ownership coordination** | | | | | | |
| Alliance coordination of production chains | Low | Limited | Low | Low | Limited | High |
| Collaboration between competitors | Low | Some | Low | Low | High | High |
| Alliance coordination of sectors | Low | Low | Low | Low | Low | Some |
| **Employment relations** | | | | | | |
| Employer-employee interdependence | Low | Some | Low | Low | Some | High |
| Delegation to employees | Low | Some | Low | Low | High | Considerable |

Source: Whitley, 1999

## 3 Indicators of the key sectors

***Figure A1:*** Provincial employment by sector (2003)




Source: National Statistics Office, 2003

***Table A2:*** Indicators (est.) of Cebu's key traditional export-oriented manufacturing industries (2006)

| Industry | Local industry size | Employment | % of national export | Main export market |
|---|---|---|---|---|
| Furniture | 300 firms | 80,000 direct workers and 140,000 indirect workers via subcontractors | 60% of total Philippine export, or US$165 million | US (70%) |
| Gifts, toys and housewares | 150 firms | 25,000 direct and indirect workers via subcontractors | 50% of total Philippine export,or US$80 million | US (48%) |
| Fashion accessories | 140 firms | 10,000 direct workers and 1,500 subcontractors | 80% of total Philippine export, or US$52 million | US (23%) |

Sources: Pearl2 State of the Sector Reports, 2007; PHILEXPORT Cebu

## 4 List of interviewees by province, organisation and function

***Table A3:*** List of interviewees

| Bohol | |
|---|---|
| *Organisation* | *Function of interviewee(s)* |
| **Firms** | |
| Alturas Group of Companies | Vice-president and general manager |
| Bohol Quality Corporation | President |
| First Consolidated Bank (FCB) | President |
| PALM Inc. | Executive director |
| Dumaluan Beach Resort | Owner |
| **Private sector representatives** | |
| Bohol Chamber of Commerce and Industry (BCCI) | President |
| Bohol Filipino-Chinese Chamber of Commerce and Industry (BFCCCI) | Chairman of the board |
| Alona Beach Community Foundation (ABCF) | President |
| Bohol Association of Hotels, Resorts and Restaurants (BAHRR) | Vice-president and members |
| Bohol Federation of Tour and Travel Operators (BOFETTO) | President and members |
| Association of Bohol United Transport Services Incorporated (ABUTSI) | President |
| Brotherhood of Christian Businessmen and Professionals (BCBP) | Unit leader |
| Bohol Farmers Multi-Purpose Cooperative (BOFAMCO) | Officer-in-charge and members |
| **Government authorities** | |
| Department of Trade and Industry (DTI) Bohol | Director |
| Province of Bohol | Planning and development officer and board members |
| Department of Agriculture (DA) Bohol | Provincial agriculturist |
| Bohol Tourism Office | Director |
| National Food Authority (NFA) Bohol | Director |
| Bohol Investment Promotions Centre (BIPC) | Officer-in-charge |
| **Public-private authority** | |
| Bohol Provincial Tourism Council | Chair |
| **Local academia** | |
| Holy Name University | Researchers and lecturers |
| Central Visayas State College of Agriculture, Forestry and Technology (CVSCAFT) | President |
| **Local press** | |
| The Bohol Chronicle | Editor |
| The Bohol Standard | Editor |
| The Bohol Times | Editor |

| | |
|---|---|
| The Bohol Sunday Post | Editor |
| **Other organisations** | |
| PADAYON | Executive director |

| **Cebu** | |
|---|---|
| *Organisation* | *Function of interviewee(s)* |
| **Private sector representatives** | |
| Cebu Chamber of Commerce and Industry (CCCI) | Executive director, board member and former presidents |
| Mandaue Chamber of Commerce and Industry (MCCI) | Executive director |
| Cebu Filipino-Chinese Chamber of Commerce and Industry (CFCCCI) | President and board member |
| European Chamber of Commerce and Industry, Cebu branch | Branch manager |
| Cebu Furniture Industries Foundation (CFIF) | Executive director |
| Cebu Garments Industry Foundation (CGIF) | President |
| Association of Food Industries (AFI) | President |
| Mactan Export Processing Zones Chamber of Exporters and Manufacturers (MEPZCEM) | Secretary and board member |
| Gifts, Toys and Housewares Cebu (GTH Cebu) | Executive director |
| Cebu Fashion Accessories Manufacturers and Exporters (Cebu FAME) | Executive director |
| PHILEXPORT Cebu | Executive director and advocacy officer |
| **Government authorities** | |
| Department of Trade and Industry (DTI) Cebu | Director |
| Department of Trade and Industry (DTI) Central Visayas | Director |
| Province of Cebu | Planning and development officer and board members |
| Cebu City Government | Planning and development director and councillors |
| Municipality of Cordova | Mayor |
| Board of Investments (BOI) Cebu | Director |
| National Economic Development Authority (NEDA) Region VII | Chief Economic Development Division |
| Philippine Economic Zone Authority (PEZA) | Officer-in-charge |
| **Public-private authorities** | |
| Cebu Investment Promotions Centre (CIPC) | Director |
| Regional Development Council (RDC) Central Visayas | Board members |
| **Local academia** | |
| University of San Carlos (USC) | Director of Office of Research, researchers and lecturers |
| University of the Philippines (UP) Cebu | Researcher |

| | |
|---|---|
| **Local press** | |
| Cebu Daily News | Editor |
| Sun Star Cebu | Journalists and columnists |
| The Freeman | Editor |
| | |
| **Other organisations** | |
| German Technical Cooperation (GTZ) Cebu | Regional coordinator |
| Pearl2 Cebu | Regional coordinator |
| Ramon Aboitiz Foundation Inc. (RAFI) | Officer-in-charge |

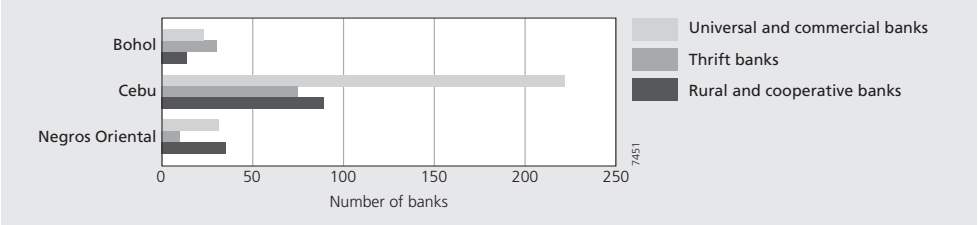
**Negros Oriental**

| *Organisation* | *Function of interviewee(s)* |
|---|---|
| **Private sector representatives** | |
| Negros Oriental Chamber of Commerce and Industry (NOCCI) | President, executive director and members |
| Filipino-Chinese Chamber of Commerce and Industry Negros Oriental | President and members |
| Rotary Club Dumaguete (East chapter) | President |
| Asociación Agricola de Bais y Tanjay (AABT) | President |
| Negros Oriental Planters Association (NOPA) | President and members |
| | |
| **Government authorities** | |
| Department of Trade and Industry (DTI) Negros Oriental | Director |
| Department of Agriculture (DA) Negros Oriental | Provincial agriculturist |
| Province of Negros Oriental | Governor, planning and development director and board members |
| City of Dumaguete Government | Mayor and councillors |
| Bais City Government | Mayor |
| Bayawan City Government | Mayor |
| Sugar Regulatory Authority (SRA) Negros and Panay | Regional coordinator and extension officers |
| Department of Agrarian Reform (DAR) Negros Oriental | Officer |
| Philippine Coconut Authority (PCA) Negros Oriental | Director and extension officers |
| | |
| **Public-private authority** | |
| Oriental Negros Investment Promotions Centre (One-IPC) | President |
| | |
| **Local academia** | |
| Silliman University | Researchers and lecturers |
| University of St. La Salle (Bacolod) | Researcher |
| | |
| **Local press** | |
| The Negros Chronicle | Editor |
| Sun Star Dumaguete | Editor-in-chief and columnist |
| Dumaguete MetroPost | Editor |

| | |
|---|---|
| Visayan Daily Star | Editor |
| **Other organisations** | |
| Belgian Integrated Agricultural Reform Support Program (BIARSP) | Program coordinator |
| Buglas Bamboo Institute (BBI) | President |

## 5 Comparative provincial financial structures

***Figure A2:*** Number and types of banks in the provinces




Source: National Statistical Coordination Board (NSCB)

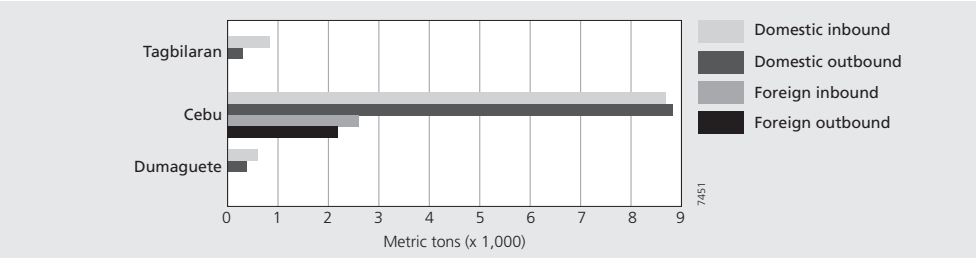
## 6 Comparative provincial trade statistics

***Table A4:*** Important domestic shipping routes (vice versa)

| | **Important routes by their share of total port domestic cargo revenue, 1998 (%)** | |
|---|---|---|
| Port of Tagbilaran | (1) Cebu (47.5%)<br>(2) Manila (44.9%) | |
| Port of Cebu | (1) Manila (54.3%)<br>(2) Davao (8.3%) | (3) Ormoc (6.2%)<br>(4) Cagayan de Oro (4.1%) |
| Port of Dumaguete | (1) Manila (83.3%)<br>(2) Cebu (8.0%) | |

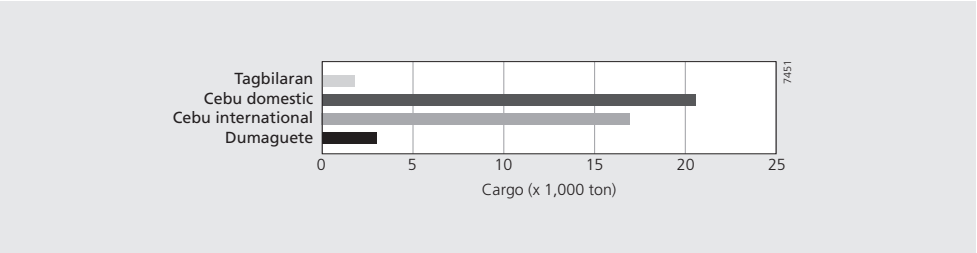
Source: Austria, 2002

***Figure A3:*** Cargo throughput of major provincial ports, 2006



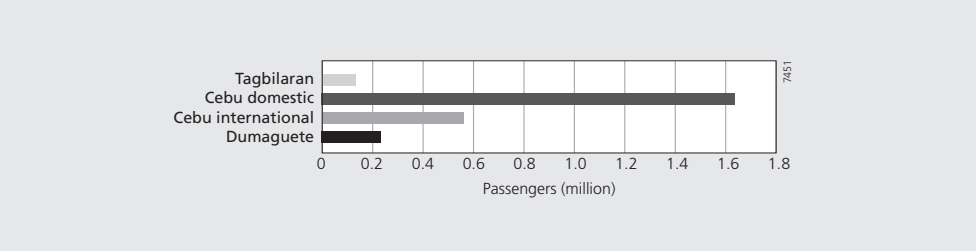

Source: Philippine Ports Authority (PPA)

***Figure A4:*** Cargo throughput of major provincial airports, 2001




Sources: Air Transportation Office (ATO) and Mactan-Cebu International Airport Authority (MCIAA)

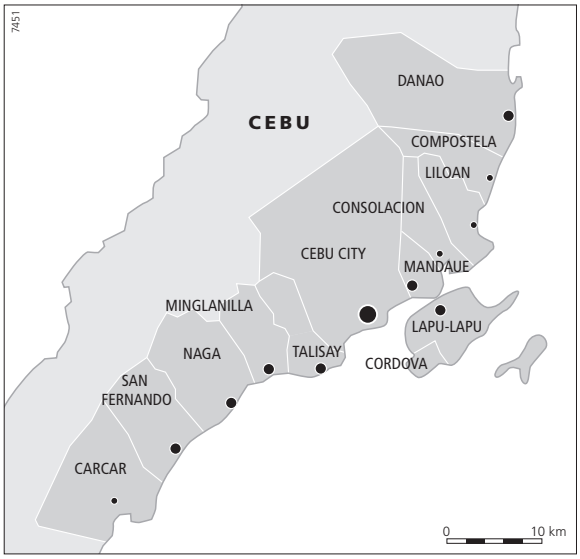
***Figure A5:*** Passenger traffic of major provincial airports, 2001




Sources: Air Transportation Office (ATO) and Mactan-Cebu International Airport Authority (MCIAA)

## 7 Administrative map of Metro Cebu

***Map A2:*** Administrative overview of Metro Cebu




Source: Province of Cebu

## 8 Cebu's special economic zones

***Table A5:*** Special economic zones in Cebu, by location and major economic activity

| Name | Location | Major economic activity |
|---|---|---|
| Arcenas IT Estate Building | Cebu City | IT related activities |
| Asia Town IT Park | Cebu City | Business Process Outsourcing |
| Bigfoot IT Park | Lapu-Lapu City | IT related activities |
| Cebu IT Tower | Cebu City | IT related activities |
| Cebu Light Industrial Park | Lapu-Lapu City | Export-oriented manufacturing |
| Cebu South Road Properties | Cebu City | None (under development) |
| HDWF-WTCI IT Tower | Cebu City | IT related activities |
| HVG Arcade IT Park | Mandaue City | Business Process Outsourcing |
| Innove IT Plaza | Cebu City | IT related activities |
| JY Square IT Centre | Cebu City | IT related activities |
| KRC IT Zone | Mandaue City | IT related activities |
| Lexmark Plaza | Cebu City | IT related activities |
| Mactan Economic Zone | Lapu-Lapu City | Export-oriented manufacturing |
| Mactan Economic Zone II | Lapu-Lapu City | Export-oriented manufacturing |
| Mango Square | Cebu City | IT related activities |
| MRI Ecozone | Danao City | Export-oriented manufacturing |
| New Cebu Township | Naga | Export-oriented manufacturing |
| Oakridge IT Centre | Mandaue City | IT related activities |
| Pioneer House Cebu | Cebu City | IT related activities |
| Polambato-Bogo Economic Zone | Bogo City | Export-oriented manufacturing |
| Synergis IT Centre | Cebu City | IT related activities |
| Taft IT Park | Mandaue City | IT related activities |
| West Cebu Industrial Park | Balamban | Heavy industrial manufacturing |

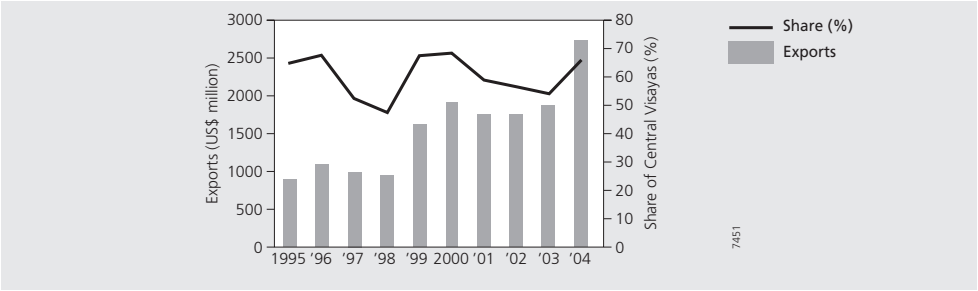
Source: Philippine Economic Zone Authority (PEZA)

***Table A6:*** MEPZ I & II firm and employment development, 1995-2004

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| *No. of firms* | | | | | | | | | | |
| MEPZ I | 83 | 97 | 101 | 103 | 104 | 109 | 108 | 108 | 107 | 110 |
| MEPZ II | | | 14 | 19 | 25 | 32 | 37 | 40 | 39 | 48 |
| *No. of workers* | | | | | | | | | | |
| MEPZ I | 29,243 | 32,811 | 36,074 | 35,920 | 37,118 | 39,487 | 40,189 | 37,350 | 39,000 | 42,095 |
| MEPZ II | | | 1,473 | 2,845 | 2,940 | 4,676 | 7,305 | 6,809 | 6,809 | 8,968 |

Sources: Department of Trade and Industry (DTI) Central Visayas

***Figure A6:*** MEPZ I & II exports and their share of total Central Visayas export, 1995-2004




Sources: Department of Trade and Industry (DTI) Central Visayas and Cebu Investment Promotions Centre (CIPC)

## 9 The Negros sugar industry

***Table A7:*** Comparative provincial production figures, 2006

| | Area planted to sugar cane (hectares) | Sugarcane production (metric tons) | Number of operative sugar mills | Raw sugar production (metric tons) |
|---|---|---|---|---|
| Negros Occidental | 167,878 | 11,898,723 | 8 | 1,075,243 |
| Negros Oriental | 35,516 | 2,067,512 | 3 | 158,292 |

Sources: Bureau of Agricultural Statistics (BAS) and Sugar Regulatory Authority (SRA)

## 10 Business survey findings

***Table A8:*** Year of foundation of the surveyed firms

| Year of foundation | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro* | *trade Tourism* | | |
| *Before 1946* | 1 | 0 | 1 | 1 |
| *1946-1955* | 1 | 0 | 0 | 1 |
| *1956-1965* | 0 | 0 | 0 | 4 |
| *1966-1975* | 1 | 0 | 3 | 4 |
| *1976-1985* | 8 | 1 | 10 | 7 |
| *1986-1995* | 7 | 8 | 20 | 5 |
| *1996-2006* | 2 | 11 | 20 | 1 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

***Table A9:*** Employment characteristics of the surveyed firms

| | Bohol | | Cebu | Negros Oriental |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| **Average term of employment** | | | | |
| *> 1 year* | 0 | 3 | 8 | 0 |
| *1-5 years* | 10 | 10 | 28 | 11 |
| *5-10 years* | 8 | 5 | 10 | 6 |
| *> 10 years* | 2 | 2 | 0 | 3 |
| *Total number of surveyed firms* | 20 | 20 | 46 | 20 |
| **Most important labour characteristic** | | | | |
| *Level of education* | 0 | 0 | 2 | 1 |
| *Skills* | 9 | 17 | 40 | 10 |
| *Wage costs* | 10 | 1 | 5 | 7 |
| *Other* | 1 | 2 | 3 | 2 |
| *Total number of surveyed firms* | 20 | 20 | 50 | 20 |
| **Training of employees** | | | | |
| *Regular* | 0 | 0 | 6 | 1 |
| *Seldom* | 1 | 14 | 19 | 9 |
| *Never* | 19 | 6 | 24 | 10 |
| *Total number of surveyed firms* | 20 | 20 | 49 | 20 |

Source: Business survey, 2006

**Box A1: Controversy and conflict between producers and traders in the sugar industry**

While one would expect that the highly protected, SRA-regulated and -controlled trade of sugar creates a smooth business environment where all actors are in good relationships with each other, this is far from the reality. There is especially much rivalry and hostility between producers and traders on the trade in quedans. Planters (but also small traders) often accuse the SRA of leaking inside information on the conversion of the sugar categories to the large traders in the country. With this valuable information, planters argue, large traders know the timing of a conversion beforehand and can reap large profits at the cost of the planters. Furthermore, the planters and small traders accuse the large traders of mutual collusion to set prices. They are convinced that the synchronous pattern of quedan buying and selling among these large traders can only be explained by secret mutual agreements. Traders contest these allegations, saying that they speculate on conversions purely based on their knowledge on market dynamics. Furthermore, they argue that their suspected 'cartel formation' is a myth and the proliferation of smaller traders has increased competition which has made it impossible for them to control prices. Nevertheless, there are well-documented cases of price manipulation by large traders via hoarding, collusion and smuggling of cheaper foreign sugar by large traders (Billig, 2003: 108; Sun Star Manila, April 12, 2008; Inquirer, September 19, 2007).
The conflict between planters and traders has intensified in the past three decades that saw the purchase of many sugar mills by large traders and industrial bulk buyers, as happened in Negros Oriental. For the traders, the mills are strategic assets to collect quedans and further strengthen their market position versus the planters, who depend on the mills. With the strong historical representation of large planters and their associations in Philippine politics, the bickering between the two groups over the regulation of sugar trade is highly politicized and has been a recurring point on the political agenda up to the present day.

**Box A2: Government intervention in the coconut and sugar industries**

After gaining independence the government was initially indifferent toward the development of the coconut industry. Therefore, in 1947 large coconut producers organized themselves in the Philippine Coconut Planters Federation (PCPF) (nowadays this organization is called the Philippine Coconut Producers Federation or COCOFED) to lobby for more favourable government policies. Under pressure from the large landowners, the government established the National Coconut Corporation (NACOCO) in 1950 as the main organization that bought and sold copra to stabilize the coconut market. Four years later, the Philippine Coconut Administration (PHILCOA) was founded to initiate coconut industry development programs. However, it was not until the early '70s that the national government under President Marcos really started to intervene in the industry by imposing two types of levies. The first, the COCOFUND levy, was imposed on coconut farmers as a way to collect funds that would be used to invest in the development of the industry (e.g. the construction of processing plants). The second, the Coconut Consumer Stabilization Fund (CCSF), was set up in 1973 to increase the domestic supply of coconut oil by subsidizing the price of coconut products. This levy, which remained in effect until 1982, was collected by the newly founded Philippine Coconut Authority (PCA). Soon, the PCA became the sole agency with legal power in the industry. In 1978, it was granted -by presidential decree- authority nationalization of the coconut processing and trading industry. Initially, the PCA board had an equal representation from both the public and private sectors. However, over time large coconut producers from COCOFED -most notably, Eduardo Cojuangco, Jr., one of Marcos' closest cronies- dominated the government authority and used it in favour of their own interests. Under the excuse of industry development programs, the levy rates were increased by the PCA and the collected levy funds were stored in the PCA-controlled United Coconut Planters Bank (UCPB) not to be used for producer development programs but to nationalize the coconut oil industry by buying major (foreign-owned) milling companies. By 1980, the UCPB-funded United Coconut Oil Mills, Inc. (UNICOM) had a monopolist control over the export in copra (73%) and coconut oil (83%) (Okini, 1992: 82-88). However, the coconut farmers who financed these UCPB acquisitions via the levies they paid were never made shareholders of UCPB or UNICOM or compensated otherwise.

The trade of another lucrative export crop, sugar, was also monopolized by Marcos to reap the benefits. In 1976, as a reaction to the precipitous decline in sugar prices, Marcos established the Philippine Sugar Commission (PHILSUCOM) and its affiliated trading arm NASUTRA (National Sugar Trading Corporation), placing at the head his close associate Roberto Benedicto. PHILSUCOM was given sole authority to buy and sell sugar, to set prices paid to planters and millers, and to purchase companies connected to the sugar industry. The government monopoly was said to increase the country's bargaining position in the export trade, and would offer producers and consumers more protection from exploitation by private middlemen.

In practice, however, PHILSUCOM and NASUTRA formed powerful tools for Marcos to control the sugar industry and siphon off much of its profits. As with the monopoly in the coconut industry, the government was forced under the IMF-imposed structural adjustment program to dismantle NASUTRA. But the damage had been done in both industries. It is estimated that the sugar industry lost more than fifteen billion pesos between 1975 and 1987, while coconut farmer associations are still in legal battle with the government to reclaim their portion of the ten billion pesos of coconut levies that were confiscated by the COCOFED-PCA monopoly from 1973 to 1982 (Billig, 2003: 57; Philsol.nl, 2008).

## 13 Membership of surveyed firms at local associations

***Table A10:*** Membership of firms at local associations

| | **Bohol** | | **Cebu** | **Negros Oriental** |
|---|---|---|---|---|
| | *Agro trade* | *Tourism* | | |
| *Business associations* | | | | |
| *General association* | 2 | 1 | 6 | 3 |
| *Industry association* | 2 | 7 | 28 | 3 |
| *Ethnic association* | 0 | 0 | 0 | 6 |
| *General and branch association* | 0 | 5 | 14 | 1 |
| *General and ethnic association* | 0 | 0 | 0 | 3 |
| *None* | 16 | 7 | 6 | 7 |
| *Other organisations* | | | | |
| *Religious organisation* | 13 | 3 | 5 | 4 |
| *Civic organisation* | 1 | 3 | 9 | 6 |
| *Non disclosed* | 0 | 1 | 0 | 1 |
| *None* | 6 | 13 | 40 | 12 |
| *Total* | 20 | 20 | 54 | 23 |

Source: Business survey, 2006

# Samenvatting

**Regio's, instituties en ontwikkeling in een mondiale economie: variërende regionale handelssystemen in de Filippijnen.**

Ondanks ingrijpende processen van mondialisering, bedoeld om een meer evenwichtig politiek-economisch speelveld te creëren in de wereld, blijven er grote verschillen bestaan tussen gebieden en hun mate van economische ontwikkeling. Deze verschillen doen zich op diverse schaalniveaus voor. De verdeling van de wereld in ontwikkelde en ontwikkelingslanden is alom bekend en aanvaard. Maar er zijn ook grote verschillen in ontwikkeling te ontdekken op lagere schaalniveaus; tussen regio's binnen individuele landen. Regionale ongelijkheid is vooral een hardnekkige problematiek in veel ontwikkelingslanden, waarin sommige regio's economisch aanzienlijk beter presteren dan andere. Deze regionale tegenstellingen zijn vooral problematisch vanuit het oogpunt van gelijkwaardigheid; ze zorgen voor een onevenwichtige verdeling van welvaart onder de bevolking van een land.

**Theoretische achtergronden**

Wat zijn de achterliggende factoren van regionale ongelijkheid binnen ontwikkelingslanden? Dit is een complex vraagstuk dat vanuit verschillende wetenschappelijke invalshoeken benaderd wordt. Zo zijn geografische kenmerken van een regio, zoals locatie en de aanwezigheid van natuurlijke hulpbronnen, belangrijke indicatoren voor regionale ontwikkeling. Neoklassieke economen zien juist meer verklaringen in de comparatieve voordelen die bepaalde regio's hebben via specialisatie en integratie in de wereldmarkt, terwijl de politieke economie benadering haar aandacht vooral richt op machtsrelaties in de maatschappij. Deze zienswijzen bieden interessante en nuttige verklaringen voor regionale ongelijkheid. Deze studie heeft gezocht naar verklaringen voor regionale diversiteit vanuit de inzichten van de institutionele economie. Deze benadering heeft de laatste jaren aan terrein gewonnen binnen ontwikkelingsstudies en economische geografie. Ze stelt dat de manier waarop regionale economieën functioneren en presteren in sterke mate wordt bepaald door de instituties die deze regionale economieën structureren. Instituties worden hierbij gedefinieerd als de formele en informele regels, alsmede de sociale en culturele normen en waarden die het gedrag van economische actoren en hun onderlinge relaties vormgeven. Deze instituties zijn vaak historisch gevormd door de specifieke politieke en sociaal-culturele context van een gebied en verschillen zodoende per locatie.

Het merendeel van de studies binnen de institutionele economie zijn toegespitst op nationale economieën in het Noorden, terwijl er veel minder aandacht is voor regionale economieën in ontwikkelingslanden. Dit kan verklaard worden door de verschillende institutionele vormgeving van de twee typen economieën. Zo zijn institutionele studies van oudsher gericht op goed meetbare formele institutionele stelsels, dat wil zeggen wet-

en regelgeving. Deze formele instituties, opgesteld door de nationale overheid en dus veelal landelijk hetzelfde, zijn sterk georganiseerd in het Noorden en belangrijk voor de sturing van relaties tussen economische actoren in deze landen. Dit is minder het geval in ontwikkelingslanden, waar formele wet- en regelgeving door de nationale overheid minder sterk georganiseerd is. Hier spelen informele instituties ook een belangrijke rol in het sturen van economische relaties. Deze informele instituties zijn gevormd door, en ingebed in, de specifieke sociaal-culturele eigenschappen van een gebied. Aangezien deze eigenschappen vaak verschillen per regio, vooral binnen ontwikkelingslanden, zijn er verschillende regionale instituties te ontdekken die mogelijk zorgen voor uiteenlopende regionale patronen van economische ontwikkeling.

De laatste jaren zijn er interessante benaderingen ontwikkeld die veelvuldig zijn toegepast om nationale economieën in het Noorden te analyseren en vergelijken aan de hand van hun institutionele structuren, zoals de *comparatieve handelssystemen* benadering van Whitley (1999) en de *kapitalistische variëteiten* benadering van Hall en Soskice (2001). Deze studie heeft vooral gebruik gemaakt van Whitley's benadering, omdat deze de nodige analytische flexibiliteit biedt voor een vergelijkende studie op regionaal niveau binnen één ontwikkelingsland. De benadering maakt het mogelijk om economische systemen te identificeren aan de hand van hun institutionele arrangementen, dat wil zeggen, de manier waarop lokale bedrijven hun relaties met andere economische actoren organiseren. Hierbij zijn drie relationele velden belangrijk: coördinatie van eigenaarschap; relaties met andere bedrijven; en werkgever-werknemers relaties. De organisatie van deze relaties bepaalt hoe een handelssysteem functioneert en presteert, en deze organisatie is afhankelijk van haar institutionele context (bestaande uit de overheid, financieel systeem, arbeidsorganisaties en de mate van vertrouwen en autoriteit binnen een samenleving).

Ondanks de analytische flexibiliteit van de *comparatieve handelssystemen* benadering kan deze niet zomaar worden toegepast op regionaal niveau in de Filippijnen, een ontwikkelingsland in Zuidoost Azië. Hiervoor dient de benadering beter te worden afgestemd op de institutionele context van deze regio, die gekenmerkt wordt door een belangrijke rol van de staat en etnisch Chinese ondernemers in de economie. Dit betekent dat de analytische aandachtsvelden de volgende zijn: (1) de organisatie van relaties tussen bedrijven, zowel binnen (mondiale) waardeketens als binnen de regio; (2) de rol en sterkte van de lokale staat, in verhouding tot het lokale bedrijfsleven en de nationale overheid; en (3) de invloed van etniciteit op de organisatie van deze relationele velden. Bovenstaande drie institutionele velden die een regionale economie structureren worden niet als losse eenheden beschouwd, maar als interactieve institutionele arrangementen. Hiermee sluit deze studie aan bij het gedachtegoed van Hall en Soskice, die in dit verband spreken over *institutionele complementariteiten*. Er is samenhang tussen bepaalde institutionele arrangementen en dit heeft een positief of negatief effect op regionale economische ontwikkeling.

**Onderzoeksgebied en methodologie**

Tegen bovenstaande achtergronden heeft deze studie tot doel gehad inzicht te verschaffen in hoeverre regionale institutionele arrangementen bepalend zijn voor de regionale verschillen in economische ontwikkeling binnen de Centrale Visayas, een eilandengroep in de Filippijnen. Ondanks hun geografische nabijheid en dezelfde nationale institutionele

en politieke context vertonen de eilandprovincies Bohol, Cebu en Negros Oriental sterk uiteenlopende patronen van sociaal-economische ontwikkeling. Zo heeft Cebu zich ontwikkeld tot een voornaam economisch centrum in de zuidelijke Filippijnen door het aantrekken van buitenlandse investeringen in de industriële- en dienstensector. Cebu City heeft een lange historie als belangrijke handelspost in de Filippijnen door de combinatie van een gunstige ligging en de noodzaak om via handel voldoende levensmiddelen te bemachtigen. De stad heeft deze positie weten te versterken door de bouw van een internationale zee- en luchthaven. Hiervan heeft ook de lokale exportgerichte industrie geprofiteerd: Cebu is in de Filippijnen bekend om haar vele kleinschalige producten van meubelen, mode accessoires, speelgoed, cadeau artikelen en kleding. Deze industriële bedrijvigheid is niet te vinden in Bohol en Negros Oriental, twee hoofdzakelijk agrarische economieën met grote onderlinge contrasten. Zo wordt Bohol gekenmerkt door een traditionele landbouwsector: een kleinschalige en versnipperde productiestructuur met rijst als voornaamste gewas. Naast zelfvoorzienende landbouw wordt de rijst vooral verkocht op de lokale markt. Een nieuwe sector in opkomst in Bohol is toerisme, wat de laatste jaren gestaag een groei heeft doorgemaakt. Negros Oriental daarentegen is een economie waar grootschalige productie van suiker plaatsvindt voor de nationale markt. Deze eenzijdige en vergrendelde economie is een erfenis uit het koloniale verleden van Negros eiland, dat als exportgerichte plantage-economie werd ingericht door Spaanse en Amerikaanse bezetters. Dit heeft een gepolariseerde samenleving voortgebracht met een elite van grootgrondbezitters die vasthoudt aan de suikerindustrie.

Bovenstaande uiteenlopende ontwikkelingsprocessen binnen een nationale institutionele en politieke context wekken de suggestie dat regionale institutionele arrangementen en complementariteiten belangrijk zijn voor regionale economische ontwikkeling. Om deze hypothese te toetsen heeft empirisch onderzoek zich gericht op de institutionele arrangementen binnen de volgende vier relationele sferen:

- Verticale coördinatie tussen het lokale bedrijfsleven en toeleveranciers en klanten binnen (mondiale) waardeketens;
- Horizontale relaties van het lokale bedrijfsleven en concurrenten en andere lokale bedrijven binnen de regio;
- Coördinatie tussen het lokale bedrijfsleven en de lokale overheid;
- Hiërarchische relaties tussen de lokale overheid en de nationale overheid.

Bovendien is bestudeerd welke invloed etniciteit heeft op de organisatie van de relaties binnen deze vier sferen.

Na grondige kwalitatieve en deels kwantitatieve analyses van de institutionele arrangementen in de vier bovenstaande relationele sferen zijn de bevindingen hieruit samengevoegd om te komen tot drie variërende regionale handelssystemen. Vervolgens is onderzocht in hoeverre deze systemen zorgen voor uiteenlopende processen van regionale economische ontwikkeling, door de aanwezigheid en effecten van institutionele complementariteiten te bestuderen.

Het empirisch onderzoek bestond uit twee delen. Om inzicht te krijgen in de eerste twee relationele sferen werden tussen februari 2006 en juli 2006 enquêtes gehouden bij lokale bedrijven in de drie provincies. Voordat deze bedrijven willekeurig geselecteerd werden uit hun populatie was onderzocht of ze aan de volgende eigenschappen voldeden vanuit

het oogpunt van vergelijkbaarheid: ze hebben lokaal eigenaarschap; ze maken deel uit van het midden- en kleinbedrijf (MKB); en ze zijn handelsbedrijven, actief in de belangrijkste handelssector(en) van de regionale economie. Dit hield in dat van de in totaal 177 geënquêteerde bedrijven er in Bohol 20 afkomstig waren uit landbouw en 20 uit toerisme, in Cebu er 53 actief waren in exportgerichte industrie en in Negros Oriental er 23 bedrijven uit de landbouwsector ondervraagd waren. Daarnaast bestond het veldwerk uit een enquête en semi-gestructureerde interviews met 20 bedrijfsorganisaties, waarvan 7 in Bohol, 10 in Cebu en 3 in Negros Oriental. Het tweede deel van het empirisch onderzoek duurde van februari 2007 tot en met juli 2007 en had als doel meer inzicht te verkrijgen in de derde en vierde relationele sfeer via semi-gestructureerde interviews met ambtenaren, ondernemers, politici, journalisten en academici. De twee veldwerken hebben uiteindelijk geleid tot enquêtes en interviews met 216 actoren.

**Bevindingen**

In hoeverre verklaren de institutionele complementariteiten van de drie variërende handelssystemen de uiteenlopende processen van regionale economische ontwikkeling in de Centrale Visayas? Deze hoofdvraag wordt hieronder beknopt beantwoord, waarbij regionale economische ontwikkeling is beschreven aan de hand van private sector ontwikkeling en de verdeling van welvaart.

In de drie verschillende handelssystemen van de Centrale Visayas kunnen belangrijke institutionele complementariteiten worden gevonden in: de positionering van het lokale bedrijfsleven in waardeketens en de manier waarop deze ketens bestuurd worden; de structuren van horizontale coördinatie tussen lokale bedrijven; de patronen van publiek-private samenwerking; en de relaties van de lokale overheid met de nationale overheid. De complementariteiten tussen deze institutionele arrangementen hebben geleid tot verschillende ontwikkelingsresultaten in de provincies met betrekking tot de ontwikkeling van de private sector, de verdeling van rijkdom en de mate van economische diversificatie. Bohol's zwakke opname in de wereldeconomie heeft twee lokale etnisch Chinese familieconglomeraten de mogelijkheid geboden om uitgebreide controle over de lokale agrarische waardeketen te veroveren. Deze dominante positie van de twee conglomeraten beïnvloedt de lokale publiek-private samenwerking, omdat de 'grote twee' gebruik maken van hun bevoorrechte toegang tot de politieke leiders om hun leidende marktpositie te beschermen. Er kan worden geconcludeerd dat de bescheiden economische groei in Bohol gepaard is gegaan met een geleidelijke transformatie van een traditioneel systeem van 'gedeelde armoede' (Geertz, 1963) onder kleine boeren en handelaren naar een lokaal compradorsysteem (Yoshihara, 1988) dat bedrijfswinsten concentreert bij twee de lokale etnisch Chinese grootmachten. Naast de divergerende verdeling van welvaart heeft de beklemmende waardeketen ook invloed op de ontwikkeling van de private sector. De conglomeraten maken gebruik van hun verticale controle om aan boeren productiemiddelen te verstrekken die zijn gericht op het verhogen van de productie. De distributie van chemische meststoffen en hybride rijstzaden vergroot de afhankelijkheid van de kleine boeren bij de conglomeraten en deze 'moderne' manier van produceren is ecologisch onhoudbaar. Bovendien is de duurzaamheid van het *lokale comprador handelssysteem* een vraagteken met de openstelling van de lokale economie als gevolg van de opkomende toerisme industrie.

De institutionele complementariteiten die Negros Oriental's economische ontwikkeling verstoren komen voort uit de doorslaggevende rol die gespeeld wordt door een traditionele rurale elite. Deze heeft vastgehouden aan haar dominante economische positie via haar uitgebreide lokale politieke controle en de verbindingen met de nationale overheid. Het handelssysteem in Negros Oriental kan worden getypeerd als een systeem dat gedomineerd wordt door een *nationale rurale elite*. Deze exclusieve vorm van publiek-private samenwerking heeft een institutionele vergrendeling veroorzaakt die het vastgeroeste en afhankelijke systeem van surrogaat kapitalisme overeind heeft gehouden. De lokale suikerindustrie is afhankelijk van de invoerrechten die dienen om de binnenlandse suikermarkt te beschermen voor concurrentie van de wereldmarkt. Deze verstoorde marktsituatie heeft een oncompetitief ondernemingsklimaat gecreëerd dat wordt weerspiegeld in de horizontale bedrijfsbetrekkingen die niet verder gaan dan informele (sociale) coördinatie. Deze situatie wordt verder versterkt door de producentgedreven waardeketen die wordt gedomineerd door nationale conglomeraten met controle over de industriële verwerking en handel in suiker en palmolie. Deze omstandigheden doen de ontwikkeling van de private sector in Negros Oriental stagneren. Ook heeft Negros Oriental maar een bescheiden economische groei gekend door de beperkte economische diversificatie die er heeft plaatsgevonden. Deze diversificatie wordt gecontroleerd door de rurale elite die zo haar onevenredig grote aandeel in de welvaart van de provincie heeft weten te behouden.

De sterke invoeging van Cebu in de wereldeconomie heeft aanleiding gegeven tot een veelzijdig handelssysteem met tegenstrijdige institutionele complementariteiten. Dit heeft geleid tot tegenstrijdige resultaten op het gebied van economische ontwikkeling. Allereerst heeft de externe oriëntatie van Cebu's *urbane groei alliantie* gezorgd voor een sterke toestroom van investeringen die Cebu hebben omgevormd tot een gediversifieerde economie. De toegang tot buitenlandse markten biedt ook uitgebreide groeimogelijkheden voor lokale ondernemingen, maar hun onzekere positie aan de onderzijde van competitieve mondiale waardeketens verlamt hun onderlinge relaties en samenwerking. Dit belemmert de collectieve ontwikkeling van de private sector, aangezien bedrijven selectief zijn in hun strategische allianties en de voorkeur geven om alleen samen te werken binnen specifieke belangengroepen. Bovendien heeft dit selectieve milieu aanleiding gegeven tot een ongelijke verdeling van bedrijfswinsten onder de lokale ondernemers. Deze ongelijke verdeling van rijkdom wordt verder versterkt door de urbane groei alliantie, die vooral aandacht heeft voor economische groei en minder voor de herverdeling van de welvaart die hieruit voortkomt. Concluderend is te stellen dat de bewuste blootstelling van Cebu aan mondiale krachten heeft gezorgd voor meer opportunistische gedrag onder lokale bedrijven, wat een intensivering van de lokale mechanismen van integratie en uitsluiting teweeg heeft gebracht. Dit leidt tot een polariserend patroon van economische groei met een divergerende verdeling van welvaart tussen 'aangesloten winnaars' en 'buitengesloten verliezers'.

**Empirische en theoretische implicaties**

Uit de studie en haar achterliggende literatuuranalyse kunnen een aantal empirische en theoretische lessen worden getrokken. Een eerste belangrijke interpretatie van de empirische bevindingen is dat regionale institutionele arrangementen belangrijke aanvullende verklaringen kunnen geven voor verschillen in regionale economische

ontwikkeling. Meer specifiek heeft deze studie laten zien dat er sterke complementariteiten bestaan tussen de mate van integratie in mondiale waardeketens en de kwaliteit van het regionale handelssysteem. Een dergelijk proces van 'glocalisering' (Swyngedouw, 2004) heeft ingrijpende gevolgen voor regionale ontwikkeling. Door deze mondiale-lokale wisselwerking in ogenschouw te nemen heeft deze studie geen regionaal handelssysteem gevonden dat leidt tot duurzame en evenwichtige economische ontwikkeling. 'Afgesloten' regionale economieën in het Zuiden, zoals Bohol en Negros Oriental, worden in toenemende mate blootgesteld aan de druk van de wereldmarkt. Hoe deze perifere regionale economieën om zullen gaan met deze externe invloeden zal in sterke mate afhangen van de kwaliteit van hun handelssysteem.

Deze studie heeft ook laten zien dat lokale elites, via persoonsgebonden netwerken, hun machtsbasis weten te handhaven en een sterke invloed uitoefenen op regionale economische ontwikkeling. De rol van de plaatselijke elites is een beslissende institutionele factor die bijdraagt aan regionale ongelijkheid. Zulke persoonsgebonden machtsrelaties zijn niet uniek in Zuidoost Azië. Deze studie heeft ook de invloed van etniciteit in deze informele netwerken van politiek-economische machtsrelaties bestudeerd. Hierbij is geconstateerd dat etnische relatienetwerken niet als een homogeen patroon kunnen worden omschreven; een bevinding die pleit voor enige nuancering in de literatuur over de economische activiteiten van 'de etnische Chinezen in Zuidoost Azië'. Immers, deze relatienetwerken zijn afhankelijk van hun institutionele context en verschillen per land en regio.

De meeste institutionele benaderingen richten zich op het nationale niveau, in de veronderstelling dat institutionele arrangementen door de staat gevormd en gelijkmatig verdeeld worden over een nationale economie. Uit deze studie is gebleken dat er aanzienlijke regionale verschillen in nationale institutionele stelsels te ontdekken zijn die leiden tot regionale verschillen in economische ontwikkeling. Deze bevindingen komen overeen met een eerdere studie uitgevoerd door Andriesse (2008), waaruit blijkt dat meerdere schaalniveaus in ogenschouw moeten worden genomen bij het bestuderen van de invloed van instituties op regionale economische ontwikkeling. Het is voor studies over regionale ontwikkeling in een mondiale context van vitaal belang dat er rekening wordt gehouden met zowel endogene als exogene institutionele arrangementen. Regio's zijn geen geïsoleerde of begrensde entiteiten; ze zijn geïntegreerd in grotere politiek-economische systemen die invloed uitoefenen op het gedrag van lokale economische actoren en de manier waarop ze hun interacties met andere actoren organiseren. De institutionele-relationele benadering die is toegepast in deze studie biedt interessante analytische inzichten voor een meer holistische benadering om regionale economische ontwikkeling te bestuderen, vooral in de huidige context van voortschrijdende economische en politieke mondialisering. Zoals in dit onderzoek naar voren is gekomen, dient deze benadering beter geconceptualiseerd te worden om een degelijke analytische aanpak te zijn die breed kan worden toegepast. Op dit moment is deze institutionele-relationele benadering nog teveel gebaseerd op concepten die te ruim gedefinieerd zijn en te vrijblijvend gebruikt worden. Uitvoeriger debat over de conceptualisering van de institutionele-relationele benadering, alsmede meer empirisch onderzoek dat deze benadering toepast, zijn nodig voor de bouw van een solide analytisch model dat kan worden toegepast om nieuwe inzichten

te genereren in de verklarende processen achter variërende patronen van regionale ontwikkeling.

Tenslotte, hoewel de nadruk vooral op het effect van regionale institutionele arrangementen heeft gelegen onderkent deze studie ook de invloed van andere, niet-institutionele factoren op regionale economische ontwikkeling. Instituties zijn belangrijk voor ontwikkeling, maar ze verklaren niet alles. Het is noodzakelijk om behoedzaam te werk te gaan. De rol van endogene en exogene institutionele arrangementen mag niet bij voorbaat voorrang hebben boven andere mogelijke verklaringen voor ongelijke regionale economische ontwikkeling. Zo zijn ligging, fysische geografie en geschiedenis ook bepalende factoren voor het divergerende verloop van de ontwikkelingstrajecten van de drie bestudeerde regio's uit deze studie. Vanuit dit oogpunt is het raadzaam om te spreken over de *relatieve* invloed van regionale institutionele arrangementen op regionale economische ontwikkeling.

# Curriculum Vitae

Bram van Helvoirt (1979) graduated in 2003 from the Faculty of Geosciences at Utrecht University. He earned an MSc in Human Geography and Urban and Regional Planning, with a specialisation in International Economics and Economic Geography. His master's thesis comprised a comparative study on local economic development in the cities of Alamogordo, Las Cruces and Silver City in southern New Mexico, US. This study was conducted in collaboration with the Geography Department of New Mexico State University (NMSU). After graduation he completed an internship assignment at Bureau Stedelijke Planning in Gouda, an urban economics consultancy firm (2004). The research assignment encompassed a comparative study on international urban sub centres in Germany (Dortmund and Cologne), Belgium (Antwerp and Brussels), France (Paris) and England (London). He started his PhD research project in July 2005, for which he has conducted extensive field research in the Philippines. During his PhD study, he has also worked at the Ministry of Foreign Affairs' Department of Aid Effectiveness and Quality (2009). Bram van Helvoirt has published various articles in the field of development geography and economic development.