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Inter-firm Relations and Regional Development: Experiences from the Central Visayas, Philippines

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Abstract

In spite of economic globalization and new technologies that ‘shrink’ the world, locality and proximity remain important for businesses. Many firms may increasingly be inserted into global chains of production, but the local environment in many ways remains the key playing field for entrepreneurs. Embedded in a relational economy, ‘the local’ presents powerful institutional opportunities and constraints for firms. In the Central Visayas Islands of the Philippines, insertion into the global economy has been a patchy process, creating remarkably different production networks in the three neighbouring provinces of Bohol, Cebu and Negros Oriental. Despite their geographical proximity and shared national institutional framework, these provinces have clearly distinct economic structures and development paths. They thus allow a comparative analysis of the role of regional institutions. How is this diversity reflected in terms of regional differences in inter-firm networks, both in vertical production chains as in regionally embedded horizontal networks? And how do differences in networking affect economic activity and development in the provinces? Using key elements of Whitley’s (1999) *comparative business systems* approach at the sub-national level, this paper seeks answers to these questions.

Keywords: institutions, networks, Philippines, regional economies, local economic development

1. Introduction: regional relational institutions and economic development

The relational approach has become a popular and fruitful way of analysing regional economic performance. Seeing economic activity through the prism of how actors are linked to others in production networks, rather than *only* in terms of individual actor behaviour (as in neoclassical economics) or as forged overwhelmingly by mega-structures (as in the political economy paradigm), has opened our eyes to new possible explanations of performance, and highlighted new opportunities for policy as well as constraints in the pursuit of economic development. The notion that firms may benefit from close proximity to one another (agglomeration economies) is of course and old one. More recently, Michael Porter (1990) elaborated this line of thinking by emphasizing the role of firm relationships in the competitive position of territorial economies. In geography, the pioneering work by authors such as Storper (1997) on the ‘associational economy’, Cooke et al. (2004) on ‘regional innovation systems’, Maskell & Malmberg (1995) on ‘learning regions’, has gained widespread recognition and follow-up. So much so that Sunley (2008) recently warned for a single-minded focus on relational patterns at the expense of due attention for other, perhaps more conventional economic forces. While we should heed advice that ‘relations are not everything’, this paper does indeed start from the premise that institutions forging key relational patterns may well reveal significant aspects of economic performance that are as yet little understood. More specifically, our aim here is to gauge the link between the geographical range of a local economy – that is, the extent of its integration in wider production networks at global, national or regional levels of scale – on the one hand and the pattern of inter-firm relations at the local level on the other.

In doing so, this study is based on two underlying assumptions. This first is that institutional frameworks at the regional level may well be important yet rather neglected components of economic development. In recent years, important strides forward have been made in our understanding of economic systems, inspired by conceptualization by Hall & Soskice's Varieties of Capitalism (2001) and Whitley's Comparative Business Systems (1999) approaches. These are admirable attempts at analysis of the main features of institutional frameworks, focusing exclusively on the level of the nation-state. Nobody will deny the continued importance of the state as a major locus of institution building. Nevertheless, it is also clear that the national scale is not the only level where key institutional features are defined and played out. Globalization has gone some way in undermining the singular role of the nation/state level as the natural backdrop for economic analysis. On the one hand, TNCs and international forms of governance have added an increasingly important global or macro-regional economic arena. At the same time, more local levels have come to the fore as important economic institutional scales. In many countries, decentralization of governance functions has formally transferred some policy making to lower levels of administration. Perhaps more importantly, the increasing importance of cross-border networks of production, information, capital etc., have affected traditional views of the world economic map as one composed of a mosaic of countries. Alternatively, this world map can be seen as made up of flows connecting nodes, a point expressed most clearly in the expanding 'world city' literature (Sassen 1991, Taylor 2004). Our position is not that one view should suppress the other, but rather, that analysis of more local or regional arrangements seems warranted.

The second assumption, as will be clear from the above, is that there is likely some degree of co-variation between different fields of institutional relations. This in fact follows Hall & Soskice's concept of 'institutional complementarities' or the 'bundled nature' of institutions: institutional arrangements in one field call for a matching set in other fields. In this case, therefore, we suspect that the key geographical orientation of leading firms in a locality (global, or more local in orientation) will correspond with matching patterns of relationships between firms locally. Moreover, we expect such differences in firm networking to affect patterns of local economic development.

Selection of research areas and methodology

Three provinces in the Central Visayan Islands of the Philippines offer a particularly interesting case to study the effects of this global-local nexus (see annex 1 for geographical map). Though neighbouring provinces within eye-sight of each other, their economic development paths differ considerably, largely due to differences in the ways and degrees in which have been integrated in the world economy. This has left them with profoundly different local economic constellations. In this paper, these local constellations are studied by focusing on some of the key trading sectors of the island economies. The trading firms surveyed for this study are drawn from leading sectors in each of the provincial economies. They have been selected on the following characteristics that make them suitable a comparative analysis of regional economic institutions: (I) they are sectors that have a long track record in being important economic pillars of the provincial economies; (II) they are 'home-grown' sectors with a strong participation from locally owned companies (more specifically: SMEs). In sum: these sectors are major backbones of the provincial economies in terms of economic output and the number of local firms and employees involved.
We are aware that the selection of specific economic sectors may have an impact on the pattern of inter-firm relations, due to some general sector-specific constellations of production and trade. However, in each case these sectors 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 Philippines'; and

within the region Bohol is often dubbed as ‘rice granary’. As such, the selected sectors fittingly represent the three provincial economies.

Taking up a suggestion by Humphrey & Schmitz (2000), two dimensions of inter-firm networking will be analyzed empirically for our study areas:

- The *vertical* insertion of local firms in (global) value chains
- The *horizontal* networks of local (intra-provincial) coordination and cooperation among firms

The first, or vertical relational axis, designates the geographical reach of local economic activity. It shows to what extent the local firms are integrated in wider economic production networks, or alternatively, the extent of local embeddedness of local economic players. At the level of the individual firm any position on these axes does not necessarily imply many consequences. Some firms and types of business can do very well in a strictly local environment. At more aggregate levels of regional economies, a higher degree of integration in global value chains may in principle allow local firms better access to markets, knowledge and resources and thus favour their performance. The relationship is by no means simple, however, as more integration also means more competition. This in itself could be positive (pushing firms to be more productive), but in unfavourable local settings could also impose a ‘low road’ trajectory of competing on low costs alone. High degrees of integration could also undermine local autonomy or scope for decision making. Similarly, a higher degree of local network coordination and cooperation in principle favours local development, equipping participants with some cluster advantages or agglomeration economies. It may lower transaction costs, enhance the bargaining position vis à vis non-local agents (as in the value chain), enable joint support institutions, and encourage specialization and more effective division of labour. But here too a caveat applies: high levels of local cooperation lead to collusion and cleavages between insider and outsider groups, segmenting access to markets, knowledge and resources and thus undermining local productivity and competitiveness.

Since we are interested in possible co-variation between ‘vertical’ relationships between firms along the value chain on the one hand and, on the other, inter-firm links within a geographical cluster, we will make use of three types of inter-firm relationships defined by Whitley (1999) as ‘non-ownership coordination’ in his analytical framework for comparing territorial business systems (see table 1). Of course, Whitley also defines other relational spheres (such as the nature of ownership coordination and of employment relations) that will not be elaborated here.

Table 1: Whitley’s key inter-firm relations

Non-ownership coordination
Extent of alliance coordination of production chains
Extent of collaboration between competitors
Extent of alliance coordination of sectors

Source: Whitley (1999)

First of these relationships, the extent of alliance coordination of production chains is based upon how firms organize their vertical upstream and downstream relations and to what extent they coordinate and cooperate with their suppliers and buyers. This will tell us the nature of ‘vertical’ networking within the production chain. Then, the collaboration between competitors within the same space-economy together with the nature of coordination among sectors locally indicate the localized inter-firm relations or horizontal ties, not only via one-on-one alliances but also through formal associations and interest groups (Whitley, 1999).

Primary data for this study are drawn from a questionnaire survey conducted among 117 local trading SMEs in 2006. Based upon the Whitley's (1999) comparative analytical framework, the survey contained a series of questions that were aimed at unravelling the extent of vertical and horizontal inter-firm coordination of the SMEs in the three provinces. An additional questionnaire survey was conducted among 20 business associations in the three provinces, providing further quantitative data on local inter-firm alliances. Thirdly, primary data of a more qualitative nature were collected through semi-structured interviews with key stakeholders (including business representatives, academics and journalists) in 2006 and 2007. Finally, secondary data (e.g. newspaper articles, academic articles and statistics) were gathered through desk and document research.

2. Local Development Trajectories in the Central Visayas

In spite of their geographical proximity and shared cultural backgrounds, the three Visayan provinces under scrutiny here show remarkably different patterns of regional economic development. Outside of the country's core area around Manila, Cebu is exceptional in the Philippines in having a strong international orientation, producing manufactures and services for the world market. Nearby Negros Oriental, in contrast, is a 'colonial-style' sugar plantation area that has seen rather modest diversification attempts, while Bohol is characterized by a rural economy dominated by smallholder agriculture, complemented by some tourism development. Below we will briefly trace the origins of this diversity in regional development patterns.

Cebu: an international business centre in the Visayas

The island province of Cebu is the undisputed economic centre of the Central Visayas. More specifically, the urban agglomeration of Metro Cebu, with over 1.5 million people, is the Philippines most important metropolitan area outside of Metro Manila[1]. Cebu City, the provincial capital, is the main centre for services and trade in the southern Philippines. Situated in the heart of the Philippines, Cebu has a long history as a centre for shipping and inter-island trade (Fenner, 1985). The islands thin, limestone-based soils and steep slopes present unfavourable conditions for agriculture and this may have contributed to its characteristic orientation towards the outside world. Cebu has relied on external supplies for part of its food needs for centuries, perhaps even before the Spanish colonial era. Much more recently however, Metro Cebu has also emerged as an international trade centre of some significance. This has been made possible by the establishment of key transportation infrastructure: the Cebu International Port (CIP) and Mactan-Cebu International Airport (MCIA) provide direct connections to other centres of the global economy, bypassing Manila. As a result and encouraged by a strong local boosterist agenda, Cebu experienced a strong inflow of foreign direct investment (FDI) in the 1990s. Its two Mactan Export Processing Zones (MEPZ I and II) have developed into clusters of export manufacturing, even if with limited linkages with the local economy (Beerepoot & Van Westen 2001; Rodriguez, 1989). In response to changes in the global economic context, some foreign manufacturing industries are already in decline; e.g., garment production that cannot cope with Chinese competition. Newer industries take its place, for instance ICT-related services (call centres). In addition to its foreign establishments, Metro Cebu is also home to various more traditional, home-grown manufacturing activities that produce and export commodities such as furniture, fashion accessories, housewares and other handicrafts. The urban economy is characterized by a large

[1] Davao City, on Mindanao, may actually be the second city of the Philippines in terms of population size. Part of this population, however, resides in the extensive rural area of Davao City. Nor does Davao (essentially a service centre for its rural hinterland) have the international manufacturing and commercial services industries that characterise Cebu.

concentration of local manufacturers who have been able to take advantage of Cebu City's direct access to world markets, and its considerable supply of cheap but relatively skilled labour. This latter factor is enhanced by the city's role as an education centre for the region, with a considerable range of secondary and higher education establishments.

Negros Oriental: the legacy of a colonial plantation economy

Negros stands for sugar in the Philippines, and this crop is indeed the cornerstone of the local economy of Negros Oriental. The prominence of sugar is in part explained by physical geography: Negros 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 shipping links and trade between localities in the Philippines and foreign destinations. This early globalization wave of the Victorian era encouraged the settlement of Negros from neighbouring islands, with Cebuano peasants occupying the Eastern part of the island (Negros Oriental). The result was 'Sugerlandia', near monocropping of sugar in large estates, originally especially for exports (Billig, 2003; Lopez-Gonzaga, 1989). This pattern was reinforced after 1898, 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 decolonization put an end to preferential access to the American market. Diversification, however, remains relatively limited and mainly confined to Dumaguete City, the provincial capital of some 100,000 inhabitants, and its vicinity. Dumaguete is the local service centre, has important educational facilities and some tourism functions. It is also popular as a retirement location for Filipinos who have spent part of their working life abroad. Sugar, however remains the major earner of the local agricultural economy, occupying a vast share of the best agricultural land (some 35,000 hectares of the highest valued croplands). 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 measure against foreign competition. Although the industry has retained its typical institutions such as its trading system based on price sharing, power in the production chain has shifted more towards the Chinese-owned business conglomerates that control processing and marketing, and away from land-owning producers.

Bohol's rural smallholder economy

While the regional economy of Negros is a legacy of colonial economic integration through the plantation system, and Cebu presents a case of a contemporary export production platform by insertion in international Value Chains orchestrated by foreign corporations, Bohol is in a sense as yet little integrated in non-local production networks. Just as in Cebu, it is predominantly composed by rather rugged terrain, making it less suitable for large-scale agriculture. Small-scale farming on family farms has remained the main source of livelihood for many Boholanos, with rice as its staple crop (consuming 32% of total agricultural land, occupied by an approximate 500,000 rice farmers with an average landholding of 0.6 hectares). Some rice and other agricultural produce are sold to other parts of the country. Moreover, tourism emerges as a new industry offering opportunities for the province to position itself in the national and even international economy. As yet, however, the island province has not shown the dynamics discussed for its neighbours. So far the local economy has remained both essentially rural and relatively inward-looking. This is partly due 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. 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 above observations serve to characterize the three regional provincial economies, obviously with a certain selectivity. One important dimension of the local economies not accounted for here is the importance of labour migration and remittances. Our focus here, however, is on the nature of local activity patterns.

3. Patterns of economic relations in the Central Visayas

The previous section showed how the three neighbouring island provinces have experienced markedly different trajectories of economic development. Here, we turn to investigate the two dimensions of the respective provincial production networks introduced above, and see to what extent they reflect the differences in economic structures and histories of the provinces.

3.1 Vertical insertion into (global) value chains

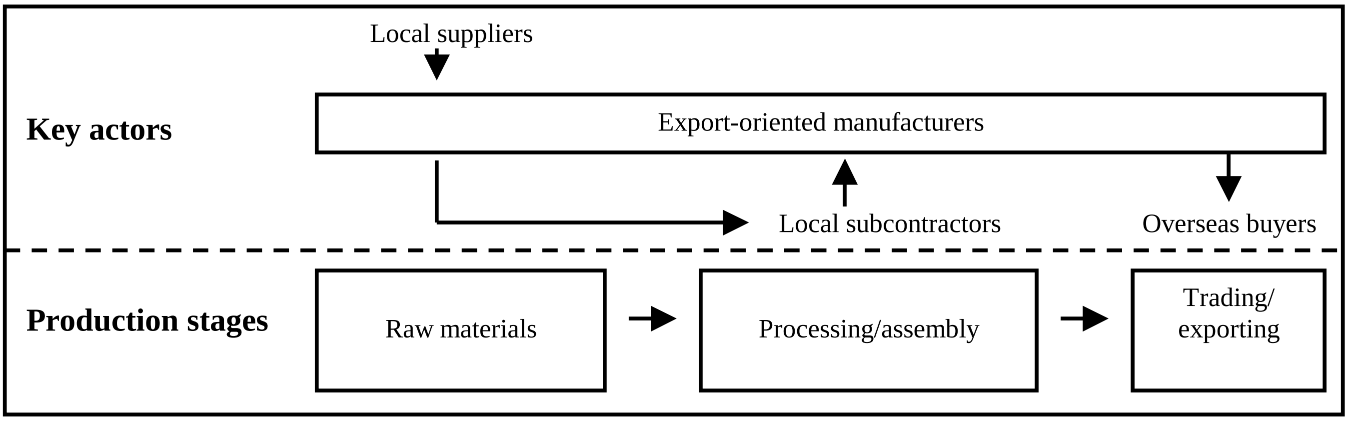
The SMEs' extent of alliance coordination within production chains is first discussed, describing the following key characteristics: (a) the geographical reach of supply and demand relations; (b) the bargaining position of the SMEs versus suppliers and buyers within their production chain; (c) coordination with suppliers and buyers; and (d) cooperation with suppliers and buyers.

Cebu

The strong historical trade linkages between the Philippines and the US still seem to resound in Cebu, with 59% of all (54) surveyed firms declaring their main buyers to be Americans. Other important international markets are Europe and Asia (both 11%). In Europe, the Netherlands is an important trading partner, while Hong Kong serves as a large furniture buyer and Singapore as an important market for gifts, toys and housewares (CIPC, 2005). Production for the national and regional market is relatively small with a total of 19%. The spatial spread of supply relations shows a completely opposite picture: 69% of the suppliers are located in the province of Cebu. Important factors that explain this strong regional orientation is the reliance of exporting manufacturers on nearby subcontractors and traders who deliver raw materials (see figure 1).

The 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. Of the surveyed firms, 44% export their goods on a contractual basis to their foreign clients. For the Cebuano exporters, these 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, with 31% of the respondents stating that they have daily contacts with their overseas buyers. Another way the exporters cope with their dependencies and uncertainties is by passing them on to their subcontractors. As the survey reveals, a relatively large portion (30%) of the Cebuano firms regulate their supply orders on a contractual basis. 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. These are small-scale and home-based manufacturing entrepreneurs who assemble (semi-finished) goods on a piece-paid basis. 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, 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. This care for vertical coordination along the value chain does not, however, lead to closer cooperation: 72% of surveyed SMEs did 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.

Figure 1: Export-oriented production chain in Metro Cebu



Negros Oriental

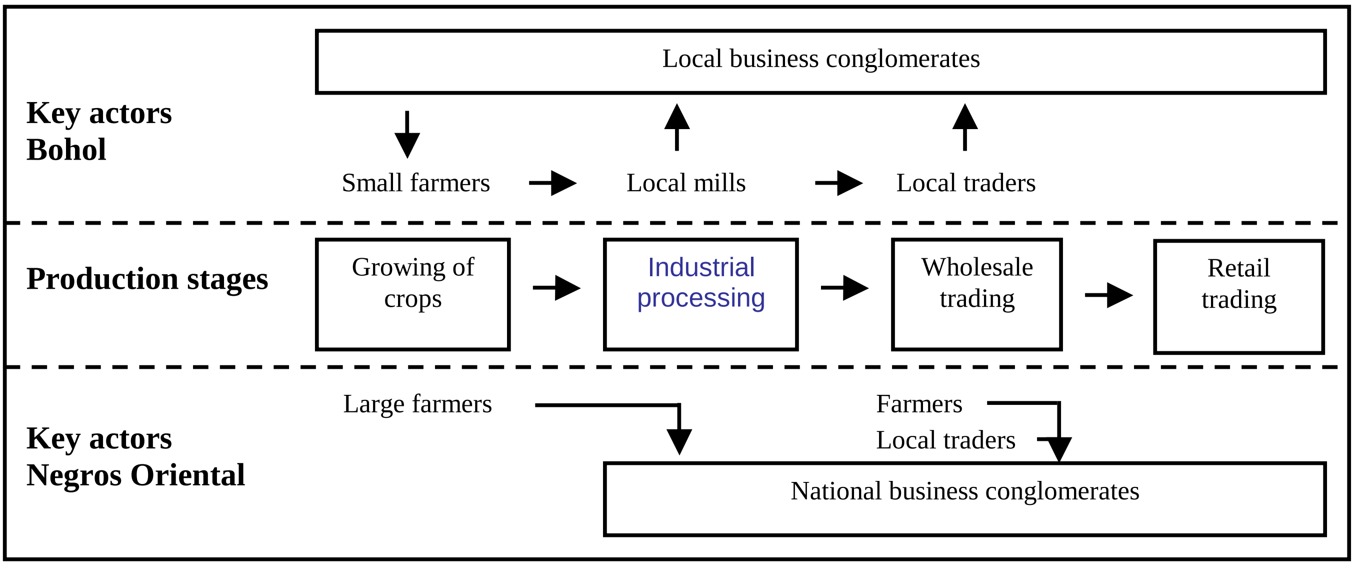
Of the 23 surveyed SMEs in Negros Oriental, 74% stated that their main buyers be located within the province, and a further 22% elsewhere in the Visayan region. A similar pattern was found on the supply side, with most (43%) of suppliers located within the province and an additional 30% of total supplies coming from other agricultural producers and traders in the Visayas. As such, the trading network of the Negrense traders is to a large extent confined within provincial boundaries. A good explanation for this is the presence of local processing plants that control the marketing of the main commercial crops of the province. The Central Azucarera de Bais (CAB), Universal Robina Sugar Manufacturing Corporation (URSUMCO) and Herminio Teves Company, Incorporated (HTCI) are the three sugar mills in the province that belong to national conglomerates.[i] The same is true for the Dumaguete Coconut Mills, Inc. (DUCOMI), the main player in the copra (dried coconut meat) trade, the second largest commercial crop in the province.[ii] 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. For instance, Universal Robina Corporation uses sugar produced by URSUMCO for the production of a range of food and beverage products destined for the national market. Since most produce is thus used as raw material for downstream production within the same corporation, only a relatively small share of Negros sugar and copra is sold on to other buyers in the region (Cebu) marketed by local traders (see figure 2).

Coordination with suppliers and clients is done in an informal way by most (74%) of the surveyed SME traders in Negros Oriental. The traders operate in a local market with familiar counterparts with whom they have long-term trading relationships. Many traders (59%) stated that they know their main suppliers and clients well and deal with them on a personal basis. 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. A further factor that contributes to the informal nature of chain coordination is found in the unique structure of sugar trading, which revolves around the auctioned selling of *quedans*.[iii] 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 formalize chain coordination in the sugar trade, is the high level of national government control and regulation. The Sugar Regulatory Administration (SRA) not only registers trade flows and issues *quedans*, it also pursues a policy aimed at stabilizing the sugar price on the domestic market. With small variations, the value chain of local copra has rather similar characteristics. The local coconut mill collects copra via an associated wholesale trading firm that relies on a network of middlemen buying the raw material from farmers. As with sugar trade, the chain follows a hierarchical pattern with little formalization of links between parties in terms of written contracts, etc.. In sum, the marketing of Negros produce is both regulated by government and very hierarchical in organization, with a low degree of formalization of exchanges. Upstream segments of the chain (farmers, then middlemen) have weak bargaining positions on the one hand but on the other do have something of a guaranteed market for their products.

Bohol

All SMEs surveyed in Bohol reported that they only do business with firms also located on the island, so the island's trade pattern seems to be confined within the island's natural boundaries. The dominant position of the Alturas Group of Companies (Alturas) and the Bohol Quality Corporation (BQ) explains this pattern. These 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 (e.g. rice mills) on the island; they also dominate the provincial wholesale and retail sectors.[iv] As a result, most local traders are 'encapsulated' as middlemen in the trade networks of one of the conglomerates, selling crops they bought from local small farmers to either Alturas or BQ. In terms of extra-provincial trade linkages, Alturas and BQ serve as the 'gatekeepers' of the Boholano economy, largely controlling the inter-island trade. The bulk of commercial goods that enter Bohol is sold in their malls and supermarkets, while the outgoing flow of agricultural goods (e.g. rice, pork and poultry) is mainly directed by Alturas, and destined for external markets like its shopping mall in Cebu City (see figure 2). 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. Since these two conglomerates dominate the provincial wholesale and retail markets and their demand roughly equals the entire provincial production of key staple crops like rice, the middlemen have limited options other than to sell to either Alturas or BQ. Furthermore, their sheer dominance allows them to also set the price for these staple crops in the provincial market. The deadlock position of the middlemen in a duopolistic market explains why most of them (95%) say they have irregular business meetings with suppliers and buyers to coordinate their trade flows. Cooperation does not occur. The meetings mainly occur during harvest times when the *palay* (unmilled rice) is taken from the fields for processing and marketing.

Figure 2: Agricultural production chains in Bohol and Negros Oriental



3.2 Horizontal networks of local inter-firm relations

In Whitley's (1999) operational model of territorial business systems, the *extent of alliance coordination of sectors* and *cooperation with local competitors* are listed as two key realms of horizontal networking between firms. In this study, the analysis of the SMEs' horizontal networking in the three provinces is based on the following interconnectivities: (a) coordination with other (non-competitive) local firms; (b) coordination with local competitors; and (c) cooperation with local competitors.

Cebu

Compared with relations within the value chain, horizontal relations among peers in Cebu tend to be limited in scale and scope. In fact, informal social relations among local entrepreneurs in Cebu are relatively weak (see annex 3). This pattern is much stronger among competing firms. Thus, 37% of surveyed firms state they do not have any contact at all with local competitors (see annex 4).

It seems likely that the nature of chain relations has implications for local inter-firm networking. Dependent as they are on foreign buyers and international markets for their sales, the typical Cebuano producer/exporter tends to be preoccupied first with the outside world, rather than with what happens locally. As a result, Cebuano exporters – the major players in local manufacturing – are inclined to keep their distance from others in the industry and communicate only with local competitors they know personally, whom they believe they can trust (Interview, 2006). Aloofness with respect to competitors is of course usual, but comparison with Negros and Bohol shows a considerably lesser level of horizontal exchanges and relationships among Cebu's export manufacturing. Many entrepreneurs producing and exporting design and fashion products stated they are careful and selective when discussing in-house information on production techniques, usage of certain natural materials and exclusive designs. This reluctance to share information with peers can be explained by the fierce global competition that takes place on the local level. Fighting for their positions on demand-driven markets overseas, entrepreneurs consider their product designs highly valuable and thus guard them carefully. This is also true for market knowledge; especially

contacts with foreign buyers are jealously guarded from each other (see also Beerepoot, 2005).
Partly in lieu of this weak one-on-one horizontal connectivity, however, a myriad of business organizations exists that try to fill the coordinative gap at the local level. Besides general associations, the export-oriented manufacturing industries have various branch organisations that serve as intermediary platforms for strategic alliances between local competitors. Little more than half of the surveyed firms indicated that they are members who regularly attend the associations' activities to meet their counterparts, pointing to a significant 'bonding role' for the associations. Although there are some social gatherings (e.g. dinners), most activities are clearly business-oriented, such as joint marketing via trade shows, technical and vocational learning initiatives, and branch-wide advocacy (Interviews, 2006). In sum, while personal relationships between firms tend to be limited or even non-existent, more formal institutional arrangements such as branch associations ensure that horizontal coordination takes place.

Negros Oriental
Traders in Negros Oriental have strong socially embedded relations with other local entrepreneurs, with personal and familial ties as important spheres of horizontal interplay (see annex 3). Strong social and informal connectivity even extends to local competitors, who often mention each other as belonging to their personal acquaintances. Many traders are concentrated in the smaller provincial cities of Dumaguete and Tanjay, where they operate in small business communities with personalised ties. Based on these social ties, business contacts among local competitors tend to occur much more frequently than in Cebu (cf. annex 4). The main result of these business contacts is the sharing of market information among local traders. A plausible explanation for the free dissemination of information on prices and products is that traders do not view this information as very sensitive for the competitive edge of their business activities; they mainly sell their merchandise to the same few buyers. The existence of a 'level bargaining field' also contributes to the fact that formalized and structured alliance coordination between local competitors occurs only sporadically in Negros Oriental. Unlike Cebu, Negros Oriental does not have branch associations that serve as platforms where local competitors can meet, interact and initiate joint activities. Moreover, the largest business association in the province mainly operates as a social club that serves to advocate local business interests with the local government. Beyond this sharing of market information and the representation of their interests with local government, there is no pressing need for local business people to engage in joint business activities (Van Helvoirt, 2007).

Bohol
The relational network of among Boholano middlemen traders is strongly structured around social ties (annex 3), resembling the pattern observed in Negros Oriental. The larger middlemen are located mainly in provincial trading hubs such as Tagbilaran and Ubay, while their smaller counterparts reside in the smaller communities in the island's interior. In both cases they operate in a highly localized setting with familiar counterparts. Moreover, as mentioned above, they all trade their merchandise in a market dominated by two local conglomerates. Their position in a captive value chain offers little manoeuvrability and discourages them from engaging in extensive coordination with local competitors. As such, this local setting strongly shapes alliance coordination among local competitors: the local middlemen prefer to interact through personal and informal relations, which offers sufficient scope for coordination. While traders appreciate the presence of a local business association that allows them to meet and socialize on a regular basis, they do not need it as a platform for undertaking joint business activities. A good example for this is the Rice and Corn Millers

Association of Bohol, that has stopped its activities because of a lack of participation from its members (Interview, 2006).

4. Inter-firm Relations and Regional Development: Discussion and Conclusions

The island provinces of the Central Visayas, in spite of a common national regulatory framework and shared cultural characteristics, show remarkably different trajectories of regional economic development. Cebu, exceptional in the provincial Philippines, is a (modest) 'world city', closely linked to 'the global' and producing manufacturing goods and commercial services for export. Foreign investors and clients play a major role in the Cebu economy, and national ('Manila') interests are also well represented, as much as there is a local business community.
Within view of Cebu, neighbouring Negros Oriental is to a large extent locked into its colonial role of a plantation economy; having lost its competitive strengths through a combination of a rentier landowning elite and social polarisation, it now looks essentially to the national level as the key focus of interest, producing raw materials for the domestic market through national corporations and depending on protective measures from the national government.
Bohol, the third province in this comparison, is a regional economy where much of the (limited) action is played out within the local framework. External contacts are essentially controlled by a duopoly-cum-duopsony of two local conglomerates that have so far resisted significant encroachment in their home turf by external – even domestic – capital.

Two rather traditional forces have set in motion this diversity of regional economic development. One is physical geography – a factor often ignored by modern human geographers, in a possible overcompensation for physical determinism in the past. The natural terrain of Negros, with extensive well-watered flatlands, enabled the establishments of large-scale sugar cropping on plantations, whereas fractured landscapes with relatively poor soils and steep slopes prevented such a scenario from taking place in most of Cebu as well as Bohol. These islands retained agricultural sectors dominated by small family farms, but while Cebu developed a significant port city and trading centre, Bohol remained relatively inward-looking (complemented in fact by extensive outward labour migration). This introduces the second major force in shaping the divergence in regional economic trajectories, i.e. the mode and period of integration in the global economy. Intensive integration in the colonial international division of labour in the later 19th century settled Negros' fate as a plantation economy with a polarised social structure and a powerful planters and traders elite that, even if no longer in exclusive control, has nevertheless retained a sufficient degree of influence to limit diversification of the local economy away from the established pattern. Interestingly, diversification that has taken place is mostly confined to the urban centre of Dumaguete and is often initiated by members of the planters and traders elite. In Cebu, integration in the world economy took place in more than one round, most importantly since the 1980s as a platform for export manufacturing and services, by means of the attraction of inward FDI and by insertion of local firms in Global Value Chains linking local producers with overseas markets. As for Bohol, it would be an exaggeration to claim that it has not yet been integrated in the global economy. Even so, the degree of integration of its majority economy of small rural producers and traders is as yet rather superficial, as exchanges tend to be confined to the local level and exchanges with the world beyond the island province is essentially controlled by the two tycoons already mentioned. External links have therefore a less pervasive effect on local activity in Bohol.

Our analysis of inter-firm relation patterns in the three provinces has revealed that the external orientation of local economies – in other words, the nature of links along the Value Chain – has a major impact of the nature of local networking. Different patterns of global integration have matching patterns of local collaboration and coordination. What matters here is not just the 'geographical reach' of the Value Chain – is production essentially for local markets, or for the national economy, or rather aiming at world markets -. What also matters much is the bargaining position of local actors in the Value Chain vis à vis the external links.

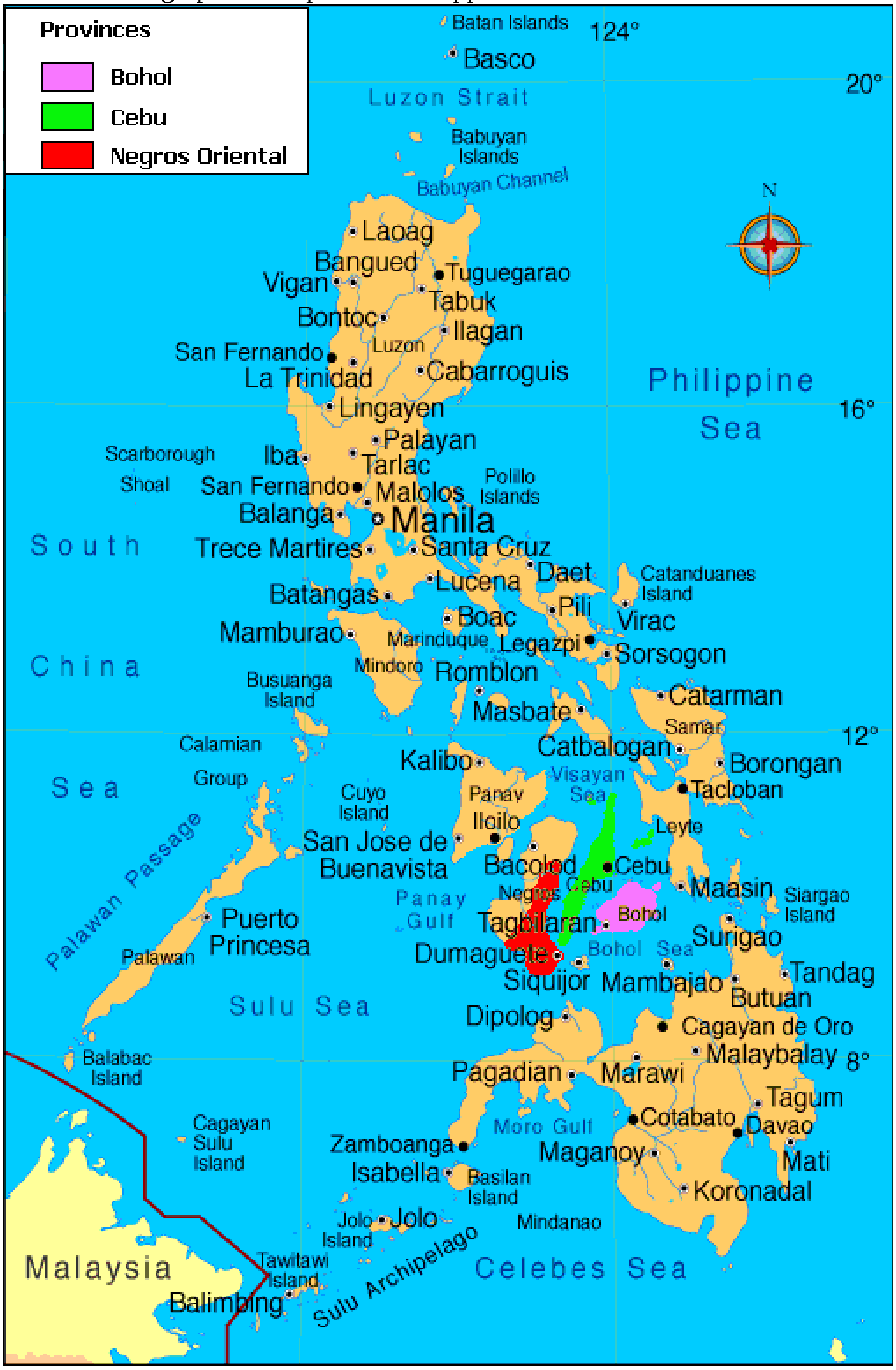
Cebu's outward-looking development model has produced a competitive environment, encouraging performance and selection. It offers opportunities for growth, making the local economy relatively diversified and dynamic. But it is also vulnerable to external shocks, and further characterized by strong exclusion mechanisms: allowing some businesses access to export channels while relegating others to the subservient positions of subcontractors, possibly being cut out of the industry in a downturn. Additionally, a combination of a weak bargaining position with respect to external links in the Chain and the weak local supporting environment tends to reinforce 'low road' competition on cost alone. The findings further indicate that there is a low level of trust and a lack of locally embedded informal business relations in Cebu. Less constructed through informal channels of socializing as in Bohol and Negros Oriental, in Cebu functional forms of social capital are created through business associations. Participation in a business association offers cooperation opportunities for entrepreneurs who are hesitant to share information individually. The relatively high level of organization and orientation on a specific product branch enables the associations to stimulate bonding social capital between member firms that have matching needs. However, the cohesiveness of these artificial coordinative platforms can be shattered when its members become more self-interested due to increased global market competition. An important outcome of this competitive and formalized inter-firm relational pattern in Cebu is that it has given rise to a selective environment that creates both adaptive/cooperative 'winners' (e.g. furniture industry) and fractured 'losers' (e.g. garments industry).

Colonial plantation societies are notorious for their polarized social structures, and the weakness of local linkages fostering diversification (Beckford). Negros presents a textbook example of these constraints: a polarized society consisting of a small landowning elite with shallow local roots, and a deprived rural proletariat of landless labourers. It should be added that this applies to the western part of Negros more than to Negros Oriental, where sugar production is partly undertaken by smallholders. The strong position of the processing plants has given Negros Oriental the characteristics of a more vertically integrated and somewhat authoritative production network. Simultaneously, the regulated domestic market creates a non-competitive and protective environment for local small businesses. The main positions of power are external to the provincial economy: with national government deciding on the protective measures without which Negros sugar can no longer compete, and the national corporations owning the lead firms in the chain (the mills). The outcome is a constrained development process in Negros Oriental, with little opportunities for expansion and upgrading of their activities for local entrepreneurs, but also a relatively secure position as one of the players within tightly regulated and hierarchical economic networks.

The provincial climates of understanding and trust in the two agrarian provinces of Bohol and Negros Oriental do lead to positive spin-offs such as sharing of reliable information, the honouring of agreements and less malfeasance among competing entrepreneurs. However, more demanding forms of cooperation that require reciprocal investments are not common, limiting the effect of the positive spin-offs. In Bohol, this can be explained by the 'encapsulated' position of local traders in a captive production network controlled by local conglomerates. There are little growth opportunities for the local agricultural traders on the local market. As an effect, the strong grip of the agribusiness tycoons on the local economy will only increase, since they have extensive market access, capital to expand their production facilities and control over external trade linkages.

Our findings, in sum, suggest that intensification of links with the global economy in the social and economic context of the Philippines has a somewhat paradoxical even if logical effect. Integration in Global Value Chains (Cebu) offers opportunities for growth, but at the same time trigger exclusion mechanisms that preclude the sharing of benefits locally. Meanwhile, more traditional ‘colonial’ integration or little integration in the global economy clearly limits local growth opportunities, but in the cases of Bohol and Negros Oriental local firm networking does favour a somewhat more equitable sharing of limited wealth. The issue is to find ways of combining the best of these two worlds.

Annex 1: Geographical map of the Philippines



Annex 2: Tables

Table 1: Geographical locations of suppliers

Location of main suppliers	*Location of company*			
	Bohol	Cebu	Negros Oriental	*Total*
Province	35	37	10	82
Visayas	1	4	7	12
Metro Manila	3	7	3	13
Mindanao	0	0	3	3
Philippines	1	3	0	4
Asia	0	1	0	1
US	0	1	0	1
Europe	0	1	0	1
Total	40	54	23	117

Source: Business survey, 2006

Table 2: Geographical locations of buyers

Location of main buyers	*Location of company*			
	Bohol	Cebu	Negros Oriental	*Total*
Province	11	5	17	33
Visayas	0	0	5	5
Metro Manila	1	1	1	3
Philippines	15	4	0	19
Asia	3	6	0	9
US	1	32	0	33
Europe	9	6	0	15
Total	40	54	23	117

Source: Business survey, 2006

Table 3: Organization of supply and demand relations

Organization of supply relations	*Location of company*			
	Bohol	Cebu	Negros Oriental	Total
Contracts (formal)	2	16	6	24
Receipts (informal)	38	38	17	93
Total	40	54	23	117
Organization of demand relations	Location of company			
	Bohol	Cebu	Negros Oriental	Total
Contracts (formal)	10	24	6	40
Receipts (informal)	30	30	17	77
Total	40	54	23	117

Source: Business survey, 2006

Table 4: Informal contact with suppliers

		Location of company			Total
		Bohol	Cebu	Negros Oriental	
Other contact with suppliers	Informal business	2	12	8	22
	Personal/friendly	17	4	11	32
	Shared membership	2	1	0	3
	None	19	37	4	60
Total		40	54	23	117

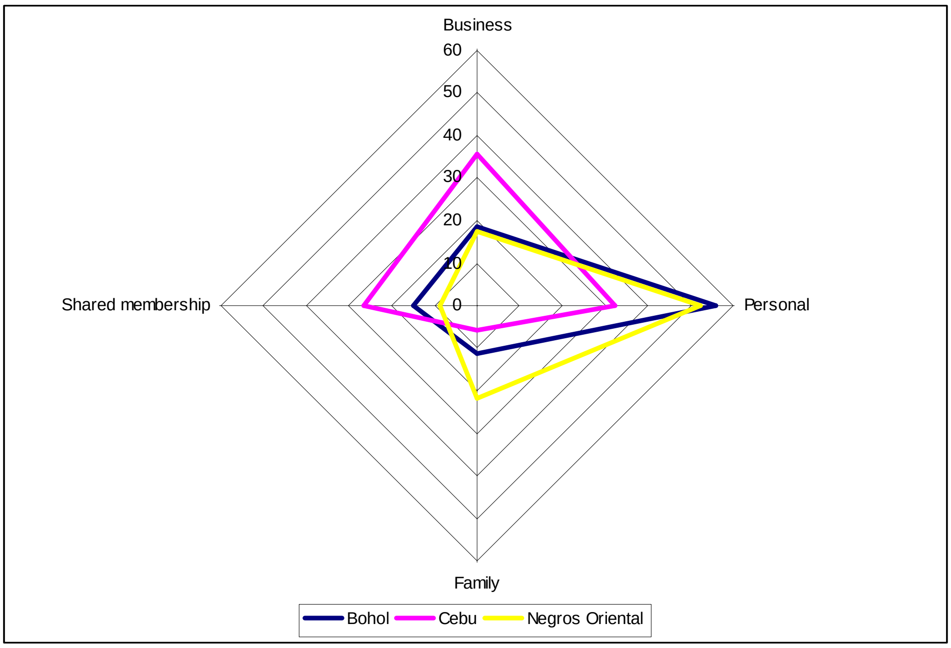
Source: Business survey, 2006

Table 5: Informal contact with clients

		Location of company			Total
		Bohol	Cebu	Negros Oriental	
Other contact with buyers	Informal business	0	10	6	16
	Personal/friendly	37	3	16	56
	None	3	41	1	45
Total		40	54	23	117

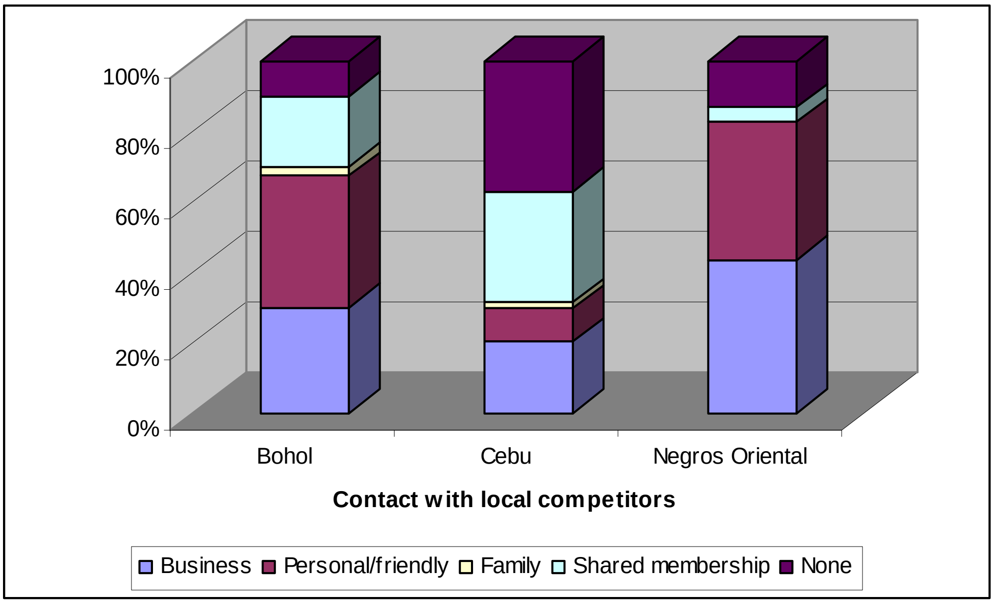
Source: Business survey, 2006

Annex 3: Spheres of local inter-firm relations



Source: Business survey, 2006

Annex 4: Contact with local competitors



Source: Business survey, 2006

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[i] CAB is owned by the Filipino-Chinese Chan family, which owns a sugar empire in Negros and Iloilo provinces. While Antonio Steven Chan runs the mill in Bais, his famous brother Jose Mari Chan runs the Binalbagan-Isabela Sugar Company (Biscom, Inc.) in Negros Occidental and the Central Azucarera de San Antonio (CASA) in Iloilo. Among other sugar centrals in the country, URSUMCO in Manjuyod belongs to the Universal Robina Corporation, which is a subsidiary of the Filipino-Chinese Gokongwei-family owned JG Summit Holdings, one of the largest conglomerates in the Philippines. HTCI is owned by the Teves family from Negros Oriental, which also owns an ice plant and a rural bank in the province. All three conglomerates have offices in Makati or Manila.

[ii] DUCOMI is also owned by the local Filipino-Chinese Sy family. Julio Sy, Sr. is a large player in the Philippine sugar industry. His Julio Sy Group (JSG) owns the Busco Sugar Milling Corporation in Bukidnon (Mindanao), is chairman of HTCI and has a joint venture with the Victorias Milling Company in Negros Occidental. Furthermore, he is chairman of the Lorenzo Shipping Corporation, which is a major player in domestic cargo shipping. His son, Julio Sy, Jr. is president of TAO Corporation, Inc., a holding company that is the largest trader of molasses (a byproduct of milled sugar) in the Philippines. Additionally, the Sy family has wholesale businesses and processing plants for other major agricultural crops (rice, corn and mango) in the province as well.

[iii] Sugar trading in the Philippines is coordinated through the quedan-system. Instituted by law and controlled by the Sugar Regulatory Administration (SRA), it is a market sharing system between sugar planters and millers. The quedan is the legal tender that represents the volume of sugar in a mill's warehouse a planter owns. When a planter wants to sell his sugar, he sells his quedan. The sharing arrangement varies between 60 to 70 percent of the quedan's price received by planters and 30 up to 40 percent by millers.

[iv] Aside the Island City Mall, the Plaza Marcela mall and the Alturas Supermarket in Tagbilaran City, Alturas has a supermarket in Talibon City and is the main supplier of consumer goods to other retail stores throughout

the province. A major retail outlet of Alturas outside the province is the Colonnade Mall in Cebu City. BQ, considerably smaller in size, has the BQ mall in Tagbilaran City as its only retail outlet. Additionally, BQ sells its goods through its Metro Centre Hotel and Panglao Island Nature Resort.