Locational Behavior of Firms in a Borderless Era

Celia L. Umali
Abstract

Firms in this borderless age have become more global and interdependent in their operations. There are organizational, economic and non-economic and behavioral factors behind "footloose" transnational corporations' and small and medium sized enterprises' (SMEs) locational behavior. These firms locate in a subnational region or city where they can have access to global economic network, institutions and infrastructure essential to conduct international business. This region has leverage as far as business environment and investment are concerned and as such enjoys remarkable economic growth.

Introduction

In the post Cold War era, we saw the creation of new economic, political, and social orders. Forged by the Information Revolution, there is now an apparent global web of interdependence not only between and among individuals, nation states but also of firms. Global structures have emerged and form relationships from which behavioral norms of firms evolve (Fombrun and Wally, 1993). Recent developments in transportation and communication have reduced the distances between cultures paving the way for the transnational mobility of capital, commodities, information and people.

The decline of transportation cost and new information technology allow manufacturing activities to become more "footloose" from sources of raw materials (Castels, 1989). Regions no longer contain the whole production processes but are themselves components of the worldwide sourcing strategies by internationally footloose capital (Douglass, 1991).
The global economic interdependence has been made easy with the new production processes due to the scientific, technological and information revolution. The nature of products is such that production could now be divided into smaller steps that make division of labor and specialization possible. Moreover, the vertical integration of firms, which relocates production of different components to different countries depending on their comparative advantage and pattern of production is very strong (Petri, 1993).

This web of global interdependence which has linked many nations internationally has ushered in an era for many once developing nations in Asia like Thailand and Malaysia to achieve impressive GDP growth rates of more than 8% in 1994, Indonesia, 7.3%, Philippines, 4.3%, China, 11.8%, vis a vis the US (4.1%), Japan (0.6%), and Canada (4.5%). These changes in the national and international economic orders are creating a new “borderless” era in the subnational regional economies as well. The export-led growth rate of Cebu in the Philippines of 9% in 1991, for example, was far more remarkable than the national export growth rate of 5%. In China, the economy of the urban and the coastal China roared leaving the hinterland way behind in development. Coastal areas that were designated as Open Areas for foreign investors produce goods which are geared to the world market. Guangdong Province where the Shenzhen economic zone is located had an average regional gross domestic product (RGDP) of 12% for the past 10 years and exports represented 18.6% of national total (Chow, 1993). The success of the Shenzhen economic zone partly hinges on its proximity to Hongkong and its utilization of the international network of Hongkong.

The world has constantly shrank and likewise has become more complex and interlinked. Cities and regions (subnational) are lugged into a
global economic network that subtends well beyond national boundaries. In fact, the most growing regions/cities are those which have successfully managed to link to the global economy (Chia, 1993). According to Chia the most growing regions of the world are those that (a) gain access to megainfrastructure systems that link cities and regions to the global economy; and (b) obtain and disseminate information using such links to seek profitable markets in the world economy. He cited the experiences of nation states like Singapore and Hongkong which have prospered as business centers of the world for having the above mentioned provisions.

Amid the global trend, size is not an insurmountable obstacle to engage in cross-national business transactions. Not only multinational corporations (MNCs) but small and medium sized enterprises (SMEs) are likewise encouraged to go international. More often a substantial number of SMEs produce highly specialized or niche products that give them a relatively strong hold in certain world market segments.

Against this background, this paper intends to assess the local business environment of a subnational region like Cebu and the leverage it enjoys for being part of the international business network. Subsequently, the locational behavior of firms both MNCs and SMEs in the region will be looked into.

Theoretical Background

Industrial location theory is used to gain some insights into firm's behavior as far as location is concerned. The industrial location theory is well supported by the principles of international business although there is no one theory that can comprehensively and satisfactorily explain the rela-
tionship between the locational factor and the firm’s actions.

MNCs with global visions decide to locate overseas based on their organizational and strategic needs to advantageously expand their operations abroad and to take advantage of transfer pricing and vertical integration practices (Haji Awang, 1991). Once these objectives are achieved it is only then that economic factors dominate in the decision-making process. The transnational corporation is now concerned with market, labor and infrastructure. In other words, the host country should be able to offer location specific advantages so as to provide requisite motivation for the MNC to invest there. Certain other factors affect most firms in their decision where to locate. These include the relative size of the country market, the ease of operating in the country, the availability, cost and quality of resources (Daniels and Radebaugh, 1992).

More recently, comparative advantage and the attraction of footloose industries have become a competition for subnational regions of one country with subnational regions in another (Douglass, 1991) or among subnational regions in the same country. More often than not, there is the tendency among firms to concentrate their investments in the core urban areas. Friedman (1973) a main contributor to the polarization concept, implied that some core regions are better than other regions because of the former’s capacity to generate higher rates of innovation. Innovation is associated with cities and is meant to cover social, political, economic and technical dimensions. As such, this serves as a power allowing the core to dominate the periphery. Yet, taking into account the geography of capitalism, Storper and Walker (1989) comment that consistent with the theme of internationalization and socially produced comparative advantage, industries tend to locate in port cities and international border regions rather than to the
densely settled rural hinterland.

The behavioral approach meanwhile takes into account the existence of schools, churches, hospitals, cultural and recreational centers expatriates could avail of, in the location decision. Last but not the least, non-economic factors do prevail, in the like of access and ease of conducting business transactions with government and private agencies as well as the political stability/security in the area. As Storper and Walker further stipulated, the core regions house the political and economic powers thereby inhibiting decentralization into the interior.

The SMEs on the other hand, which in the case of the Cebu, are indigenous industries and are locally owned. These industries utilize indigenous raw materials, traditional skills and ingenuity inherent among the local people. SMEs are known for the highly specialized or niche products which are geared for overseas markets. The SMEs have principal sources of advantage emanating from proprietary technology, flexible management and reputation and supply/customer relations (UNTNC, 1994). Due to their mere size and limited resources and capabilities, SMEs value the economic factors such as proximity to raw materials, access to transport/transshipment points, good infrastructures and access to market (Haji Awang, 1991). They likewise value a good industry-government relationship to the extend of receiving such benefits as technical assistance, financing, training, promotions and information services.

In either a MNC or a SME, their location related decisions may diverge due to the nature of the company, their sizes and operational requirements.
Cebu's Business Environment: An Assessment

The Philippine archipelago is divided into the National Capital Region and 12 other regions. Region 7 includes the provinces of Cebu, Bohol, Negros Oriental and Siquijor. Region 7 is strategically located in the heart of the Philippines (Figure 1).

Figure 1. Map of Region VII and Cebu Province.

1) The Philippines is divided into 12 regional districts and the National Capital Region. Region VII to which Cebu belongs also include Bohol, Negros Oriental and Siquijor.
It is the economic gateway to the entire southern Philippines. The regional capital is Cebu City considered the most progressive city next to Metro Manila. It is also the seat of commerce, industry, finance and education in the Central and Southern Philippines. The other provinces of Bohol, Negros Oriental and Siquijor still have agriculture as their main industry.

Economic Boom: Investment Profile and Trade Performance

Various indicators reveal the dynamic and healthy economy in Cebu. Investments in Cebu have been on the rise from a mere P0.56 B in 1986 to P4.724 B in 1991. It has been described that the business and investment in Central Visayas are favorable and that of Metro Cebu as bullish. In effect 95% of the investments are in the Cebu area (Figure 2). The investment priority areas in the area are in light engineering, plastics and packing, processed food, garments and others (Figure 3).

Figure 2. Geographical Dispersion of Investments in Central Visayas, 1990.
As a showcase of Cebu’s export-oriented growth, the Mactan Export Processing Zone (MEPZ) was inaugurated in 1986 in a 120 hectare industrial estate. EPZ is a special type of industrial estate used as one of the tools to promote industrial development. MEPZ in fact seems attractive to direct foreign investors, with the enterprises with manufacturing facilities in the zone being predominantly multinationals. Refer to Appendix 1 for the provisions of MEPZ. There is a strong impetus for foreign investments to come to the Mactan Export Processing Zone because of the economic incentives and also for the provisions of water, light and telecommunications.

1 Export Processing Zones (EPZs) are customs-controlled enclaves where industries are allowed to import raw materials and export finished goods free from duty, taxes and other import restrictions. The general intent is to encourage the processing of imported raw materials for re-export. The site is developed to accommodate facilities for manufacturing and other industrial purposes.
It currently caters to 42 firms, mostly MNCs, in an industrial estate within the vicinity of the Mactan Cebu International Airport. Since its establishment, the number of firms that have located there has increased 3 folds till 1992. The balance of payments of trade in MEPZ has recorded positive gains. The growing activity in the MEPZ reflects the fast paced economic growth in Cebu. In 1990, the regional Department of Trade and Industry reported that out of Cebu's total export of U$607, 28% or U$185.6 M originated from MEPZ (Figure 4).

From 1986 to 1991, it can be noted from Figure 4 and 5, and Table 2 that the export performance of Cebu is remarkable, growing at rate of 9% for the year 1990—1991, even higher than the national export growth rate during the past five years. Most of the exports (62% in 1991) are shipped out via the Cebu International Port. The balance of payment for Cebu also showed amazingly a positive record from 1988 (Table 3). In terms of market Japan, followed by the US. and the E. C. take a big share of 44%, 29% and 19%, respectively of the total export market share.

<table>
<thead>
<tr>
<th>Year</th>
<th>Philippines</th>
<th>Cebu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>% Growth</td>
</tr>
<tr>
<td>1986</td>
<td>4.84B</td>
<td>—</td>
</tr>
<tr>
<td>1987</td>
<td>5.65B</td>
<td>18.11</td>
</tr>
<tr>
<td>1988</td>
<td>7.07B</td>
<td>23.70</td>
</tr>
<tr>
<td>1989</td>
<td>7.82B</td>
<td>10.56</td>
</tr>
<tr>
<td>1990</td>
<td>8.12B</td>
<td>4.67</td>
</tr>
<tr>
<td>1991</td>
<td>8.87B</td>
<td>5.02</td>
</tr>
</tbody>
</table>

Source: Department of Trade and Industry-Cebu.
Table 3. Balance of Payments, Cebu Province (in million US dollars).

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>334.552</td>
<td>335.003</td>
<td>(0.451)</td>
</tr>
<tr>
<td>1988</td>
<td>456.464</td>
<td>402.725</td>
<td>53.739</td>
</tr>
<tr>
<td>1989</td>
<td>527.979</td>
<td>431.416</td>
<td>96.563</td>
</tr>
<tr>
<td>1990</td>
<td>607.113</td>
<td>366.053</td>
<td>241.060</td>
</tr>
<tr>
<td>1991</td>
<td>664.751</td>
<td>429.388</td>
<td>232.363</td>
</tr>
</tbody>
</table>

Source: Bureau of Customs, Department of Trade and Industry-Cebu.

Figure 4. Export Performance of Cebu Province in n US dollars.

The Cebu province has a total of 930 exporters in 1992, eighty seven per cent (820 exporters) of which are small exporters and account for 14.69% of exports. Meanwhile 112 (13%) of medium and large exporters account for 83% of the province’s export receipts with some SMEs serving as their subcontractors. SMEs in the area serve as the backbone of the
The strength of Cebu's export sector is dependent on the strength of the SMEs. Faced with increasing demand in delivery dates, number of items ordered, order lots and quality, manufacturers farm out orders to SMEs. These SMEs though are often faced with interrelated problems such as failure to upgrade technical and management skills, slack in productivity, problems in technology transfer and dwindling supply of raw materials (Yu, 1993).

Evidences are there that regions who have links to the outside world amid the globalization of the world economy will develop faster than those regions that are not. On these grounds, Cebu is one of the more progressive provinces in Region VII. In 1991, of the total P4.7 B investments registered with the BOI, 99% are in Cebu with very negligible investments in Bohol and Negros Oriental and almost nil in Siquijor. Similarly, 88% or US$ 661 M of the regions exports originated from the province of Cebu (Table 4). The leading exports of Cebu are MEPZ manufactured products like wat-
Table 4. Exports of Manufacturing Firms by Industry, by Province in thousand pesos, 1988–89.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>0</td>
<td>0</td>
<td>1133743</td>
<td>1143358</td>
<td>75508</td>
<td>72699</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Food Proces.</td>
<td>0</td>
<td>0</td>
<td>164298</td>
<td>188779</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Apparel</td>
<td>0</td>
<td>0</td>
<td>162147</td>
<td>140980</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Furniture</td>
<td>0</td>
<td>0</td>
<td>655043</td>
<td>745363</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Paper &amp; Pub.</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ceramics</td>
<td>0</td>
<td>0</td>
<td>24025</td>
<td>20949</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0</td>
<td>0</td>
<td>113461</td>
<td>10535</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metal</td>
<td>0</td>
<td>0</td>
<td>1320</td>
<td>6640</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>13449</td>
<td>30111</td>
<td>75508</td>
<td>72699</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: NEDA Region VII.

SMEs engaged in food processing, apparel industries, furniture industries and ceramics account for 91% of the total manufacturing exports of Cebu in 1989 which are in fact the major manufactured exports of Region VII. The high concentration of SME and export oriented businesses in the Metro Cebu area reveals the employment it brings to the people employing 16,542 persons representing 88% of the total number of workers employed by the manufacturing firms. Employment in the manufacturing sector is highest in Cebu (90%) and followed by Negros Oriental (5%). All these factors have then stimulated the economy of Cebu while the other provinces of Bohol, Siquijor and Negros Oriental lagging way behind. The presence of trade and service facilitating administrative and physical infrastructures in the Cebu area has pooled all industrial and service growth in Cebu.
Local Business Environment

Cebu can boast of six universities and 39 colleges that could well provide the required qualified and trainable workforce. Seventy-eight percent of the population are literate and participation rate reaches 89%. Cebu is a vital center for learning for Central and Southern Philippines because it is where the best schools are located outside Metro Manila.

The labor supply is abundant with almost 200,000 graduates annually. Cebu is proud of the quality of its people’s work, attitude and craftsmanship, their commitment to self-reliance and productivity. Labor productivity in the region is reportedly one of the highest in the country, growing at an average rate of 22% since 1986 (Cebu: Asia’s Investment Destination, 1991).

In terms of infrastructure like airports, seaports, energy, water, roads and bridges and telecommunications, Cebu is well provided for. The Philippines being an archipelago and Cebu being one of the 7,100 islands that compose the country, megainfrastructures like airports and seaports have been instrumental in providing the island of Cebu a progressive business environment. The Mactan International Airport, the only alternative airport to date to the Ninoy Aquino International Airport in Metro Manila handles both domestic and international flights. The Cebu International Port on the other hand handles 3 m tons of cargo yearly and has a 10,000 unit container capacity. And soon there are plans to built a super container port.

The location of the Mactan International Airport and the Cebu International Port in the heart of the Philippines has made the airport as the transit hub for passenger to and from the Southern Philippines and the port has
made Cebu the base for 85% of the interisland shipping.

Cebu has the state-run National Power Corporation (NAPOCOR) with a generating capacity of 285 MW in 1990 and an additional 103 MW connected to the power grid in 1991. Also a submarine cable connecting Cebu to the Palimpinon geothermal plant in the neighboring island of Negros Oriental is soon to be completed which with the Tongongon geothermal plant in the island of Leyte will furnish a combined energy source of 330 MW to Cebu by 1995 (Department of Trade and Industry, Region VII, Cebu, 1991).

The financial system in Cebu is the most up-to-date outside that of the National Capital Region. Almost all major banks have branch offices in Cebu. At present there are 83 commercial banks, 8 government banks, 16 savings banks, 20 rural banks and 11 licensed foreign dealers. Two international banks, the Citibank and the Standard Chartered Bank are operating in Cebu. The telecommunications too are adequate to link businesses to any part of the Philippines and the world for that matter.

The supportive and dynamic local government strives to provide the region with a conducive business environment by making it the major site for new investments coming into the country and the second gateway for international communications, travel and trade (Highlights of the Central Visayas Regional Development Plan, 1993–1998).

### Locational Behavior of Firms

Table 5 clearly shows the distribution of industries in Region VII. There is an apparent high concentration of all industries with more than 50% of all industries in the region located in Cebu Province. As a matter of
fact, more than 80% of all industries engaged in manufacturing, construction, transportation and communication are situated in Cebu.

Table 5. Number of Establishments by Major Industry Group and by Province, Region, 1991.

<table>
<thead>
<tr>
<th>Region 7</th>
<th>Bohol</th>
<th>Cebu</th>
<th>Negros Oriet.</th>
<th>Siquijor</th>
</tr>
</thead>
<tbody>
<tr>
<td>All industries</td>
<td>6278</td>
<td>523</td>
<td>4938</td>
<td>764</td>
</tr>
<tr>
<td>Agric., Fores. &amp; Fisheries</td>
<td>108</td>
<td>12</td>
<td>60</td>
<td>36</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>30</td>
<td>5</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1788</td>
<td>121</td>
<td>1500</td>
<td>162</td>
</tr>
<tr>
<td>Elec., Gas &amp; Water</td>
<td>41</td>
<td>9</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>Construction</td>
<td>65</td>
<td>6</td>
<td>53</td>
<td>6</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>2014</td>
<td>139</td>
<td>1595</td>
<td>261</td>
</tr>
<tr>
<td>Trans., &amp; Comm.,</td>
<td>183</td>
<td>11</td>
<td>155</td>
<td>10</td>
</tr>
<tr>
<td>Fin., Real Estate &amp; Bus.</td>
<td>496</td>
<td>44</td>
<td>380</td>
<td>68</td>
</tr>
<tr>
<td>Service</td>
<td>1553</td>
<td>176</td>
<td>1154</td>
<td>207</td>
</tr>
</tbody>
</table>


Figure 6. Composition of the Manufacturing Sector in Cebu Province, 1991.

MANUFACTURING SECTOR
Subsectoral Composition
1989

Food 39%
Others 3%
Metal 8%
Crude Metal 3%
Ceramics 12%
Garments 17%
Paper and Publishing 4%
Furniture 11%

Source: DTI - 7
The manufacturing sector in Cebu is a manifestation of the Cebu's industrialization. In 1986—1989, the number of firms in the manufacturing sector grew by 30.7% and employment by 38.9% (Orillo, 1993). From 1990 to 1993, 46 new and 38 expanding firms registered with the Board of Investment and another new 24 firms decided to locate at the MEPZ. Two thirds of the 1,530 manufacturing firms surveyed in 1989 are concentrated in the Metro Cebu area. The top four ranking industries of the manufacturing sector in Cebu in 1989 are: food manufacturing (39%), garments (17%), ceramics (12%), and furnitures (11%) (See Figure 6).

In the manufacturing industry in Cebu, firms are predominantly small and medium² (98%) according to size and number of employees as shown in Figure 7. Average firm statistics (Figure 8) indicate that 41% of firms are engaged in food manufacturing which basically employ an average of 11 people. The wood industry which includes the furniture industry, and the metal industry, representing 10% and 12% of all industries are also SMEs.

To catch up with the other ASEAN countries, the government has pursued a two-track strategy. One is the promotion of SMEs to a higher level of production of competitive and higher value exports. In parallel, the inflow of direct foreign investments into the region is encouraged.

²) In the Philippines, firm size is categorized as follows:

<table>
<thead>
<tr>
<th>Size</th>
<th>Total Assets</th>
<th>No. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Pesos 10M &amp; below</td>
<td>10—99</td>
</tr>
<tr>
<td>Medium</td>
<td>Pesos 10M—40M</td>
<td>100—199</td>
</tr>
<tr>
<td>Large</td>
<td>Pesos 40&amp; above</td>
<td>200—more</td>
</tr>
</tbody>
</table>
Figure 7. Classification of Manufacturing Sector by Asset Size in Cebu Province, 1989.

**MANUFACTURING SECTOR**

According to Asset Size

- Large: 2%
- Medium: 16%
- Small: 82%

1989

Source: DTI - Cebu

Figure 8. Firm Size by the Number of Employees, Cebu, 1991.

**Cebu Industries**

*Average Firm Statistics*

Source: DTI - Cebu
Attracted by the provisions of MEPZ, subsidiaries of MNCs, almost half of which are Japanese-owned (23 out of 42), locate there. These MNCs produce a vast array of products such as watches, semiconductors, electrical equipment, precious jewelry and utility items all geared for export. Practically labor intensive, the MEPZ posted a 400% increase in the number of skilled and unskilled workers hired from 3,000 in 1968 to 11,700 in 1990. As of 1992, employment stood at around 15,000 people, 75% of whom are females. This growth in employment is a good manifestation of the capacity of Cebu province to meet the job requirements of these business establishments.

In terms of geographical distribution of manufacturing firms, there is a heavy bias towards towards Metro Cebu. Looking into the locational advantage of the industrial groups in terms of proximity to the airport and port, there seems to be a high concentration of SMEs in Mandaue (please refer to Figure 9), engaged in the manufacture of furnitures, garments, ac-

Figure 9. Industrial Location of SMEs and MNCs in Metro Cebu.

*Based on author's survey.
cessories, handicrafts, food processing, etc.

The Mactan Export Processing Zone area is in the vicinity of Lapu-Lapu city. Products manufactured there are light and mainly for exports, thus situated adjacent to the airport because most of the items are air freighted; otherwise heavy and voluminous exports items are shipped through the Cebu International Port. The main city of Cebu on the other hand which is the capital of the province is where the banks, government offices, display centers and trading houses all necessary to transact business as well the universities, and cultural centers are situated.

It is also clearly seen that in the case of Metro Cebu, it has flourished as an investment destination, since the export and trade that go parallel with the regional economic development have been met with the provision of efficient and accessible business infrastructures and services which the SMEs require as they become more world market oriented in their activities.

The traditional SMEs engaged in furniture-making, handicrafts, and food manufacturing are owned by residents and the factories have been located in Cebu upon incorporation. These SMEs are labor intensive and abound in Manduaue and usually have strong affinity to the location for one due to the indigenous skills the local people possess, although the unskilled can be trained. These SMEs are economically and socially integrated in the region which gives them an edge already in terms of existing relationship with relevant customers, suppliers, regulations, industry structure, government requirements and other aspects of doing business in the region.

Firms specially those that have become more export-oriented highly favor Metro Cebu for its large domestic market, access to domestic and international markets, better transportation and communication facilities,
ready pool of highly trainable manpower and recreational and other urban amenities (Orillo, 1993). These factors imply lower costs and increase in profits for the firms.

And since they are becoming more international market oriented, their need to be near the transshipment points made them stay on and operate in Cebu Province. An interview with some of the handicraft and furniture operators indicated that through the years their product lines have changed and shifted according to the availability of raw materials, government regulations and changes in the product designs to suit international market demand/needs in the US, Canada and Europe. They started there and decided to remain there due to the availability and ease in the acquisition of raw materials during the shift to different product lines. In the event that raw materials are not available in Cebu, they can always capitalize on Cebu’s central position in the country and its access to transshipment points to receive the raw materials from local and international sources. Moreover, the local government has been very supportive to their cause.

The MNEs in the Cebu Province mostly located in the MEPZ are engaged in the production of watches, semiconductors, electrical equipment, garments and precious jewelry. These FDIs are labor intensive in nature hence these MNEs are in search of skilled or trainable manpower.

The MNCs on the other hand locate in Cebu, more specifically at MEPZ due to the favorable business economic environment provided by the host government as the provision of the export processing zone stipulates. Most of the items produced in the subsidiaries of the MNEs in MEPZ are standardized products. According to the product cycle, at the standardized stage where price is the determining competitive factor, products are produced in the developing countries for export to the home country (Vernon,
As part of the input-output components of MNEs, many of these MNEs lend support to the concept of internalization. Some of the MNEs supply and/or acquire intermediate goods and components to parent companies or other subsidiaries. For another, most of the raw material input requirements are imported, either from the parent company or other subsidiaries or from other foreign sources.

An interview with a MNE in MEPZ which produces utility boxes reveals that their decision to locate in Cebu was due the high labor cost in the home country. Its operations are labor intensive and hire mostly women. All the materials except the wooden frames are imported and all finished products are exported to the US and Europe so they saw Cebu province as a sound and stable place to relocate. As far as garment firms are concerned, their operations utilize a lot of women in their labor force. Ninety five percent of their raw materials requirements are imported and depending on their quota export the garments to US, EC, Middle East and Japan. MNEs engaged in the manufacture of semiconductors said the availability of skilled and trainable unskilled workers including the fact that the MEPZ offers incentives made them to locate there. Again a big portion of the raw materials are sourced from overseas.

Based on these premises, easy access to the port and seaport, services and government agencies which is essential since they had to import and export intermediate and finished products overseas as well as the supply of trainable labor force, among other things, had been some of the motivating factors for the MNCs to do operations in Cebu. The local government has institutionalized an information support system (e.g. Investor’s Guide, Pre-investment Studies, Industry Studies and Provincial Resource
Profile) and a more efficient export processing, investment coordinating, and investment information centers all for the purpose of assisting current and future investors in Cebu. The local private associations and chamber of commerce likewise coordinate with the local government to serve the local and foreign businessmen.

**Concluding Note**

There is evidence to support that the MNCs are concerned with the organizational strategy to take advantage of the cheap and trainable workforce and the government taxes and non-tax incentives in Cebu. The MNCs are also concerned with their global manufacturing input/output needs hence access to megainfrastructure such as road, ports and seaport is valuable to them. One observation too is that the decision to locate or to stay in Cebu is influenced by the role of the local government as facilitator, coordinator and regulator.

MNCs who decide to locate in MEPZ have strong vertical linkages within their own organization but have very weak vertical linkages with the local firms. As noted earlier almost all of their input requirements are sourced from overseas basically on the grounds of low quality of local materials or unavailability of the material input. It defeats one of the main goals of the government in attracting foreign direct investments for subnational regional development through the multiplier effects that the investments could bring as far as local industries are concerned.

The SMEs in their bid to take part in the global market on the other hand are very appreciative of the good labor, infrastructure, and supportive and less bureaucratic local government that has been very responsive to
their needs to upgrade the quality of the Cebu made products to meet world standards as well promoting them in the international market.

These SMEs get well enough support from the national and local government as they see more opportunity for these SMEs who are at the vortex of economic activity in the region to sustain livelihood and address the problems of unequal distribution of the income and wealth in the country. The SMEs can also absorb the growing labor pool who are unlikely to find employment in the large scale and formal industries.

To reiterate, the MNEs and the SMEs locate within the urban regions of Cebu Province to take advantage of the relative better export/import and service facilities, proximity to international gateways, availability and quality of labor as well as the local business and investment incentives. Here the standard paradigm of profit maximization objective of the enterprise stands paramount. The good relationship between the local government and business has been commended by many people. All these factors tend to be a strong agglomeration incentive as far as spatial concentration of industries is concerned and which have led to the economic boom in Cebu.

Yet Metro Cebu as a prime industrial growth area is not absolved from future adverse consequences. The economic boom could soon be accompanied by the depletion of good industrial sites, increasing real estate prices, congestion and health and environmental problems.

To have insights on the business environment and business climate a specific location has to offer businesses and to have an understanding of the underlying reasons behind the firm's industrial behavior in Cebu and yet be cognizant of the benefits and costs involved can serve as a case from which other regions outside Metro Manila and Metro Cebu can draw valuable
lessons in their pursuit of luring both local and foreign investors as part of their local development strategy.

Appendix 1

Mactan Export Processing Zone

* Aside from the duty-free importation of all capital goods and raw materials, major incentives include income tax holidays of four years to six years, depending on whether activity is non-pioneer or pioneer. Expansion within period covered with incentives automatically qualifies firm to an additional two years exemption from income taxes.

* All firms in the Zone are exempted from all sales and export taxes. They are also exempted from all provincial, city or municipal taxes. Only taxes paid are real estate taxes.

* Entry visas are qualified for expatriates up to 5% of the total workforce up to five years stay. For the top three management positions in each company, multiple entry visas granted to expatriates are definite.

* Preferential rates for public utilities like power and water.

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