



The Shoe Industry of Marikina City, Philippines: A Developing-Country Cluster in Crisis

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ABSTRACT. This study describes the main features of the shoe industry in the Philippines, the core of which is located in Marikina City in the northeast of the Manila Metropolitan Area. Initial discussions delve with general remarks on industrial clusters and commodity chains with a detailed account of their internal structure and changing fortunes. The deeply-rooted failures of the cluster since the early 1990s are pinpointed. These can be directly related to the liberalization of the Filipino economy, and the concomitant increase in Chinese-made shoes on domestic markets. Various private and public responses to the crisis are described and evaluated. It is argued that as helpful as many of these responses may be, their overall impact is likely to remain limited. Series of possible policy options and their high risks of failure are emphasized. In conclusion, the study presents a developmental scenario based on cluster upgrading and intensified export activity.

KEYWORDS. shoe industry · Marikina city · commodity chains · trade liberalization · vertical disintegration · globalization

INTRODUCTION

This study seeks to attain three main objectives. The first is to provide a reasonably detailed empirical description of the shoe industry of Marikina City in the Philippines. The second is to explore the predicaments and opportunities that the industry currently faces and to elucidate a number of concomitant policy issues. The third is to outline some of the implications of the study for questions of industrialization and development in low- and middle-income countries generally, especially under conditions of deepening globalization.

The shoe industry in the Philippines can be traced back for well over a century (Ibon Databank 1986). The greater part of the industry has always been concentrated in Marikina City in the northeast of the

Manila Metropolitan Area, where it assumes the spatial and functional form of a classical marshallian industrial district. The output of the industry today consists for the most part of cheap shoes fabricated in both leather and synthetic materials for the domestic market. However, the Philippines has never been in the ranks of the world's largest shoe-producing countries, and in East and Southeast Asia alone, it trails far behind China, Vietnam, Taiwan, Indonesia, and Thailand, in terms of both employment and output. Moreover, the industry has been subject to intense competition over the last decade or so as producers from other countries (above all China) have penetrated deeply into domestic markets in the Philippines while simultaneously blocking out many export opportunities for Filipino manufacturers. Currently, the industry is in great disarray, and its future is extremely uncertain.

For these very reasons, the industry offers a rich terrain of investigative possibilities, both in its own right, and as an exemplar of the problems and dilemmas faced by many industrial clusters in less-developed parts of the world as globalization moves forward. Above all, it provides an illuminating case of the combined effects of two critical elements of the development process in numerous low- and middle-income countries at the present time. On the one hand, the shoe-manufacturing cluster of Marikina City is a rather dramatic instance of the spatial agglomeration of small entrepreneurial firms that characterizes many industries in the spatial margins of contemporary capitalism (Scott 2002). On the other hand, its current predicaments highlight, by default, the important developmental role played by the commodity chains that link successful agglomerations to wider markets, and that are so conspicuously absent in the case of the Filipino shoe industry (Gereffi and Korzeniewicz 1994). In fact, the Filipino shoe industry is currently subject to considerable stress on a variety of fronts, a circumstance that poses a number of crucial analytical problems, as well as an occasion for working out some diagnostic insights into a series of developmental bottlenecks that are all too common throughout the less-developed world. Equally, the present investigation offers a number of opportunities for informed speculation about practical policy-making in these situations, just as it points in the direction of some possible addenda to development theory as a whole.

CLUSTERS AND CHAINS

Shoe manufacturing typically proceeds in a series of stages as follows. First, basic leather or synthetic materials are cut to make the different elements

(sole, tongue, quarters, vamp, etc.) out of which the shoe is composed. Second, a number of these pre-cut elements are assembled to make the composite upper part of the shoe. Third, the assembled upper is shaped over a last. Fourth, the uppers are attached to soles by stitching or cementing. Fifth, the heels are then affixed. Sixth, accessories such as eyelets, tassels or buckles are added to the finished shoe.

These features of the shoe-manufacturing process give ample scope for variety in the organization of production and the division of labor. In many cases, production is arranged in networks of vertically-disintegrated firms, with each firm specializing in just one phase of the manufacturing process. This manner of proceeding is well adapted to the production of small batches of shoes with frequently varying design specifications. In other cases, production is vertically integrated within single firms, so that all the different tasks of shoemaking are performed under unified managerial control. In the latter instance, an assembly line usually links the different workstations together, thereby sustaining a coordinated flow of semifinished product through the factory and making it economically feasible to manufacture large runs of relatively standardized outputs. Many different intermediate organizational arrangements between these two exemplary cases are possible in principle and observable in practice.

Of all these different arrangements, those that involve a substantial degree of vertical disintegration are of special interest and significance in the present analysis. Industrial sectors in which production is carried out in this manner typically form dense industrial districts, and the shoe industry is no exception to this rule. Indeed, the tendency of shoe producers and their cohorts of suppliers to agglomerate together in regional clusters or complexes is an extremely common occurrence, both in more and less developed parts of the world (Hall 1962, Hoover 1937, Knorringa 1996, 1999; Morris and Lowder 1992, Rabellotti 1997, 1999; Rabellotti and Schmitz 1999, Rimmer 1968, Schmitz 1995, 2001). The locational forces that lie behind this tendency are many and various, but their points of genesis can usually be identified by reference to three main facets of any disintegrated production system, namely, (a) the networks of specialized but complementary firms that comprise the active core of the manufacturing system, (b) the dense and multifaceted local labor markets that invariably spring up in the vicinity of workplaces, and (c) the tightly-wrought webs of social interaction that often play an important part in sustaining localized industrial innovation processes. The clusters that spring forth in

response to these forces are almost always interlaced with associational and institutional infrastructures that function in different ways as sites of collective decisionmaking and action in the interests of enhanced industrial performance (Scott and Storper 2003). The shoe-manufacturing complex of Marikina City is a typical industrial cluster of this sort.

Of course, no industrial cluster can be economically viable in the absence of a cognate system capable of distributing and marketing its outputs on wider markets, whether domestic or foreign. Shoe producers in Marikina City have always concentrated their sales efforts on the domestic market, and their output is sold across the Philippines through retail boutiques, department stores, and mail order companies among others. However, these efforts have tended to lag in recent years, and, in addition, the industry's capacity for export activity is notably underdeveloped. In fact, one of the central problems of the Filipino shoe industry at large has been its signal failure to put more aggressive distribution and marketing structures into place as worldwide competition has intensified over the last few decades. Its failure in this matter is all the more evident in view of the vastly more successful efforts of a number of its direct competitors (such as Brazil, China, and Mexico), and most especially in view of the ability of shoe-manufacturing clusters in the latter countries to attract the concerted attention of overseas traders and buyers (Bazan and Navas-Alemán 2004, Knorrnga 1996, Korzeniewicz 1992, Levy 1991, Lowder 1999). In contrast with these more successful clusters, the Marikina City shoe industry has never been incorporated to any significant degree in international commodity chains.

Gereffi (1994, 1999) suggests that we need to distinguish between two main types of commodity chains, namely, producer-driven and buyer-driven. The former is generally associated with large-firm manufacturing sectors such as the car or aircraft industries, where suppliers have the resources to mount their own distribution and marketing networks. The latter tends to be more characteristic of small-firm sectors such as the clothing or shoe industries, especially where manufacturers are insufficiently large to undertake distribution and marketing functions themselves; and in these circumstances export activities are often in the hands of big international buyers like American and European department stores, wholesalers, or branded manufacturers who are able to scour the world in search of sources of product supply. Gibbon (2001) and Sverrisson (2004) argue that we

also need to recognize a third type of commodity chain based on trader-driven forces. Actually, the term “chain” is somewhat unsatisfactory in the present context because it is usually defined in a way that encompasses the double notion of a multistage input-output complex and a system of supplier-buyer relationships. For present purposes, I want to distinguish sharply between these two phenomena. Hence, I shall adopt what I take to be the more sharply focused terminology “distribution and marketing nexus” to designate the latter.

An approach to industrial development processes that combines notions of industrial clusters and commodity distribution and marketing, would appear to promise much in the way of both indicative and normative insights. The cluster idea directs attention to the localized increasing-returns effects and competitive advantages that are the lifeblood of many industries and the source of major growth energies (Scott 2004b). Consideration of the commodity distribution and marketing nexus, for its part, raises important and too often neglected questions about the role and functions of external relations in local economic development. The combination of these two critical moments of the space-economy (i.e. clustering and external relations) brings their mutually sustaining relations strongly to the fore (Humphrey and Schmitz 2002). The terrain of analysis is further modulated by the increasing returns effects, externalities, and market failures that persistently run through these kinds of economic structures, and by the collective action issues that are raised as a consequence (Scott and Storper 2003). On the one side, industrial clusters are rife with spillover effects that demand careful management in the interests of overall efficiency. On the other side, distribution and marketing activities are subject to transactional breakdowns that result in persistent information gaps. As Lall (1991) points out, the received theory of trade assumes that if any firm is able to match world prices, it can immediately sell its output on external markets without further ado, but in practice, the need for extensive scanning, monitoring, and coordination, means that this process is far from being self-realizing in the manner of a textbook model of supply and demand relations.

THE FILIPINO SHOE INDUSTRY: AN OVERVIEW

There is a notable paucity of systematic statistical information on the shoe industry in the Philippines. The most recently published official document allowing us to assess something of the industry's broad

complexion is the *1995 Annual Survey of Establishments: Manufacturing*¹, which records all data in terms of the 1977 Philippines Standard Industrial Classification (PSIC). The *Annual Survey* informs us that there were 1,920 establishments classified under PSIC code 324 (Manufacture of Leather Footwear) in the Philippines as a whole in 1995. The total number of employees in the same year was 21,701. Of all establishments in the industry, fully 80.7 percent had fewer than ten workers. Average monthly earnings amounted to USD 53.33 in establishments with fewer than ten workers and USD 143.94 in establishments with ten or more workers, at then prevailing exchange rates. For purposes of comparison, we may note that average monthly earnings in Filipino manufacturing as a whole were USD 259 in 1995. At the same time, the small-firm segment of the Filipino economy (which includes most shoe manufacturers) is known for its extensive use of child labor (Vahapassi 2000). The average per-worker book value of the physical assets of shoe-manufacturing establishments with fewer than ten workers was USD 567 in 1995, and that of establishments with ten workers or more was USD 1,393, so that the industry as a whole is notably labor-intensive, especially in the small-firm segment. As meager as these fragments of statistical information may be, they indicate quite clearly that the shoe industry in the Philippines is modest in size, is made up largely of very small units of production with low levels of capitalization, pays meager wages, even by local standards, and is characterized by much informalization of employment structures (Ibon Databank 1986).

In addition, the industry is strongly concentrated in geographic terms. Figure 1 shows the overall locational pattern of employment in shoe manufacturing in the Philippines. The National Capital Region, which includes Marikina City, is by far the dominant center of the industry with 39.3 percent of all establishments and 53 percent of all employment. Two administrative divisions adjacent to the National Capital Region, Central Luzon to the north and west and Southern Tagalog to the south and east, account for the lion's share of the rest of employment in the Filipino shoe industry. Central Luzon is also the center of the leather tanning industry, which is concentrated in the town of Meycauayan. Southern Tagalog contains a number of establishments that have spilled over from the Marikina City cluster into nearby municipalities, and is also the location of Biñan, which comprises a nucleus of small workshops producing for the bottom-most segment of the Filipino shoe market. There is little shoe

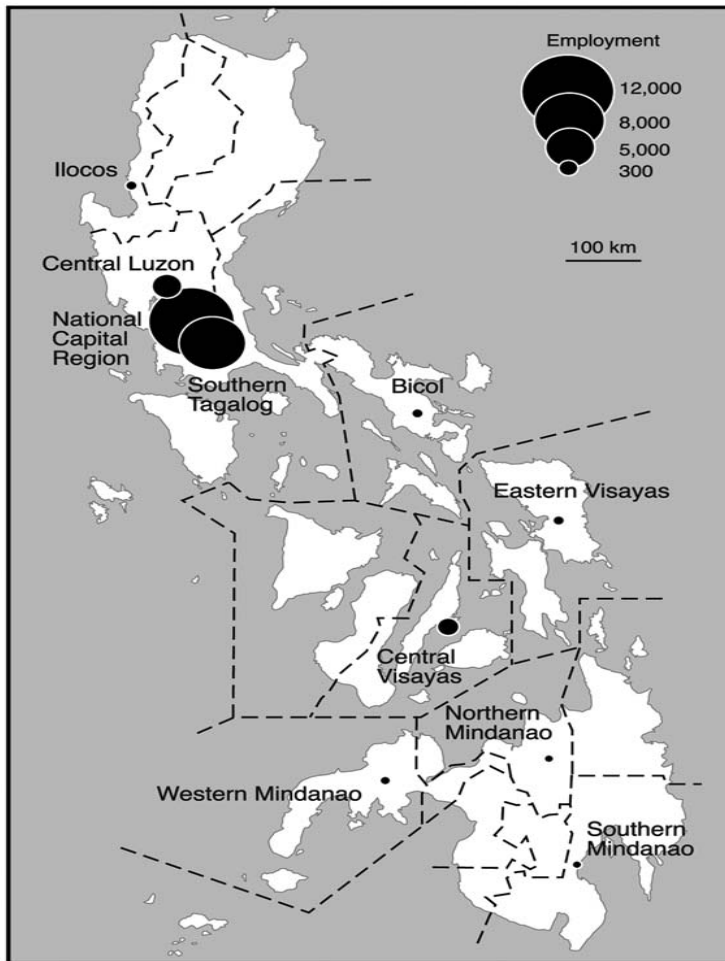


Figure 1. Geographic distribution of employment in the Filipino leather footwear industry by administrative division. Area of circles is proportional to the square root of employment. (Data from National Statistics Office [NSO] 1999.)

manufacturing in the southern half of the country apart from a small cluster in Cebu in Central Visayas. Note that the industry is made up almost entirely of firms owned by local (Filipino) entrepreneurs. Over a short period up to the mid-1990s, the Philippines also had a number of large foreign-owned plants employing cheap local labor to make athletic shoes, but these operations have now almost entirely shifted to even lower-cost sites in other parts of Southeast Asia, most notably

Table 1. Value of Philippine imports and exports of footwear, 1990-2003 (in thousand US dollar)

Year	Imports	Exports
2003	50,941	36,233
2002	49,668	35,547
2001	48,152	61,434
2000	51,058	58,448
1999	58,683	70,920
1998	52,905	135,150
1997	70,169	169,235
1996	48,872	138,048
1995	34,245	156,891
1994	31,447	176,335
1993	30,032	143,912
1992	22,525	120,993
1991	21,077	121,533
1990	20,022	78,001

Source: NSO 1990-2003.

Note: All data refer to items classified under code 53 of the Revised Philippine Standard Commodity Classification (which is aligned with the United Nations SITC codes).

to Vietnam (Barff and Austen 1993, Donaghu and Barff 1990). These plants were never, in any case, functionally integrated into the Marikina shoe-manufacturing complex.

Until the 1980s, the shoe industry in the Philippines was protected by the high tariff barriers then in force as part of the overall national policy of import substitution. The industry accordingly prospered in a modest but definite way on the basis of its more or less complete command of domestic markets. In the 1980s, import substitution policies were largely abandoned by the Philippine government, and over the 1990s trade liberalization accelerated greatly (Bautista and Tecson 2003; Hill 2003). For example, the average nominal tariff on all manufactured goods was 33.7 percent in 1981 and just 5.4 percent in 2003. The average nominal tariff of leather, rubber, footwear and travel goods fell from 17.6 percent in 1996 to 7.7 percent in 2000. One effect of this policy shift has been a notable rise in imports of foreign shoes into the country since the early 1990s (see Table 1) with China leading the way as the main source of supply. In 2003, more than half of the total value of Filipino shoe imports was ascribable to China. By contrast, Filipino exports of shoes have fallen dramatically over the same period, though the aggregate statistics are somewhat misleading here because a large portion of the export trade until the

Table 2. World's top ten exporters of footwear (excluding Hong Kong), 2003

Country	Export value (in million US dollar)
China	12,955
Italy	8,376
Spain	2,125
Vietnam	1,913
Germany	1,862
Belgium	1,663
Brazil	1,622
Portugal	1,497
Romania	1,420
France	1,277
Total world exports	43,315

Source: United Nations Commodity Trade Statistics Database (COMTRADE).
<http://unstats.un.org/unsd/comtrade/>.

Note: All data refer to SITC 85.

mid-1990s was made up of athletic shoes, and hence much of the recent decline is actually an effect of the closure of the foreign-owned plants where they were made. That said, exports have continued to dwindle, even after the disappearance of these plants.

One of the principal factors underlying the continuing weakness of shoe exports from the Philippines is the ever-intensifying competition on world markets from producers in other low-wage countries. The force of this competition is evident from the data laid out in Table 2, which shows the world's top ten exporters of footwear (excluding Hong Kong, which is nowadays very largely a re-exporter of Chinese-made shoes). The countries listed in the table export shoes at various price and quality levels, but only those that produce for the low end of the market currently offer head-to-head competition with the Philippines. With almost 30 percent of the world's shoe exports, China is clearly the leading supplier of global markets, and it continues to consolidate its lead. The Philippines with its relatively minuscule export figure of USD 36.2 million in 2003 ranks far below any of the countries shown in Table 2, and shoes remain a minor item in the overall structure of the Filipino economy. Even in 1995, when trade in Filipino shoes was much higher than it is now, exports still only amounted to 1.1 percent of the overall value of domestic shoe production. The small quantities of shoes that continue to be exported from the Philippines are purchased mainly in neighboring countries of Asia and in the Middle East. Little or no export activity is currently directed to high-income countries.



Figure 2. Annual number of registered shoe-manufacturing firms in Marikina City, 1992 – 2004. (Unpublished data provided by the Marikina City Treasurer’s Office.)

THE SHOE-MANUFACTURING COMPLEX OF MARIKINA CITY

According to unpublished data provided by the Marikina City Treasurer’s Office, the number of registered shoe manufacturers in the city stood at 248 in 2004, significantly down from the 513 that were registered in 1994 (see Figure 2). A large number of unregistered firms also exist in the city, but these have probably declined even more rapidly given their endemically precarious economic status. The detailed locations of currently registered firms in Marikina City are shown in figure 3. Observe the dense cluster of firms located in the vicinity of Shoe Avenue in San Roque, which is the traditional home of the industry in Marikina City. Today, the industry fans out in a belt running northward from this central reference point toward the Nangka ward at the other end of the city. In recent years, small numbers of producers have decentralized away from Marikina City and into the neighboring areas of Antipolo City, Cainta, and Pasig City.

The vast majority of shoe manufacturers in Marikina are small in size, and most of them employ only a handful of workers. However, a few large producers also exist, in some cases with employment levels rising into the multiple hundreds. Production in the small-firm

segment is based almost entirely on handiwork, and this segment shares many of the characteristics of the widespread cottage-industry system in the Philippines as a whole (Satake 2003). Production processes in the larger firms are relatively mechanized, though considerable amounts of manual labor continue to be used. Most of the machinery used in these firms is imported from Italy and Taiwan. Vertical disintegration of the production system is strongly in evidence, and even the larger manufacturers regularly subcontract out batches of work. Manufacturers of all sizes put out specialized tasks (like the making of lasts, insoles, or uppers) to independent workshops, and many standard components such as soles, heels, and shoemakers' findings are bought in. Much production is also carried out on a homework basis. One widely practiced form of subcontracting in the industry involves placing orders for batches of finished shoes with other manufacturers, and this is especially common whenever firms are faced with a surge in demand so that their own production capacity is temporarily exceeded. In spite of the high levels of functional disintegration that generally characterize the industry, some of the larger manufacturers have integrated backward through the wider supply chain into materials production and other service functions, (including, in at least one case, into tannery operations), and forward into retailing, both in the greater Manila area and other parts of the Philippines. This type of backward integration, by all accounts, has not proven to be very successful, and locks manufacturers into a relatively inflexible system of procurement. Forward integration provides manufacturers with assured outlets for their product and direct feedback about market conditions, but it still does not really offer much shelter from the onslaught of the Chinese competition. Indeed, many of the manufacturers who own retail outlets are themselves now beginning to import Chinese-made shoes for local sale.

Almost all of the firms within the industry are family enterprises owned by individuals with roots that go deep into the local community. Most firms are run by Filipinos (a small number of them being of Chinese descent, especially in various supply sectors). There is, by contrast, a small group of Korean entrepreneurs who have settled in Marikina City over the last decade or so, and who are in the business of making rubber and synthetic soles for the industry. A distinctive intrafamily division of labor is frequently discernible at the managerial level in many shoe factories, where the wife is more often engaged in financial and commercial activities and the husband in shop-floor

supervision. A symptom of this tendency can be found in the fact that of all the shoe-manufacturing firms on file with the City Treasurer's Office in Marikina in 2004, 43 percent were registered in women's names. A marked though by no means rigid gender division of labor is widely observable on the shop floor in Marikina shoe factories. Operations like cutting, stitching, and upper-making are customarily carried out by women, while lasting and assembly work is dominated by men. Workers in the industry are paid as a rule on a piece-rate basis.

For most of its history, the shoe industry of Marikina City functioned as a small and modestly energetic cluster of firms, not much given to innovative gestures, but thriving in an unassuming way on their command of the domestic market. At the end of the 1970s and the beginning of the 1980s, the industry was even able to capitalize on a passing fashion trend in the United States, and it experienced a short-lived bonanza in exporting snake-skin shoes to New York and other large American cities. With the liberalization of the Filipino economy and the rising tide of competition from Chinese manufacturers, the Marikina shoe industry is now in the throes of a major crisis, with no end in sight (recall Figure 2). Small producers eking out a living on the margins of profitability have been particularly hard hit by these trends. Moreover, the foundations of the agglomeration are being undermined not only by direct competition in final markets, but also by a troubling downturn in the local input-supply base as manufacturers turn more and more to other countries (again, predominantly China) for their requirements of leather, synthetics, accessories, and so on. As if to underline this observation, a large proportion of the industry representatives interviewed expressed much dissatisfaction with both the price and especially the quality of locally made inputs, above all leather, which is said to be distinctly substandard. Bulk buyers, in particular, can obtain significant price discounts from Chinese suppliers, and this state of affairs bodes ill for the continued generation of intra-cluster competitive advantages in Marikina City. Even where manufacturers are too small to avail themselves of direct foreign purchases of inputs they can now increasingly buy imported materials at advantageous prices through local middlemen.

The depth and durability of this crisis is currently provoking a series of multifaceted responses in the Marikina shoe industry, not dissimilar from (but considerably more intense than) some of the crisis-induced efforts at collective upgrading that Schmitz (1999) has remarked on among the shoe manufacturers of the Sinos Valley in

Brazil. The central question at this point is whether or not the Marikina industry can now effectively restructure in appropriate ways and whether it can muster the resources and support that it needs in order to deal with the threats of the current situation.

INSTITUTIONAL FRAMEWORKS AND COLLECTIVE RESPONSES TO CRISIS

Virtually every industrial district, whatever its sectoral make-up and geographic location, is associated with at least some sort of collective order in the form of associations, conventions, cultural traditions, and so on. The shoe industry of Marikina City is no exception here, and, moreover, it has long had a well-developed sense of its own identity and distinctiveness, as suggested by the sobriquet “Shoe City” by which Marikina is known throughout the Philippines. With the advent of the crisis of the 1990s there has been a rising will within the industry and the city to deal with the challenges of the current situation, and a concomitant effort to rebuild the industry’s institutional bases in the search for enhanced competitive advantage.

One of the more important manifestations of this will was the reorganization of the old Marikina Footwear Federation and its rebirth as the Philippine Footwear Federation Inc. (PFFI) in 1992, with a mandate to inject new energies into the local industry. The PFFI is made up of a broad cross-section of shoe manufacturers in Marikina City, but is dominated by a relatively small group of larger producers. It aims to represent the industry in all relevant domestic and foreign forums, and to provide shoe manufacturers with critical consultancy services and training programs. The Federation hosted the Twentieth Asian Footwear Conference in downtown Manila in 2001 and now regularly leads delegations of Marikina manufacturers to international shoe trade fairs in an effort to broaden and deepen export markets. A PFFI initiative of special importance was the opening in 2003 of the Philippine Footwear Academy in association with the Cottage Industry Technology Center of the Department of Trade and Industry. The Academy, which is located in close proximity to the shoe-manufacturing district as shown in Figure 3, is partially subsidized by the government of Germany. It provides training courses in a diversity of areas related to shoe production (management, design, manual operations, and so on) and offers technical advisory services to the industry at large. As such, it is a critical source of positive externalities within the cluster,

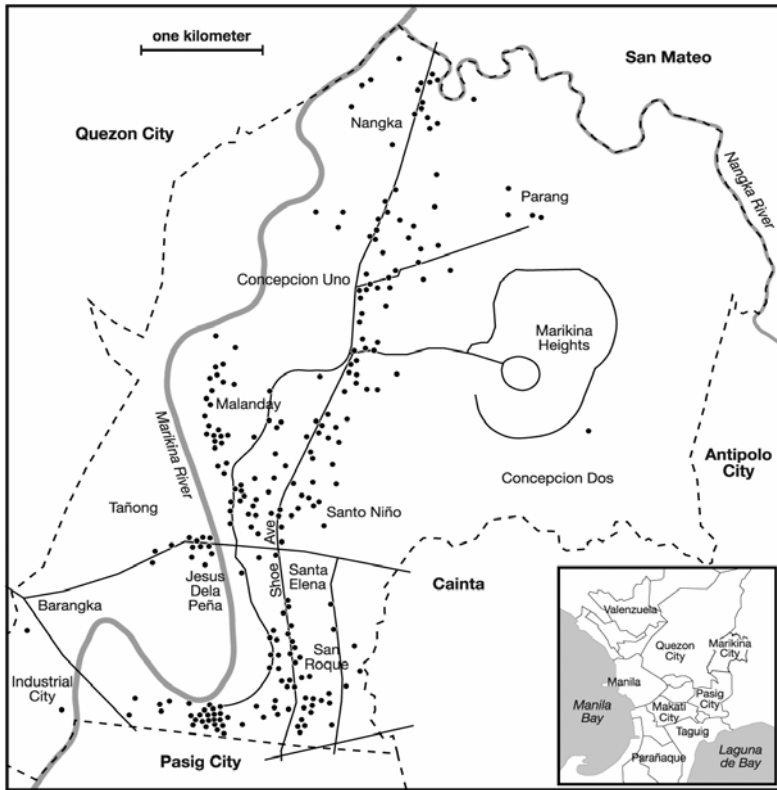


Figure 3. Geographic distribution of shoe manufacturers in Marikina City. Each dot represents one manufacturer. Barangays within Marikina City are named, as are adjacent municipalities. The inset shows the location of Marikina City within the Manila Metropolitan Area. (Unpublished data provided by the Marikina City Treasurer's Office.)

and an essential adjunct to any wider effort of restructuring and upgrading.

A further sign of the rising determination to deal with the industry's problems was the formulation of the Leather Footwear Industry Master Plan by the Department of Trade and Industry in 1996. The Master Plan took note of the many current weaknesses of the industry (low technological intensity, weak materials and components base, poor marketing strategies, skills shortages, inadequate availability of credit, and so on) and declared the government's intention to promote the industry as "a full-blown export winner." Notwithstanding the somewhat extravagant optimism of this resolve,

the Master Plan functioned generally as a clarion call in a rapidly deteriorating economic climate, and one of its more tangible effects was the joint action on the part of the Department of Trade and Industry and the PFFI to set up the Philippine Footwear Academy. More recently, on July 2003, the Philippine Congress passed the Footwear, Leather Goods and Tannery Industries Development Act whose eventual implementation will provide diverse stimuli for the upgrading of the shoe industry, including enlarged access to governmental development assistance funds.

The office of the mayor and other agencies of local government merit special mention here for their role as driving forces behind the reawakened consciousness about the need for remedial action in the Marikina shoe industry. Municipal officials in Marikina City have maintained a constant flow of public reports about the industry's changing fortunes, and have sought energetically for practical ways to promote its interests. In particular, the city has been a major supporter of two recently inaugurated annual events with ostensible developmental implications for the local shoe industry. These are the Philippine Footwear Design Competition, which seeks to promote an enhanced footwear fashion consciousness among local manufacturers, and the *Sapatero* (Shoemakers) Festival, which brings participants in the industry together in a display of their diverse products and a celebration of their corporate presence. The city also maintains a shoe museum that functions as a sort of collective memory and symbolic focus of the industry. The museum houses part of the huge collection of shoes formerly owned by Imelda Marcos, many of which were actually made in Marikina City. I make this observation to emphasize the point that even if the current stock-in-trade of the cluster consists of shoes that sell for only a few dollars a pair, it nevertheless harbors skills and aptitudes that could be usefully re-harnessed in any program of overall upgrading. In this context, cognizance also needs to be taken of the *Samahan Ng Magsasapatos Sa Pilipinas* (League of Filipino Shoemakers), established in 2002, whose founder and head is a local municipal official, and whose principal objective is to ensure that any imports of foreign-made shoes and raw materials into the Philippines do not evade the remaining nominal tariff regulations.

Besides these initiatives, a number of attempts by selected groups of manufacturers to improve the cooperative bases of the production system are also in evidence. One of these is the Marikina Footwear and Leather Goods Manufacturers Cooperative, currently with 120

members. The Cooperative is designed to serve the small-firm segment of the Marikina shoe industry. Members buy shares in the Cooperative in return for which they are entitled to a number of services, including the right to take out loans, to purchase raw materials at a reduced price, and to discount letters of credit. The Cooperative also owns the B&G footwear brand. Members are encouraged to manufacture shoes under this brand, and the Cooperative itself then secures all distribution and marketing functions. Another cooperative association of some importance operates under the designation Sikapmo Inc., which translates roughly into English as “self-help”, but also puns with the name of the locally celebrated individual, *Kapitan* Moy, who is credited with helping to establish the shoe industry in Marikina City in the 1880s. Sikapmo was founded in 2003 and currently has 78 members. Like the Marikina Footwear and Leather Goods Manufacturers Cooperative, the membership of Sikapmo consists primarily of small producers who are unable effectively to commercialize their own products. Sikapmo has established its own brand (Marquina) as a marketing opportunity for its members, and is currently engaged in a vigorous campaign to promote the brand. A further example of cooperative effort in the industry is the formation of a small supply consortium, known as Unita, in which five local firms have combined together in order to seek out economies of scale in the purchase of various inputs. In spite of these concrete steps toward improved cooperative relations, a persistent theme that emerged in interviews with local shoe manufacturers was that high levels of mutual distrust exist in various segments of the industry, and that much progress still needs to be made in establishing a culture of inter-firm collaboration, teamwork, and joint political action in favor of local developmental issues.

DEVELOPMENTAL PREDICAMENTS AND OPPORTUNITIES

The Marikina shoe industry today presents the twofold image of an agglomeration that is reeling from the effects of the competitive winds that have blown over the Philippines since the 1980s, but that is also the site of resolute attempts on the part of many different parties to comprehend and deal with the roots of the crisis. We may ask, how successful are these present attempts likely to prove? And, as a corollary, what further action might help to turn the tide for local manufacturers?

The problems, to be sure, are enormous. As things now stand, the shoe industry remains locked into a configuration that served it

reasonably well in the past when it was virtually the sole supplier of cheap footwear for the domestic market, but that no longer functions at an adequate standard of performance. As long as tariff barriers remained sufficiently high to exclude most imports, the industry could operate with a fair assurance of long-term viability. Then again, the industry's overwhelming focus on the domestic market suggests that the Marikina cluster has hitherto lacked the stimuli that might have helped to promote quality upgrading as a defense against the competitive forces to which local manufacturers are now being subjected. We might also aver—with the wisdom of hindsight—that the industry's failure to cultivate a significant export trade at an early stage, when competition from other low-wage countries was less daunting than it is today, has left it increasingly shut out of international markets; and with the passage of time its ability to surmount this barrier becomes steadily less credible. The reasons underlying this failure remain unclear, but the country's long-standing political and fiscal complexities have no doubt taken their toll, and in all likelihood discouraged foreign buyers who might otherwise have shown more interest in the industry at an earlier phase in the internationalization of the shoe industry generally.

At the outset, there appears little likelihood that any significant revival of the Marikina cluster might be achieved on the basis of simple cost-cutting. On this score, Chinese producers are all but unmatchable, given their advantages in terms of scale and workers' wages. In any thorough-going scenario of cost-based competition, the rate of decline of the Marikina City cluster would no doubt slow down, but much of the cluster would probably continue to atrophy over the longer term. Production costs, of course, must remain under strict control if upgrading efforts are to succeed, but any real turnaround in the fortunes of the cluster—in the absence of a return to higher tariffs on imported shoes—is not going to be attainable except by means of significant restructuring. This in its turn presupposes a need for continued major efforts of policy formulation and collective action. Two general lines of attack can be immediately suggested. The first turns on the advantages of Chamberlinian competition. This entails much closer attention than has hitherto been the case to quality and style issues, as represented, for example, by the construction of distinctive Marikina City product images enabling manufacturers to offset some of the pressures of competition on the basis of price alone (Scott 2004a). The second way forward calls for a concerted expansion

of global distribution and marketing activities as a necessary condition for the regeneration of external economies of scale and scope within the cluster and the revitalization of its competitive advantages (Stewart and Ghani 1991). These strategic options might well be backed up by diversification into related leather-goods fashion products such as handbags, belts, or luggage.

Neither of the above main objectives can be readily achieved without simultaneously pressing heavily on a third policy lever focused on matters of internal reorganization within the cluster, and including—among other things—the formation of more collaborative, reliable, and efficient interfirm networks and the recalibration of labor-management relations in ways that genuinely increase employees' commitment to higher-quality and innovative work. Of course, it is one thing to articulate general goals of this sort, but the details of how to achieve them are an altogether different and more puzzling matter. As the research of authors such as Halder (2004), Humphrey and Schmitz (2002), and Meyer-Stamer (2004) suggest, any kind of upgrading in industrial clusters is extraordinarily difficult to accomplish at the best of times and many stubborn resistances to change are always present. In the end, we need to take seriously the proposition that the different participants in the shoe-manufacturing cluster of Marikina City may not be equal to the tasks of establishing the complex virtuous circle of upgrading, market repositioning, and export promotion, which must be accomplished if the industry is to meet the challenges of the twenty-first century.

Certainly, the institution-building activities and policy initiatives that have already been set in motion are a step in the right direction, though they remain at best in a preliminary and piecemeal stage of development, and appear to have had rather limited impact on the majority of local producers. The acid test of any durable improvement in the capacity of the cluster to attain higher levels of economic performance will no doubt revolve around its ability to shift decisively into an export-oriented mode of operation. The construction of a reasonably extensive nexus of distribution and marketing activities serving the Marikina cluster will be essential to the formation of any capability of this sort, and this will also necessitate a concerted effort to pull foreign buyers into the cluster's orbit. As already noted, manufacturers in Marikina City are starting to reach out more decisively to foreign markets by participating in international trade fairs, especially in Asia, though the results of this effort have thus far been quite

modest; and foreign buyers have consistently by-passed the Marikina shoe complex for greener pastures elsewhere. Again, local producers' concentration on domestic markets and their signal failure to make an early and concerted start in seeking export outlets has turned out to be a great handicap in the present. Schmitz (1995) reports that Brazilian firms were exporting shoes as early as the 1960s, and that the Sinos Valley is now endowed with a dense infrastructure of export facilities. My own fieldwork in Marikina City uncovered no signs of any significant shoe-exporting infrastructure, with the possible exception of the Manila-based Foreign Buyers' Association of the Philippines, which in any case seems largely to have turned its back on the shoe industry. Equally, manufacturers constantly expressed to me their desire to export their products, but almost all, even the larger ones, added the symptomatic afterthought that they simply "don't know how to go about it."

Meanwhile, shoe-manufacturing clusters in other parts of the world have accumulated impressive records of export activity, including a very significant penetration of markets in middle- and high-income countries. Producers in these clusters have undoubtedly learned much from the experience of exporting and have thus had numerous opportunities to fine-tune their process and product configurations at regular intervals. Learning in this manner is sustained by the relatively durable relationships that tend to crystallize out between local manufacturers and foreign buyers as they go about their business, and through which they negotiate and renegotiate product specifications, price levels, and delivery schedules (Egan and Mody 1992). As the literature on commodity chains points out, foreign buyers also stimulate learning processes by continually raising their expectations about standards of performance and pressing manufacturers to attain them (Humphrey and Schmitz 2002). These push effects are sometimes carried even to the point where buyers actively monitor manufacturing activities on the shop floor. Relationships of these sorts, moreover, tend to be worked out over long periods of time and are often associated with much experimental trial and error. Under conditions like these, a path-dependent dynamic of self-reinforcing change and growth is liable to be set in motion. This remark suggests that clusters that make an early start on the task of securing an effective nexus of distribution and marketing arrangements for their outputs—and most especially where this nexus is strongly oriented to export promotion—are apt to possess at least some capacity to maintain and even extend

their lead with the further passage of time. By the same token, clusters that lag in this task are likely to be progressively locked out of world markets. Any serious attempt to reshape the shoe-manufacturing cluster of Marikina City will have to confront the enormous challenges posed by the circumstance that the cluster is a notable latecomer in this regard.

WAYS FORWARD?

A helpful precept of economic development practice is that it is generally better to work with what you already have than to embark on some entirely new and speculative course of action (Scott 2001). On these grounds, the ongoing efforts by many different parties in Marikina City and in the Philippines at large to revitalize the shoe industry have much to commend them. From all that has gone before, however, it also seems fair to suggest that such efforts are likely to face a high probability of failure unless they are underpinned by a concerted and disciplined plan of action that can be sustained over a reasonably long-run period.

The cruel choice for representatives of the industry at this point in time seems to resolve itself into the difficult one of selecting the least harmful course of action out of a set of options that all have high social costs. Three major policy alternatives might be envisaged. The first is simply to do nothing and to bear with the fact of further decline. The second is to return to protectionist measures so as to preserve the home shoe-market for Filipino producers, but this would unquestionably encounter much political resistance, both domestic and international, and would, in any case, encourage further postponement of any upgrading efforts. The third is to shoulder the burden of a collective commitment to active restructuring that may, or may not, enable producers in the Marikina cluster to recapture lost terrain, to rebuild competitive advantages, and to expand into new markets.

The first of these options is the simplest, in practical terms, from the point of view of the policymaker, though its overt passivity is not calculated to gain much credit for any public authority willing to espouse it. The second option is already being advocated by a number of political figures in Marikina City. However, this approach is very much a second-best alternative if the arguments presented above have any force at the end of the day. The approach is in any case hampered by the weak position of the shoe industry in the Filipino economy at

this point in time, and by the extent to which the economy as a whole has moved down the path of liberalization over the last couple of decades. The third option is, of course, extremely seductive, and is likely to be viewed with some enthusiasm by policy makers—at least to begin with—but carries no guarantee of eventual success. The complexities of this third option are compounded by the circumstance that it cannot simply be reduced to an exercise in technocracy. Any thorough-going program of restructuring of the Marikina City shoe industry will also require an intense effort of political mobilization and education. The point can be further articulated by noting that the achievement of policy-induced change in industrial clusters that have experienced prolonged crisis typically requires a parallel process of self-transformation by all relevant parties, i.e. a conscious effort to change habits and practices in the workplace and in the wider business environment in the interests of building a more effective industrial community (Scott 2001). This work of self-transformation itself hinges at a minimum on a large and influential segment of the local community being persuaded that the strenuous adjustments they are called upon to make in the short and medium term are likely to be more than recompensed by significant gains in the long run.

The present study can be taken not just as a commentary on the trials and tribulations of the Marikina shoe industry, but also as a window into many of the basic dynamics at work in other low-technology, labor-intensive industrial clusters in less-developed parts of the world today. I have argued that these dynamics turn upon a twofold relationship between the internal organization of industrial clusters and their external relations to wider markets. On the one side, effective internal organization turns significantly upon disintegrated networks of specialized but complementary producers striving individually and collectively for superior product quality and innovative outcomes. On the other side, external relations are both a means of widening markets and conduits of critical learning effects for producers. To be sure, these ideas are by no means new, and the spate of published work on regional development and commodity chains that has appeared in recent years, (see, for example, the list of references at the end of this paper) has done much to sharpen our understanding of the basic issues. One of the lessons that this work seems to convey is that appropriate institution building across the entire field of socioeconomic relations as represented by an agglomerated production system and its associated nexus of marketing and distribution activities can greatly enhance local economic growth and development. This lesson emerges

repeatedly from studies of successful cases, as represented in varying degree by the shoe industry of Sinos Valley in Brazil (Schmidt 1995, 1999), the jewelry industry of Bangkok, Thailand (Scott 1994), or the surgical instruments industry of Sialkot, Pakistan (Nadvi 1999a, 1999b). In any case, given the ever-growing competitive superiority of Chinese exporters on world markets for cheap footwear (including markets in the Philippines itself), the evident conclusion is that the shoe industry of Marikina City faces the stark choice between continued decline on the one side or drastic policy-induced restructuring on the other. In this paper, I have tried to indicate some possible lines of attack on this restructuring problem, but it bears emphatic repetition that the costs and the risks are far from being negligible. ❀

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NOTES

1. The *Annual Survey* is published by the National Statistics Office of the Philippines. The *2000 Census of Philippine Business and Industry* is scheduled to be published in 2005.

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