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INTRODUCTION

What happens to a peripheral region, country, town, or ethnic group when strong commercial interests located in a center (mother country, primate city, metropolis) start to penetrate it? This question has been part of the development literature ever since the fate of colonial and postcolonial societies became the subject of scientific inquiry after World War II. The repercussions in Java of the Dutch economic penetration of that island in the 19th century is an example of this issue, so also the result of multinational companies opening the hinterlands of South American countries to mass consumer goods. This paper seeks to determine what consequences the penetration of distribution channels from Manila have had on a provincial town in north-central Luzon (Dagupan City in Pangasinan province). Has the penetration enhanced the economic position of the town or damaged it?

Although evaluating nearly anything in the social sciences is a hazardous task, this is especially so concerning the dependency issue, the name this general subject is often given. To judge the effects of market penetration from a center on a periphery is complicated by factors which do not always relate directly to the empirical data – it is not easily amenable to simple tests. From whose perspective should the consequences be evaluated: from that of the local consumers, local traders, the supplying firms in the center? Does the evaluation flow from a pro- or anti-capitalistic perspective? Emotion often becomes an important part of the

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debate because the peripheral region, colony, small town in the hinterland of a city, or whatever, is seen as weak, as the underdog, which needs protection. Through this door the matter of good and evil enters. Moreover, today the role of multinational companies is likely to be important. This adds the issue of national autonomy to that of regional independence and turns the problem into a political one with the result that the rhetoric degenerates into something akin to political pamphleteering. This the present paper hopes to avoid. Let the reader be forewarned, however, that how this case will be evaluated is not totally dependent on the "raw evidence" available because interpretation is such a large component of the issue.

TWO MODELS: DEPENDENCE AND INTERDEPENDENCE

First a summary of the predictions made. The position of dependence is convinced that free commercial interaction between center and periphery will be harmful to the periphery. It will increase dependence of the periphery on the center with detrimental consequences to the former.[1]

1. Local trade channels and indigenous entrepreneurs in the periphery will be destroyed by capital-strong foreigners.
2. The relationship of outside institutions with the periphery is likely to be exploitative. The penetrating firms extract more than they invest and transfer their profits out of the region. The periphery is left decapitalized and its population impoverished.
3. Cheap and standardized products swamp the local market and replace indigenously produced items. The cottage industry collapses and the local economy is simplified by people being pressed into agriculture and services.

1. These points are not designed to describe the dependency position, they are merely selective abstractions of a complex field. Examples of this position include, Gunnar Myrdal, *The Challenge of World Poverty* (New York: Pantheon, 1970); Theotonio dos Santos, "The Structure of Dependence," *American Economic Review* 60 (1970): 231-36; R. Sau, *Unequal Exchange, Imperialism and Underdevelopment* (New York: Oxford University Press, 1978). Although much of the dependency argument focuses on international trade, the position can and has also been applied to intracountry commercial relations: e.g., J. Dow, "Models of Middlemen: Issues Concerning the Economic Exploitation of Modern Peasants," *Human Organization* 32 (1973): 397-406; C.A. Smith, "Beyond Dependency Theory: National and Regional Patterns of Underdevelopment in Guatemala," *American Ethnologist* 5 (1978): 574-617.

4. Promotions, advertising, elaborate sales organization, etc. tempt the poor to consume unessential and even harmful products.
5. Commercial penetration of a region from a powerful center diminishes the local autonomy and political self-determination.
6. Should, despite point 1 above, local capital formation and entrepreneurial talent be encouraged in the periphery as a result of contact with the center, this is a negative development because it leads to "embourgeoisation" of a sector of the local population. The outcome is a new exploitative capitalistic class which wittingly or not acts in the interests of non-local capitalists.

These points can be reduced into two. First, there is the conviction that trade, especially between a center and a less dynamic region, is characterized by a limited pie or a zero-sum relation. When one side gains (intruding firms), the other loses (local enterprise, consumers). On the international level a current version of this position is the belief that multinational corporations "sap developing societies of their capital, technology, and ideology and make their reorganization to become strong difficult."[2] Second, any development that does result in capital formation under the aegis of commercial stimulation from the outside is bad because exploitation of some by others necessarily accompanies this. If these two basically contradictory positions are combined, then whatever condition arises short of a socialistic revolution is unsatisfactory.[3]

Those who take a benign attitude toward trade penetration of peripheral regions – who hold a position espousing interdependence – believe that local commercialization and capital formation feed on external links. This position maintains that competitive trade, even between unequals, is not a zero-sum game, that both parties will be better off than without it, and that an entrepreneurial component is worth encouraging in the periphery to

2. Richard J. Barnet and Ronald Muller, *Global Reach: The Power of the Multinational Corporation* (New York: Simon and Schuster, 1974), p. 162.
3. See Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1969).

stimulate development. Center-periphery trade will prove generative of the economy of the periphery.[4]

1. It is likely that the local commercial scene will be disrupted when new channels penetrate the peripheral region. But this disruption will provide more stimulus than destruction. Effective distribution probably will be enhanced, local monopolies removed, and outside firms may even take advantage of local entrepreneurial talent and traditional trade networks.
2. The degree of exploitation by outside institutions depends on their monopolistic position. This tends to be strengthened if they control both production and distribution and if they combine economic with political power, a situation encountered not only in colonial capitalism but also in totalitarian socialism. Under competitive conditions the exploitation by outsiders is not less or more extreme than that generated by local entrepreneurs, and both have a tendency to invest profits where they can find the highest return. Obviously external as well as local entrepreneurs try to make more money in the long run than they invest, but that does not mean this will decapitalize the peripheral region. Their investments in the region will have a multiplier effect by encouraging others to invest in related endeavors which in aggregate may outweigh the amount initially invested.
3. Cheap, standardized, and usually better products will indeed replace locally manufactured ones. This is good for consumers – they, after all, are the mass of the population – and may provide incentives for productive behavior. New econo-

4. The interdependence model is also called "growth stimulus" [W.S. Partridge, "Banana Country in the World of United Fruit: Social and Economic Linkages," *American Ethnologist* 6 (1979): 506-7]. There is a vast literature in favor of open interregional trade – neoclassical economics is founded on the notion that the division of labor and exchange through competition benefits all – but it is not written specifically as a counter to the dependency literature. Here is a selection of works that come close to doing so: Peter T. Bauer, *Dissent and Development: Studies and Debates in Development Economics* (Cambridge, Mass.: Harvard University Press, 1972); H. Johnson, "Changing Views on Trade and Development: Some Reflections," *Economic Development and Cultural Change* 25 (Supplement, 1977): 363-75; R. Vernon, *Storm Over the Multinationals: The Real Issues* (Cambridge, Mass.: Harvard University Press, 1977); J. Galbraith, "The Defense of the Multinational Companies," *Harvard Business Review* 56 (1978); Jack M. Potter, *Capitalism and the Chinese Peasant: Social and Economic Change in a Hongkong Village* (Berkeley: University of California Press, 1968).

mic opportunities will open up in which labor pressed out of cottage industry should find accommodation.

4. There is nothing sinister about the way advertisements, promotions, and sales personnel influence the consuming habits of a region's inhabitants. It is easy for those who already enjoy most amenities of industrial society to decry the tendency among the poor to spend resources on non-essentials, and to either condemn the poor for doing so, or (far more frequently) those who offer the products and thereby beguile the ignorant into buying them. There is no reason why those who are economically less fortunate should not have access to the same range of products that others have. Also local traders are just as likely to distribute harmful merchandise as outsiders.
5. Regional autonomy is less an economic than political matter. It is highly questionable that a region's or country's political position is strengthened through economic isolation.
6. The capitalist road to development is a viable and proven alternative for which local capital formation and the creation of entrepreneurs is an important prerequisite. It will result in a widening economic gap between segments of the population in relative terms – without centralization of wealth development cannot take place, whether this centralization is lodged in public or private hands. Absolute poverty, however, need not increase as a result of this process.

A METHODOLOGICAL QUESTION

The best way to approach the dependency theory is either to examine instances in which communities were only recently subjected to commercial penetration or to compare two regions, one of which is linked to a commercial outside and the other is not. Dagupan City and its environs, the community this paper is concerned with, has been open to the flow of products and personnel from Manila for a considerable period of time. Since the late 1800s Dagupan has served as the distribution point of Manila derived goods in north-central Luzon. Its merchants, whether Chinese or Filipinos, have kept in close touch with their counterparts in Manila and there has been an easy movement of entrepreneurs and employes from one center to the other. Under these circumstances how can the dependency model be tested? By looking for a shift in how distribution channels are organized from Manila.

Distribution channels of consumer products are organized according to one or another of two sales strategies. In one of these, the suppliers, in this case the merchants in Manila, try to have an active say in the distribution of their goods as far down as possible. This I will call the "active strategy." The channel associated with it tends to be vertically integrated. The second strategy, the "conservative" one, consists of suppliers selling their merchandize without trying to control its downward movement by elaborate means. It is associated with vertically fragmented channels.

Within the active strategy three sub-types can be identified. Many suppliers seek control across channel levels by means of an itinerant sales force. This "sales penetration" enables them to reach down to a lower wholesale level or contact retailers and consumers directly. The system preserves the autonomy of the downstream traders while allowing suppliers to do more than just sit and wait for orders to pour in. Channels receive tighter integration through "contractual penetration." This strategy involves retail franchising. Suppliers license lower level traders to handle a certain set of products without interfering in matters of proprietorship over these products or the retail outlets. An even more intense form of downward integration is "ownership penetration" which is exemplified by Manila firms branching into provincial communities. Here two or more channel levels are joined under one ownership.

The conservative strategy is also divisible into sub-types. First there is the truly "passive" strategy wherein suppliers make no attempt to bind outlets to them except through pricing, product availability, and normal credit policies. A market determined fragmented channel results in which consumers search for suppliers, retailers look for the best prices among wholesalers, and so on up. A second type of conservative strategy, one more prevalent by far between Manila and Dagupan, I will call "semi-passive." It denotes a situation in which the channel appears fragmented but the traders are actually bound together through informal social ties and obligations. The supplier does not reach out physically to the customers as is the case under an active strategy; instead he binds them to him through extending personal favors. Personalized credit arrangements, favorable discounts, "sharing the market" agreements are examples of this. These arrangements between suppliers and customers are informal and usually secret.

To return to the dependency issue, it seems appropriate to assume that a center which penetrates a periphery via an active strategy and integrated channels has a greater impact upon the region than if penetration were based on conservative distribution. That is, a position committed to dependency would predict that a community subject to suppliers who follow active marketing would be in a more dependent position, one that is economically more detrimental to it, than if the penetration were of a conservative kind. During the past fifty years, especially since World War II, Dagupan City has become subject to active sales policies from Manila. This paper seeks to illuminate the impact this change has had upon the city's trade community.

HISTORY

Before its transformation in the fifties the basic structure of the trade channel between Manila and Dagupan consisted of three tiers: wholesale suppliers in Manila, sub-wholesalers in Dagupan, and retailers there and in other municipal centers of the province. Chinese dominated all three levels, with a sprinkling of Euro-American firms on the Manila end and some participation of Filipinos in the provincial retail trade. Then, as now, truly passive distribution proved too insecure for most suppliers to pursue as their major strategy in their effort to secure sales in the provinces. Instead, most upper end channel members adopted a semi-passive strategy. Dagupeño sub-wholesalers traveled to Manila to place orders with trusted suppliers who gave them favorite trade terms on grounds of ethnic identity and personal trust. The trade contacts were confidential and flexible.

New marketing forms made their appearance already at this time. A number of Manila companies, in most cases large American-owned ones handling mass consumer items (canned milk, cigarettes), maintained a hired field force in the provinces to take orders, seek out new customers, and collect accounts. Others experimented with contractual and ownership penetration. To establish provincial wholesale warehouses has been an old custom; however, to establish retail branches was another matter.[5] One of the first to do so on an extensive scale was Singer Sewing Machine Company which by the twenties had 150 branch outlets strewn over the islands.[6] Some car distributors and large general line merchant houses did the same in the twenties and thirties. By that time retail franchise dealers were also appearing in the provinces contracted by cost conscious gasoline companies which were emulating their mother companies in the U.S. In fact, much of the transformation the interregional channels in the Philippines experienced at this time (and later) resulted from foreign influenced enterprises implementing marketing ideas that had already found successful application overseas.

After the war a burgeoning population, at least two decades of healthy economic growth, and the expansion of electric services and the road network in the provinces created conditions in which active marketing thrived. The loss by the Chinese of a virtual monopoly over interregional trade because of government policies and expanding commercial opportunities for Filipinos had a similar effect; after all, the Chinese, more so than any other ethnic group, were committed to the traditional semi-passive strategy. Another factor was the reappearance of Japanese products and Japanese controlled distributive houses during the sixties and seventies in the Philippines. They compounded the competitive situation and drove some companies to quit and many others to seek their safety by adopting aggressive sales policies in the provinces. This trend was reinforced by the fact that in America aggressive marketing had become very popular among industrial firms in the fifties,[7] a development which was faithfully followed by their distributors in the Philippines. Naturally others who stand in close competition with these distributors have done the same, including the Chinese.

5. The *cabecilla*-agent system so prevalent in the late nineteenth century between Chinese merchants in Manila and provincial agents or employes was no exception to this because the arrangement was secret [Edgar Wickberg, *The Chinese in Philippine Life, 1850-1898* (New Haven: Yale University Press, 1965), pp. 72-74].

6. "Sewing Machine Business," *American Chamber of Commerce Journal* (June 1938): 8; 13.

7. J.C. Palamountain, *The Politics of Distribution* (Cambridge, Mass.: Harvard University Press, 1955).

Today virtually all grocery goods are channeled from Manila to Dagupan via sales penetration; the same is true for drugs and to a lesser extent also for hardware, ready made clothing, and school supplies. Manila suppliers of household appliances either have retail franchises in Dagupan or rely on a sales force. All automobile and gasoline outlets in the city are franchised by Manila companies, as well as the major tire and motorcycle dealers. On a general level, then, the consequences of active market penetration of Dagupan by Manila companies has been a proliferation of hired fieldmen roaming the streets of the town, an increasing number of warehouse branch establishments, and a multiplication of retail outlets which in one form or another are contractually tied to Manila. Let us now turn to a more detailed account of first the consequences for Dagupan flowing from sales penetration, and then those due to contractual/ownership penetration (or "corporate penetration" for short).

CONSEQUENCES OF SALES PENETRATION

Within the Manila-Dagupan trade axis sales penetration is very pervasive. This is reflected in the following figures. The total reported annual value of goods that flow from Manila into Dagupan is *about* ₱174 million, of which 44 percent or ₱77 million is accounted for by Manila fieldmen contacting customers. There are 2,100 wholesale/retail establishments in the city; 1,343 of these (or 64 percent) obtain most of their products by placing orders with salesmen sent out by Manila companies.[8]

If one looks at the range of retail institutions operating in Dagupan one is struck by the mix of the modern and traditional, the old and new. Next to appliance stores, gas stations, superrettes, and fancy gift shops, market vendors flourish, hawkers still abound, and, perhaps most notable of all, *sari-sari* (small variety neighborhood) stores thrive. Whether modern or traditional, small or large, most retailers trade in products they directly obtain from large Manila companies. How is this possible? It turns out that certain

8. These turnover figures are derived from city license records for fiscal year 1974. They underreport the true value of sales, but give a good idea of the relative importance of each economic sector. I measured the importance of sales penetration by subtracting franchise/branches from the total as well as those businesses that habitually buy directly in Manila.

marketing strategies used by Manila firms are well suited to bridge gaps that may exist between suppliers and outlets. Sales penetration has served this purpose admirably. Its deployment has allowed Manila companies to search out provincial buyers with only marginal disruption of traditional institutions.

Before sales penetration was used on a massive scale large Dagupan merchants had to travel to Manila for purchases, and it was they (all of them Chinese) who supplied smaller traders in the city and its surroundings. Since then sales penetration has altered, but not destroyed, this arrangement. To begin with, Manila companies appointed large Dagupan merchants as dealers who were then served by company salesmen. The contact point between Manila and Dagupan had shifted to Dagupan, but the pattern whereby large merchants in Dagupan were the only suppliers of local retailers continued. Eventually greater disruption of this arrangement took place. Once fieldmen were sent out to contact dealers it was an easy step to have them visit small outlets as well. Such deep sales penetration undermined the position of large local traders with the end result that for some products the two to three tier channel structure was collapsed into one. This development reached its pinnacle in soft drinks distribution. Dagupan's large grocery stores used to be intermediaries of this commodity until bottling plants, warehouse branches, trucks, and fieldmen of Manila companies took over to serve neighborhood stores and eateries themselves.

Sales penetration need not compete with local trade institutions, but it can. In the Manila-Dagupan trade axis it has done so increasingly when Manila suppliers fleshed out their own provincial facilities, and today there exists only one trade level in Dagupan for a number of products (e.g., soft drinks, beer, cigarettes). Even with this onslaught, however, the traditional sub-wholesalers in Dagupan continue to survive. There are several reasons for their resilience: they still have valuable ties with those Manila suppliers who play the marketing game according to the conservative strategy; most Manila companies which sell through a sales force continue to use them as dealers; due to bulk purchases large merchants are able to obtain discounts even from those sources selling directly to small outlets; small traders continue to buy from local sub-wholesalers because of the liberal credit policy and delivery service they receive from them.

Sales penetration, therefore, has affected the local trade structure by establishing a direct connection between small and isolated retailers and Manila sources. It has punctured the former monopoly of sub-wholesalers over against others who could not personally reach into Manila. Now market vendors, neighborhood store operators, small grocery and hardware merchants in Dagupan and surrounding municipalities have a choice to buy from traditional sources or from Manila salesmen. They have become less isolated and information about available products and pricing reaches them with greater ease. Here a modern policy of active marketing has enhanced the position of traditional small-scale retail institutions.

Two consequences of sales penetration are worth going into. It enabled individuals to establish themselves in commerce who previously were excluded and it encouraged innovations and the adoption of modern marketing techniques.

To begin with the last point, when Dagupeño traders still traveled to Manila to place orders, there was little need for written documents. The modus operandi was to rely on personal trust and on access between those who managed their own business. Both parties were often Chinese, which added to the intimacy of the relation. With the coming of sales penetration the possibility to continue trade in this fashion was drastically curtailed. Whereas sales penetration respected the independence and continued existence of traditional trade outlets in Dagupan, it has put a big dent into conservative, especially semi-passive, trading practices between merchants. Due to the new strategy at least one of the negotiators in the exchange, the Manila salesman, could not be empowered to go beyond a very limited range of selling terms without too much risk for his employer. The rapid diffusion of sales penetration, therefore, forced a standardization of terms. Price lists, memos, formal application forms for dealerships and credit, and a wide use of checks and postdated checks are manifestations of this change.

In addition to taking orders, field salesmen are told to see to it that their customers adopt marketing procedures that will help their business and thereby their purchases from Manila. This includes such simple tasks as the proper display of the company products and advertising in the local media. More elaborate suggestions entail how to rearrange the physical layout of the store, how to keep tab of one's product needs, whether and how to use promotions, and other active marketing procedures to reach consumers.

The vast majority of Dagupan's large and small traders are conservative and they are reluctant to adopt even these simple suggestions. Among the medium-sized ones, though, there are some who have followed more radical innovations salesmen planted in their ears. The most notable example of this are grocers who have organized their stores as small self-service outlets, or superrettes, in order to capture the flavor of the supermarket and make it work in the confines of the local economy. There are also those who have been convinced by the example of Manila firms to launch promotions with their own staff. For instance, some hardware traders send promotional salesmen around to contact local homeowners and talk them into a new paint job for their houses and to offer "specials" on particular brands of paints. The sales representatives of the Manila companies supplying these paints are pleased. Here sales penetration between Manila and Dagupan has spawned sales penetration from Dagupan into the city's hinterland.

The final consequence of sales penetration I want to discuss relates to employment. It has given individuals an opportunity to enter trade who otherwise would have found it difficult to do so. Two sets of individuals are involved: those who have been helped to participate in commerce as independent traders and those who obtained employment as fieldmen.

I alluded to the first set of individuals earlier when I argued that sales penetration has given a boost to small and medium scale traders. In effect this improved the chances for Filipinos of lower class background to enter commerce and lift themselves above petty trade. This happened most dramatically in groceries where Filipino participation has expanded extraordinarily since the war. It is a traditional practice for Filipino newcomers in the sari-sari store trade to seek and receive help from large merchants who offer a proper selection of products on credit.[9] The sari-sari traders are then obliged to buy from their creditor for a considerable period of time, at least until the debt is paid off. Because of

9. See William G. Davis, *Social Relations in a Philippine Market: Self-Interest and Subjectivity* (Berkeley: University of California Press, 1973), pp. 173-210.

sales penetration the newcomers need not be so dependent anymore on any one supplier. Now, in addition to local sub-wholesalers, they can seek similar arrangements with one or more Manila companies through their field salesmen; i.e., they can tap a number of sources from the time they begin their business.

On the other end of the channel, Manila companies seeking reliable and profitable outlets in the provinces acquired with sales penetration the ability to do their own choosing instead of going through Chinese wholesalers in Manila (Divisoria). This meant the system which gave preferred treatment to Chinese in Dagupan and similar centers has been undermined, a development which has been of great importance to those Filipinos in Dagupan who have tried to enter the sub-wholesale trade and to challenge the entrenched position of local Chinese merchants. In a word, sales penetration has helped equalize the extremely lopsided nature of the ethnic composition especially in the grocery trade.

Sales penetration also provides individuals an opportunity to become company salesmen. Manila firms compensate about 250 fieldmen to represent them in and around Dagupan. From the perspective of employment within Dagupan this fact is less important than it might seem because only half of them live with their families in the city and slightly less than half are native to Dagupan. From the viewpoint of those Dagupeños who have found positions as fieldmen, however, the expansion of sales penetration has been a boon, and that not only because it offers a means to make a living.

Nearly all fieldmen of Manila companies (especially the younger ones) do not consider their position as a lifetime commitment. They see it rather as a means to reach one of two ends. Many intend to lift themselves into supervisory or even management positions. The other intention, one which is not necessarily exclusive of the first, is to start their own business at some future date. I showed above that sales penetration enhances certain entrepreneurial elements in Dagupan by providing a direct link with Manila. Here this theme reappears in the guise of employment opportunities offered by sales penetration which individuals hope to use to start their own stores.

For many the cheapest and most effective way to gather experience about the vagaries of commerce is to work as a fieldman.

This is particularly important for Filipinos. They are likely to come from a family background (often lower class) not noted for its commercial sophistication, so that the experience and contacts gained as fieldmen can be invaluable. For most, of course, this hope – as also the vision of ending up as sales supervisor or manager – remains a hope, but it is kept alive by the occasional success. My data show that altogether 10 percent of independent store merchants in Dagupan have been employed as sales representatives of Manila companies at one time or another throughout their careers. This does not include franchisees and branch managers of Manila companies among whom such experience is even more common.[10]

CONSEQUENCES OF CORPORATE PENETRATION

Compared to sales penetration, corporate penetration leads Manila firms to be far more involved in the affairs of Dagupan. What are the major consequences of this strategy to the local trade structure and entrepreneurs? Once again let me start with some tentative figures. We have seen that approximately 44 percent of the total value of turnover moves through Dagupan from Manila due to Manila salesmen collecting orders in the provincial city, and 64 percent of all establishments in Dagupan depend on fieldmen for most of their supplies. By comparison, the value of products entering Dagupan by means of Manila controlled retail branches and franchises amounts to ₱69 million/year (40 percent of the total) and 65 franchise/branches (3 percent of all trade units) are responsible for the disposition of the merchandise. Manila dependent establishments compensate for their small number by being far more substantial than independent ones. Their average annual turnover is ₱1.1 million compared to ₱57,000 among independent traders.

How important Manila dependent outlets are to the local economy is attested to by additional figures. They employ approximately 800 individuals, an average of 12 per unit (compared to 2.5 per commercial establishment in the city). These 800 employes receive a payroll of ₱3.8 million a year,[11] and constitute 15 per-

10. Nor does this include *sari-sari* store operators or market vendors. I counted 30 independent store merchants in Dagupan who have had experience as company salesmen.

11. The average pay is estimated at ₱400/month.

cent of all Dagupeños who are permanently active in trade (the total is about 5,250) – this is a considerable percentage if it is recalled that only 3 percent of all commercial outlets in Dagupan are tied legally to a Manila company. The final figures I have relate to real property. The market value of all commercial buildings in Dagupan was about ₱31 million in 1976. Of this an astounding 19 percent is accounted for by structures either leased or, more rarely, owned by Manila firms or local franchise dealers. Compared to all of this, ₱6.9 million would leave Dagupan annually if all of the net profit (computed at 10 percent of turnover) of Manila dependent outlets were siphoned out of the community. It cannot be stressed enough that these figures are rough approximations. Yet I believe that they represent reality enough to give an inkling of the considerable importance of Manila dependent wholesale/retail establishments in the city in spite of their small number.

How has the spread of corporate control during the past few decades affected the established channel between Dagupan and Manila? The impact of it is potentially devastating because, in contrast to sales penetration which basically tries to use existing institutions more effectively, corporate penetration seeks to establish its own channels. This either means that new ones are created where previously none existed, or that traditional institutions are changed by being replaced or converted (e.g., turning independent establishments into franchises). Between Manila and Dagupan so far no such drastic replacement or conversion has taken place on a product wide scale. So far the typical development has been for integrated channels to appear in relatively novel products (car, gasoline, etc.) around which no traditional channel had yet crystallized. At the most, independent traders dabbled in the product – like hardware merchants selling appliances before branching developed in that product during the fifties and sixties – and none of them was destroyed when an integrated appliance channel came into being.

This picture, though basically correct, is not quite so simple. Direct investments by Manila firms are only forthcoming under ownership penetration (branching) or if franchisors hold part of the capital of their provincial dealers (usually 51 percent). Under contractual penetration most investments are furnished by local dealers. In this case Manila companies contribute to local wealth only by offering provincial investors potentially lucrative dealerships, thereby enticing capital to flow into buildings and employment. In other words, to say that Manila dependent outlets own 19 percent worth of commercial buildings in Dagupan and employ 15 percent of labor active in trade is only part of the story. Much of this investment is derived from local sources. My guess is that only between one-third and one-half of the capital of Manila dependent establishments in Dagupan is actually derived from Manila.

Having said this, it must be noted at the same time that investments from Manila are highest when they are in greatest demand; that is, they flow most readily when direct penetration is first launched from Manila and when bottlenecks are most likely to threaten expansion. When they first integrated into Dagupan historically, Manila companies usually were the ones who raised the initial capital for the high risk venture. In appliances and cars, company after company began its operations by branching and only later did each turn to franchising. At that time this transformation was less an expression of long term planning than of immediate competitive pressures. Today it is part of a conscious strategy. Newcomers who seek channel integration normally plan to start provincial penetration by opening branches which they hope soon to change into dealerships. This procedure allows them to be most competitive at the beginning phase of their market penetration – they can order their branches to sell below cost if they deem it necessary – and to overcome the typical lack of enthusiasm shared by entrepreneurs when these face the prospects of taking up a dealership that has yet to prove itself. For the newcomers investments pumped into branching serve as seed money to establish a reputation and eventually to attract capable dealers who could take over the financial burden.

Aside from generating investments from Manila firms and provincial franchises, corporate penetration affects investments in other fields too. One of these is finance. Dagupan has witnessed over the past two decades a tremendous growth in the number of financial institutions. Consumer financing is a prerequisite to be successful in retailing the sort of products Manila dependent enterprises usually handle, i.e., capital intensive consumer goods. In other words, there is a linkage between these two economic activities.[12] If there is an investment in appliance and similar retail outlets, investments in finance companies and banks are likely to follow. Another investment which is stimulated goes into repair service; another flows into the insurance business; another manifests itself in the proliferation of branches/dealerships in Dagupan's hinterland; and also those individuals who find part-time employment by collecting orders for local dealers and branches should be mentioned (tipsters, independent salesmen, etc.).

Of course, the immediate factor that encourages most of these additional investments is the nature of the product finding its way to consumers, not the nature of the trade channel through which it passes. Similar investments would take place if appliances, cars, motorcycles, etc. were distributed by fieldmen or even by a conservative strategy. However, full channel integration does increase the speed of linked investments. Without being distributed by Manila dependent outlets effective demand for these products would not have diffused as fast as it did. Some Manila firms boasting a nationwide integrated channel in fact have created their own linked investments; for example, Radiowealth, Inc. has its own finance company and Philippine Appliance Corp. owns a network of repair shops (both firms are in appliances).

The reason why Manila companies began in the thirties and again in the fifties to locate their contractual and fully owned offshoots in Dagupan was the location of the city, its population concentration, its wide economic base. These branches and franchises, in turn, attracted others, either latecomers in the same line, or a growing flood of businesses which complemented the first ones. Today the total amount of linked investments in complementary businesses may add up to a multiple of those pumped into Manila dependent outlets which dispense industrial consumer goods. When judging corporate penetration from Manila into Dagupan (and elsewhere), therefore, it must be kept in mind that their presence generates, nay at times requires, other services which have their own linked investments, and so on down the line.

In addition to its effect on the traditional channel and on investments, the spread of corporate penetration has influenced the diffusion of innovations and the composition of entrepreneurs in

12. On the concept of linkage in the economic literature see Albert O. Hirschman, *Strategy of Economic Development* (New Haven, Conn.: Yale University Press, 1958).

Dagupan. I can dispose of the matter of innovations with a few words. To recall, sales penetration had its main innovative impact on the trade negotiations between Manila and Dagupan and on promotions and store layout organized on the retail level. Corporate penetration also influenced these features and did so in the same way; its main contribution, however, has been on how local businesses are managed.

Ever since Manila companies have franchised and branched into Dagupan on a large scale, Dagupeño traders have been tempted to open their own branches and draw up franchise contracts with merchants in the backwaters of Pangasinan. They have done so with the same contractual stipulations that exist in such arrangements between Dagupan and Manila, and in doing so pushed with increasing gusto corporate penetration from Dagupan into its hinterland. In addition, there have been innovations in the internal management of local businesses. A recurring example is the Dagupeño franchise dealer who is goaded by his Manila principal to incorporate his business. The contract may also stipulate that he keep books and be prepared for external auditing, that he tighten inventory control (only *one* of Dagupan's nine large grocers keeps a stock list), that he assign personnel according to specified function, and so on. In effect, Manila suppliers have pressed their provincial outlets to copy their own operations in Manila. Much of this turns out to be more form than substance. Drawing an organizational chart and hanging it on the wall does not alone change the fact that a business is a family affair. Yet it cannot be denied that a chart may lead to, or reflect, a more rational allocation of responsibilities, and that such practices as keeping written records of cash and inventory flow are more than mere formalities. Branch managers and franchise dealers often are trained in these matters and are effectively forced to comply should the mother company insist.

Let us now turn to the effect corporate penetration had on entrepreneurs and others in commerce. Who are the individuals representing Manila companies in provincial franchise stores and branch outlets? I am concerned with branch managers and franchise dealers, and in this connection I will also say a few words about their staff.

If sales penetration has been kind to small and medium sized Filipino traders of peasant and petty bourgeoisie extraction, contractual/ownership penetration has helped middle and upper middle class Filipinos find substantial positions in commerce. It has been an avenue through which redundant entrees into the professions have been mopped up and directed into entrepreneurial tasks. Take the case of appliance stores. A substantial number of today's nineteen operators in Dagupan come from a relatively well-to-do background, were sent to college in Manila, then struggled but failed to find a permanent position in their chosen careers (law, engineering), and through a friend, an ad in the papers, or whatever other means, they found themselves working for a Manila appliance company. If they were lucky they were trained by the firm and assumed the position of provincial dealer from the start. More often, especially when the company still had branches, they were hired as salesmen or legal advisors and slowly worked themselves up to be branch managers – only after this experience did they become dealers.

Next to their middle class background, another characteristic common to franchise dealers and branch managers is their Filipino ancestry. Provincial Chinese prefer to remain independent when in business and Manila companies prefer Filipinos to manage their regional retail network so as to comply with the nationalization rules. Join this with the fact that many of the educated Filipinos see a dealership or the management of a branch representing a prestigious company as the gateway into large scale trade, and this ethnic preponderance is easily understood. In addition to furthering the interests of middle class elements in Dagupan and similar communities, therefore, corporate penetration has guaranteed that Filipinos play an important role in the distribution of modern consumer durables. The largest and most prestigious Filipino merchants in Dagupan today are encountered in products which move through fully integrated channels. These are no mere sari-sari store operators. And a number have gained full independence after acquiring the necessary tools while running a Manila dependent outlet.

What about the employes of Manila dependent outlets, some 700 of them (not counting managers and dealers)? Do they share the comfortable middle class background with the managerial entrepreneurs? Are they from the Dagupan region or imports? Numerically most of them are Filipinos with roots in the lower middle to lower class.[13] This distribution is partly the result of contrasting company policies.

There is no set rule followed by all Manila firms with respect to origin and residence of their employes. Some like to staff all but the most menial positions of their provincial outlets with individuals from the home office to facilitate the trust the main office can invest in the branch and to minimize the possibility of collusion between branch personnel and local interests. A slightly smaller number of firms follow exactly the opposite policy. They hire natives for their outlets whenever they can. It reduces costs (except for training), it assures them of personnel that is attuned to the peculiar cultural and economic milieu of the region, and it gives the head offices a propaganda point against those who criticize their entrance into the local market. Finally, there are the franchise dealers (and occasional branch managers) who are not pressured one way or another by their Manila principal about whom to hire. Among them the tendency to personalize hiring is very explicit. In some instances all employes, down to the janitors and cargadores, are kin of the head. More often the connections are more diversified, though still personalized: newly hired employes are either kin, fictive kin, neighbors, friends, and so on of management or of lower level (usually native) personnel already attached to the establishment. It is at this juncture that individuals of lower class background have a chance.

There is one type of individual who has even less of an opportunity to find proper employment in the Philippines than most others. This is the young person who has gone through a provincial college, in most cases majoring in commerce or engineering, and whose parents are poor and hardly managed to support one or two of their children through the diploma mill. After graduation the big question presents itself: where to find employment commensurate with the prestige and cost of the degree? Without an upper or middle class background this is a "far-from-easy-to-solve-problem," since proper contacts now play a crucial role. Should some link (kin, ethnic, territorial, etc.) exist between the poor family

13. "Lower middle to lower class" refers here to landowning peasants, petty officials and clerks, market stall vendors, and others. I have employment data of eighteen Manila dependent businesses and thirty independent ones (vendors and sari-sari operators are not included). The former cover 175 employes, the latter 96. Respectively 71 percent and 87 percent are native to Dagupan/Pangasinan and 65 percent and 69 percent are of a lower middle to lower class background.

and personnel of any of the Manila branches or dealerships, the former will mobilize them to gain entrance or at least a hearing. The main motive of the job seeker is to find stable and especially acceptable employment as clerk, receptionist, secretary, itinerant salesman, not to seek a means to become independent in trade, even if the final outcome is just that.

I do not wish to argue that corporate penetration is unusual in its capacity to facilitate the employment of lower class Filipinos. Whatever business a person operates, he will be obliged to employ some who can mobilize pre-existing social ties with him. Contractual/ownership penetration is not unique in this capacity, but it is unusual in the composition of openings it has to offer.

The personnel needs of traditional independent merchants are modest indeed. A large grocer in Dagupan needs a handful of sales girls or men, about the same number of stock boys or cargadores, and one or two drivers/salesmen and his requirements are satisfied. Bookkeepers are not engaged by any of them full-time. The same is the case in textiles, hardware, school supplies, bazaars, shoe stores, etc., except that some hire people to do repairs. Manila dependent outlets of appliances, gasoline, cars, and branch warehouses of groceries and drugs have a more elaborate, a more sophisticated set of employment requirements. In addition to sales and warehousing personnel, they use receptionists, secretaries, bookkeepers, and general office clerks. The same is true for the businesses that were induced to come to Dagupan because of their linkage with the distribution of capital intensive consumer goods, such as finance companies. Positions for stock boys and sales ladies in grocery and similar stores which often go begging have little appeal for college or high school graduates, even if they come from poor family background. Manila branches and dealerships may have a greater tendency than others in commerce to import employes; they may also rely to a greater extent on middle class recruits than the average independent store, but they also offer a chance for individuals from lower economic strata to gain acceptable and promising positions in commerce.

CONCLUSION

How, then, do the consequences resulting from sales and corporate penetration of the Dagupan region by Manila companies compare with the predictions made by the dependency theory I outlined at the beginning of this paper?

1. *Local channels and entrepreneurs undermined.* First, trade channels: the spread of sales penetration has replaced a traditional marketing strategy (the semi-passive mode) without destroying existing trade units and channel levels between Manila and Dagupan. Contractual/ownership penetration created new channels without eliminating existing trade levels or market strategies. Both strategies stimulated local innovations in distribution. Second, entrepreneurs: sales and corporate penetration enhanced local Filipino talents by providing ready access to Manila and by offering employment opportunities and an avenue to upward mobility. Corporate penetration did import entrepreneurs, but also a substantial number of natives became in this fashion tied to Manila. There is no evidence that either marketing strategy has consolidated the position of "local strangers" or Chinese in Dagupan. If anything, the opposite is true.
2. *Exploitation.* There is a general and specific side to this question. In general one would expect, according to the dependency model, a drastic impoverishment of the population over time as commercial exploitation from the outside proceeds. There is no evidence, however, that the Dagupan region or even Pangasinan is more impoverished now than, say, twenty-five or fifty years ago. During recent years of inflation, per capita real wages for skilled and unskilled labor have declined, but household income apparently has remained steady. Moreover, the expansion of infrastructure in Dagupan and Pangasinan, the rise in revenue base, continued brisk trade and vigorous demand in the province and city (at least up to 1977) do not convey a picture of large segments of the population sinking into poverty.[14]

14. Pangasinan is one of the most prosperous provinces in the Philippines and Dagupan is among the better off cities [B.A. Aquino, "Dimensions of Development in Philippine Provinces, 1970," *Philippine Journal of Public Administration* 19 (1975): 42; F.V. Magdelena, "Multidimensional Scalogram Analysis of Philippine Cities, 1960-70: A Typological Approach to Community Modernization," *Developing Economies* 15 (1977): 176]. National economic conditions improved for the population up to the early to mid-seventies; since then it stagnated and for some it deteriorated. During the second half of the seventies the country faced inflated oil prices and low prices for its sugar exports. See The World Bank, *The Philippines: Priorities and Prospects for Development* (Washington, D.C., 1976), p. 95; R. Baldwin, *Foreign Trade Regimes and Economic Development: The Philippines* (New York: National Bureau of Economic Research, 1975); *Far Eastern Economic Review* (1 and 29 June 1979).

Some may argue that without trade links with Manila local development would have been more rapid than it turned out to be. I believe this would be a naive position to take, even though ultimately the issue cannot be resolved because it is a historical "if" question. I consider it naive, first, because whatever economic dynamism does exist in the Dagupan region is based on trade with Manila. Not much is left without it. In fact, areas which are least accessible to Manila (the far eastern and western portions of Pangasinan) have always been the poorest. Second, to presume that without commercial links to Manila, capital would have been retained in the north and invested in productive capacity instead of being "sucked out," takes for granted that capital would have formed to the degree it did even without trade with Manila and that local people would have preferred (or been forced) to invest in local economic ventures. As I have said, the issue cannot be resolved, but I believe that comparative advantage, scale, and differential demand (not to mention such things as innovations) have benefited the Dagupan region in its commercial relations with Manila more than if such trade had been absent.

How does sales and corporate penetration relate to all of this? Here I leave the general effect of Manila trade on the Dagupan region and turn to the more specific consequences of active marketing strategies. In Dagupan their appearance meant an economic spillover from Manila into the city.

Although data on the net economic flow between the Dagupan region and Manila are unavailable, it can be stated that the adoption of active marketing on the part of Manila firms has meant considerably more direct investments moving from the primate city to the north than under conservative distribution. Furthermore, this has taken place without the destruction of local channels or entrepreneurs. During the expansion of active marketing local capital and labor resources were mobilized and used which otherwise would have lain idle. Also, real estate and construction benefited and the linkages into banking and other investments contributed to "capital deepening" of service facilities in Dagupan. To be sure, this has meant a growing amount of value leaving the Dagupan area for Manila – profits, savings deposited in

Manila banks, remittances of salaries. Without such prospects, however, Manila firms would never have placed investments in Dagupan in the first place.

3. *Destruction of local industry.* This is a prediction I have not yet discussed with reference to Dagupan. Dagupan has never been a major manufacturing center, whether at the turn of this century or today. Over the years it has become less self-sufficient because a vast array of new goods were made available from Manila. Even with this inundation, however, local production was not wiped out. To turn to some approximate figures, it is true that between 1918 and 1970 the number of manufacturing, processing, and repair establishments declined from 956 (923 of them were in cottage industries) to 270. The number of individuals active in that sector, however, expanded slightly from 3,127 to 4,676 and the value of output grew from ₱1.6 million to ₱45 million (or to ₱9-11 million in real terms).[15] In other words (and keeping in mind that the population during the same period grew from 22,400 to 84,000), the period saw an absolute decline in the number of production units, a relative (to the population) decline of the employed in this sector, and slight relative increase in the value of output.

Furthermore, sales and corporate penetration should not be blamed wherever local products were displaced by imports (e.g., traditional bar soap by detergent powder). Long before these marketing strategies came to dominate the Manila-Dagupan trade, industrial consumer products were swamping north-central Luzon. The only suggestion which could be sustained is that active marketing has led some items to be distributed more effectively, and therefore more competitively, than if a conservative strategy had been used. Over the years a number of Dagupeño merchants have ventured into medium scale manufacturing and many of them located their operation in Manila. However, they did so not because

15. These figures have to be taken with caution. How data were collected and classified differed between the 1918 and 1970 censuses. Also, I could not personally verify the 1970 figures. I computed the value of the 1974 peso at 1/4 to 1/5 of its value in 1918. *Census of the Philippine Islands, 1918* Vol. 4 (Manila: Bureau of Printing, 1920/21); Republic of the Philippines, *1970 Census of Population and Housing, Vol. I Pangasinan* (Manila: National Census and Statistics Office, 1974).

active marketing was emanating from that city. In fact, corporate penetration, through the mechanism of linkage, has promoted repair services and other processing facilities in Dagupan. They did so, instead, because the conditions in Manila are so very favorable for such investments. Current long term government efforts to diversify industry away from Manila are therefore well placed.

4. *Consumer corruption.* It is impossible to deal with this problem without being patronizing and I want to avoid that tone. One thing is worth saying, though. If potentially dangerous products (e.g., antibiotics) are distributed, there is no reason to believe that more damage is done by integrated channels than fragmented ones. The fact that sales and corporate penetration mean more effective distribution is offset by the greater ignorance the independent trader is likely to have about the product and its dangers.
5. *Regional and political autonomy.* To talk of political autonomy with reference to Dagupan makes little sense. It is not a nation nor has the region enjoyed much political independence from the central government in this century. The thing to note instead is, whereas Dagupan's political community is very beholden to the political community in Manila (it receives a considerable proportion of its revenues and political support from that level), it is not tied as a group to any one commercial interest in Manila. In fact, just as often as not, policies of the city mayor and the council have frustrated the wishes of Manila companies and their local representatives. Examples include high license fees that have driven several car, appliance, and gasoline dealers from the city into neighboring municipalities, or the taxing of all company salesmen doing business through Dagupan. Together with the often not too benevolent treatment of local business interests, some Dagupan merchants wonder whether the city government is aware that commerce is the livelihood of the community.
6. *Embourgeoisation.* Like the previous matter about consumer corruption (point 4 above) this one is difficult to deal with. Whatever the dependency theory under point 1 fears would *not* happen to a periphery because of trade with a center, is

here said to be bad if it *were* to happen. I have argued that local trade channels in Dagupan were not suppressed by active penetration from Manila, nor local entrepreneurs eliminated. So, anyone who denounces the rise of a commercial bourgeoisie in a peasant setting would have a field day in Dagupan.

In a word, the experience of Dagupan is more congruent with the prediction made by the model of interdependence than of dependence. Active marketing strategies have streamlined distribution without destroying traditional channel institutions, undermined an ethnic monopoly among sub-wholesalers in Dagupan, made an increasing range of products available to local consumers, encouraged the development of provincial entrepreneurs without impoverishing the population, and funneled considerable investments into useful commercial and ancillary activities.

Some time ago Bert Hoselitz in his well known essay, "Generic and Parasitic Cities," noted that colonial capitals at first "exerted an unfavorable influence on the potentialities of economic growth of the surrounding country," but that eventually "the divergent trends of economic development within these cities and outside of them in the wider countryside, had the effect of creating a situation which tended to counteract and eventually turn the parasitic impact of these cities into its opposite."[16] With respect to the commercial sector of Dagupan City, active marketing from Manila has served as a generative force of considerable importance for quite some time.

16. Bert F. Hoselitz, *Sociological Aspects of Economic Growth* (New York: The Free Press, 1960), pp. 191-92.