Six Factors to Consider in Understanding the Philippine Industrial Debacle

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The Philippines and South Korea have some similar historical experiences. South Korea was colonized by Japan from 1910 to 1945, while we were colonized by the United States from 1898 to 1945. In 1950, war broke out between the North and the South, while the Philippines had the Huk rebellion. In 1961, General Park Chung Hee took power by staging a coup d'etat. The Park dictatorship provided political stability and ushered in the beginning of South Korean industrialization process. Both countries declared Martial Law: South Korea, intermittently from 1961 to 1980; the Philippines from 1972 to 1981. The two countries likewise have high degrees of coruption throughout their respective history. Despite these parallel experiences, South Korea was able to industrialize while the Philippines continue to suffer the miseries of underdevelopment.

Clearly, there are other factors that caused the stagnation of Philippine industries, which the lessons of South Korea can provide and these is what I want to discuss. I have six brief points.

The first is the role of the State. The State in South Korea took a strong central role, leading to an unprecedented government intervention in all the major sectors of the economy. The State nationalized all the banks; granted investment priorities to manufacturing and export-oriented industries; channeled capital into industries targeted for development; gave exclusive licensing and tax privileges to exporters; modernized agriculture; as well as mobilized human resources. The State provided significant amount of loans to conglomerates called chaebols, who pursued government industrial projects and investment priorities.

The second factor is economic policy anchored on State planning. The success of Park Chung Hee's strong State interventionist economic program is best seen in Korean foreign trade. In 1962, the trade volume was only $477 million. By 1995, the trade volume ballooned to $260 billion. More importantly, the per capita income increased from $62 to $11,360. Export growth between 1971 and 1982 was 33 percent per annum while GDP growth was 20 percent per annum over a 12-year period between 1971 and 1982.

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Unlike the Philippines, South Korea was not dependent on multinational companies (MNCs) to fuel her economic program. In fact, the share of MNC investment in South Korea as a proportion of GDP is insignificant and even lower than that of the Philippines'. Korea's share of foreign direct investment as a percentage of GDP for the period 1984-1989 was only 1.4 percent. Between 1990 and 1994, this share was cut by half, down to 0.7 percent. According to World Bank statistics, between 1966 and 1980, South Korea's inflows of foreign direct investments as a percentage of GDP was 0.28 percent, compared with the Philippines at 1.02 percent. What the statistics show is that the Philippines got four times more foreign direct investments as a proportion of GDP than South Korea. And yet, the Philippines did not take off toward industrialization. Foreign investment alone, is no guarantee of industrialization.

Most studies of economic development focus on textbook economic formula and rarely at times on the relationship between the State and the entrepreneurial elite. There is hardly any attention given to cultural factors, role of small and medium enterprises, education, research and development and, lastly, the role of labor in industrial development. The third point is the cultural factor. Korean industrialization cannot be separated from the role of nationalism and Confucianism in her economic development. Nationalism was used by the authoritarian State by equating economic objectives with national aspirations. Confucianism was used to discipline labor, instill loyalty to the firm and motivate workers to respect authority whether in the workplace or in society. While nationalism served as the foundation of Koreans' commitment to industrial labor, Confucian ethics provided the ideology for labor and subordination to authoritarian rule.[1]

The fourth point is the role of small and medium enterprises. Financial policy bias became less unfavorable towards small enterprises in the 1980s after the Chun Doo Hwan regime took power. As a result of power shift among the competing elite and political coalitions, small entrepreneurs who emphasized capitalization on "technology driven needs-market strategy" emerged. South Korea today has small firms like Jinwoong that accounts for 65 percent of the U.S. market for camping tents. Another example, Hongjin Crown has a 40 percent market share for motorcycle helmet production in the United States. Another successful firm is the Daeryung Precision, maker of satellite video receivers with 25 percent share of the global market. Another successful firm is Medison, maker of ultrasound medical equipment. There are many other products that small manufacturing companies have been able to develop and market successfully abroad.[2]

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[1] Andrew Eungi Kim and Gil-Sung Park 2003. "Nationalism, Confucianism, Work Ethic and Industrialization in South Korea", Journal of Contemporary Asia, Vol.33, No.1.

[2] Hun Joo Park 2002. "Political Economy of Small Business in Korea", Journal of Contemporary Asia, Vol.32, No.1.

The fifth factor contributing to economic development are education, research and development (R&D). Improved education has many positive effects on economic development. Raising the educational level of a population reduces fertility and thus allows higher household saving rates, which in the end, helps in capital accumulation. Raising the educational level of the population allows firms to introduce technically-advanced and efficient capital equipment and production techniques. A key factor in the sustained high growth of the Korean economy is the combination of high quality education and adequate public spending. Korea spent 3.7 percent of its GDP for education in 1980, compared with 1.7 percent for the Philippines. Considering that Korea's population is half that of the Philippines, Korea is investing more per student than the Philippines. In the past, South Korea considered foreign investment project only if it could provide technology that was necessary to develop a target sector, and if that technology was not available domestically or through a technological license. Otherwise, they did not accept foreign investment. To remain competitive, South Korea had to invest heavily in R&D to upgrade her industries.

The last factor is the role of labor. Huge investment in R&D is not enough to propel an economy if it is not accompanied by manpower. Economic development always raises the question "Who paid the price for the transformation?" The answer has been the same - it is the working class. The Korean case was no exception to this. As late as 1996, Korean workers worked the longest hours per week and got paid the least, compared with France, Germany and the United States. Weekly hours in South Korea is usually 48.4 hours per week, compared with France, 37.4; and the United States, 41.6. In terms of hourly compensation, South Korean workers get paid an equivalent of US $8.22. In Germany, they get paid an equivalent of US $30.26 and in the United States, US $17.70. After two decades of management-labor harmony, partly thru State coercion, bipolarization of the class structure began to emerge and class antagonisms deepened, as indicated by waves of violent labor disputes and strikes that began in 1987 and is still going strong.

In conclusion, the question we should ask is "Should we emulate the Korean experience?" The answer is a resounding "No!" We should not totally copy other country's strategy. We must develop our own strategy. We have different historical development, we have different cultures, we have different resources and we have different weaknesses. So we have to formulate our own programs for economic development. We can draw lessons from successful models like South Korea and even Thailand. We can also draw lessons from countries that have failed, including our own. But we have to be original, creative and most of all be imaginative.