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Foreword

As a scholar and researcher of Korea Studies, it has always been amusing to read works that pertain to Korea. More so if they concern about the Philippines and Korea relations. The works of excellent Filipino scholars on topics about Korea and the Philippines in this volume are no exception. True to its name, *HanPil*, which literally means South Korea and the Philippines, never fails to cover numerous topics about both countries. In this volume, specific focus is on public policy, business, and mass media. Interestingly, various topics on such are what I teach in my classes on Korea as a professor of Korea Studies at the Asian Center and where many of my students from various disciplines are greatly interested in. In fact, they wrote their research papers on various topics such as Park Chung Hee's economic policies, Korea's business conglomerates, the chaebols (재벌) the present Korean government's cultural policy, and the origins and spread of Korean culture globally, the so-called Hallyu (한류) under my tutelage. Thus, it is of great interest to read, examine, and question the researches of four scholars on topics listed below.

In *Shaping A New Institutional Regime for Regulatory Reform in the Philippines: Lessons from South Korea*, Dr. Eduardo T. Gonzalez contends that in terms of regulatory policies which can give a push to developing economies, South Korea can teach developing countries including the Philippines its all-embracing regulatory method whereby the government “has adopted a whole-of-government approach by comprehensively charting the essential course of regulatory policy horizontally across different domestic regimes and vertically across levels of government.” This, South Korea has learned through time and through trials and errors. It is such a novel idea worth examining. Will such method succeed in the Philippine setting? It should be born in mind that there are other considerations

that need to be examined. Specific of which include differences in the socio-cultural and economic orientations of the two countries (and other countries as well) not to mention politics at play.

Besides regulatory reforms, the Philippines seems to have wanted to experience the so-called South Korea's 'Miracle on the Han River' (한강의 기적) and also hopes to 'acquire' such rapid economic development when it welcomed Hanjin's investment in the country. This is what Dr. Grace Gorospe-Jamon argues in her study on *Hanjin Philippines' Shipbuilding Operations in the Philippines*. She boldly claims that South Korea "transplanted its compressed modernity experience" which the Philippines gladly welcomed. She concludes, however, that this model along with South Korea's weakening of trust in the Philippine government merely created problems in the end. Looking at it this way, it can be observed then that a breakneck economic development model that worked in South Korea after the Korean War (1950-53) cannot be replicated in the Philippine setting. If so, why not? Perhaps one aspect on culture could have been taken into consideration. Specifically, the Korean *ppalli-ppali* culture (빨리빨리) which literally means Hurry! Hurry! or getting things done quickly seems to run counter with Filipinos' *dahan-dahan* way of doing things. This and other factors could be further explored as to why the 'miracle' in Korea cannot occur in the Philippines.

In terms of South Korea's skin products industry, meanwhile, the Philippines has become one its market in Southeast Asia. Dr. Erik Paolo Capistrano conveys the impression that Korea's *ppalli-ppalli* culture is evident in Koreans' way of doing business by pointing out the 'fast fashion principle' of South Korea in his study on *Hallyu and corporate performance: The case of South Korean skin care companies in the Philippines*. This principle demands "shorter lead times, faster turnovers, and high customer order fulfillment rates." The consequence is unfortunate. With its emphasis on quantity along with the products' high cost, he

concludes that Korean products are not in great demand compared with other national and local brands despite the remarkable popularity of Hallyu in the country. He remarks, “Just because a Filipino adores a K-Pop idol, it does not necessarily mean that he or she will easily purchase the products that the K-Pop idol endorses, even if it is available in the country.” Thus, admiring Korean stars is one; purchasing the products they endorse is another.

Given the said popularity of South Korea’s Hallyu in the country, it would not be a surprise to see on television and in newspapers reports about Korea. South Korea as a country and its citizens in mass media are the focus of Dr. Fernando dlC. Paragas, Queenie Rose Chico and Bea Mae Caloyloy’s study on *A Critical Discourse Analysis of South Korea and its Citizens in Philippine News*. They found out that true enough, Filipinos like Korean dramas because they share similar values with Koreans specifically love for family and respect for the elderly. Interestingly, when they examine the news, it is intriguing to learn that “there appears to be significant misunderstanding among Filipinos of the two Koreas and it would be interesting to discern the roots of such misinformation.” I agree. It would be indeed compelling to do so. Yet, would it not be intriguing to say that the media itself can be one source of such?

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Shaping a new institutional regime for regulatory reform in the Philippines: Lessons from South Korea

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The challenge of regulatory policy

The Philippines has to face up to huge challenges in regulatory reform in order to get rid of avoidable barriers to competition, innovation and growth. At the same time, it must ensure that new trends such as liberalization and globalization, and brisk technological advances efficiently serve important economic and social ends. As Stiglitz (2009) indicates, the uneven and contradictory impacts of globalization on growth and development in developing countries have raised the prospects for regulatory failures in open economies.

Indeed, the country confronts an institutional “emergency” in regulation as new markets once reserved to the state are opened for competition, and as utility and network industries are increasingly privatized. The current regulatory environment is still typified by heavily regulated sectors (e.g., public utilities, banking, and insurance), on the one hand, and modestly regulated sectors (e.g., online businesses), on the other. Because of the fondness for “regulate first”, alternatives to regulations are largely sidestepped. Yet despite such inclination to favor heavy-handed regulation, statutory ambiguities and erratic responses persist (demonstrated lately by the Bangladesh Bank money laundering).

As the traditional “business model” (based on state-owned monopolistic companies) gives way to more market-friendly approaches, a new and consistent regulatory framework that is efficient, accountable, and transparent is urgently needed. A fresh legal and administrative perspective is even more consequential in the light of ever increasing regulations that are triggered by new social demands, which in turn set off higher benchmarks for health, safety and security, professional competence, and environmental protection, among others. Without a breakthrough in the regulatory milieu, the country confronts an inevitable lock-in: once the status quo is too much advanced, it would be too costly and almost

impossible to change course and take on a different approach.

Why does regulation or regulatory reform arise? A formal case can be made for regulatory reform because of market failure, equity breakdown or regulatory capture. Although regulation is not the correct instrument in all situations, intervening in a market system is warranted because of malfunctions due to the presence of externalities, natural monopoly, market power, and asymmetric information. Righting a widespread shortfall—the regulatory deficit—would give good results if the intervention maximizes the net social gain from the government action. But if there is an undesired change in the distribution of income and wealth, or if those benefiting are unable or averse to compensate those losing from the intervention, it may still not make the “equity” grade. In this case, regulation should be able to fix an unjust distribution of income and wealth, while having a constructive effect on the efficient allocation of resources (Lee, 2002). Likewise, a new or revised regulatory regime is on solid ground when an existing *regulatory* agency, created to act in the public interest, comes to be controlled or heavily influenced by the very industries they were charged with regulating—an instance of gamekeeper turns poacher.

As a first step, it is necessary to revisit the current regulatory environment and check for shortfalls. It is essential to recognize what have been identified as the “deficits” of regulation (OECD, 2015a):

- *Deficit in the effectiveness of regulation*, which occurs when the prescriptive nature of regulation is unsuccessful in drawing out the required response from the regulated and in producing a desired result. The evidence suggests that regulations are made more to signal a political commitment and less to address market failures.
- *Evaluation deficit* which raises issues about “getting it right.” The evidence suggests that countries do not invest enough policy resources to make sure that the regulations are robust and appropriate for their intended use. There is least attention on the delivery of regulation, especially in the aspects of scrutiny, enforcement, and observance.
- *Participation deficit* which happens when stakeholders are not engaged in the regulatory process, especially when there is risk of regulatory capture and when there is lack of representativeness of the engagement process (technocratic approach) that in turn raises questions about the legitimacy of regulation. It is also likely the case, according to Alemanno (2015), that participation is largely a token gesture or is carried out late in the process.
- *Oversight deficit* which occurs when regulations fall short of reliability,

regularity, and continuity. It also comes about because of poor implementation that generates uncertainty and costs for the regulated. Other oversight failings include a fragmented approach arising from the inability to consider multilevel governance and manage multiple regulators, and a broken regulatory policy cycle wherein monitoring and evaluation is largely ignored.

This report highlights the value of learning from such regulatory “arrears”. Developing countries often face similar issues in this field, but the analysis needs to tackle the complexity and idiosyncrasies of national regulatory systems and institutions. The report builds on the lessons learned in designing and reforming systems in other countries, as a significant step in arriving at a better appreciation of the challenges, and alternatives that the Philippines will have to deal with when shaping a new institutional regime for regulatory reform, given the country’s political and administrative context.

An institutional, whole-of-government framework

Accordingly, this report relies more on an institutional approach, that is, finding an appropriate institutional design for structures and mechanisms governing the behavior of both regulators and regulated, relying on already established norms, approaches and practices that have made impressive gains in other countries in resolving difficult regulatory dysfunctions. Following Cordova-Novion & Jacobzone (2011), it avoids a technocratic approach based on *purely* introducing more inputs or new tools: although good technical processes are necessary, they seldom succeed in building traction and creating incentives for long-term sustainable reform. Cordova-Novion and Jacobzone also rightly caution against a one-size-fits-all strategy in designing institutions, and instead strongly suggest taking into account the diversity of legal and administrative cultures (what might work in one country at a given time might not work elsewhere at another time), as well as powerful incentives that have changed behaviors, in various settings.

Yet despite significant institutional heterogeneity, a common ground that has been considered a *sine qua non* is an explicit, binding, and consistent *whole-of-government* framework, that is, a situation of public service agencies working across portfolio boundaries to achieve a shared goal and an integrated government response when pursuing regulatory improvement (APSC, 2012). A comprehensive strategy within a unified co-ordination mechanism, supported by authorities from important reform-oriented groups as Ministries of Finance, Competition and Trade could aid in diversifying risks and broadening public

sector capacities for better regulatory outcomes (Amo & Rodrigo, 2007). Such framework also lends itself to a wider economic reform agenda that connects productivity, innovation and growth strategies that, if carefully calibrated, can in turn boost social cohesion (OECD, 2016).

Alternatives to regulation: setting institutional boundaries

At the same time, it is imperative to consider institutional boundaries between regulation and non-regulation in the design process. Alternatives to traditional regulation potentially lower compliance and administrative costs. They include market-based instruments (e.g., tradeable permits, taxes and subsidies), which largely work through changing relative prices; self-regulation involving economic agents, such as firms in a particular industry or a professional group, developing rules or codes of conduct of their own accord to regulate the behavior, actions and standards of their members (co-regulation involves explicit government involvement); and information and education (advocacy campaigns, labeling requirements) which ensure that information is symmetrically available to businesses and consumers (Hepburn, n.d.).

It may be imperative to determine, early in the process, the boundaries of regulatory and non-regulatory policy instruments, considering significant issues such as distributional effects and administrative requirements (Hepburn, n.d.). Picking up from Hepburn, such boundary setting will help focus on the following design considerations:

- the degree of control to be exercised by government in a fresh regulatory environment,
- the institutional circumstances in which traditional regulation and regulatory alternatives have been found successful,
- the skills necessary to devise and carry out alternative policy instruments, and
- the costs incurred (or saved) in establishing a more flexible regulatory regime that considers both kinds of instruments.

The last item above will include the benefits and costs to business of responding to the new institutional options. Hepburn (n.d.) warns that if the deliberation about non-regulatory alternatives is left until very late in the process, or is entirely left out, it will merely perpetuate the “regulate first” culture.

The Philippines has a good number of non-regulatory alternatives. Examples are differentiated pricing in electricity (e.g., *wholesale electricity spot*

market), preferential financing (universal health insurance), credit guarantees (government financial institutions assist small-scale enterprises and other high-risk credit markets), emission tax (on vehicles), self-regulation (a private medical association accredits advanced medical specialization), quality assurance labeling on appliances, and carbon offsets (greenhouse gas emission reductions in the voluntary carbon market). But they are sectorally and sporadically carried out, and no systematic analysis has been done to check their overall “fit” within a broad institutional context.

Key building block: high level oversight

The central element and centerpiece of regulatory management and governance—a key issue for success—is a high-level institutional structure to keep an eye on the implementation and coordination of stepped-up regulatory development. Setting up this central configuration—a political process involving many institutions and core government agencies (Cordova-Novion & Jacobzone, 2011)—also helps rally high-level political support for the regulatory policy agenda (OECD, 2016).

High level oversight is a crucial building block regardless of whether the options for reform involve gradual approaches or “big bang” strategies. Typically, “slow but sure” measures help in building the foundations for increasingly adapting to the rulemaking environment. As Cordova-Novion & Jacobzone (2011) explain, “some OECD countries, such as the Nordic countries, Switzerland, or large European continental countries started with simple regulatory undertakings, gradually built capacities and support among decision makers, the regulators and stakeholders, and raised standards through innovation over time”. Australia undertook a pragmatic approach of continuous improvement, while the United States has taken the time to orchestrate regulatory enhancements within a very complex and political federal landscape. Korea opted for swift, major changes in the wake of financial crises, establishing new institutions that undertook deep-seated reforms in rapid fashion.

In the Philippines, there are as many as 60 different regulators, but *no* central institutional mechanism exists to review the consistency and coherence of regulations, assess the impact of new regulatory proposals, and promote whole-of-government regulatory reform. The Department of Justice has a key role in the review process, but its task is confined to ensuring the consistency of proposed regulations with international obligations. Coordination across regulatory agencies is an exception rather than a default rule (Llanto, 2016).

Setting up an independent oversight formation represents a policy challenge and also raises a number of important design issues, such as a clear mandate with

associated powers; shielding public intervention from short-term political and administrative influence; avoiding the risk of capture by specific interests; scope of quasi-executive, judiciary and rule-making powers; requirements for accountability; the role of international binding agreements; independence from the agencies; forms of coordination with government agencies; and the role of expertise and sufficient human and financial resources. Any government attempting to set up or build up an oversight structure with key inputs will have to seriously think about these institutional design issues (Cordova-Novion & Jacobzone, 2011).

Everywhere, the creation and shape of more recent oversight arrangements, such as South Korea's own central oversight architecture, have profited from other countries' experiences as well as international counsel and peer pressure (Cordova-Novion & Jacobzone, 2011). This report follows a similar logic, as it benchmarks the institutional progress of the Philippines' effort against South Korea's own regulatory reform experience. The choice of South Korea is no accident. Its remarkable journey toward a whole-of-government transformation has won worldwide praise. Lessons derived from more advanced OECD countries are likewise included as their more complex regulatory practices supply the global standards against which continuous regulatory improvement in both South Korea and the Philippines must be assessed.

General country situations

The Philippines: an emerging market

The Philippines is considered an emerging economy, experiencing a changeover from one based on agriculture to one based more on services and manufacturing. It has a mixed economic system, which includes a fairly functional private sector, combined with government socio-economic planning and regulation. The Philippine economy grew from 5.8 percent in 2015 to 6.8 percent last year, according to Philippine Statistics Authority data. Along with China (6.7 percent) and Vietnam (6.2 percent), it registered one of the top GDP growths in Asia in 2016¹. Sturdy macro-economic fundamentals (low inflation, restrained interest rates, a steady banking system, sustainable fiscal architecture, political stability and good enough governance) underlined this performance (Llanto, 2016).

If Philippine policies, rules and regulations serve as a benchmark towards a better public service environment, the country should have already made

¹ CNN Philippines, "2016 Economic Growth Fastest in Three Years," January 26, 2017.

significant strides after the end of the Marcos regime in 1986. The Corazon Aquino administration (1986-1992) kicked off greater economic openness and more dynamic trade liberalization through a more liberal regulatory framework. This outward orientation was reinforced by the Ramos administration (1992-1998) through tariff reduction and import liberalization geared for long-term industrial restructuring. The reinvention of the *Bangko Sentral ng Pilipinas* (central bank), the enactment of Public Telecommunications Policy Act and the privatization of water distribution in Metro Manila also occurred during this period. The Estrada administration (1998-2001) contributed the General Banking Law of 2000, the Retail Trade Liberalization Act, the Electric Power Industry Reform Act of 2001, and the devolution and decentralization of basic public service delivery to LGUs under the 1991 Local Government Code (LGC). The Anti-Red Tape Act was the Arroyo administration's (2001-2010) modest share, while the Aquino III administration (2010 -2016) focused on fiscal and budgetary reforms. Its biggest policy add-on was the Philippine Competition Act of 2015 (Llanto & Moreno, 2015).

Nevertheless, despite notable achievements, the Philippines suffers from constant breakdowns in the capacity of the executive branch to enforce statutory norms. Inefficiencies in Philippine institutions, including the bureaucracy and the judiciary, tend to upset reform initiatives and weaken the constructive impact of regulatory improvements (Llanto, 2016). A cursory review of the World Bank's Worldwide Governance Indicators across the years, in key areas such as government effectiveness (quality of public services), regulatory quality, rule of law, and control of corruption, indicates that the Philippines is on a see-saw mode, its scores swinging up and down within a modest range, with no spectacular shifts. As Llanto and Gonzalez (2010) have observed, without an effectively and steadily functional institutional setting, good regulation will remain a disembodied experience in the Philippines.

South Korea: a well-maintained stability

South Korea has a market economy, the fourth largest in Asia and the 11th largest in the world. It is a mixed economy dominated by family-owned conglomerates called *chaebols*. South Korea has a quite stable macroeconomic environment and openness to international commerce. The regulatory structure is competitive and highly entrepreneurial in character, thus facilitating innovation. Business arrangements and operating rules are fairly professional. The government still has considerable presence, subsidizing rice farmers and setting price controls on fuel, rice, and electricity (Heritage Foundation, 2017). South Korea's annual GDP

growth rates of 2.9 percent in 2013 and 3.3 percent in 2014 were among the highest in OECD countries. In 2015, the economy initially tailed off due to weak exports and fragile domestic demand over concerns arising from the outbreak of MERS (Kalinowski et al., 2016). However, the South Korean economy bounced back in 2016, expanding 2.7 percent; nevertheless, economic growth is retreating as construction investment and private consumption falter.²

South Korea managed to achieve swift economic growth, also known as the “Miracle of Han River,” through state-led development during the 1960s and the 1970s (Lee, 2014). The government openly intervened in resource allocation and aggressively pursued an export-oriented industrial policy. In the 1990s, as South Korea transitioned from autocracy to democratic government, there was a rising call for reform of unnecessary regulations and burdensome costs resulting from outmoded administrative practices, in conjunction with the South Korean economy’s increasing insertion into global commerce. Regulatory reform was stepped up in the wake of the financial crisis of 1997. The institutional foundation was strengthened with the passage of the Basic Law on Administrative Regulations and the creation of the Regulatory Reform Committee, which was led by non-government experts (Choi et al., 2014; Lee, 2014).

A steady stream of regulatory initiatives was the hallmark of South Korea’s reform effort. The Monopoly Regulations and Fair Trade Act (1998), Special Act on Deregulation of Corporate Activities (1993), Basic Act on Administrative Regulations and Civil Petition (1994), and a preliminary review of economic statutes (1995~1997) were the initial products (Choi et al., 2014). A Foreign Investment Ombudsman (FIO) grievance-settlement system was introduced in 1999, under the Foreign Investment Promotion Act. The Labor Standards Act (LSA) was revised in 2003 to be more aligned with worldwide standards, and the key changes included the reduction of work hours per week from 44 hours to 40 hours. In 2008, the Anti-Corruption and Civil Rights Commission (ACRC) got underway (Kalinowski et al., 2015). In 2007, the South Korea Fair Trade Commission aggressively imposed harsher sanctions against abusive practices by market-dominant enterprises, and identified/purged a host of cartels. A special focus was put on regulatory inconsistencies in the food market (Bertelsmann Stiftung, 2009).

As of 2008, South Korea has entered into bilateral Double Tax Agreements (DTAs) with 70 countries to eliminate international twofold taxation. With the implementation of the Capital Markets Consolidation Act in 2009, the strictly

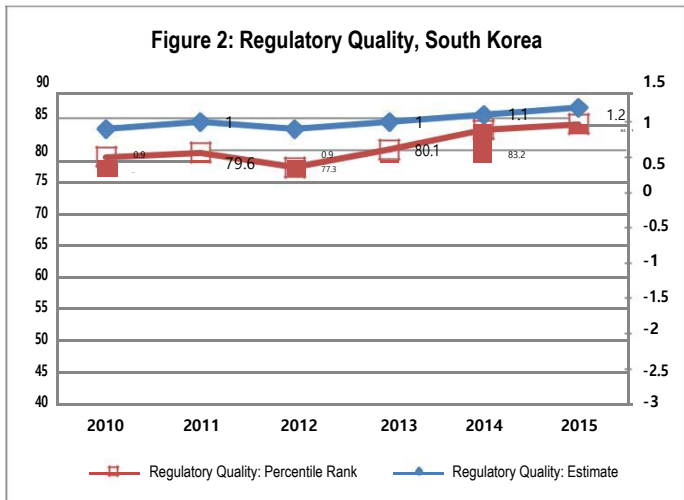
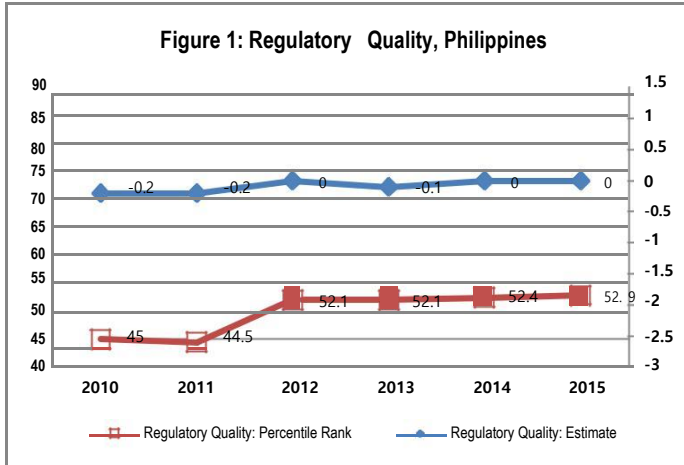
² Reuters, 24 Jan 2017

separated fields of securities, asset management, merchant banking, futures and trust were consolidated. The Intellectual Property Rights Act was likewise strengthened to promote the long-term government-led vision of “IPR Powerhouse Korea” (Kalinowski et al., 2015). The Public Service Ethics Act was also toughened to prevent high-ranking public officials from extracting financial gains related to their duties (Bertelsmann Stiftung, 2009). Much more recently, in 2013, President Park Geun-hye launched the “Removal of Thorn under Fingernail” initiative. The Office for Government Policy Coordination of the Prime Minister’s Office teamed up with the private sector to create a task force called Public-Private Joint Regulation Advancement Initiative, to dig up and do away with unreasonable regulations (Lee, 2014).

The impressive record of South Korea notwithstanding, lingering regulatory rigidities remain, slowing down the momentum for growth. The East Asian model of government-led economic growth has, as a by-product, bequeathed a bureaucrat-centered administrative system (Lee, 2014). Constant high-profile corruption scandals have raised concerns about government integrity and eroded the public’s trust and confidence in government. The recent political volatility and uncertainty have made further regulatory reform a huge challenge (Heritage Foundation, 2017).

All things considered, South Korea is still an advanced representation of a good regulatory environment, compared to the Philippines. The following charts suggest that in the key area of regulatory quality and governance³, Korea outstrips the Philippines by a mile in the last few years, the result of painstaking effort to keep abreast with global changes.

³Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. Percentile rank indicates the country’s rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank (Kaufmann, Kraay & Mastruzzi, 2010).



Source: Kaufmann, Kraay & Mastruzzi (2010)

Mandates: What should oversight regulatory bodies do, in the first place?

Oversight bodies carry out one or more of the following four core functions: coordination and supervision, challenge and scrutiny, training, advice and technical support, and advocacy.

Coordination and supervision

Coordination is the force that integrates group efforts to ensure coherence and harmony among departments/ministries as they strive for consistency in accomplishing interdependent goals. Supervision takes charge of overseeing

delegated regulatory activities, responsibilities, or tasks. Both are important in mediating the clash of interests among various departments and ensuring that people work together as a group despite these differences. This core function sets up the principles and standards so that prospective regulations get the proper groundwork (Cordova-Novion & Jacobzone, 2011).

In South Korea, policy coordination is undertaken by the Prime Minister's Office (PMO), more formally known as the Office for Government Policy Coordination. The Prime Minister has the authority to supervise and task cabinet ministers. All ministries and subsidiary agencies are required to set up their own regulatory reform units (Lee, 2014). The PMO conducts meetings with concerned ministries for *ex post* cases, hearing arguments over ministerial disputes and suggesting options—thus functionally combining both policy harmonization and regulatory reform. For *ex ante* cases involving long-term institutional arrangements, policy coordination takes place through committees (Choi et al., 2014). For this effort, they closely work together with the Ministry of Government Legislation (Lee, 2014).

This pattern has been sustained by the Park administration. South Korea's Public-Private Joint Regulation Advancement Initiative listens to proposals to revise burdensome regulations with the help of national networks of the Korea Chamber of Commerce and Industry and the Korea Federation of SMEs. Expert advisors rewrite the proposals. Final decisions are made by the ministries. After a few months of implementation of revised regulations, PPJRAI performs a fulfillment check to make sure the improvement in ease of doing business is in place (Lee, 2014). In building strategic alliances in government, a "must" requisite is the involvement of economics ministries and agencies, including finance, economy, treasury and the competition authority (Cordova-Novion & Jacobzone, 2011). This necessary condition is recognized, since those responsible for competition, trade and consumer policy are consulted when preparing new regulation (OECD, 2011).

In the Philippines, no one agency has a mandate to organize a coherent and coordinated regulatory management system, with the task to regularly undertake regulatory assessment, cost-benefit analysis, and public consultations in preparing regulatory changes. According to Llanto (2016), a probable candidate is the National Competitive Council, established in 2011, which at this time is only an advocacy body (with both government and business represented), promoting key regulatory reforms, among a host of other functions. The NCC is an outsider in the regulatory review process practiced in the country, but it could be restructured and empowered to work on reviewing existing regulation using a "regulatory

guillotine⁴” style.

Challenge and scrutiny

Here, oversight bodies independently assess the quality of regulations on technical grounds (*i.e.*, regulatory impact assessment, or RIA, and standard cost model, or SCM⁵, calculations), calling attention to deficiencies and weaknesses and proposing improvements. The oversight body has a veto on the quality of the draft prepared by the responsible regulatory agency. It may likewise be given the power to approve systemic administrative reduction programs initiated by subordinate departments. The oversight body, may, in a number of cases, make public its comments and assessments, thus providing great pressure for better performance under a “shame and blame” system (Cordova-Novion & Jacobzone, 2011).

Instances abound in the exercise of the challenge and scrutiny function. In Australia, the oversight body passes judgment over the adequacy of each RIA, before the regulatory action can advance. In the US, federal agencies are required to conduct RIA using benefit-cost analysis and to forward the intended rules to the *Office of Information and Regulatory Affairs* for review. OIRA has the power to return an unsatisfactory regulation and has the last word in back-and-forth referrals of draft regulations (Cordova-Novion & Jacobzone, 2011). Regulatory examination by South Korea’s Regulatory Reform Committee is obligatory for a ministry preparing new or amended regulations (Choi, 2015). Embedded in the function and role of the RRC are scrutiny and review (Choi et al., 2014): determining the basic trajectory of regulatory policy and inspecting and evaluating actual reform progress at each administrative level. In the Philippines, there are isolated cases of scrutiny and review, such as the rounds of consultation and scrutiny conducted by the National Committee on Biosafety of the Philippines (NCBP) before the Philippine Biosafety Guidelines for Contained Facility Tests were adopted (NAST, 2009).

⁴ Guillotine – an orderly, systematic, transparent, rapid and low-cost means of counting and then swiftly reviewing a large number of regulations against unambiguous scientific criteria for good regulation, and purging those that are no longer needed. Any regulation that is legal and considered necessary but not business-friendly will be simplified to the degree possible (Jacobs, Cordova & Associates, 2017).

⁵ Originally developed in Netherlands, Standard Cost Model is a systematic methodology, through which a baseline approximation of the full costs of administrative burdens on businesses can be generated, and progress towards a reduction target can be measured. (Jacobs, Cordova & Associates, 2017).

Training, advice and technical support

Key support chores consist of the publication and distribution of extensive printed guidance and manuals. Training programs are offered on quality issues to raise awareness on the new disciplines and promote a new culture among the regulators and regulatees. Australia's Office of Best Practice Regulation (*OBPR*) has been providing for many years high-level briefings on best practice regulation requirements, general training on RIA and a comprehensive seminar series on preparing RIAs and undertaking cost-benefit analysis. The Netherlands' Advisory Board on Administrative Burden (*ACTAL*) has a help desk that provides expert input directly, or through outsourcing specific tasks to outside experts (Cordova-Novion & Jacobzone, 2011). In South Korea, the comparative analysis of cost and benefits requires high cost and professional expertise. In such a case, there has been a continuous effort to increase the quality of the RIA through continuous education and training of professional experts and bureaucrats (Choi et al., 2014). In the Philippines, a couple of noteworthy training programs are those conducted by the Department of Tourism⁶ to build the competence of its employees and its attached agencies to conduct RIA under a Canada-Asian Development Bank arrangement, and RIA workshops conducted by the Department of Labor and Management for its technical staff under the ADB-sponsored Employment Facilitation for Inclusive Growth (EFIG) project.⁷

Advocacy

Advocating regulatory reform is important in helping strengthen public support and in arguing for the expansion of reform initiatives. Oversight bodies offer a unique opportunity to see "the forest rather than the trees" and thus, balance the typical tunnel vision of most regulatory agencies. Such privileged access to a broader, whole-of-government framework should provide the insight for an active espousal of regulatory improvement along a broad front of government, business and civil society (Cordova-Novion & Jacobzone, 2011).

South Korea's advocacy effort, which is government-led, has raised public awareness & social learning on regulatory reform (Choi, 2014). South Korea's vibrant civil society organizations have taken an active oversight role in monitoring and assessing the activities of government and are highly conscious

⁶ DOT-ADB-Canada Improving Competitiveness in Tourism Philippines (PCTourism) project. Regulatory Impact Assessment, News Publication, February 2016. See <http://www.pictourism.ph/index.php/about-pictourism/regulatory-impact-assessment>

⁷ Employment Facilitation for Inclusive Growth (EFIG). See <https://www.dole.gov.ph/news/view/2447>.

of regulatory change (Bertelsmann Stiftung, 2009). In the Philippines, as already mentioned, the National Competitive Council is the public-private sector-led mechanism that takes care of regulatory reform promotion.

Legal contexts and rule making patterns

Setting up an independent regulatory domain is a dynamic process where institutional building takes into account countries' specific legal and judicial frameworks. It represents a challenge to the executive, legislative and judiciary powers.

Legal boundaries

A key design consideration is to define the legal boundaries within which regulatory powers, including sanctions, and even some rule making capabilities can be established for an oversight structure.

In many countries, the constitution establishes the general institutional framework in which oversight bodies operate. Typically, constitutions provide fixed immutable guiding concepts which in turn supply the foundations for regulatory powers across the executive branch and the other branches of the state. In the postmodern era, constitutions are deemed “organic”, that is, they are regarded as “living constitutions”. This dynamic perspective is associated with views that the needs of contemporary society should be taken into account when interpreting key constitutional phrases (Jackson, 2006).

Variations exist. Unlike most modern states, the United Kingdom does not have a codified constitution but an unwritten one formed by Acts of Parliament, court judgments and conventions. Regardless of such nuances in overarching constitutional frameworks, regulatory bodies owe their legitimacy to several types of legal forms:

- Based on a law: the Czech Republic, South Korea and Mexico.
- Based on a presidential order: USA.
- Based on a prime ministerial decree or guidelines of the prime minister: Australia, Austria, France, Italy and Netherlands.
- Based on a cabinet directive, cabinet decision, government resolution, policy directive, etc.: Canada, Denmark, Finland, Ireland, Japan, New Zealand, Norway, Poland, Germany, Portugal, Sweden and the United Kingdom (OECD, 2008).

The power conferred by parliament (or congress) to a regulatory body is often

viewed as more robust and enduring. It could preserve the policy better and resist administrative and electoral changes much more than a solitary order from the Executive. A legislative act lifts up the degree of commitment to the policy, assures regulatory continuity and solidifies the authority of the enforcing agency. South Korea’s Regulatory Reform Committee is a good example of a stable regulatory enforcer created through the Basic Act on Administrative Regulations (BAAR) in 1997 (Cordova-Novion & Jacobzone, 2011). Nevertheless, regulatory bodies, regardless of whether they were created by the legislature or not, fall under the domain of the executive branch. Hence, in most countries, the executive is the foremost producer of regulation. In South Korea, however, the legislature is as much a channel for regulation as the President, but without the necessary regulatory reviews. This has led to an inflation of new regulations which bypass assessment, a situation that is a cause for concern (Choi, 2015).

Regulatory Agency	Industry
Mines and Geosciences Bureau	Mining
Energy Regulatory Commission	Power
National Telecommunications Commission	Telecommunications
Bangko Sentral ng Pilipinas	Banking
Insurance Commission	Insurance
Land Transportation Franchising & Regulatory Board	Land Transportation
Civil Aviation Authority of the Philippines	Air Transportation
Maritime Industry Authority	Water Transport Utilities and Other Maritime Enterprises

In the Philippine context, the executive branch enforces the laws enacted by Congress.⁸ “Regulations” are executive fiats to implement such laws. The government issues Implementing Rules and Regulations (IRRs), which are analogous to “secondary regulations to implement primary laws” in OECD countries. Hence, the executive has a broad leeway for regulatory reform. In addition, local governments issue permits and licenses which may be considered “tertiary rules” (Llanto, 2016).

Multiple or single oversight forms

Theoretically, within the regulatory milieu, the core functions can be done by either a single agency or multiple bodies. In reality, an unadulterated model of an all-embracing oversight body bursting with all core functions *does not exist*. A “division of labor” is more likely, and comes in many forms. Countries with a

⁸Congressional acts created most of the regulatory bodies in the Philippines, including the following (see photo) Source: Frias, 2015

strong center may opt to concentrate important functions into a unitary oversight body, but nonetheless balance it with a set of connections to sectoral bodies (Cordova-Novion & Jacobzone, 2011). In practice, an asymmetric network of government bodies, some of which have heavier roles within the regulatory agenda, execute the functions. Even oversight tasks are often shared by line ministries, which use comprehensive consultation mechanisms to forge agreements and consensus.

Countries with presidential setups, such as the US or South Korea can more easily mount stronger executive oversight bodies accountable to a powerful president (Cordova-Novion & Jacobzone, 2011). In contrast to most parliamentary systems, presidential systems can pursue cross-cutting, top-down policy reforms (OECD, 2002). In more conventional settings, the onus of defending reform falls on an economic-oriented ministry, such as the Ministry of Finance or Ministry of Economy (as in Denmark, Mexico), since regulatory improvement has implications on microeconomic issues. Such setup ensures a quicker response, more effective and efficient management and a higher degree of accountability (Cordova-Novion & Jacobzone, 2011).

South Korea opted for a single organization, the Regulatory Reform Committee (RRC), composed of high-ranking government officials, professors, lawyers, economists and NGO representatives (Lee, 2014). The RRC unified diverse efforts when it was given full authority to carry out sweeping regulatory restructuring. Co-chaired by the Prime Minister and a civilian, and with a secretariat lodged in the Prime Minister's Office, the RRC made full use of its regulatory review powers by employing reform tools such as regulatory registration and publication, RIA, and the sunset rule (Choi et al., 2014). Its linkage with PMO resulted in the removal of 50 percent of existing regulations during the first year in 1998—a remarkable feat by any standard.⁹ The upshot of this joint effort likewise included lifting entry barriers to enhance competition in the industrial sector; introducing reform in the previously untouched sectors of financial services, housing, venture business, restaurant business and professional associations; publicizing regulations for transparency and quantitative management; and comprehensively using review and evaluation tools. Regulatory reform helped to tide over the negative impact of the Asian financial crisis on

⁹Regulatory reform in South Korea is not without criticism. Kim (2005) argues that Korean reform, while successful in reducing the number of regulations, paid little attention to compliance costs. It also zeroed in on individual rules rather than interlinked groups of rules. By concentrating on national legal changes, it also sidestepped local government reform and thus undermined visible benefits for citizens.

South Korea by boosting national confidence and economic performance (Choi et al., 2014).

Location in the bureaucracy

The location of the oversight structure in the regulatory policy architecture within the bureaucracy is important in terms of exercising authority and offering some distance from political power. In principle, regulatory oversight bodies could be placed in any branch of government. The preference among various locations is always a question of relative institutional strength: which organization is best outfitted and best positioned to do oversight work, within specific governance contexts. Tradeoffs among criteria such as expertise, authority, transparency, and political accountability are to be anticipated in choosing the optimal location (Wiener & Alemanno, 2010). Often, location decisions reflect significant turf wars among key public authorities (Cordova-Novion & Jacobzone, 2011).

Locating the oversight body at the center of government (e.g., South Korea's Regulatory Reform Committee) has distinct advantages. A central base

- builds on core political power and provides access to the highest political level to preserve influence within the government;
- easily embeds decisions in cabinet processes;
- establishes credible enforcement powers to ensure regulatory quality and policy coherence (Cordova-Novion & Jacobzone, 2011);
- ensures that regulation serves whole-of-government policy; and
- carries forward the President's (or Prime Minister's) regulatory agenda (OECD, 2016).

At the same time, the need of an oversight body to be close to power, in order to have high-level authority, needs to be balanced by the need for operational autonomy, in order to preserve neutrality and technical objectivity in the performance of its assessment and advising functions (OECD, 2016). An arm's length agency, such as the Danish *Better Business Regulation Division* (DDCA), inside the Danish Commerce and Companies Agency, enjoys managerial independence and a self-directed budget. Sufficient independence likewise leads to freedom to deploy cutting-edge assessment tools well as measurement methods (Cordova-Novion & Jacobzone, 2011).

Autonomy does not automatically suggest complete independence from government (OECD, 2015a; Renda & Castro, 2015). The Australian OBPR enjoys considerable technical autonomy without a law or being located outside the center.

But in Germany, the NRCC, an independent advisory and control body, is outside the government structure, far from the Chancellor. The principle of ministerial autonomy implies that the Chancellery acts more as a coordinator rather than as a driver of policy or lawmaker. Too much autonomy, however, may result in more restricted access to the decision makers. An effective oversight system that strikes a good balance is one that promotes across-the-board ownership of regulators' efforts while preserving some form of control (Cordova-Novion & Jacobzone, 2011).

Role of the judiciary

Judicial review of administrative decisions is in most cases the final guarantor of transparency and accountability; it underwrites, as well, the effective quality of decisions made during administrative appraisal. In Ireland, rulings made by the judiciary have helped reshape poorly conceived laws and regulations, “rescuing” them from inconsistent application of principles of constitutionality (particularly with respect to the issues of proportionality and the right to be heard) (OECD, 2002).

In South Korea, judicial intervention in policy-making is made through court rulings. In addition, through active and creative construal, the Courts can effectively produce a new law out of an existing law. Some judicial interventions, which seem to be instances of judicial overreach, are excused on two grounds: they shield minority interests from majority will; and they encourage democratic practice by correcting procedural malfunctions of the executive and legislative branches, which could not be remedied by the branches themselves (Lim, 2014). The South Korean judiciary is highly professionalized and fairly independent, though not totally free from governmental pressure (Bertelsmann Stiftung, 2009). Persistent incoherence in policy making as well as the shortfalls among Korea’s executive agencies has led to an assertive display of judicial audacity.

If regulatory decisions are subject to a substantial judicial review, there is a strong need to avoid transforming the judiciary into an operational regulator itself, unless the circumstances favor this activist role. In recent years, there have been some prominent cases where the executive power and the judiciary are at odds over, say, environmental regulation, where the high court literally takes over the enforcement function. For instance, to offset the slippages of the executive branch in enforcing environmental laws, the Philippine Supreme Court has shed its restraint-based, pro-precedent inclinations by adopting new rules of procedures for expeditious environmental litigation as well as for effectively managing environmental cases. These include provisions preventing SLAPP suits and

adopting the Precautionary Principle in evaluating climate change evidence. In an innovative departure, the rules also provide for (1) the Writ of *Kalikasan* (literally, writ of nature)—a world first—the legal recourse for those whose constitutional right to “a balanced and healthful ecology” is violated by an unlawful act or omission by a public official or a private individual or entity; and

(2) the Writ of Continuing Mandamus which allows the court to direct any government agency (say, in an environmental case) to perform its task expeditiously for preventing miscarriage of justice. These have armed the judiciary to intervene to stop environmental neglect, in the process becoming a proactive player—not just a passive “third party”—in environmental governance, alongside the executive and the legislative branches. Judicialized governance has somewhat institutionalized what Hirchl (2011) lists down as the ascendancy of legal discourse in policy-making, the expansion of the jurisdiction of courts and judges in ascertaining public policy outcomes, a judicial redrawing of bureaucratic boundaries, and an unrestrained rights jurisprudence (Gonzalez, 2016).

Court redress, however is generally time-consuming. Although most contested regulations end up in the judiciary for adjudication, many groups are unlikely to use judicial intervention as a means of obtaining clarity or relief. The transaction costs of lawsuits are high to both public and the private agents (Poapongsakorn & Nikomborirak, 2003). Thus, there is no substitute to *ex ante* assessment to secure quality assurance (OECD, 2002).

Influence of administrative culture

The architectural design of the regulatory environment requires an understanding of a key governance aspect: the administrative tradition. Oversight bodies are often embedded in their traditions for public governance. As Dwivedi (1999) points out, governments have certain unambiguous ways of “getting things done,” which are rooted in, but also go beyond, the official realm. That is, the regulatory environment is accustomed to existing structural and conjunctural circumstances

and challenges. The existing administrative culture covers particular constructions of reality, managerial ethos, standards of measurement, and emotional ties and endowments. Mediated by current experience, it allows the actors to reconfigure diverse situations into existing frames, making such situations amenable to homogenized decision-making processes such as standard operating procedures, bureaucratic routines, or operational codes (Howlett, 2004). Thus, the behavior of the state apparatus depends on the particular breed of administrative culture that reigns in a country (Dwivedi, 1999).

Administrative styles and regulatory cultures

Howlett (2004) suggests how prominent styles and cultures create adversarial, collegial or collaborative relationships among entities of public administration (ministries, regulators, etc.). An *adversarial* system develops where the method of policymaking, policy implementation, and dispute resolution is done by means of lawyer-dominated litigation. The system pits advocates for each side against one another, with a third party ensuring that the rule of law is followed. In the US, the policy-making tradition favors adversarial debate to fashion decisions, not only in courts but also in the executive and legislative branches (Cordova-Novion & Jacobzone, 2011). A *paternalistic* domain ensues with a highly personal practice of treating or governing people in a fatherly manner, in the absence of impersonal rules, especially by providing for their needs without fixed accountabilities. A *bureaucratic* setup on the other hand is overly concerned with the procedure at the expense of efficiency or effectiveness (Howlett, 2004).

South Korea's administrative culture is a mixture of traditional (Confucian, and to a certain extent Buddhist) and Western values, norms and practices. Its Confucian aspects stress scholarship and hierarchical order. Its task specialization owes to Chinese influence; while Japanese influence is shown in the quasi-modern authoritarian structure of Korean bureaucracy, with its emphasis on centralization. The paternalistic nature is reflected in the significant amount of protective discretion exercised by bureaucrats in the implementation of regulations (Danopoulos et al., 2002).

The Filipino decision-making governance has a somewhat parallel nature—there is a high premium on paternal discretion and preserving smooth interpersonal relationships. In problem-solving, group deliberation, debate and collegial reasoning are avoided while harmonious conversation is favored (San Juan, 2014), so much so, employees find it hard to distinguish the organizational from the personal. Informal matters mix with official issues and social interaction with work discussion. Managerial decision making is not confrontational but consensual, operating through the casual, fluid, and interdependent personal networks within the bureaucracy (Selmer & de Leon, 2014)

The South Korean culture has not proved to be a hindrance to regulatory reform, indicating that cooperative and consensual oversight does not stand in the way of continuous improvement. Likewise, many managerial cultures in Europe are founded on a strong tradition of collaborative harmony (Cordova-Novion & Jacobzone, 2011). It may be asked, however, whether new regulatory methods, such as RIA or SCM, or the establishment of highly impersonal institutions, can

break out of the “fatherly,” highly personalistic tradition so ensconced in Philippine administrative culture. Taking the constructive view, harnessing the dynamics of collectivism and consensus innate in the culture may prove to be quite helpful in advancing organizational commitment (Selmer & de Leon, 2014).

The power of political culture and political practice

It is the political culture that influences the administrative culture most because the embedded political values decisively shape the behavior of state employees and other stakeholders (Dwivedi, 1999). Understanding such concepts as “the regulatory state”, “regulatory capture” and “regulatory space” means that the regulatory environment must always be analyzed and assessed in a political context. The question is whether political culture creates difficulty in terms of the oversight agency's independence. If powerful interests are able to establish cozy arrangements with regulators, they might resent changes that may trim down the perceived protection in their favor (Cordova-Novion & Jacobzone, 2011).

Well-organized and institutionally entrenched political interests will often do well in controlling or subverting regulatory agencies. In some administrative setups, regulatory capture has deliberately been built into the system, to the extent that where official rules of accountability exist, they mainly make up a façade concealing the *de facto* politicization of the regulatory process. Nonetheless, trustworthy and steady political structures can be a driver for economic reforms. Also, vigilant civil society networks can prevent easy capture by interested parties, lead to progressive politics, and avert unchecked poor governance (Minogue, 2003).

National political elites anxious to secure political gains dominate the regulatory landscape. Regulations to prevent conflicts of personal economic interest hardly exist for high-ranking politicians (e.g., the president and ministers). The dire consequence is regulatory capture at the very least, and state capture, at its worst (Klein et al., 2015).

In South Korea, political power is elite-driven; regulatory reform is ultimately a political process embedded in interest-group politics. The vested class resists regulatory reforms if the changes shred their privileges. A major example is the set of regulatory reforms RRC kick-started affecting certified professionals and business associations. Although public consensus exists for the regulatory reforms, severe opposition was mounted by groups with huge political influence, such as the legal, medical, and accounting associations. The associations were monopolistic structures with supplier-centered services and high-entry barriers that put such professions in a dominant position relative to ordinary citizens when

determining prices and supply (Choi, 2015).

In the Philippines, elite dominance reinforces and funds the system of political patronage. Economic reforms such as privatization and deregulation had some successes in improving services but also constituted new opportunities for established elites to take easy “rents” (Minogue, 2003). The key question for reformers is how to insulate structures from particularistic demands (especially from the dominant oligarchy) and open them up to be more responsive to collective pressures from societal groups whose interests have long been neglected or sidestepped (Hutchcroft & Rocamora, 2003).

Incentive-driven checks and balances

The allocation of powers and responsibilities in regulation must fall within a system of checks and balances supported by carefully chosen incentives. A clear mandate is necessary, but not sufficient. *De jure* authority repeatedly deviates from *de facto* situations. Oversight bodies with the finest and most commanding mandate still need to search for “carrots and sticks” to ensure that promising objectives do not prove to be exasperatingly unenforceable. In practice, the manner in which oversight bodies have utilized their enabling powers has been through the exercise of soft power based on incentives. Soft power can also work well in more centralized autocratic systems where internal dissent carries high political risks. But the soft power process can collapse when a divided government exists (Cordova-Novion & Jacobzone, 2011).

In terms of carrots, or positive incentives, oversight bodies rely on financial rewards, like above-average salaries and bonuses. Some countries like Italy have correlated the evaluations of senior officials and pay performance incentives with the attainment of the regulatory quality objectives set by their offices. South Korea has introduced some elements of performance pay to raise professionalism and competitiveness in its civil service¹⁰. Well-timed awards for outstanding performance can also be given to those who generate innovative or path-breaking regulations.

In terms of sticks, or negative incentives, oversight bodies can invoke a veto right, exert peer pressure or publicly shame a bad regulatory proposal. Oversight agencies often play the role of a disciplining gatekeeper. It can apply veto power to defer or block a regulatory proposal until the quality of the submission has achieved certain standards. This deterrence, brought into play in the hope of facilitating an easier and quicker assessment procedure, can become a potent

¹⁰www1.worldbank.org/publicsector/civilservice/rsSouthKorea.pdf

incentive for regulators to work harder. However, the full veto right also presents risks, like the excessive use of it, in effect transforming the oversight body into a super regulator, a condition that invites significant backlash. Under more recent settings, the one-in, one-out rule has been introduced as an explicit gate-keeping mechanism to enforce discipline (Cordova-Novion & Jacobzone, 2011). In South Korea, many administrative and regulatory programs were once delegated to private entities, but the government retained *de facto* veto power over the associations (You & Park, 2016). Today, it also implements the cost-in, cost-out program, its own version of the one-in, one-out rule.

Another effective way to make deft use of oversight power is to create strategic alliances with other reform authorities, encouraging them to have a stake in the regulatory process, and eventually “own” the ensuring regulations. Promoting peer pressure at the Cabinet level (such as what the South Korean RRC/PMO pairwise setup does) can also be quite helpful in collegial style governance setups. However, undue reliance on peer pressure, equated with censuring between ministries, may yield unconstructive results (Cordova-Novion & Jacobzone, 2011).

A good “stick” is public exposure of a regulatory proposal: if regulators know that an oversight body can publicly release their submission (*i.e.*, regulation, RIA, SCM measurement), they will attempt to improve the quality of their efforts in a more effective way than through internal directives. An indirect way of achieving the same results—improving compliance with regulatory standards—is to publish the regulators’ general performance through benchmarking. A worthy example is the annual ranking of ministries and regulators’ quality indicators on their RIA published by Australia’s *Office of Best Regulation* (OBPR) (Cordova-Novion & Jacobzone, 2011). Neither South Korea nor the Philippines practices these negative incentives.

Design implications of analytical methods

Often the oversight body is closely linked to the instrument selected, such as Regulatory Impact Analysis (RIA), administrative simplification, standard cost model (SCM), and so on. Oversight bodies may apply either *ex ante* screening of regulations or *ex post* lifting of the stock, or both. For instance, the *Impact Assessment Unit* in the German Ministry of Interior is structured only for a specific regulatory tool, RIA (Cordova-Novion & Jacobzone, 2011).

When a government gives authority to an oversight body, the association with the use of particular tools is evident, as shown in typical oversight tasks (Cordova-Novion & Jacobzone, 2011):

- issuance of guidelines on the quality of impact assessments and other evaluative tools; prompting of the conduct of impact assessment;
- review of impact assessments of proposed new regulatory actions;
- rejection of proposed regulations (when they fail a social welfare test or when they are not supported by adequate analysis);
- prompting the development of new regulations that would improve social welfare;
- review of existing regulations (stock);
- measuring the costs and benefits of proposed and existing regulations;
- achieving a specified target of reducing administrative burdens;
- setting or enforcing a regulatory budget; and
- improving the quality of inspections and enforcements

Among the challenges in this regard are scarcity of expertise, finding a balance between the use of different tools, and avoiding a narrow, procedural approach in the use of the tools (that is, focusing too much on processes, such as minimizing the administrative costs imposed on business by regulations, and less on the impacts of regulatory quality) (OECD, 2015a).

Reducing administrative burden (managing regulatory stock)

Easing the administrative load of government implies controlling the stock of regulations (upgrading their quality in the process) through deregulation, updating, codification and restatement, formalities. A “business as usual” environment tends to promote regulatory inflation and a disorderly regulatory control that only leads to quick fixes and poor quality of decisions.

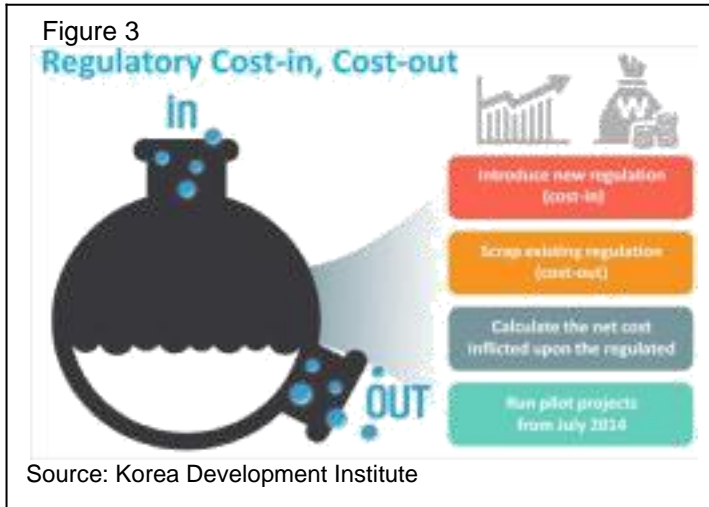
The “stock” policy tool in South Korea is managed under the Framework Act on Administrative Regulations. Under FAAR, a regulation remains in force for a period no longer than the time required to achieve its objectives, and this must not exceed five years. If an extension is warranted, RRC makes an examination of the regulation six months prior to its expiry (Kim & Choi, 2016). In the Philippines, a methodical and exhaustive review of all national and local regulations for simplification and improvement—to trim down, if not purge, the regulatory burden on firms and consumers—has never been done (Llanto, 2016).

Many countries, like the Netherlands and the United Kingdom, have put the spotlight on lessening the burden of current rules; they have not taken the route of paying much attention on new regulations. They mostly employ SCM, compliance cost evaluations, “simplification”, and “regulatory budgets” to trim

down paperwork pressures. Investing early in those tools can help build a political constituency to ensure further changes (Cordova-Novion & Jacobzone, 2011).

There are three broad kinds of approaches that governments, overseas and in Australia, have employed to manage the stock of regulation (Australian Productivity Commission, 2011):

1. *Regulator-based strategies* that involve risk-based enforcement and more use of consultative/feedback forums and processes by regulators to attain a particular level of compliance. In South Korea, this has meant tackling core regulations controlled by bureaucrats and regarded as untouchable to civilian reformers in the past: (1) entry barriers in the financial service sector; (2) restrictions on foreign direct investments; (3) restrictions on housing construction; (4) venture business and start-ups; and (5) supply-centered regulations in professional services. Consequently, the RRC in 1998 and 1999 adopted reform measures that led to lowering entry barriers in the financial services, lifting business categories of FDI by 50%, liberalizing the housing price cap and allowing competitive bidding on public housing sites, promoting entrepreneurship and start-ups of venture businesses, and providing ministries with guidelines to reform professional services and business associations (Choi, 2015).
2. *Stock-flow linkage rules* constrain the flow of new regulations through rules and procedures by linking them to the existing stock. Some instruments concentrate on compliance costs: the one-in- one-out rule is applied to compliance costs associated with regulation rather than the number of instruments, while the regulatory “offset” arrangement asks agencies proposing new regulation are to seek an offsetting reduction in compliance costs. Others zero in on regulatory budgets—new regulations that impose an additional cost must be offset by reduction in the costs imposed by existing regulations.



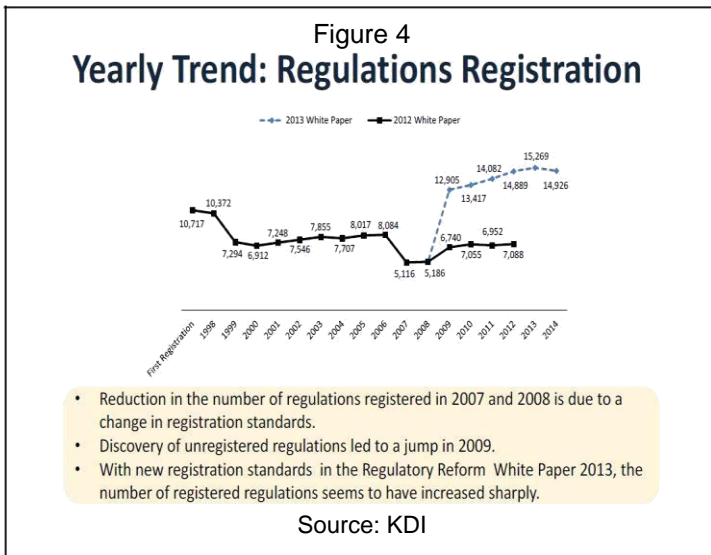
South Korea’s version of the one-in, one-out rule is CICO, or cost-in, cost-out, which is a mechanism to calculate the net costs to maintain the balance between in-regulations and out-regulations. Figure 3 Illustrates how the CICO process works. The CICO Pilot Program, which involved eight ministries in 2014, has been expanded to cover 15 ministries in 2015 and 22 ministries in 2016) (Hong-Keun, 2016)—despite the vigorous opposition of the Korean legislature, which regarded the project as an impediment to legislative power (KDI-CRS, 2015).

Internal “stocktakes” try to pinpoint redundant regulation. In 1998, in Korea, the RRC dissected critical policy regulations using the guillotine¹¹ style of regulatory clearance and managed to eliminate 5,340 (49%) out of 12,125 regulations by holding 48 expert review meetings, 46 sub-RRC meetings, and 9 full RRC meetings from May to October of that same year. This wide-ranging regulatory overhaul had a remarkable impact on reform performance (Choi, 2015).

¹¹(See photo) Source: Jacobs, Cordova & Associates

Summary of Results of Regulatory Guillotine Reforms in 10 Countries

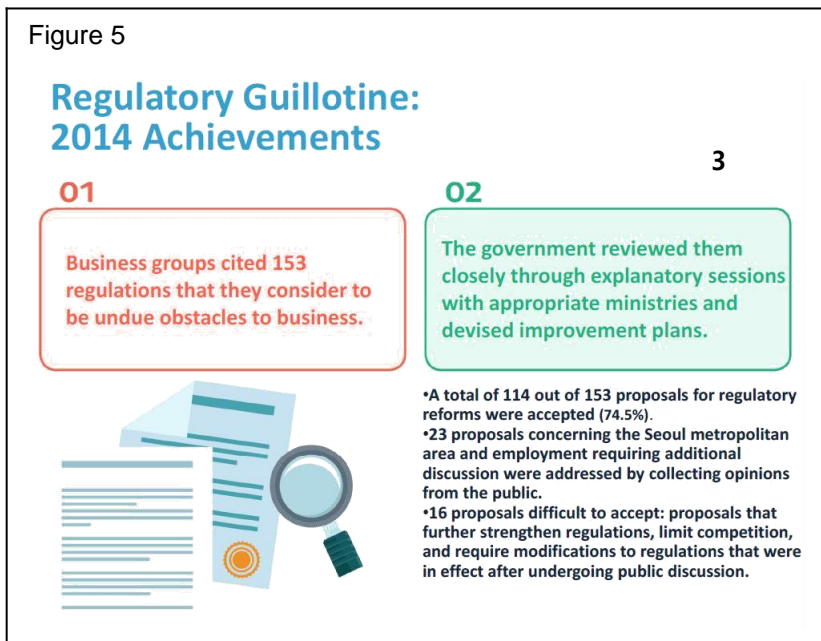
	Type of review	Target rules	Number of regulations before cleanup	% of regulations eliminated	% of regulations simplified	Economic gains
Vietnam(3 years)	Legality, Need, Cost, WTO impact	All procedures at all levels of government	5,421	8.8%	77%	Cost-savings estimated at \$1.4 billion/year when fully implemented ¹
South Korea(11 months)	Legality, Need, Cost	Regulations	11,125	48.8%	21.7%	1,066,200 new jobs Business cost savings: +4.4% of GDP/10 years \$36.5 billion extra FDI over 5 years ²
Mexico(9 months)	Legality, Need, Cost	Formalities	2,038	54%	27%	



The reduction in regulations stemmed from reform policy efforts of the Kim Dae Jung administration. Yet during the Roh Moo Hyun (2003~2008) and Lee Myong Bak (2008~2013) Administrations, there was a continuous uptick in the number of registered regulations (Choi et al., 2014), as Figure 4 shows.

Accordingly, in 2014, PPJRAI took steps to revamp redundant and burdensome regulations. It dealt with 2,339 cases of regulatory reform proposals, of which 317 cases were classified as non-regulation and transferred to pertinent local governments for disposition. When PPJRAI finished consultation with relevant ministries, 255 proposals were accepted, representing an acceptance rate of 20%. Figure 5 illustrates PPJRAI's current state of affairs (Lee, 2014). In 2015, a total of 151 reformed regulations produced about 5 billion USD worth of economic gains. In the same way, a total of 49 revised regulations were expected

to yield 10 billion USD worth of economic benefits in 2016 (Hong-Keun, 2016).



3. Programmed review mechanisms

- Sunset clauses – every regulation unavoidably has an expiration date (usually after 5-10 years), when it is no longer needed or will need substantive revision. If it is not to lapse, it has to be renewed. Sunsetting enables effective filtering or “triage” processes that identify which regulations (or bundles) are likely to impose high costs or have unplanned outcomes that call for a more in-depth examination.

South Korea has implemented a “soft” sunsetting principle beginning 2009, during the Lee Myung-Bak Administration. In 2010, 1,600 regulations out of a total of about 7,000 existing regulations (about 23 percent) were subjected to a sunset review (Kim & Choi, 2016), based on the five-year cycle set in the FAAR. Regulations which “have no clear reason to continuously exist” were flushed out of the system, or were extended through the RRC. However, the number of applications has since continued to rise (Kim & Choi, 2016), eliciting a warning from OECD that the 5-year mandatory sunsetting of primary and secondary regulations runs the danger of overwhelming the regulatory system and diverting

attention away from strategic targeting.

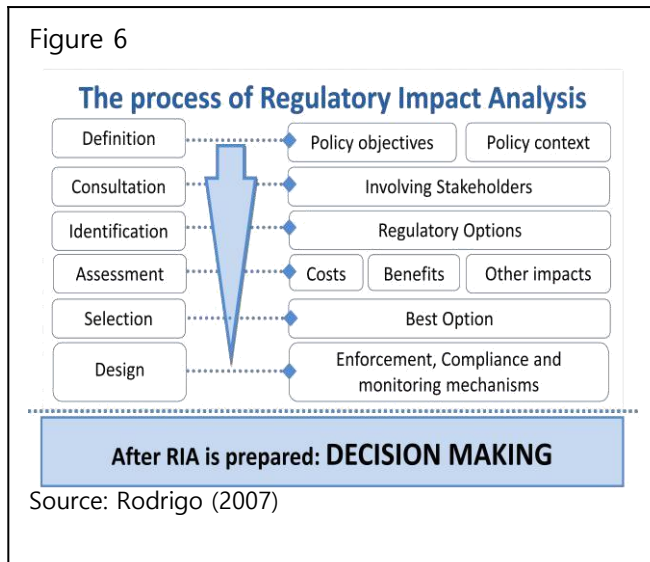
- “Arms-length” post implementation review — when any regulation is assessed to be greatly important, consultations are made with stakeholders who are impacted or potentially impacted by the regulation. In Korea, the RRC/ PMO collected regulatory issues that had been raised in the past, as well as compiled the opinions of civic and economic organizations. The RRC, closely working with research institutions and government think tanks, then selected priority key tasks and, with the aid of civilian experts and officials, launched reforms that 1) reduced barriers to business in financial services/distribution/free trade; and 2) simplified excessively intricate, packaged regulations arising from multiple legislations (Choi, 2015).
- “Ad hoc” and special purpose reviews — in-depth reviews are one-off, usually *ad hoc*, comprehensive reviews, focusing on specific industries to achieve a full understanding of the regulatory issues and to develop options for reform. These reviews place a premium on independence and transparency and thus are often conducted “at arms length”.

In the absence of a comprehensive regulatory structure, the Philippines occasionally creates *ad hoc* task forces to manage specific issues on regulation. A good example is the Ad Hoc Task Force that was created by the national government to review a city of Manila cargo truck ban ordinance which regulated the movement of cargo trucks during particular hours of the day. Enacted to ease heavy traffic, the cargo truck ban triggered rising complaints by transport and logistics operators, importers and exporters, domestic and foreign chambers of commerce about the economic costs of this local regulation (Llanto, 2016).

Doing impact assessment (managing regulatory flow)

Managing the flow of regulation requires the use of impact evaluation tools, foremost among which is RIA. RIA examines and measures the likely benefits and costs of a new regulation to guarantee its quality (Rodrigo, 2007). RIA is critical in the organizational design process because risk reduction, which impact analysis promotes, involves the use of changing technologies and the employment of behavior-changing administrative instruments.

Figure 6



RIA helps to identify how risk reduction in one area may create systemic risks in other areas of government policy that require attention (OECD, 2009), for example, failure in financial systems having shattering impact on health and safety. RIA pays particular attention to changing technologies, behaviors and markets because they may lead to the surfacing of new risks, which are “off the radar” of existing regulatory frameworks. The appraisal of their “impact and probability,” not being known in advance, is particularly hard but essential to carry out (OECD, 2015a). Subjective assessments of probability may need to be used in order to arrive at fair decisions. Risk-based regulation can be particularly fruitful: a careful evaluation of quality and productivity of key services (such as water or the availability of timely and reliable electricity and telecommunication services) can lead to desirable regulatory measures, such as building reserve capacity. It is worth remembering that impacts can arise from either action or non-action by government (Cordova-Novion, 2004).

The RIA process, depicted in Figure 6, is underpinned by seven elements: (1) problem analysis, (2) objective(s), (3) options, (4) impact analysis, (5) consultation, (6) conclusion and recommended option, and (7) implementation and review (Cordova-Novion, 2004).

The *Better Regulation Council* in Sweden, established as an independent external watchdog, typifies a RIA-based oversight body. It assesses the general

quality of impact assessments and legal/regulatory proposals/final reports from the committees of inquiry, tracks the overall Better Regulation agenda, provides guidance and support for a cost-conscious regulatory framework, and to the extent possible, assists the committees of inquiry in their work. Specifically, the Council scrutinizes all proposals for new or amended laws, ordinances and other regulations from both ministries and government agencies that could affect the working conditions, competitiveness or other issues relevant to businesses, with a view to accelerating culture change (Cordova-Novion & Jacobzone, 2011).

In Korea, the use of RIA was in full swing as early as 1998 with the enactment of FAAR. The RIA has been since constantly utilized, and continuously refined to strengthen the review process. Still, recent research suggested that Korean RIA was weak in the comparative analysis of cost and benefits, compelling the government to exert extra effort to increase the quality of the RIA through training and participation of professional experts (Choi et al., 2014). Yet a nagging issue that needs to be resolved is the RIA-exempt status of the Korean Assembly, especially because of the rising number of bills passed by Assembly members (KDI-CRS, 2015).

In developing countries, RIA has been integrated to some extent into the regulatory process. Generally, however, the methods are incomplete and infrequently applied methodically across policy areas. RIA is perceived as a costly tool that might not generate the anticipated outcomes in the short term. While crucial as a starting point, RIA may be harmful if copied without reflection. Some emerging and developing countries have put into practice RIA at a late stage, readapting and reinventing it, but in a more costly fashion than if it had been introduced at the beginning. When reflecting on the manner RIA could be implemented, it is imperative to recognize country specificities and particularities (OECD, 2008).

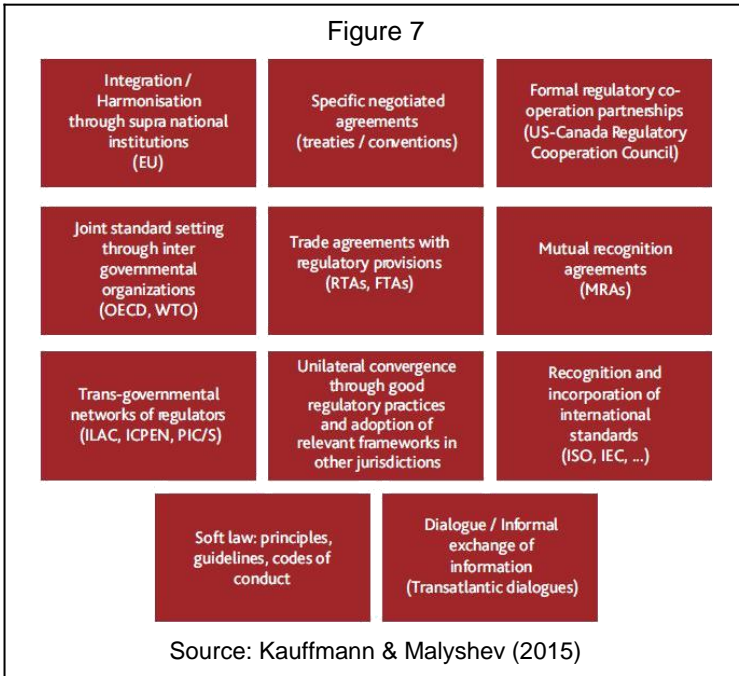
In the Philippines, RIA is neither standard practice for regulatory change nor a default process among sectoral regulators (Llanto, 2016), although some *ex ante* analysis of the consequence of proposed regulatory changes is done by sectoral regulators (e.g., the Department of Environment's Environmental Impact Assessment requirement for new projects). Public hearings and consultations prior to the enactment of a new law, or the adoption of a new executive order, substitute for a more rigorous impact assessment. In one particular instance, it was a non-government organization, Microinsurance Center, supported by GIZ, which undertook a RIA on microinsurance regulation in the country (Malagardis, McCord, Portula & Wiedmaier-Pfister, 2015). The RIA pilot projects in the tourism and labor sectors mentioned above are thus important steps in preparing

the ground for full implementation of RIA across the government (Llanto, 2016).

The role of international agreements

More and more, governments seek to make the most of the benefits of globalization by eliminating unnecessary local regulatory discrepancies and hurdles. Concurrently, the escalation of global challenges, such as those associated with systemic risks (financial markets), the environment (air or water pollution), and human health and safety, is leading to the rising convergence at different degrees of cross-border regulatory cooperation (Kauffmann & Malyshev, 2015).

Anecdotal data suggest that the gains from international regulatory cooperation, or IRC, can be substantial. They consist of enlarged trade and investment flows as well as increased national income; governmental and business efficiency gains and cost savings; and important societal benefits in terms of improved health and strengthened environmental protection (Kauffmann & Malyshev, 2015). Given the competitive advantage that a country can gain, an international context where several cross national binding agreements exist is likely to be conducive to the setting up of an independent regulatory authority, either directly or indirectly.



Today, different forms of IRC exist that surpass the customary treaty-based representation of international relations. In North America, the *OIRA* (USA), *TBC-RAS* (Canada) and *COFEMER* (Mexico) have established forums across national borders, in the wake of give-and-take deliberations and negotiations that initially took place at the time of the North American Free Trade Agreement. In Europe, the policy discourse and discussions between national oversight bodies was facilitated by the network of Directors and Experts on Better Regulation (DEBR) (Cordova-Novion & Jacobzone, 2011). These IRC mechanisms employed by countries are summarized in Figure 7, and range from complete “harmonization” of regulation (i.e. seeking uniformity of laws) to the least formal and inclusive options such as reciprocal swaps of information (OECD, 2015a). These mechanisms will help shape the organizational design of the oversight agency, in terms of the extent of international linkages it will cover, the expertise that those connections will require, and the degree of regional and global cooperation required.

Harmonization of rules is the primary method of regulatory cooperation. In typical cases, regulatory harmonization takes on more focused forms, such as the ASEAN pharmaceutical regulatory harmonization schemes (Rahman, 2016), the

Singapore-Malaysia Double Tax Treaty (Avoidance of Double Taxation Agreement), the ASEAN Economic Cooperation Agreement, and the Greater Mekong Subregion Economic Cooperation Program (World Trade Organization, n.d.). South Korea is keenly engaged in expanding monetary cooperation in East Asia (Bertelsmann Stiftung, 2009). As a signatory to the ASEAN Economic Community 2015, the Philippines has committed to developing a domestic regulatory framework that is harmonized with that of the other ASEAN member states (Llanto & Moreno, 2015). In many instances, complete harmonization is deemed too “costly and will only be the best option in some circumstances” (Australia and New Zealand Productivity Commissions, 2012). On the other hand, less comprehensive and binding schemes may induce lesser compliance unless backed up by suitable institutional arrangements (OECD, 2015a).

Specific negotiated agreements—treaties, conventions, and protocols—are the more traditional forms of regulatory cooperation signed by states. They are enforceable as international law, and each participating state is bound by regulatory requirements, and legal obligations concerning specific sectors or areas. They may be multilateral in nature, such as the Montreal Protocol or bilateral such as a number of tax and investment treaties (Kauffmann & Malyshev, 2015). *Regulatory partnerships* are formal, umbrella-type, broad political agreements that can advance better quality regulation. In the Asian region, a good example focused on a particular sector is the Asia Pacific Regional Regulatory Partnership for Malaria Elimination.¹²

Regional trade agreements (RTAs) with regulatory provisions facilitate economic and trade integration. RTAs are works-in-progress, as they progressively include more provisions that promote competition, domestic regulation, technical standards, or transparency of rules. A familiar example is the ASEAN Free Trade Area (AFTA), a trade bloc agreement intended to increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers. With *Mutual Recognition Agreements* (MRAs), two or more countries agree to recognize one another's conformity assessments. To facilitate mobility of professionals/ skilled laborers in ASEAN, the regional organization came up with the ASEAN Mutual Recognition Arrangements on engineering services (adopted in 2005), nursing services (2006), architectural services (2007), surveying qualifications (2007), dental practitioners (2009), medical practitioners (2009), accountancy services

¹² See <<http://aplma.org/events/49/Asia-Pacific-Regional-Regulatory-Partnership-for-Malaria-Elimination/#sthash.HQEbxZ9z.dpuf>>

(2009), and tourism professionals (2012).¹³

A key factor that is expected to have an impact on the design and outcomes of regulatory cooperation is the *size and power of the cooperating countries*. The dynamics within cross-border groupings will deeply differ depending on the relative size and geopolitical influence of each participating country. Teamwork may be easier to achieve in asymmetrical cases—where there are obvious regulation makers and regulation takers—than in symmetrical cases where partners may have equal political weight to insist on their own approaches (Kauffmann & Malyshev, 2015). For instance, the 21st-century Maritime Silk Road, also known as One Belt, One Road, a collaborative strategy and framework proposed by China that focuses on connectivity among countries, is one case where decidedly, China would be the dominant regulation maker.

Despite the advent of IRC, the barriers to cooperation—ranging from concerns regarding the sovereignty of nations, legal matters, to information exchange, entrenched regulatory and administrative cultures, and various frictions on technical aspects—persist. Inter-group decision-making based on IRC is not informed by a clear understanding of the benefits and costs of diverse IRC options (Kauffmann & Malyshev, 2015).

Multilevel governance

The relationships between regulatory authorities operating at different levels of government will define the level of regulatory coordination and coherence. Where sub-national levels of government have a considerable say in regulation making, devolution instruments must be sufficient to guarantee good regulatory relationships between central and local authorities. These are important issues in considering the level of authority as well as the managerial dimensions of the oversight agency.

In many cases, oversight bodies developed complementary strategies of advice, capacity support, as well as benchmarking across sub-national jurisdictions to provide incentives for improvement. Federal states like Australia, Belgium, Italy, Germany or Mexico, to name a few, have devoted time, resources and political capital in this dimension. The federal German *NRCC* has jointly piloted projects with the *Länder* on child credit, housing benefits, and student loan legislations (Cordova-Novion & Jacobzone, 2011).

In South Korea, parallel to the central government's regulatory reform progress, local governments manage corresponding regulatory reform teams to appraise

¹³See <<http://investasean.asean.org/index.php/page/view/asean-free-trade-area-agreements/view/757/newsid/868/mutual-recognition-arrangements.html>>

municipal ordinances and rules (Lee, 2014). They have corrected more than 6,000 local regulations which were incompatible with central laws or with doubtful legal basis (Hong-Keun, 2016).

In the Philippines, the 1991 Local Government Code devolved basic public service delivery to municipalities, cities and provinces (the local government units, or LGUs), while expanding their taxing and borrowing powers. Because LGUs are quite diverse in terms of geography, population and capacity for governance, it makes sense for them to have different approaches to simplifying local regulations and lightening the regulatory burden faced by firms that have located in their jurisdictions (Llanto, 2016). Inter-governmental coordination (led by the national government) and intra-LGU cooperation (LGUs with higher governance skills can assist poor local jurisdictions) are to be encouraged to reduce regulatory burdens and promote ease of doing business at the subnational levels.

Mixes of expertise

The role of expertise and qualifications of key officials in national regulatory authorities cannot be overemphasized. An initial main objective for the staff working on the design of the regulatory process should be to assess the resources within government bodies in terms of existing capacities to undertake regulatory activities.

Accumulating expertise, information and institutional memory can supply economies of scale and scope when undertaking combinations of tasks. It is easier to formulate guidelines, design and conduct training programs or challenge new regulations when the staff are equipped with insightful knowledge of the materials and standards collected through time. The shortage of expertise can make oversight susceptible or inclined to capture or to partiality if most of the information available is provided by interest groups or regulatees. If the oversight body cannot afford analytical capacity, errors may occur when challenging regulators, which could be used by interest groups to their advantage (Cordova-Novion & Jacobzone, 2011).

Resources, including know-how, need to be sustained over time ¹⁴ to have durable effects throughout the entire regulatory and administrative system. Developing and perfecting tools such as RIA can require five to 10 years of

¹⁴While building up regulatory expertise, a permanent *administrative structure* consisting of civil servants effectively involved in the coordination process can ensure continuity in the process and push the agenda through, particularly when "committee-type" bodies involve part-time members. These secretariats can evolve into full-fledged organizations through political cycles to support the political committee or minister in charge of taking decisions (Cordova-Novion & Jacobzone, 2011).

strenuous work. Turning away from overregulation is not a quick win workout. Regulatory policy requires few (but a critical mass) of staff, but they need to be highly qualified to produce long lasting effects in terms of productivity, and supplemented by considerable official expertise in ministries, and even in the private sector who will contribute substantial content to the analysis of possible regulatory impacts. The cost of a single RIA, even if it can be significant, is often small compared with the economic magnitude of the return rate if all the direct and indirect external effects and savings are taken into account (Cordova-Novion & Jacobzone, 2011).

Some of the key assets and expertise needed are:

- *Political* – sufficient leadership and advisory capacity to achieve the regulatory environment’s political objectives and address possible resistance to change,
- *Legal* – sufficient with respect to the application and interpretation of legal instruments, multiple laws and jurisdictions,
- *Economic* – capacities are needed to estimate the economic costs of proposed regulations (or streamlining) and to use economic data for evidence-based analysis, and
- *Communication* – overall competence to manage internal and external consultations and organize the way the results should be communicated to the public.

Attracting ample competencies is key to quality regulatory oversight, beginning with the chief of the body. The hierarchical standing, personality and integrity of its leadership define the real and perceived authority of an oversight body. In some cases, the appointment of the head is subject to thorough scrutiny. For example, the head of the US *OIRA* needs to be confirmed by the Senate, which in many ways confers a sense of independence in the context of the demands of a politically-driven environment. Access to the highest political level raises the ability of the head to exert soft power *vis-à-vis* regulators (Cordova-Novion & Jacobzone, 2011).

Apart from vetting the headship, a crucial aspect is recruiting and retaining talented professionals, especially lawyers and economists supported by experts in other fields of social science and policy, life science and physical science. Economists and specialists in the social sciences are needed to balance overly legalistic approaches. Finding these key competences is easier said than done in developing countries where the expert pool is limited, and has to be shared with the private sector (Cordova-Novion & Jacobzone, 2011).

Developing training programs is part of providing advice and support. For example, in Portugal, CEJUR has trained law-based professionals and economists as part of the *Legislar Melhor* Programme. Providing attractive salaries and incentives is also taxing in the context of some of the rules for civil service remuneration which might prevent the oversight bodies from offering competitive rates. Performance assessment has also been used in some countries to reinforce motivation and incentives, as in Denmark, where performance appraisal takes into account the ministries' progress on Better Regulation (Cordova-Novion & Jacobzone, 2011).

South Korea, despite impressive regulation gains, constantly faces a shortage of expertise. For instance, there is often a mismatch between RRC's insufficient human and material resources for implementation and its huge responsibility of evaluating new and strengthened regulations, improving existing regulations and applying the Sunset Law. Consequentially, RRC's supervisory role in regulatory reform is impaired. While secondment offers a gap-filling remedy, it also makes it hard for regulatory agencies to build up and retain professional knowhow and expertise. In some instances, there is no economist, weakening internal verification and regulatory analysis within ministries. This is compounded by an inadequate budget that makes it difficult to recruit economists and statisticians to enhance the agencies' regulatory capabilities (KDI-CRS, 2015).

Public support and participation – stakeholder engagement

Stakeholder engagement allows oversight bodies to perk up the quality of the rule-making process by obtaining more diverse inputs and opinions from those that will be affected by the government's decisions. Engaging affected parties also boosts the sense of "ownership" and brings about better observance in the processes of assessing the impact of new laws and regulations and reviewing the stock of existing laws. At a more strategic level, public consultation accelerates the "democratization" of the decision-making process and enhances trust in governments and politics. This is a new front line, where countries could educate stakeholders to the engagement culture to increase the likelihood that their collective voice can effectively influence governments' decisions, and provide strong veto points when regulations are vulnerable to capture by strong lobby groups and special interests (OECD, 2015a).

The success of oversight bodies depends crucially on political and public support and on nurturing varied constituencies. Politicians tend to credibly commit if there is a critical mass of citizens and businesses calling for quality regulations (Cordova-Novion & Jacobzone, 2011). To nurture non-governmental

interests, a first option is to set up advocacy bodies such as the *ACTAL* in Netherland, and more recently the *BRC* in Sweden or *NRCC* in Germany. The Philippines' NCC fits this requirement. Another option is to create permanent consultation bodies where key stakeholders can help out in policy execution. Italy's *Tavolo permanente per la semplificazione* (Permanent Board for Simplification), established in 2007 as a consultative body on simplification issues, brings together the institutional bodies, business associations, trade unions, as well as the regions and local authorities. In South Korea, the RRC civilian members play leading roles in discussions and public feedback involving the private sector and the professionals (Choi et al., 2014).

Communication is essential for nurturing a political constituency. Belgium's remarkable effort of open communication with the Kafka brand has worked well in reducing paperwork and eliminating regulatory inefficiencies (Cordova-Novion & Jacobzone, 2011). The Kafka website reviews existing measures and provides contact points for citizens and businesses to report on issues related to administrative burdens (OECD, 2010).

The Korean government introduced a new regulatory petition system in 2014 on the dedicated regulatory information portal called "Regulatory Reform *Sinmungo*"¹⁵. The procedure empowers citizens to lodge requests for the improvement of regulations, since the relevant administrative agency is required to review the petitions and provide a response within 14 days. An appeals process also ensures a second and even a third review by higher authorities (PMO/RRC) (OECD, 2016). Regulations subject to the sunset system are likewise made public to enhance public trust. Public consultation through various means is guaranteed by the FAAR (Kim & Choi, 2016).

In the Philippines, there are no established protocols or procedures for review. Regulatory bodies can opt for an internal review of the regulations, but whether they do it on a regular basis is not known. In any case, the affected parties and the public in general are neither informed of nor are familiar with the methodology that government agencies use in assessing and vetting proposed regulations (Llanto, 2016).

The way forward

Establishing an oversight body is not an easy thing to do, especially in a fragile institutional environment. If done in haste and without learning the lessons from

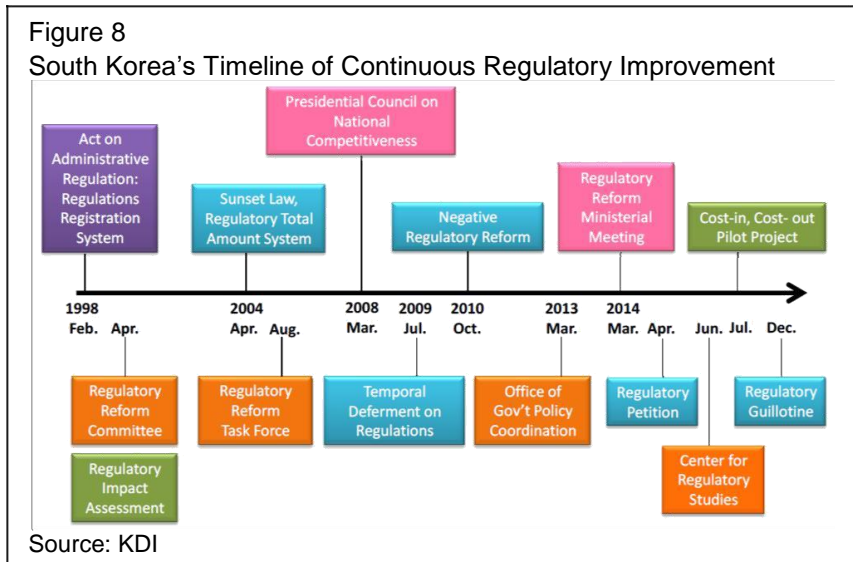
¹⁵"Sin Mun Go" is a system established 400 years ago in Korea. People would hit a big drum in front of the king's palace in order to present their grievances directly to the king, and the king would hear and resolve their issues

other countries' experience, the new oversight body may enjoy poor prospects and its initiatives cannot be sustained and mainstreamed beyond start-up projects. One of the most essential aims of regulatory reform—changing the “regulate first” mindset—can only be realized through years of investment and hard work in improving the quality of regulation. The current success of oversight initiatives in many countries can be traced to decades of investment in building up the organizational capacity of regulatory quality oversight. Cultural change takes many years to seep into the administrative apparatus and to rise above entrenched interests.

Idiosyncratic and episodic are two unnecessary attributes of past reform efforts that must be avoided. The first, idiosyncratic, mistakenly suggests that changes rest mostly on the charisma of a reform champion. The second, episodic, misleadingly suggests that changes depend on the rise of a “white knight” who would come to regain the upper hand within an ebb-and-flow cycle of reforms (Llanto, 2016).

This paper has discussed the “how to’s” of successful oversight: shield the regulatory body from political cycles, launch continuous organizational improvements early on through a continuous process of adaptation to the national political context in which it will operate, move from low hanging fruits toward structural changes with longstanding outcomes, maintain steadiness in the oversight body’s performance as trust from stakeholders develops over time, and nurture the political constituency that will support it in the long run.

South Korea essentially followed these prescriptions in order to transform a regulatory regime weighed down by decades of excessive regulations entrenched throughout long episodes of government-led development. Its long journey to a more flexible and progressive institutional setup, with countless testing of diverse regulatory reform tools, is depicted in Figure 8.



The South Korean case provides valuable lessons to those wanting to drive their economies through methodical and all-inclusive regulatory reform and endure less trials and errors (Choi et al., 2014). Its recipe for successful regulatory reform includes the following ingredients:

- political leadership and commitment,
- institution building (legislative authority, central reform driver, independent review, regulatory management system, RIA, monitoring and evaluation),
- public-private partnership, reform governance, communications and consultations,
- administrative implementation capacity and cultural change, and
- rule based regulations in transparency and accountability in lieu of administrative discretion (Choi. et al., 2014)

Above all, South Korea has adopted a whole-of-government approach by comprehensively charting the essential course of regulatory policy horizontally across different domestic regimes and vertically across levels of government. Most of the vital “bundled regulations” are expansively interconnected with the affairs of various ministries. To add force to regulatory coherence, the policies

and directives for all major sectors areas are tested and refined until they are mutually supportive (Kim & Choi, 2016).

For the Philippines, whatever its structural choices are, the outcome should be—as Llanto (2016) rightly points out— a diverse constituency (private sector, civil society, and other stakeholders) that are more intensively involved in regulatory reform; a civil service that is well capacitated for undertaking RIA and other regulatory tools; a governance system that embraces a whole-of-government (as opposed to sectoral) perspective in regulatory policy-making; and most of all, a central body that can oversee and coordinate the implementation of a formal regulatory management system. For Cordova-Novion & Jacobzone (2011), such a political body ought to be close to the center of the political process but at arms’ length to make decisions; possessing *de facto* or *de jure* a degree of autonomy in terms of voice, membership, budget or a staffing policy; having the right regulatory instruments, which represent the core of the body’s existence; and an ability to survive specific policy or electoral cycles in order to preserve the quality of regulation.

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**An Uncomfortable Embrace:
Hanjin Philippines' Shipbuilding Operations and Government
Regulations**
A Public Sector Reform and National Development Case

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Introduction

There is a sense of both promise and pressure that motivates many countries in Asia to “catch up” to the modernization of its neighbors and the Western countries. South Korea and the Philippines are no exceptions. South Korea’s modernization is quite unique in that it was able to compress the Western historical development of two to three centuries over merely three to four decades. This obsession to pull alongside the more advanced economies created in its bureaucrats and entrepreneurs an overwhelming fixation on quick economic and financial returns while offhandedly dealing with risks that accelerated modernity created in the process. The Philippines, admittedly lagging behind South Korea’s condensed transformation, is also rushing to development and is using its arsenal of incentives to attract multinational manufacturing firms and keep them free from regulatory anxieties.

Where is the balance, the set of scales in this hurried rush for modernity? Extensive gains from rushed modernization and development are often eclipsed by the production of risks emanating from stepped-up modernization itself. Compression of work, for instance, has been institutionalized as a norm that makes the system function well. Other more harmful manifestations include circumvention of rules, turning a blind eye to safety-breaching, utmost utilization of labor, disregard for dialogues, over-centralized decision-making processes and every so often corrupt practices.

Such “compressed modernity” has become the common feature of late developing societies, to be achieved by drastically breaking away from their past

rather than by progressively building upon it. It is equivalent to what Chang (2010) has labeled as “second modernity by dependency” in which such societies take in the risks of hastened development because of their addiction to the standards set by advanced nations and global actors (such as transnational business) or as a result of their own dependence on foreign development assistance (with its associated Western-style conditionalities). Consequently, the actual patterns of modernity in the postwar Third World have been shaped by day-by-day practices in political governance, social mobilization and control and industrial management performed or justified for such rush to development. This has led inevitably to an aggressively new but underreflective paradigm of neoliberal economic restructuring.

Objectives

The paper examines the dynamics of the relationship between the Philippine Government and a major international firm, Hanjin Heavy Industries and Construction Philippines (thereafter referred to, alternately, as HHIC or Hanjin Philippines), a subsidiary of the Korean giant, Hanjin Industries in the context of compressed modernity which both Korea and the Philippines embraced. While both parties entered into a long-term contract for Hanjin’s shipbuilding facility in the Philippines, they soon found themselves in a bumpy alliance, an uncomfortable embrace. As discussed in this paper, such sore marriage demonstrates an ambiguous coexistence that comes from the desire to deconstruct complexity and the fluidity brought about by the display of the modern desire for grandness, growth and capital expansion. It is marked by differences, irregularities, surface meanings, rupture and mediated representations. It exemplifies what modernity could mean beyond the Korean border.

The study situates Hanjin Philippines’ operations within the Philippine Government’s industrial investment and labor policy environment. As a priority investor, Hanjin Philippines was offered various government incentives—notably tax holidays and power subsidy—by the Arroyo administration, ostensibly in keeping with the country’s industrial modernization program. The business advantage that HHIC has brought to the Philippines is undeniable. Its shipbuilding operation is the single largest industrial investment that allowed the country to establish itself as the fourth largest shipbuilding nation in the world, next to Korea, China and Japan. Its almost 30,000-strong workforce makes it one of the biggest domestic employers. HHIC is also one of the country’s leading exporters.

To assure HHIC of a risk-free environment, the government looked the other way when HHIC decided to practice labor contracting (which, in any case is

legally allowed) in lieu of in-house regularization of workers, in an effort to fast-track its operations. Neither did the government enforce dramatic labor reform changes, when early on, the high incidence of accidents and even deaths in the HHIC workplace in Subic Bay alarmed the community, with the issue even taken up by the Philippine Congress. The objective then was to keep a major industry player and maintain the momentum of industrial development. Yet, when government was faced with tradeoffs between targeting choice investors through generous tailor-made incentives, and assuring the others of fair play through more generalized and equitable support, the Aquino administration which succeeded the Arroyo regime flip-flopped by deferring the promised power subsidy. Because of this bitter-sweet relationship, Hanjin Philippines and the government have not learned to trust each other as natural political and business allies.

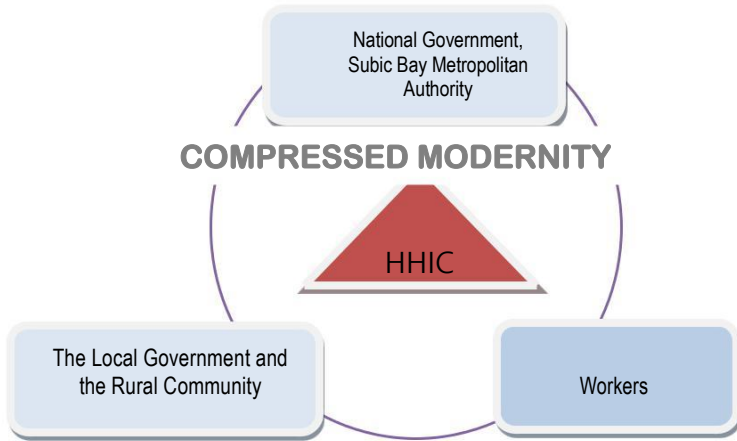
The difficult balance of enabling and regulating, as well as supporting and sanctioning, conveys the complex bumpy relationship that still exists today between HHIC and the Philippine government. The paper argues that this difficult relationship is the result of a faulty development mindset in both parties: HHIC transplanting to the Philippines its experience of compressed modernity in its homeground of South Korea, characterized by an overwhelming preoccupation with quick business returns even at the expense of risks it creates; and the Philippine government aspiring to rush to development to the point of conceding its roles as enabler and regulator. There are critical learnings from the double-sided assessment of how the Philippine government and Hanjin Philippines managed their dynamic relations.

The paper recommends reflexive modernity characterized by awareness and respect of each other's focus, communication, and democratization of the decision-making process, as a way out of this unhappy embrace. The results of the study should provide helpful insights to government and business entities in examining their development mind frames to move towards a more sensitive and reflexive modernization and development process.

Methodology

The main data collection techniques used in this research study are semi-structured interviews with focal persons, existing government documents and texts (e.g., national and local government files on locational decisions and ensuing regulatory practices), and internet research, in order to focus on two interacting policy environments: industrial investment and labor. Attempts to dialogue with HHIC managers and top officials failed, however, as they declined the paper's invitation to be interviewed. Hanjin Philippines' relations with the following

stakeholders were analyzed: the national government, represented by the Subic Bay Management Authority (SBMA), the local government units in the surrounding area, the community, and its own local workers. The relationships are depicted in the following diagram.



Finally, the author's impressions relative to compressed modernity are brought to bear on the findings.

Perspectives on compressed modernity

To explain the behavior of Hanjin Philippines, and the Philippine government as well, it is necessary to hark back to what has been transplanted to the Philippine setting, namely, Korean compressed modernity.

South Korea has a unique development and modernization profile. It has squeezed in just three or four decades what took western countries two to three centuries to achieve, in order to achieve into an advanced industrial makeover, with higher than average economic growth rate (Hundt, 2010). South Koreans have collectively have undergone the ordeal and difficulties of compressive progress, driven by a developmental state that was bent on overturning the western ideal of a long-drawn-out modernization (Beck and Grande, 2010, p. 412).

The idea of *compressed modernity* formulated by Chang (1999, p. 31) fittingly illustrates the quickness of Korean economic and social changes. It is characterized by the dynamic co-existence of incongruent historical elements whose result is the building of an irregularly complicated and fluid social system (Chang, 2010, 2017).

Domestic investment incentives

In this compacted setting, the Korean state intervened in economic development by targeting specific industries for promotion at critical junctures in the developmental cycle, which is the core of a fast-paced industrial policy. The state offered firms with attractive incentives in the form of subsidized credit, sheltered domestic markets, adjustment loans, and labor repression (Hundt, 2010). What Korea reaped are unambiguous: success in various industrial sectors, including shipbuilding, car manufacturing and steel production; expansion of exports; and huge industrial complexes in Ch'angwon, Ulsan and Kumi (Han, 1998).

Being on the fast lane of development means an irresistible obsession with quick economic returns. Of crucial importance to business is the continuing patronage of government. In Korea this took the form of a strong authoritarian leadership, and the organic blending of the state administration, business, and banks (Han, 1998, 2014). Its downside has been moral hazard and corruption of large business which the state tolerated (Kim, 2016), as well as over-concentration of economic power, disproportionate dependence on bank loans and debt, and adversarial relations with labor (Chang 1999, 39-41). In its stewardship of a fast-rising economy, mainly through a handful of business conglomerates, a.k.a. *chaebols*, Korea's authoritarian government acquired "performance legitimacy" rather than authenticity via popular consent (Hundt, 2010).

Just as Korea's growth occurred on record-breaking scales within the shortest time that one can think of, so the risks associated with its condensed progress likewise had to be dealt with and managed on a massive and swift manner (Chang, 1998). Korea's boom masked hazards that haunted it, introduced by the very process of hurried modernization. The result, according to Chang (1998), is the high-handed and dependent reflexivity set in an uncharacteristic technoscientific complex.

Impact on Korean labor

As the Korean state elites inoculated the *chaebols* (Hanjin included) from the harmful side of the quick-paced modernization risks, they also had to acknowledge that compressed industrialization is in part driven by maximum exploitation of nationally accessible labor (Chang, 1999). In this context, Korean entrepreneurs and bureaucrats were under pressure to complete the given economic targets within the least time possible, regardless of their impact on industrial and public wellbeing (Chang, 1998). The acceleration of production

was typically done through an enormous increase in the “compression” of work in a tightly competitive but hazard-ridden industrial atmosphere (Rosa, 2013).

Economic managers introduced new high-risk technologies to speed up matters, but paid no due attention to safety concerns, and this happened on top of an explosive rise in risk-prone activities that have been left unchecked (Chang, 1998). As a result, the labor movement found a politically fertile ground in organizing a broad-based social resentment campaign against the political and business elite (Chang, 1999). Under the slogan of *chunp'ipt'ujaeng* (law-abiding struggle), Korean workers staged labor protests in many industries against safety-breaching, in which workers were usually forced to break safety regulations apparently for the sake of efficiency (Chang, 1998).

Because the rapid economic expansion happened too much, too soon, the ruling elite found it hard to put into practice a key feature of East Asian development: an implicit social contract of life-time job tenure. Such uncertain prospects affected even the middle managerial personnel who had been signed up during the expansion drive of the 1970s and 1980s, and who comprised the developmentalist regime's most important political constituency. Indeed, in the wake of the economic downturn in the 1990s, when government consented to layoffs by the *chaebols*, the white collar managers joined the blue collar workers in a political alliance against the economic elite (Chang, 1999).

It was no consolation that poor workplace safety was not somehow offset by any significant public safety net. Consecutive South Korean governments, by adopting “labor-market flexibility,” have been quite tentative about spending on social security programs and welfare services for workers. The “growth first, distribution later” policy has induced labor practices with low levels of social protection and employment insurance, putting workers under constant occupational stress (Chang, 1999).

What the Philippines has in common with Korea: quick fix

Much like Korea, latecomers like the Philippines are preoccupied with the rush-to development, in which the state tries to speed up economic growth as hurriedly as possible, by harnessing available as well as accessible resources (Han, 1998, 2014). Similarly, like the Korean situation, according to Beck and Grande (2010), many in Asia are motivated more by the catch-up frame of mind. The same developmentalist doctrine, in order to meet national economic targets, has led to a state of mind among government agencies that compromises or sidesteps labor welfare regulations, in carrying out administrative responsibilities (Chang, 1999).

No doubt the Philippines has a comparative advantage in terms of a relative abundance of labor and intermediate skills, factors that are crucial in industrial upgrading. As Lin (2009) explains, the role of the facilitating state is to support the emergence of firms, industries, and sectors that, once underway, will make effective use of the country's labor- and/or resource-intensive types of production activities and services (Lin, 2009). Necessarily, following Lin, government needs to help solve externality and co-ordination problems for pioneer firms like Hanjin Philippines. But more fundamentally, the government must be able to handle new risks, like contractualization, while dealing effectively with conventional modernity risks, exemplified by unionism and job guarantees (Calhoun, 2010). But it is in this regard, according to Calhoun, that emerging economies (like the Philippines) demonstrate ambiguity with respect to the efforts to develop lasting welfare-oriented institutions.

Background on HHIC operations

Hanjin Philippines, established as part of the expansion of Hanjin Heavy Industries Co, Ltd of South Korea, began its operation in 2006, at the Subic Bay Special Economic and Freeport Zone. The Subic Bay Freeport is a former US naval base and has billions of pesos worth of infrastructure left by the Americans during their occupancy. Managed by the Subic Bay Metropolitan Authority, its deep waters, and calm seas make it suitable for marine and shipbuilding industries (Custodio, 2017).

HHIC, under the Hanjin Group¹⁶ conglomerate, was envisioned then to be one of the largest shipyards in the world. It initially committed to invest US\$1 Billion which was later on increased to US\$1.684 Billion over the 480 hectares Redondo Peninsula in Subic. According to Custodio (2017), as of 2016, the company's foreign direct investment stood at US\$2.3 billion. HHIC is now exporting high-value ocean-going vessels like cargo and container ships, bulk carriers, liquefied petroleum gas carriers, very large crude oil carriers (VLCC) and very large ore carriers (VLOC). In the near future, HHIC anticipates producing defense-related

¹⁶Hanjin literally means "Korea move forward." The Hanjin Group has been doing business in the Philippines since August 1972, when it built major construction roads in General Santos in Sarangani, Mindanao. It also constructed major airports such as the Davao International Airport and the Laguindingan Airport and key seaports like Batangas Port and North Harbor (Custodio, 2017). The company was also part of a Korean consortium that was involved in the 34-kilometer Calocan-to-Alabang rail line, a Philippine National Railways (PNR) project (Estabillo, 2007)

ships. It caters to customers from the US, France, Spain, Switzerland, Norway, Germany, Singapore and the UK.

Figure 1: The Hanjin Philippines Shipyard



Image from <http://www.hhic-phil.com/aboutus/shipyard1.aspx>

HHIC Philippines¹⁷ entry has allowed the Philippines to establish itself as one of the largest shipbuilders in the world. The Philippines is ranked by the *Shipyard Orderbook Monitor* as the fifth largest shipbuilding country in the world after China, South Korea, Japan and Germany and is ahead of Italy, Brazil, Vietnam, France and Finland. By shipyard, Hanjin-Philippines is ranked 10th in the world, on equal footing with other leading shipbuilding facilities in Korea, China and Japan (Custodio, 2017).

Given the recent momentum in big ship production and the huge dry dock capacity of HHIC's Subic facility, operations continue to be in full swing. The huge scale of its shipbuilding activities has generated a spillover benefit to the larger community—an upswing in the local economy in Central Luzon through job generation and supplementary livelihood opportunities (Custodio, 2017).

Hanjin prospered steadily in spite of the bankruptcy of one of Hanjin Group's major subsidiaries—Hanjin Shipping Co. Ltd.—the world's seventh biggest shipping line (integrated logistics and container transport) by capacity, accounting

¹⁷Hanjin intended to put up a larger, USD 2 billion shipyard in Mindanao, but it failed to see the light of day. The meddling of local government officials over critical project components, and a row over an environmental permit forced HHIC to completely abandon the project (ABS-CBN News, 2008).

for nearly 8% of the Trans-Pacific cargo journey. On August 31, 2016, Hanjin Shipping filed for bankruptcy protection after losing the support of its key lenders led by state-run Korea Development Bank (Cashen, 2016). The insolvency caused a major turmoil in the global sea freight, a ripple effect throughout the global supply chain, throwing ports and retailers serviced by Hanjin Shipping into confusion (With Reuters and the Associated Press, 2016). Hanjin Shipping's assets were seized in global ports in behalf of its creditors, and will likely be liquidated once the court action has been settled. Global analysts say that Hanjin Shipping will not be able to come back from this collapse. HHIC separated from the Korean conglomerate in 2005 and has no business transaction including ship building orders with the Hanjin Group (Reyes, 2016).

Investment policy environment

It can be safely argued that the Philippine Government had played a crucial role in Hanjin Philippines' successful journey. At the very least, government immunized HHIC from the harmful side of the risks linked to the growth of its business empire. Mostly, it offered HHIC irresistible financial and locational enticements. But one has to examine also whether the investment policy employed was responsive to the real needs of Philippine industrialization and if both incentives granted and regulations enforced were equitable, providing a fair and balanced playing field for all industry players along all sectors.

To be sure, grant of incentives and government regulation are the standard state interventions to promote a business-friendly environment. This double-edged act of government is intended to attract foreign investments but at the same time, ensure compliance to national rules and laws of the land.

Incentives: general

The idea in incentivizing foreign direct investments (FDI) is to influence locational decisions of investors. These incentives shape the benefits from FDI by encouraging foreign affiliates to operate in desired ways or to direct them into regions or industries considered in need of investment (Drahokoupil, 2013) The entry of big-ticket players like Hanjin is a sure way to channel FDI to industrial policy targets. There is, after all, selectivity and targeting involved in virtually every (broadly-defined) industrial policy measure (Ha Joon Chang, 2009a). Targeting of course requires that the measures are different from industry to industry, and from period to period, in order to maximize economic gain (Ha Joon Chang, 1996).

Ship building has been one of the government's preferred industries as stated in the Philippines Investment Priorities Plan (IPP), year after year. Shipbuilding has been proven to be a major economic driver in terms of expanded investment opportunities, broad-based employment, increased tax revenue, and improved per capita income. Yet the sheer magnitude of shipbuilding infrastructure means some start-up difficulties have to be surmounted. Within the global technological frontier, shipbuilding is no longer considered a leading-edge industry, but a mature industry, where investments entail huge capitalization, even if its capital intensity is much lesser than emerging enterprises (Lin, 2009). In order to overcome the difficulty of mobilizing a huge amount of capital in a developing country with an underdeveloped financial sector, but approaching middle-income status, some government support is needed, according to Lin. In order to entice investments in this booming sector, the most common incentives being granted are fiscal, infrastructure subsidy, and regulatory concession, and are mostly given in Special Economic Zones (SEZ) (Drahokoupil, 2013). As pointed out by Lin (2009) financial incentives (loans or grants from the government) is not an option.

These concessions normally include moderated or relaxed rules on taxation, trading, quota, customs and labor regulations. SEZs usually give companies tax holidays in the first five years of their stay in the ecozone, after which they are granted lower taxation and free movements of goods. Conceptually, by being in a special economic zone, a company benefits by being able to produce and trade goods at a lower price, thereby being globally competitive. In addition to competent administration (which includes simplification of custom procedures for importation of equipment and exportation of processed products), many SEZs attract locators with infrastructure such as excellent harbors, roads, airports, and power facilities. An educated and skilled workforce is always a plus. In an SEZ, the business and trade laws of a host country are modified to attract foreign investments. Zone authorities have one distinct advantage over their national government counterparts: they have a better understanding of the unique operations of the locators in the Zone and they can be more focused with a few compared to what national government manages nationwide.

As a priority investor, Hanjin Philippines was the beneficiary of all the major laws that provide incentives to foreign firms. Under EO 226, or the Omnibus Investment Code of 1987, the incentives include exemption from income taxes (Income Tax Holiday), exemption from custom duties and national internal revenue taxes on importation of supplies and spare parts. EO 226 also provides basic guarantees to all investors to alleviate risks, i.e., repatriation of investments; remittance of earnings; right to avail of foreign loans; freedom from expropriation

and a comprehensive scheme of benefits for entities in high-priority areas of economic activity. Since HHIC is physically domiciled in the Subic Bay Special Economic and Freeport Zone, it also enjoys the incentives under the charter, such as but not limited to duty free importation of capital equipment, 100% foreign ownership, full repatriation of profits, preferential tax rates (once its Income Tax Holiday lapsed), and visa-free entry for its expatriates, to name a few. The Subic



Freeport was chartered under Republic Act No. 7227, or the Bases Conversion and Development Act of 1992, with the Subic Bay Metropolitan Authority mandated to administer it.

HHIC's investment is also supported by the Foreign Investments Act of 1991, which basically liberalized entry of foreign investments in the country. The Special Economic Zone Act of 1995

(RA 7916), as amended, broadened the incentives under EO 226, by adding tax credits for exporters using local materials as inputs, and tax-deductible management training expenses, among others.

All things considered, Hanjin Philippines seems to have reaped the best of all worlds. But incentives have their downside: they can bring with them myriad problems, including the production of new risks. For instance, following Klemm (2009), a tax holiday is a rational policy as long as the country faces revenue constraints and wishes to maintain a high tax rate on immobile investment, such as HHIC. However, if the country is managing a split-rate system with a rate of zero on some investment, and a fairly high tax rate on others, combined with high transaction costs, the strategy may force the country into making new holidays available in order to keep the same immobile firms. On the other hand, the firms have to continue qualifying for tax holidays, with all the uncertainty that it brings.

There are other risks as well. There is a unique subset of risks that investors within ASEAN must now confront. Fiscal and monetary policy changes may happen due to unexpected government policy changes (which typically coincide with the assumption into office of a newly elected administration). Profit repatriation and payments for imported goods or services, among others, are subject to the shifts in global currencies. Foreign exchange volatility is likely to be a long-term risk associated with domestic production, and can adversely affect

anything from purchasing power to operating costs. But the Philippines absorbs uncertainties as well. Monetary policy is constrained by the behavior of global capital markets. The country's exchange rate is always a multilateral phenomenon, and any instability has multilateral consequences (Fassbeck, 2004).

Such risks have been put aside for the time being. Hanjin Philippines continues to qualify for tax holidays. The Philippines' currency, the peso, is very close to its fair value, stabilizing relative to current levels but underperforming most Asian emerging market currencies, according to an Asian foreign exchange strategist (Devesh, 2018). The experience of catching up by the newly industrializing countries indicates that long-lasting currency undervaluation can be extremely helpful for investors to fully reap the benefits of open markets (Fassbeck, 2004).

Market compatible incentive: subsidies

Like many incentives, subsidies are essential in overcoming some of the challenges related to industrial investments with huge start-up costs, particularly those related to power requirements. For this reason, HHIC was promised a power bills subsidy by the Philippine government. Under Executive Order No. 701 issued by then Pres. Gloria Macapagal Arroyo in 2008, the National Power Corporation and the National Transmission Corporation would provide discounted generation and transmission rates to Hanjin Philippines. The electrical power concession granted to HHIC would provide discounted generation and transmission rates of P2.29 (US\$0.0491) per kilowatt hour (kwh) (which is just about 32% of prevailing power rate in Subic Bay) within the first six years of operations and P2.80 (US\$0.600) per kwh from the seventh year until the 10th year in its shipyard in Subic Bay. Should the prevailing industrial retail rates decrease to a level lower than the discounted rates agreed and granted by Napocor and Transco, the rates are correspondingly decreased to match the prevailing rates (Gonzaga, 2013). TransCo was furthermore directed by government to acquire the transmission facilities constructed by HHIC.

As shipbuilding is highly dependent on power for operations, the subsidy was a sweetener for Hanjin, a quid pro quo for its promise of employment generation and exports. Government subsidies are one possible mechanism for offsetting a first-mover disadvantage (Lin, 2009). The subvention was also offered to counterbalance the high cost of electricity in the Philippines. Philippine power rates remain one of the highest in Southeast Asia as of end-2016, Department of Energy (DOE) data showed. In terms of commercial rates, the Philippines has the

highest at P7.49 per kwh. As well, taxes, fees, and other charges are also levied on the power industry sectors (Rivera, 2017).

It will be noted that only three big-ticket firms were targeted for the grant of power subsidies. They are presumed to be the centerpiece of the country's industrial upgrading program. These "mega" investors - Hanjin Heavy Industries Corp. Philippines in Subic Freeport, Texas Instruments Philippines, and Phoenix Semiconductors Philippines Corp. (a Samsung subsidiary) in Clark Freeport Zone—have a combined energy cost subsidy that could reach PhP15 billion up to 2025. Each was granted a subsidy for a period of 10 years (Cahiles-Magkilat, 2017).

The government's grant of the power subsidy was not widely popular. Public perception was not favorable. A vocal labor group stressed that "Hanjin has not fulfilled its promise to create 50,000 jobs and only outsourced its skilled manpower" (*The Manila Times*, 2016), such pledge being one of the key reasons why the subsidy was granted in the first place.

In fact, HHIC enjoyed no power subsidy in its first eight years of operation. The promised delivery of committed subsidy was knowingly deferred because government itself was divided on the wisdom of granting it, with many arguing that it is selective and does not promote fair play in the market place. In more realistic situations, automatic incentives rather than selective concessions are the norm, based on openly defined principles, taking into account the need to mitigate the risk of corruption and the difficulty governments have in picking winners (Klemm, 2009). But there are arguments for industrial targeting—scale/scope economies, critical inputs with sophisticated technology, specificity of local content requirements, precise linkages with other parts of the economy. The packaging of these are best left to export and freeport zones, since they are allowed by law to offer varying baskets of incentives fine-tuned to the needs of industrial upgrading.

Likewise, the more directed a policy is, the easier the monitoring of the beneficiaries, and consequently the "leakages" are going to be less (Ha Joon Chang, 2009a). Targeting of course has its costs. According to Chang, too precise a targeting may, in a world with fundamental uncertainty, be bad because it "puts all eggs in one basket" (Ha Joon Chang, 2009a) or in just a handful of baskets. In a way, both government and investors like Hanjin Philippines are caught in a dilemma—i.e., to choose between two situations fraught with risks, when the avoidance of one (automatic incentives) ensures encountering the harm of the other (selective incentives).

Indeed, such predicament may have been responsible for the Philippine government's flip-flopping on the grant, thus generating more ambiguities in the way it handled HHIC's concerns. The Aquino Administration deferred honoring the commitment made by the Arroyo Administration until the very end, its reluctance being anchored on the argument that the subsidy could not provide a level playing field (thus echoing Klemm's view) unless it could be fairly applied to all. It was also likely that the government, in the process of reviewing whether particular firms deserved subsidies, found it difficult to select and distinguish which were the healthy ones, with high business reputation—a case of information asymmetry—or which ones would, following Kim (2016), could cause a structural imbalance in the business ecosystem. Likewise, although the export-driven industrialization strategy for industrial “latecomers” is almost always accompanied by government incentives, the government's (in)decision then came at a time when the administration was fervently pursuing its good governance campaign. After all, unchecked financial support without transparency carries the risk of breeding corruption and discouraging real entrepreneurship (Kim, 2016). President Aquino's Cabinet Economic Cluster attempted to renegotiate the reduction of the power subsidy, but finally, the administration released the full amount of PhP1.47 billion on its last year under the 2016 budget (Cahiles-Magkilat, 2017). In 2017, the Duterte Administration fully restored the subsidy.

Thus, HHIC faced the risk of discontinuity of policy, which likewise did not speak well of the country before the international business community. During the subsidy period, HHIC paid its electric bills based on prevailing rates, but under protest. In between times of legal litigation, power companies demanded that Hanjin Philippines pay its electric bills or risk power supply termination, and thus a shutdown. With a lot at stake, caught in a catch 22 situation, HHIC paid under duress, without any assurance of refund from the Government. In 2013, HHIC threatened to cut down on operations because of the impasse, which seemed to justify the Korean company's failure to commit to create 50,000 jobs and infuse P168 billion (US\$3.6-B) in investments in the country, as stipulated in EO 701. While the subsidy is flowing once again, it cannot erase the ill will the standoff created.

Regulation

Government regulation, on the other hand comes into play when operational issues or dysfunctions arise out of the implementation of industrial upgrading policy. For example, in an ecozone such as the Subic freeport, issues have

occurred in key areas as environmental consequences, health and safety matters, industrial labor relations, local government partnerships, and community collaboration.

The shipbuilding industry is associated with significant environmental risks. The release of unsafe chemicals and contaminants to waterways, marine ecosystems and food chains can be ascribed to many activities in the industry. The industry's open air working milieu and water front location provide direct passageways for pollutants to spread to air, soil and water (Olsen, 2010). Shipbuilding processes that have associated hazards include dry docking and launching, fabricating and repairing large structural components, handling large materials, outfitting, painting, surface preparation and descaling, and tank cleaning. General hazards include respiratory irritation and systemic poisoning, and eye injuries from radiant energy during welding (Occupational Safety and Health Administration, undated).

In Hanjin Philippines' case, issues such as employee job-fit, environmental risks and workplace safety have surfaced. To be sure, there are laws regulating hazards, such as Ecological Solid Waste Management Act of 2000 (RA9003), Philippine Clean Air Act of 1999 (RA8749), Toxic Substances and Hazardous and Nuclear Wastes Control Act (RA 6969), National Water & Air Pollution Control Commission Act (RA 3931), Philippine Environment Code (PD 1152), to mention a few. But it is unclear whether existing health and environmental protection laws are sufficient to cope with shipbuilding and repair hazards.

This balancing act of government to attract and regulate, entice and sanction must be performed with maturity and precision, in order to protect interest of all stakeholders, especially those who are least able to protect their rights. This dynamic role of government defines in part whether it is able to mitigate the condensed policy environment for the shipbuilding industry.

Labor policy environment

HHIC's labor-intensive employment is currently at a high of almost 30,000. Currently, it has 21,000 workers in the shipyard which comprises employment from majority of its contractors. HHIC subcontracts to other parties 65% of its total workforce. Less than half a percent (0.40%) is organic to HHIC. The following chart shows the distribution of its contracted workers.

Employment comes from the Subic Bay area and contiguous localities, and a good number from the Visayas and Mindanao. A huge 96% of the workers are male, and a tiny 4% are female.

Majority of HHIC workers are in the middle-range blue-collar category—HHIC requires highly specialized skills—mostly involved in welding and other steel works. A large portion of the enterprise’s multi-billion dollar direct investment goes to manpower development. Its own Skill Development Center (SDC) inside SBMA has turned out 43,778 trainees since 2006, mostly welders (Custodio, 2017).

Like any foreign firm, HHIC employment practices are governed by the policy guidelines of the Labor Code of the Philippines and are monitored by the Department of Labor and Employment as well as SBMA. Current labor policy allows contracting of labor, and several issuances, particularly DOLE Department Order 174, effects additional measures to ensure abuse in the implementation of the policy will not take place. The Local Government Units in the contiguous area of the shipyard are also monitoring the ship building’s labor compliance.

Legal responsibilities for HHIC workers are placed on some 55 subcontractors providing manpower for the shipbuilder. Labor contracting (Bello, 2016) refers to an arrangement where the contractor or sub-contractor merely recruits, supplies, or places workers to perform a job, work or service for a principal. Labor contracting is a common practice in developing countries aspiring to hurried development. In job contracting, the principal does not engage the services of the contractor as an “employee” but rather as an intermediary. The contractor acts like a buffer for any liability of the firm and is typically responsible for commercial general liability insurance for injury or death and workers compensation insurance, or even special insurance (e.g., hazardous materials insurance). Labor contracting also avoids the risks associated with unionism (e.g., strikes, work stoppage).

For business owners, contracting out these jobs is actually more cost-efficient in terms of time and money. External suppliers who specialize in a particular field can carry out work at a lower cost than internal departments. Outsourcing offers more flexibility, as the principal can specify the type and duration of jobs (e.g., one-off jobs and jobs requiring specialist expertise); contractors can start the work or project at short notice, and supply large numbers of workers, while in-house staff can focus on the core business (nibusinessinfo.co.uk, undated).

But risks abound in labor contracting. According to Lance (2017), there are operational hazards involving safety and accidents, quality assurance, productivity, labor and supply chains; contract and legal risks concerning indemnity, payment conditions, site conditions and dispute resolutions; financial risks such as credit, payment, cash flow and insurance; political/regulatory risks, such as employment, lien and contract law risks, as well as regulatory and administrative law risks (Lance, 2017).

In particular, contractor risk is a central challenge that Hanjin Philippines needs to manage well. When subcontractors fail to deliver, quality is compromised, costs rise, jobs become overdue, or worse, the firm's standing may be harmed. When a large-scale enterprise deals with many subcontractors, there is the possibility that one or few of them are unskilled intermediaries and have will not execute their part of the bargain well. As well, no in-house skills are developed; contracted labor may not have the motivation and commitment of organic staff, who may resent contractors being favored more than them (nibusinessinfo.co.uk, undated).

Aside from Filipino workers, hundreds of Koreans, Chinese and Romanians mid-level executives and skilled staff work in two shifts (Custodio, 2017). As reported in the printed media, Filipino workers get less protection, and earn less than two-thirds of the wages of their regular foreign counterparts. A labor leader has alleged that local skilled workers are given the minimum monthly salary rate while say, Romanians are paid P88,000 per month, and the Korean managers about P120,000 monthly (*The Manila Times*, May 28, 2016).

Some relief is given to domestic workers, however. HHIC spends millions of pesos to provide free lunch to everyone—from top management to sub-contractor workers—and extra meals for those working overtime; shuttle buses, jeepneys, bancas and its own RORO (roll-on roll-off) vessels to and from Olongapo City; low-interest loans, reasonably priced groceries and annual dividends through the Redondo Peninsula Multi-Purpose Cooperative Inc. (RMPCI) and even free haircut (Custodio, 2017). More work-related incentives, like perfect attendance allowance and welding allowance (which is the bulk of work in the shipyard) are also given, according to Custodio.

A 30-hectare housing project, located 19 kilometers from the shipyard in Castillejos town, has likewise been developed by HHIC, with Pag-Ibig Fund financing (Custodio, 2017). But with only 1,722 units available, it seems only the white-collar managers are the intended beneficiaries of the housing program. Figure 4: Hanjin's 30-hectare housing project in Castillejos.



Source: Custodio (2017)

Indeed, under existing arrangements, it is unclear how HHIC and the contractors divide Labor Code responsibilities in terms of employment practices and labor relations. It can be fairly assumed that most of the accountability goes to the contractors as far as hiring and firing of private employees; setting the conditions of work including maximum work hours and overtime; fulfilling employee benefits such as holiday pay, thirteenth-month pay and retirement pay; and enforcing the guidelines in the organization and membership in labor unions as well as in collective bargaining.

Also, on the side of the contractors, in discharging their obligations to the associated risks are involved, like the burden of a serious backlog, shortages in labor and increased costs. These aspects generate strong pressures on contractors and make them more vulnerable to default. As reported by DOLE (2014), HHIC's contractors are also subcontracting labor, in violation of existing labor laws. This practice is being done in order to accelerate the pace of work in order to meet deadlines in Hanjin Philippines' shipbuilding contracts. This confirms the observations of Chang (1999) and Rosa (2013) discussed earlier: the excessive utilization of nationally available labor within the shortest time conceivable through the intensification of the "compression" of work. The result, as reported by the SBMA during a Philippine Senate hearing conducted on February 3, 2009 (Cayetano, 2009), has been a high turnover of workers. Based on the reported statistics, there were about 18,000 workers in the shipyard at one time, but in terms of issuance of identification cards, SBMA had issued around 27,000 IDs, which clearly indicates a high loss of skilled workers.

Such risks suggest the voicelessness of workers within the shipyard. On paper, the HHIC general manager went on record saying the company is not averse to labor unions being organized in the workplace, provided they are not affiliated with groups that have militant leanings (Custodio, 2017). At the same time, however, citing the case of Nike Philippines, which experienced disruption due to

labor union demands, and the recessionary downturns in the global shipping industry, the general manager also indicated it would not put up with disruptions that would have negative impact on workers heavily dependent on shipbuilding work for their source of livelihood (Custodio, 2017).

Safety conditions in the workplace

HHIC was reported to prefer Filipino workers for their trainability, adaptability and dedication to work (Custodio, 2017). Yet these workers are very much exposed to endemic environmental risks, risks of spills, leaks or discharges and airborne discharges associated with shipbuilding. In 2009, the Senate, through a resolution filed by Senator Pia Cayetano in aid of legislation, conducted an investigation on labor compliance in HHIC, due to the reported alarming rise of deaths and accidents in relation to the company's operation, with the intention of pinpointing accountabilities and also to finding out if such reported accidents were due to the absence of occupational safety devices or due to HHIC management's apparent neglect to implement safety precautions (Cayetano, 2009). Based on the Senate document, as of 2006 alone, there were 3,273 accidents that occurred. In 2007 to 2008, there were also reports of 15 deaths in the site. The Cayetano committee concluded that there were lapses on both HHIC's operational practices, and the government's regulation and oversight. HHIC's work environment was deemed generally hazardous and risky at the outset.

Like other industries outside of an economic zone, labor flexibilization schemes (contractualization, job rotation, etc.) are widely practiced, undermining basic labor rights and health and safety rules. Occupational Health and Safety Standards are often not upheld in economic zones, contrary to assertion that enclave regulations are far better than central oversight. Strikes and work stoppages may be a rising tide if concerns are blatantly disregarded. Government seemed undecided still how to judiciously and permanently address it.

The apparent neglect for occupational health and safety is still unsolved, considering that HHIC still does not have the appropriate healthcare facility and health personnel, and it does not even have a fully implemented Occupational Safety and Health Management System. Add to this dilemma, HHIC's labor contractors were also in violation of Occupational Safety and Health Standards. In a resolution filed by the congress of the Philippines, an investigation in aid of legislation was sought to shed light on the various violations of occupational and safety standards by the company's contractors (House of Representatives, 2008). After reports of safety-breaching, several groups called the government for the revalidation of the investment contract of HHIC, enforcement of safe working

conditions, and that HHIC be accountable for its inaction (Admin, 2010). The string of accidents and fatalities within their facility put the company on the defensive, triggering protests from employees and local labor and social organizations. But no penalties were imposed then on HHIC; it was a subcontractor (Philnokor) which took the toll. Moreover, the Senate committee found out that SBMA, DOLE and the Local Government had conflicting ways of handling the occupational safety and health situation, which may have confused HHIC at that time, at the expense of some 20,000 workers who lost their job (Cayetano, 2009). In any case, it was a case of what (Chang, 2008) calls quick utilization of labor as opposed to the improvement in safe production.

Reflections: understanding the uncomfortable embrace

As the paper shows, there are risks that the Philippine government faced in dealing with HHIC. HHIC is a natural monopoly. HHIC has exclusive ownership of a large-scale scarce resource—shipbuilding. It has monopoly power over this resource and is largely the only firm that can exploit it. Its monopoly status is not exactly drawback—due to economies of scale, it would be a wasteful doubling of infrastructure if another shipbuilding company were allowed to build its own shipyard. Hence it may be best if HHIC were to continue as the sole Philippine supplier in the ocean transportation supply chain. Moreover, as one of the dominant shipwrights in the region, it has captured a big share of the world market for the construction of large-size floating vessels, thus earning the Philippines significant export revenues.

Without competition, however, HHIC likely suffers from ‘X’ inefficiency, which is the loss of management efficiency as demonstrated by its poor industrial relations practices. HHIC gets its way because of the “hold-up” problem, where the Philippine government refrains from enforcing just regulations because of the concerns HHIC may pull out, leaving everything in the lurch. That increases HHIC’s bargaining power, which preserves its current behavior. Its huge market power inevitably gives it wide latitude to cope with the risks associated with compressed modernity.

What is to be done?

“Reflexive modernity” is the way out of this uncomfortable embrace of rush-to modernization by both HHIC and the Philippine government. As defined by Han (2008), “reflexive” means that stakeholders should be acutely mindful of the dangers being faced today, as risks created by current socioeconomic and political systems.

According to Han, reflexive modernization involves a dialectic between two concurrent processes: reconstruction and deconstruction. It is reconstructive in the sense that it brings in its own new and unused ability for development, and success from within. This fresh way of looking at development emerges as normatively held up and practically feasible. Simultaneously, it is deconstructive in the sense that it attempts to cut loose from the very assumptions upon which previous successful models of development were based (Han, 2014).

On the part of the Government part, reconstruction requires reinvention—the formulation of clear rules and regulations that are not easily changed by the whim of incumbent national and local government officials. Government must standardize contract-enforcing mechanisms and processes and facilitate their implementation, properly shielded from politics. It should understand investors’ location requirements, and guarantee ease of doing business while reducing its own administrative burden. While it must confront what is often referred to as “institutional voids”, government must do so within the context of a decompressed, reliable and flexible industrial and technological upgrading. Industrial upgrading involves risks and externalities, whether in developed or developing countries, and thus demands the government to do its facilitating job (Lin, 2009).

“Climbing up the ladder,” according to Ha Joon Chang (2009), entails more than the neoliberal requirement of “getting the prices right”, since it calls for, among other things, clever industrial policy, organization development, and endeavors to build up technological capabilities through R&D, education and production practices. With the help of industrial upgrading, a country attempting to catch up can pass over some steps, but it would not be successful if it tries to leapfrog too much. It must be conscious of its natural climbing skill to see how much risk it is taking. This by no means suggests that a country with inferior bureaucracy should not aspire to implement a painstaking policy, inasmuch as capabilities can be amplified over time through learning-by-doing and simultaneous improvements in education, financial and legal institutions, and infrastructure. Despite the vagaries of the global business landscape, it still leaves enough room and surprising opportunities of moving up across global value chains (Ha Joon Chang, 2009).

On the part of HHIC, reflexive modernization requires a willingness to engage more closely with a broader base of stakeholders across value chains. It must reexamine its calculus of risk not in accordance with doing business in its own backyard of South Korea, but in an emerging market like the Philippines. As Khanna, Palepu and Sinha (2005) point out, it is necessary to customize one’s

approaches to fit a recipient country's institutional context, which is quite different from those it is familiar with at home. They suggest that a firm that has chosen an emerging market to invest in should understand that market's institutional nuances, including the country's social and political milieu—as well as the manner in which it has opened up to the outside world—so that it could achieve the level of actual trust among its people as oppose to imposed trust.

In the case of upholding workers' welfare, old ways may not be that bad. Responsible unionism can coexist with industrial upgrading. A reconstructive perspective suggests that trade unions are still essential in advancing and looking after workers' interests, but unionized workers have the responsibility to engage in a critical team up with management and capital, which implies good faith bargaining with sustainable results (Botha, 2015).

Deconstructing unionism means, on the other hand, assuming responsibilities not just for the protection of workers' rights, but the production of wealth. As Botha (2015) argues, unions have the obligation not just to distribute (as in bargaining for more material incentives and welfare benefits) but to produce (ensuring that the company can sustain its business). Currently, according to Botha, unions are in a catch-22 “collective bargaining” situation—more benefits that can justly uplift workers' welfare but may likely increase the cost of production which in turn can reduce profitability and thus result in layoffs. The tradeoff becomes more apparent when the economy is in a downturn. In all cases, Botha argues, both management and labor should align their expectations and strategies to improve both the lives of workers and the productivity of the company in a sustainable manner. Reflexive modernization requires democratization of the decision-making processes in organizations (Han, 1998).

Likewise, ensuring workers operate in a safe environment should be a non-negotiable mission of the Government. HHIC, at the minimum, should have its own hospital with a trauma center, with rapid transport vehicles and with available doctors and health and safety personnel that have been trained to handle emergency situations. Addressing occupational safety requires a concerted, determined and coordinated effort, not only by the labor groups, but also by the governing agencies, local government units, and the central government as well.

Reflexive modernization requires dialogue between the government, economic firms and labor. A documented lesson from Korea itself may be instructive:

Amid the financial crisis, the (South Korean) government invited trade union federations to partake in the corporatist Tripartite Talks. This was the first attempt to establish a social pact in Korea, bringing together labor,

government and business. It was an explicit effort to widen the risk partnership and to respond to public concerns about the extant development model. The pact expanded basic labor rights, allowed for the formation of a teachers' union, extended the application of medical insurance, and allowed laid-off workers to join a union. In return, trade unions agreed to the legalization of dispatch workers and redundancies in 'unavoidable' circumstances. Management was required to re-hire workers only if economic conditions improved. The pact thus largely removed the expectation of job security, although the government established a multi-billion dollar fund to compensate workers for job losses resulting from restructuring. In the spirit of 'burden sharing' promised in the Tripartite Talks, union leaders proposed that the restructuring of the chaebol proceed via job sharing and wage freezes. This was a form of 'business-first unionism,' whereby unions sought to save Korean companies for the sake of jobs and the national economy (Hundt, 2010).

Conclusion

The uncomfortable embrace between HHIC and the Philippine government was destined to happen, attributable to the rush-to-development philosophies both parties were reeling from.

HHIC transplanted its compressed modernity experience in South Korea when it located its operations in the Philippines. Compressed modernity is characterized by getting profit and economic results at all cost, regardless of risks that may be created in the process. With this frame of mind, rules are made flexible and workers' welfare is not prioritized. It is all about getting the returns, the soonest time possible. It comes from an authoritarian psyche with expectation to be allowed the widest latitude to perform its business the way it wants, on the specious argument that it is bringing economic benefits to the country. The high initial incidence of accidents and even deaths at the shipyard and the high percentage of contracted workers are concrete indications of this development mentality.

The Philippine government on the other hand, was impatient to bring in key investors like HHIC to jumpstart its industrial progress. If HHIC lived through condensed modernization, the Philippine government aspired to it assertively. Armed with material sweeteners to entice and keep foreign manufacturing firms, it found itself bothered by possible adverse selection and moral hazard

problems—on the one hand, the government’s seemingly lack of symmetric information prior to a deal between it and selected investors (which brought accusations of inequitable treatment by other enterprises), and on the other, the tendency of HHIC to take unusual risks like subcontracting because it knows the government bears any consequences of its behavior. Thus, the hesitation to promptly deliver the committed power subsidy, which in turn weakened HHIC’s trust in the government. Amidst controversies generated by HHIC’s grim statistics on worker accidents and deaths, the government displayed uncertainty in assuming its regulatory role, apparently afraid that HHIC might decide to relocate its massive shipbuilding facility elsewhere. On questions why HHIC was not discouraged from hiring contractual employees, the government kept mum, unhappy with the situation but equally fearful of displeasing HHIC. The Philippines thus paid a high price in its practice of compressed modernity.

But all is not lost. The country’s experience of putting up the HHIC shipyard in the Philippines should provide South Korean companies and the Philippine Government valuable lessons to consider. Parties can avoid uncomfortable long term relationships with a conscious resolve to adopt reflexive modernity, tailored-fit to the institutional circumstances of the recipient country. This is characterized by awareness and respect of each other’s focus, constant communication, and democratization of the decision-making process. Only when the parties adopt reflexivity will they be spared and released from uncomfortable alliances.

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Hallyu and corporate performance: The case of South Korean skin care companies in the Philippines

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Abstract

Hallyu presents an opportunity for international business expansion. The proliferation of Hallyu celebrities becoming brands, especially for their intended international target markets, has risen over the years. But despite its touted potential, little attention has been given towards its actual effects on performance, especially on consumer goods. This research presents an exploratory discourse, focusing on the Philippine market for the South Korean skin care industry. Employing an integrated approach drawn from economic theory, marketing management, and supply chain management, this research identifies and analyzes several factors affecting selected South Korean skin care companies' operations and performance. Most notable of the gaps found are the disparities in the target market's buying behaviors and purchasing power vis-à-vis the companies' product and promotion strategies. Furthermore, this research highlights the significant differences present in the Philippine market. Further theoretical and managerial contributions, suggestions, and implications on how to address these disparities are provided.

Keywords: Hallyu, Korean Wave, skin care, celebrity endorsements, international management

1. Research Background

1.1 Introduction

The effects of Hallyu on the international expansion of South Korean businesses currently lack academic attention. Aside from the obvious impact of tourism, there are other areas that deserve attention as well, such as the effect on international demand for South Korean products. Hallyu celebrities have significant drawing power for South Korean products and services (Dussimon, 2016; Park, 2015; Tyrimou, 2015; Wangwiboolkij, 2012). Many organizations have employed such

marketing strategies, with mixed results. Thus, the successful expansion of South Korean businesses, which accounts more than half of the country's gross domestic product (Srinivasan, Stank, Dornier, & Petersen, 2014) depends on more than just riding on Hallyu. In fact, South Korean business philosophy relies heavily on intensive exportations, avoiding domestic competitions (Calantone, Kim, Schmidt, & Cavusgil, 2006).

Most South Korean businesses that are popular in the Philippines are food, fashion, skin care, hair care, motor vehicles, and electronics. Most of these businesses can be found in shopping malls and are steadily growing. The growing awareness on brands, the increasing interest in food and beverages, the proliferation of skin care brands, and the growth of restaurants all make for interesting case studies regarding their sustainability in very competitive markets. However, some of these businesses flounder, and even fail, because they depend too much on Hallyu without understanding its influence and effects vis-à-vis the market and operational forces that influence supply and demand. South Korean firms view most Asian markets as similar to their home markets, but Western competitors make it very difficult for them to have a very strong and significant presence (Calantone et al., 2006), even in cosmetics (Kang, 2012; Park, 2015). In 2015, only 3% of the total turnover of AmorePacific, the biggest South Korean beauty products conglomerate, came from outside Asia (Szalai, 2016). Global brands like Chanel and L'Oreal have started to incorporate products that were distinctly South Korean into their own lineups

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The major international markets of South Korean beauty products are China, Hong Kong, Japan, Taiwan and South East Asia (Park, 2015), where international brands experienced a slowdown in growth (Tyrimou, 2015). China is a USD378.3 million markets in 2015, accounting for 22.1% of total cosmetics imports, recording a 250.6% increase from the previous year². In 2015, the South Korean beauty market is valued at USD10 billion, growing at 6%, compared to the United States' 3.9% and the United Kingdom's 2.1%³. South Korea's cosmetics goods export was valued at USD2.64 billion, up from USD1.91 billion in 2014⁴. In 2016, the industry's skin care sector recorded a 5% growth to reach USD5.89 billion (Euromonitor, 2017g) while color cosmetics grew by 6% to reach USD2.02

1 http://www.beautypackaging.com/issues/2016-03-01/view_features/korean-cosmetics-setting-the-pace-for-global-beauty/

2 <http://www.koreaherald.com/view.php?ud=20150907000338>

3 http://www.beautypackaging.com/issues/2016-03-01/view_features/korean-cosmetics-setting-the-pace-for-global-beauty/

4 <http://www.bbc.com/news/business-35408764>

billion (Euromonitor, 2017e). While there is significant value in these big investments, the issues on feasibility and sustainability must be addressed as well.

1.2 Research Objectives and Intended Contributions

This research employs the case study method to answer several “how” and “why” questions (Bonoma, 1985; Walsham, 1995), especially in dealing with assessing the current situation and what is needed to move forward (Brinkerhoff, 2003). For this research, these “how” and “why” questions stem from the emphasis on understanding the different socioeconomic and environmental factors crucial to the success of foreign operations (Echanis, 2016). This research therefore formulates strategies not only for the entry, but also for the sustainability of Korean firms operating in the Philippines. Specifically, the intended research objectives are as follows:

- 1) To review South Korean business practices in the Philippines, through the lens of strategic, marketing, and operations management.
 - a. To attain a deeper understanding of the similarities and differences between the South Korean and the Philippine environments for South Korean skin care products.
- 2) To provide a workable theoretical framework to analyze the current situation and to make recommendations and suggestions for future endeavors in this context.

For purposes of context, this research is applied to a number of South Korean firms operating in Philippine retail malls, describing six South Korean skin care firms: Nature Republic, Etude House, TonyMoly, The Face Shop, banila co., and Laniege. These six firms were selected because they all employ Hallyu celebrities as their endorsers (Park, 2015). Industry experts have pointed to South Korean TV series and the KPop culture as the primary beauty trend drivers⁵, and the Philippine market is no exception (Euromonitor, 2015b).

2. Literature Review

2.1 South Korean Style of Management

Corporate culture is one of the main reasons for the success of South Korea’s economy (C. Y. Lee & Lee, 2014). The evolution of the South Korean style of

⁵ http://www.beauty packaging.com/issues/2016-03-01/view_features/korean-cosmetics-setting-the-pace-for-global-beauty/

management is characterized by a relatively short history, mostly been driven by the motivation to succeed and prosper since World War II in the 1940s, the Korean War in the 1950s (S. M. Lee & Yoo, 1987), and the country's economic crisis in 1997 (Morden & Bowles, 1998). This style of management is derived from the emergence, development, and expansion of successful businesses (Chan, Trimarchi, & Negreiros, 2013; C. Y. Lee & Lee, 2014). And over the years, companies have grown to be export dependent (Chang & Choi, 1988; Rho & Yu, 1998) and keen on industry adaptation (Calantone et al., 2006). However, despite these attitudes, there has been poor structural support to sustain this drive (Rho & Yu, 1998).

Confucianism plays a very significant influence on how South Korean managers work (Chan et al., 2013; C. Y. Lee & Lee, 2014), creating some distinguishing characteristics (Chang & Choi, 1988; S. M. Lee & Yoo, 1987). These are clan management; top-down decision making; flexible lifetime employment; high mobility of workers; Confucian work ethic; paternalistic leadership; loyalty; highly bureaucratic yet less degree of a formality and standardized system; close government-business relationship; and expansion through conglomeration. Aside from the dominant Confucianism state philosophy, Japanese and American practices have also contributed significantly to this style (Morden & Bowles, 1998). But it is also criticized on having big bureaucracies, poor focus, and lack of creativity (Sohal & Ritter, 1995). This traditional-looking management style has remained at present, despite the country experiencing high development and globalization in its economy as a whole (Chan et al., 2013). Additionally, South Korea's philosophy of "more is better" plays a significant role in their enterprises operations (C. Y. Lee & Lee, 2014).

Additionally, there has been several arguments for matching strategic and operational endeavors (Rho & Yu, 1998) and an integrated marketing and supply chain approach (Calantone et al., 2006; Kang, 2012; Narasimhan & Kim, 2002) to better evaluate firm performance, especially with international operations. It is widely recognized that response to what is happening in the industry must consider both market dynamics, which shows little brand loyalty, and production issues, which is hounded by speed to market concerns⁶. This is true the South Korean beauty markets, which can get easily confused by the sheer volume and combination of products to choose from⁷.

Addressing these challenges is the reliance on human skills, technical, and

6 http://www.beauty packaging.com/issues/2016-03-01/view_features/korean-cosmetics-setting-the-pace-for-global-beauty/

7 <http://www.bbc.com/news/business-35408764>

technological developments, particularly focused on research and development (R&D) and knowledge management (Chan et al., 2013; C. Y. Lee & Lee, 2014). There has also been significant shifts in organizational structures, where big corporations are currently looking to flattening and decentralizing management processes and decision-making (Chan et al., 2013).

2.2 *Effectiveness of Celebrity Endorsements*

The use of Hallyu celebrities as endorsers stems from the long-time belief on the effectiveness of celebrity endorsers in advertising, especially if there is low differentiation. Celebrities are a popular means to enhance and communicate a brand's image because they represent a reference group embodying a collection of culturally relevant images, symbols, and values (Choi, Lee, & Kim, 2005) for consumers to achieve a certain degree of a preconceived self-image or self-concept (Choi & Rifon, 2012). Celebrity endorsers build brand equities by creating associations between images, symbols, and values (Spry, Pappu, & Cornwell, 2011).

Self-concept is described as the sum of an individual's thoughts and feelings about himself or herself (Onkvisit & Shaw, 1987), consisting of the actual self, representing the current perspective of oneself, and the ideal self, which is a desired ideal frame of oneself. Individuals continuously strive to close the gap between the two (Higgins, 1987). And over time, individuals have found different ways to communicate and find ways to reduce this gap. One of the most effective means to do so is through advertising. The need to address this gap has been a significant opportunity for advertising.

The self-image/product-image congruence model (Graeff, 1996) posits that improved similarities between the endorsed product and the target consumer's self-concept would lead to better favorable attitudes towards the product or brand being endorsed. This congruence can take the form of either self-congruency, between the actual self and the product image, or ideal congruency, between the ideal self and the product image. The match-up hypothesis (Kahle & Homer, 1985; Kamins, 1990; Kamins & Gupta, 1994) posits that for a celebrity endorser to be seen as "fit" to the endorsed product, there must be some serious considerations towards the relationships between the target consumer and the celebrity, and between the target consumer and the product being endorsed. The source-credibility model (Hovland, Jannis, & Kelley, 1953) posits three dimensions to evaluate the overall effectiveness of the endorser. Expertise is the knowledge, experience, and training of the endorser relevant to the endorsed product while trustworthiness reflects the target audience's confidence in the source (Erdogan,

1999). Attractiveness describes how likable the source is (Ohanian, 1991). The source attractiveness model (Singer, 1983) is based on the status and the physical appeal of the celebrity endorser, measured by three dimensions (McGuire, 1985). Similarity is the resemblance between the source and the receiver. Familiarity describes the receiver's knowledge of the source. Liking is the receiver's affection for the source. The meaning transfer model (McCracken, 1989) posits that marketing communications must consider creating a natural match between the celebrity and the product, usually in terms of cultural meanings and images that the celebrity possesses vis-à-vis those of the product being endorsed.

These theoretical models all emphasize that the effectiveness of a celebrity endorser is dynamic, relying on a combination of factors related to the celebrity, the product, and the societal and environmental conditions at the time and place when the advertisement is shown (Silvera & Austad, 2004). The celebrity brings a significant amount of referential images and values that translate into certain messages attached to the product being endorsed (McCracken, 1989).

Therefore, applying this in the Philippine context, there is an obvious attempt to address this gap between the Hallyu celebrity and the Philippine fans. Especially with South Korean skin care products, the obvious image of consumers' ideal self is to look similar with the Korean celebrity (Wangwiboolkij, 2012), who are easily the appropriate type of celebrity endorser in terms of source credibility and source attractiveness, hereby creating a good "fit". Hallyu celebrities strive to be attractive as much as they can, creating a natural match with the endorsed skin care product. Additionally, the focus of South Korean cosmetics firms towards Asian markets stems from the many similarities that they have found between South Korean women and Asian women (Park, 2015).

As physical attractiveness becomes an asset of Hallyu celebrities, it therefore makes sense to employ them as endorsers of South Korean beauty products. Furthermore, since most fans adore their idols' physical appearances, they also strive to look similarly like them. Therefore, the marketing message employed in this type of celebrity endorsement makes sense. This is further accentuated by the fact that fans exert time and effort to be familiar with their idols, hereby identifying with them all the more.

However, effective marketing communications is only part of the success evaluation. Consumer demographics, behaviors, and lifestyles must also be taken into consideration. Recent observations on the target markets of Hallyu describe these demographics, behaviors and lifestyles for both countries (Euromonitor, 2015a, 2015b), summarized in the following tables.

Table 1: Comparative Demographics, Behaviors, and Lifestyles

	Demographics		Behaviors		Lifestyles	
	South Korea	Philippines	South Korea	Philippines	South Korea	Philippines
Teens	Ages 13-17; 3.1 million pop.; living on allowance; mostly high school students	Ages 13-18; 10.6 million pop.; high school to freshmen college; living on allowance	Dominantly Internet-connected, due to online games and messaging; base their style choices on their idol celebrities	Trialing with fashion styles; tech-savvy; brand-conscious	Focused on fast-fashion brands; eager to showcase creativity via DIY projects	Aspire to buy clothing from popular brands; exhibit greater purchase freedom
Young Adults	Ages 18-29; 8.1 million pop; college students to young professionals; increasing working hours	Ages 18-29; 21.8 million pop; college students to young professionals; BPOs as their first jobs	Education is a paramount concern and a key cultural value; opting to delay marriage or reduce costs of marrying	Considers education as extremely important; usually chronicles daily activities on social media	Increasing interest towards keeping and taking care of pets	Main target of mall sales; considerably spends on electronics; unburdened by debt; prefer cash to credit card transactions
	South Korea	Philippines	South Korea	Philippines	South Korea	Philippines
Middle Youths	Ages 30-44; 12.1 million pop.; mostly employed	Ages 30-44; 19.1 million pop.; increasingly becoming entrepreneurial	Tend to avoid topics on marriage; growing interest towards webtoons and online comic books	Considers marriage and family building as options; conscious about physical appearances	Choosing international over domestic travel for holidays	Increasing attention to anti-ageing regimens
Mid-Lifers	Ages 45-59; 12.1 million pop.;	Ages 45-59; 12.4 million pop.; significant	Opening and maintaining secret bank	More concerned about health issues; still	Consuming less and worry more about the	Increasing attention to staying healthy

	holding highest household debt; focus on opening small businesses or on part-time jobs	portion of the working population	accounts independent from family interference ; worried in maintaining current lifestyles	want a stable income; less risk-averse and more traditional in handling money	future	through exercise, diet, sleep, and supplements
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South Koreans spend an increasing amount of money on fashion and grooming, developing a norm that keeping up with fashion trends in any aspect equates to one caring about how they look to their peers and that they are healthy and proactive (Euromonitor, 2015a). On the other hand, it is no secret that Filipinos’ sense of fashion is influenced by other countries, particularly Japan, the United States, and South Korea, with affluent Filipino women being very beauty-conscious (Euromonitor, 2015b). Therefore, consumer behavior-wise, there is much similarity in the aspirations and the needs and wants of Filipinos with regards to their physical appearances, and reinforcing the appropriateness of this marketing communications strategy of employing Hallyu stars as endorsers for Korean skin care products.

2.3 *Managing International Supply Chain Operations*

This study also touches on international supply chain operations, where one country, or an organization within that country, depends on other countries, or other organizations within those target countries (Srinivasan et al., 2014), especially if there is some doubt regarding the presence of adequate infrastructure (Echanis, 2016). But the existence of direct and indirect multistage and multilevel cause-and-effect relationships of different factors influencing operational performance has been largely overlooked (Narasimhan & Kim, 2002; Rho & Yu, 1998). Therefore, this study also examines the target market’s dynamics, which is a significant concern on managing supply chain operations (Narasimhan & Kim, 2002).

Some experts have pointed out that the South Korean cosmetics industry has also adopted the fast fashion principle to several key processes, including new product development, price positioning, choice of distribution channels, and digital engagement (Szalai, 2016). Fast fashion practices in supply chain operations require shortened lead times, faster turnovers, and high customer order

fulfillment rates, offering the newest trendy designs that are of high quality but affordable (Turker & Altuntas, 2014). For South Korean cosmetics firms, this is highly supported by a strong technical and technological infrastructure developed over time, enabling them to do high-technology innovation, strengthened by highly-skilled human resources (Chan et al., 2013; C. Y. Lee & Lee, 2014). The fast-fashion concept extends to distribution channels, where there is little resistance against products making it to the shelves in record time. Based on their locations, South Korean brands have focused their attention to establishing physical retail channels within shopping malls in the Philippines. This enables them to have greater control and flexibility over the design of its stores and the methods of presentation of its products to project the desired image of high quality and trendsetting offerings with a personal attention. Little South Korean beauty brands, if any at all, can be found in supermarkets and department store shelves. Fast fashion supply chains are designed to effectively compete with established giants whose main form of protecting their markets is through large retail presences (Turker & Altuntas, 2014). The increased demands for better, faster, and more efficient supply chain activities require a better understanding of the environment in which firms operate in.

The EPIC structure (Srinivasan et al., 2014) provides a framework for assessing countries on the supply chain readiness on four different perspectives: economy, politics, infrastructure, and competence. These variables have significant effect on international supply chain operations as these are designed to help organizations that wish to invest in and manage supply chains in a chosen country. The PEST framework (Aguilar, 1967), on the other hand, deals more on the strategic management issues an organization faces. This focuses on four dimensions: politics, economy, society, and technology. This is mostly dealing with factors external to the organization, and each dimension can be evaluated in terms of their respective opportunities to offer and threats to consider (CMI, 2013). Summarizing the assessments of the EPIC framework, the following describes the maturity levels of South Korea's and the Philippines' respective supply chains (Srinivasan et al., 2014).

Table 2: Comparative Economic, Political, Infrastructure, and Competence Dimensions

Dimensions	Strengths		Weaknesses	
	South Korea	Philippines	South Korea	Philippines

Economy	Strong export growth; rising consumer expenditures; pursuing trade agreements	Good growth rates; large English-speaking workforce	Midrange labor costs; losing FDI to China and Taiwan	Low domestic savings; high levels of corruption; less FDI compared to rest of ASEAN
Politics	Moderately stable political environment	United States, Australia, and Japan are seen as strong allies	Issues with transparency; high levels of corruption; rigid and difficult labor environment	High levels of corruption
Infrastructure	Excellent transportation, logistics and telecoms	Growing telecoms and IT	Congestion in major metropolitan areas; no internal energy resources	Declining logistics and utilities infrastructure
Competence	Workforce is highly educated and skilled in science and technology and engineering	English-speaking managerial and technical staff; center for outsourcing	Rigid labor market; shortages in IT, bioengineering, and telecoms	Rising militancy

South Korea's external environment provides significantly strong support towards supply chain operations. Buoyed by strong export growth and supported by excellent logistics and telecommunications, South Korean firms can make significant headway in their international supply chain operations. What is further interesting here is the workforce development towards science and technology and engineering, disciplines needed for good research and development.

However, some social and technological developments in the country (Euromonitor, 2015a) contribute to some concerns and potential to this assessment. Youth unemployment is at record levels, a problem which is compounded with much uncertainty regarding job security. This obviously affects

purchasing power levels. But online purchasing is on the rise, as well as reliance on consumer reviews and opinions on products bought both online and offline. Interestingly, this opened the doors to a trend called “mallng”, where people meet at a shopping mall to discuss trends and exchange ideas prior to making purchases. Technologically, there is an increase in mobile internet use as well, buoyed by an obviously strong Internet infrastructure.

In contrast, the Philippines boasts more on the people requirements needed to support and manage supply chain operations, especially for any internationalization, mainly due to the high competencies in English communications. However, there is still much concern regarding the required infrastructure that would make it easier, more efficient, and more sustainable to manage supply chain operations.

In addition, recent reports and observations paint an interesting story regarding the social and technological dimensions of the country (Euromonitor, 2015b). Philippine society is increasingly being reliant on information technology, particularly on social media, for their purchase decisions and recommendations, a welcome development from the predominantly recreational purposes that Filipinos have to use Internet and social media. However, the technological backbone needed to sustain this rising interest, use, and adoption is still sorely lagging behind, hindering any realization of immediate potentials for improvements in retail.

3. Methodology

3.1 Method and Context

While case studies generally describes the chosen management situation constructed from multiple data sources (Bonoma, 1985), they can also employ the use of theory to account for previous knowledge and frame the research context (Walsham, 1995). This is especially useful if the research issues explains what is happening, what results are intended to be achieved, what is the value of the results, and how things can be improved (Brinkerhoff, 2003).

The South Korean cosmetics industry has been characterized as one of the fastest growing industries, buoyed by increasing awareness, interest, and consciousness towards health care (Kang, 2012; Park, 2015; Wangwibookkij, 2012), and, with the help of the Internet and social media, rejuvenating the country’s exports⁸. Most notable in this area is the emergence and exponential

⁸ http://www.beauty-packaging.com/issues/2016-03-01/view_features/korean-cosmetics-setting-the-pace-for-global-beauty/

growth of the popular Korean TV show “Get It Beauty” on YouTube⁹. However, this industry growth has also resulted in high levels of market and technological uncertainties (Kang, 2012).

Euromonitor describes an interesting picture regarding the South Korean skin care (Euromonitor, 2017g) and color cosmetics (Euromonitor, 2017e) markets. LG Household & Health Care Ltd led skin care in 2016 with 26.9% market share, closely followed by AmorePacific Corp, which is at 26.2%. For the color cosmetics, AmorePacific has a slight lead with a 24.4% market share, with LG Household & Health Care at 24.1%. This is due to both companies owing a very vast range of brands across the market.

AmorePacific owns Etude House and Laniege, which are included in this research, and Innisfree, another popular brand not present in the Philippines, currently endorsed by Girls’ Generation member Yoona since 2009. The following summarizes the company’s operations and performance (Euromonitor, 2017a). It has a significant presence in beauty and personal care (22.4%), color cosmetics (24.4%), skin care (26.2%), and sets and kits (35.3%) in South Korea and is one of the most aggressive overseas. Latest financial figures indicate that in 2015, it has USD4.2 billion in sales and USD51.4 million in net profit. In China, AmorePacific holds a 2.4% share in the beauty and personal care market led by Procter & Gamble at 10.6%, with Innisfree (0.9%) and Laneige (0.7%) contributing to this share (Euromonitor, 2017b).

LG owns The Face Shop, which is the first to establish a Philippine presence (Euromonitor, 2016a). 2015 sales were at USD5.9 million, making it the third-ranked beauty specialist retailer in the Philippines, with an 8% market share. In China, LG holds a 1.2% market share in the beauty and personal care sector (Euromonitor, 2017b).

Nature Republic (Euromonitor, 2016b) is the fourth ranked company in the South Korean market. The company earned sales of USD239.2 million, making them hold a 9.4% share amongst beauty specialist retailers. This is due to its presence in key tourist locations in the country, and its strong drive towards product innovations.

TonyMoly (Euromonitor, 2017i) ranks eleventh in beauty and personal care (1.5%), eighth in color cosmetics (3.7%), 14th in skin care (1.4%), and fifth in sets and kits (1.4%). Overall, this makes them 10th in the industry, driven by its innovative packaging designs to capture consumer interest. It is also gradually moving from mass-market to a more premium position. 2015 financials report

9 <http://news.abs-cbn.com/lifestyle/09/18/13/why-korean-cosmetics-are-popular-ph>

earnings of USD193.6 million in sales and USD11.7 million in net profit.

The following describes the six Korean cosmetics and skin care firms covered in this study, in terms of its advertised unique selling proposition, its past and present lineup of endorsers, and its current distribution locations in the Philippines.

Nature Republic

Nature Republic is one of the leading and fastest-growing global cosmetics brand, promoting the use of natural ingredients originating from different countries to deliver quality skin care. Managed by Global Brands Retail Specialist in the Philippines, it has six outlets and three kiosks in the Philippines, all located within shopping malls in the Greater Manila Area.

Table 3: Nature Republic's Presence in the Philippines-Development

Nature Republic	
SM North EDSA, Quezon City	Wellworth, Fairview Terraces, Quezon City
SM Megamall, Mandaluyong City	Landmark Department Store, Trinoma, Quezon City
SM Fairview, Quezon City	Landmark Department Store, Makati City
Festival Mall, Alabang, Muntinlupa City	
Fairview Terraces, Quezon City	
Sta. Lucia East Mall, Cainta, Rizal	

Nature Republic’s product line includes skin, body, hair, and nail care, accessories, and makeup, both for men and women. It currently has 2.2% share of the South Korean skin care market (Euromonitor, 2017g). EXO is its brand endorsers since 2013. Past endorsers were Rain (2009), JYJ (2010), now-defunct girl group KARA and actor Jang Geun-suk (2011), and Girls’ Generation’s Taeyeon (2013).

Etude House

Etude House encourages consumers to bring out their own inner princess with a romantic story to tell. Managed by the Amado Group Corporation in the

Philippines, it has 37 outlets and 10 kiosks all over the country since it started in 2009.

Table 4: Etude's House Presence in the Philippines

Etude House	
Outlets and Boutiques	Kiosks
SM Masinag, Antipolo	SM Bacoor, Cavite
SM Baguio, Baguio City	Landmark Department Store, Makati City
Robinsons Malolos, Bulacan	SM Makati, Makati City
SM Dasmariñas, Cavite	SM Megamall, Mandaluyong City
SM Sta. Rosa, Laguna	SM Mall of Asia, Pasay City
Robinsons Place Manila, Manila City	
SM San Lazaro, Manila City	
Alabang Town Center, Muntinlupa City	
Festival Mall, Muntinlupa City	
SM Pampanga, Pampanga	
Marquee Mall, Pampanga	
SM Bicutan, Paranaque City	
SM Mall of Asia, Pasay City	
Robinsons Metro East, Pasig City	
Eastwood Citywalk 2, Quezon City	
Etude House	
Outlets and Boutiques	Kiosks
SM Fairview, Quezon City	
SM North, Quezon City	
SM North Bridgeway, Quezon City	
Trinoma, Quezon City	
Market! Market!, Taguig City	
Ayala Mall Cebu, Cebu City	

SM Seaside Cebu, Cebu City	
J Center Mall, Cebu City	
SM Cebu, Cebu City	
SM Iloilo, Iloilo City	
SM Cagayan De Oro, Cagayan De Oro City	
Centrio Mall, Cagayan De Oro	
Abreeza Mall Davao, Davao	
SM Lanang, Davao City	
SM Davao, Davao City	

Etude House offers a wide variety of makeup and skin care products entirely for women. It has a 5% share of the South Korean color cosmetics market (Euromonitor, 2017e). Its current endorsers are Krystal of the idol group f(x), and Sulli, an actress who is formerly of f(x). Past endorsers include Jeon Ji Hyun, idol group SES, Song Hye Kyo, Go Ara and Jang Geun Suk, Yu Seung Ho, Park Shin Hye and Lee Minho, and idol group SHINee and defunct girl group 2NE1.

TonyMoly

Tony Moly’s unique selling proposition is that it sells an urban lifestyle beauty brand popular for the modern and chic woman around the world. The brand provides a “Total Skin Revolution”, providing a more radiant, glowing and renewed skin through its products. Managed by the Amado Group Corporation in the Philippines, it has twelve outlets and twelve kiosks all over the country.

Table 5: Tony Moly's Presence in the Philippines

Tony Moly	
Outlets and Boutiques	Kiosks

Festival Mall, Muntinlupa City	SM Aura, Taguig City
Alabang Town Center, Muntinlupa City	SM Bacoor, Cavite
Cash and Carry, Makati City	SM Cubao, Quezon City
Eastwood Mall, Quezon City	Landmark, Makati City
Glorietta 2, Makati City	SM Makati, Makati City
Lucky Chinatown Mall, Manila City	SM Megamall, Mandaluyong City
SM Manila, Manila City	SM Mall of Asia, Pasay City
SM Megamall, Mandaluyong City	SM North EDSA, Quezon City
SM Mall of Asia, Pasay City	SM Southmall, Las Pinas
SM North EDSA, Quezon City	Virramall, San Juan City
Trinoma, Quezon City	SM Cebu, Cebu City
SM Seaside, Cebu City	SM Seaside Cebu, Cebu City

It has a 1.4% share of the skin care (Euromonitor, 2017g) and a 3.7% share of the color cosmetics (Euromonitor, 2017e) markets in South Korea. Its current endorsers are HyunA of the defunct girl group 4minute, and boy groups 2PM and B1A4. Past endorsers include actor and SS501 member Kim Hyun Joong (2007), idol group Brown Eyed Girls and actor Song Joong Ki (2010), idol groups T-ARA (2011), JYJ (2012), and Super Junior-M and f(x)'s Victoria (2013).

The Face Shop

The Face Shop's advertised unique selling proposition is that it is where nature and science come together, being the first and leading cosmetic brand committed to the wonders of nature and the power of technology. Managed by Bench in the Philippines, it has 18 outlets and boutiques the Greater Manila Area.

Table 6: The Face Shop's Presence in the Philippines

The Face Shop	
Outlets and Boutiques	Kiosks
Gateway, Quezon City	SM Fairview, Quezon City

SM City North EDSA, Quezon City	SM Sta. Mesa, Manila City
Eastwood Mall, Quezon City	Robinsons Galleria, Quezon City
SM City West, Antipolo City	Glorietta, Makati City
Trinoma, Quezon City	Shoppesville, San Juan City
SM Novaliches, Quezon City	Manila Easy Road, Barangay Dolores, Taytay, Rizal
SM Megamall, Mandaluyong City	Robinsons Magnolia, Quezon City
Shangri-La Plaza, Mandaluyong City	Quadrant 8, 1H-03, Bonifacio Global City, Taguig City
Bonifacio High Street, Taguig City	SM Mall of Asia, Pasay City

It has a 4.4% share in the skin care (Euromonitor, 2017g) and a 9.8% share in the cosmetics (Euromonitor, 2017e) markets in South Korea. Its current endorsers are Suzy of the defunct girl group miss A (since 2013) and actor Kim Soo-hyun (since 2014). Past endorsers include actor Bae Yong-joon (2003) and Kim Hyun-joong of SS501 and Seohyun of Girls’ Generation (2010).

banila co.

F&F owns banila co., which has a unique selling proposition that provides for South Korean-style makeup and skin care that is very distinct from the Western look and feel. Its line of products, such as cleansers, balms, and BB and CC creams, helps to achieve a natural, radiant, and flawless finish that highlights the face’s most endearing features in the most flawless manner possible. Its Philippine presence consists of three outlets and boutiques and two kiosks in Metro Manila, being the newest player in the market.

Table 7: banila co's Presence in the Philippines

banila co.
Outlets and Boutiques
Glorietta 4, Makati City
Robinsons Place, Manila City
SM North EDSA, Quezon City
Department Stores
Landmark TriNoma, Quezon City
SM Mall of Asia, Pasay City

Its current endorser is Girls' Generation's Taeyeon. Past endorsers include actress Min Hyo Rin and Hyorin of the defunct girl group SISTAR (2011), former Girls' Generation member Jessica (2012), singer Roy Kim (2013), and actress Song Ji Hyo (2014).

Laneige

Laneige's advertised unique selling proposition is to create beauty beyond clear, radiant, and glowing skin. Boasting more than 20 years of research on the interaction between water and skin, termed as Water Science, Laneige has developed products that provide moisturizing properties that is effective in improving their brightening and anti-aging properties. Its presence in the Philippines consists of seven kiosks, all in Metro Manila.

Table 8: Laneige's Presence in the Philippines

Laneige
Kiosks
Robinsons Galleria, Quezon City
Robinsons Magnolia, Quezon City
Robinsons Place Ermita, Manila City
SM Aura Premier, Taguig City
SM Mall of Asia, Pasay City
SM Megamall, Mandaluyong City
Trinoma, Quezon City

It has a 1.8% share in the South Korean skin care (Euromonitor, 2017g) and a 3% share in the color cosmetics (Euromonitor, 2017e) markets. Its current endorsers are actresses Song Hye Kyo and Lee Sung Kyung. Actress Jun Ji Hyun (2004) was the previous endorser.

One interesting strategic operations item here is the choice of location and distribution channels. As noted with The Faceshop (Euromonitor, 2016a), most South Korean brands projects an image of being trendy and high quality in the design of its stores and the presentation of its products. All brands documented in this research have their own physical distribution channels, have little presence department stores, and are absolutely absent in supermarkets, where the products get mixed up with other brands and no one fully attending to consumers.

Industry and Expert Reviews and Opinions

Skin care sales are expected to keep increasing, but growth will be slower (Euromonitor, 2017g), and that Hallyu will continue to drive exports (Dussimon,

2016). Western brands are even creating partnerships with South Korean brands, just like LVMH Moët Hennessy Louis Vuitton SE with AmorePacific for Christian Dior (Tyrimou, 2015). The significant role of digital engagement is a new channel to further drive international growth. South Korean brands have employed beauty vloggers and bloggers and have embedded a significant amount of digital content to enhance product promotions (Szalai, 2016). These recent developments further support the industry's drive to adopt fast fashion principles to shorten time-to-market approaches from new product design to retail shelves.

Top fashion magazines have presented their respective lists of South Korean beauty brands to watch out. *Cosmopolitan*¹⁰, for example, has noted that banila co. has won various accolades for its cleansing balm, and that its primers and finishing powders are worth the attention. *Cosmopolitan* also highlighted Etude House's whimsical packaging, The Face Shop's brow pencils and BB creams, Laneige's sleeping packs, Nature Republic's aloe vera products, and Tony Moly's skin creams. Websites such as *spot.ph*¹¹ have also published their reviews. In this case, banila co. has been highlighted for its makeup base in chic packaging. The Face Shop was noted to have a wide range of face masks and compact cushions. Etude House was said to be known for its cosmetics. Tony Moly was recommended for their sleeping packs, sun blocks, and cheek patches. Laneige is being touted for its focus on skin rehydration. Nature Republic is being popular for its aloe vera gels and cleansers.

The Philippine Society of Cosmetic Science (PSCS) has noted some reasons for the popular appeal of South Korean beauty products¹². The South Korean beauty products take advantage of Filipinos' desire to appear young with clean and white skin. Also, they are perceived to be comparatively unconventional. For one, the ingredients are significantly different compared to their Western competitors¹³. Additionally, another reason is the packaging¹⁴, enabling greater ease of product application and value for money (Dussimon, 2016), and the constant developments towards purer, more potent treatments (Euromonitor, 2015a). These innovative approaches are encouraged to further international expansion (Szalai, 2016). But critical to the continued differentiated success of South Korean beauty products is the maximization of their use. However,

10 <http://www.cosmo.ph/beauty/makeup/11-korean-beauty-brands-and-what-to-get-from-them-a418-20160227> 11 <http://www.spot.ph/shopping/beauty-skincare/67464/10-korean-beauty-brands-you-can-shop-in-manila-a00023-20160822-lfrm>

12 <http://news.abs-cbn.com/lifestyle/09/18/13/why-korean-cosmetics-are-popular-ph>

13 <http://www.bbc.com/news/business-35408764>

14 <http://in.reuters.com/article/southkorea-cosmetics-idINKCN10E2TG>

Inquirer¹⁵ has pointed out that due to the Philippines' humid climate, it is not practical to undergo the entire skin care regimen or makeup routine to attain full product utilization. In fact, the basic cleanser-moisturizer-sunscreen is more than enough for Filipinos. Additionally, there is increased difficulty in shopping for such products simply because there are so many choices and combination of choices¹⁶.

Currently, Euromonitor reports that the LG Household & Health Care holds only a 0.3% share in the skin care (Euromonitor, 2017h) and 1.6% share in the color cosmetics (Euromonitor, 2017f) markets in the Philippines. Unilever (26.2%) dominates the skin care market, significantly ahead of Avon (9.4%) and Procter & Gamble (7.8%) (Euromonitor, 2017h) while Avon (22.5%) is the market leader in the color cosmetics market, with L'Oreal enjoying a significant increase in their market share to jump to a very close third place at 16% behind Ever Bilena's 16.2% (Euromonitor, 2017f). In contrast, the Western company which have the biggest market shares in South Korea is L'Oreal, with 3.5% for skin care (Euromonitor, 2017g) and 2.1% for color cosmetics (Euromonitor, 2017e). But despite the sustained international potential and success, the global beauty market still presents several challenges, including a lack of universal appeal and a low level of familiarity in terms of product information (Szalai, 2016).

The Philippines is seen to be a good prospect for beauty products in general, with a growth of 8% in skin care to reach USD776.6 million (Euromonitor, 2017h) and a 12% growth in color cosmetics to reach USD250.9 million (Euromonitor, 2017f). This is driven by increasing consumer sophistication, lifestyle upgrades and some favorable economic conditions (Euromonitor, 2017h) such as an increase in e-commerce use as a means of retail distribution (Euromonitor, 2017f).

4. Analysis

This research, adopting the case method approach, covers three business management areas: management practices, marketing management, and operations management. The need for a multiple view and an integrated approach is important in the context of internationalization. Despite the respective positive pictures of the South Korean skin care industry and the Philippine market, these are not consistent with one another, mainly because of two reasons: (1) The Chinese market remains to be the number one international market for South Korean firms; and (2) Western brands continue to dominate the Philippine market.

15 <http://lifestyle.inquirer.net/228545/10-step-korean-skincare-routine-worth/>

16 <http://www.bbc.com/news/business-35408764>

Therefore, this research emphasizes that despite expert opinions highlighting the success and the continued potential growth of Korean beauty products, some realities must be appreciated. For starters, the Philippines does not have the adequate support infrastructure to fully realize and maximize this potential growth being envisioned. No matter how much effort is put into good reviews of the product, if there is no real reason to purchase and use it, or if it makes it impractical to use it, the product will ultimately be not sold. The following discusses the details of these realities.

4.1 Can the Korean style of management cope with the requirements to conduct international business?

International expansion strategies require that the parent company give up some control, especially in the target country, allowing local managers to run the day-to-day operations and integrating them into their own management teams and networks (Echanis, 2016). Initially, given the increasing reliance on international expansion to sustain the economy (C. Y. Lee & Lee, 2014), and the resulting gradual changes in organizational structures (Chan et al., 2013), many aspects of the South Korean style of management are still deeply and firmly rooted in philosophies hounded by problematic bureaucracies, poor focus, lack of creativity, and emphasis on quantity (C. Y. Lee & Lee, 2014). The significant presence of clan management and paternalistic leadership and the insistence on top-down decision-making even at present times significantly hinder international progress. This presents an obvious mismatch to the demands of fast-paced decision-making and flexible management styles necessary to carry out and sustain the practices that the South Korean skin care companies adopted from the fast-fashion industry.

An interesting double-edged sword is the emphasis on quantity. The success of AmorePacific, for instance, is attributed to it flooding the market with many brands like Etude House, Laneige, and Innisfree, and with many product offerings under each brand. However, this strategy also overwhelms consumers with so many choices. This in turn jeopardizes efforts to create a universal appeal and reduces opportunities for consumers to be more familiar with products, simply because of information overload (Szalai, 2016).

As a result, there is much to be done as far as the South Korean style of management is involved with international business. The reported changes in organizational structures to accommodate the demands imposed by international business practices are an interesting development. There is obviously a long way to go before there can be a better match between the South Korean style of management and successful international business. In other words, the South

Korean style of management require significant changes to embrace a worldlier view, starting with what is necessary to implement and sustain fast-fashion supply chain practices.

4.2 Is the marketing and promotions strategy appropriate for the intended target markets?

The concentration in Metro Manila does make sense for obvious reasons. It is the Philippines' center of commerce, where most of the consumers who can afford beauty products reside, and where a very good portion of Hallyu fans also reside. However, there are some gaps regarding the demographics of Filipino Hallyu fans and audiences vis-à-vis the intended Filipino target market. Most Hallyu fans in the Philippines are the younger demographics, from teens to the younger age groups of young adults. However, these fans experience varying degrees of difficulties purchasing official merchandise, including KPop albums, citing high prices and lack of distribution channels. Many KPop fans also find it expensive to maintain subscriptions in online streaming sites such as MelOn, a major source of exposure and promotions for the KPop idols' songs and albums. Most KPop fans exert significant effort to save money to purchase tickets to concerts held in Manila. Therefore, they oftentimes resort to fanmade merchandise and illegal downloads and streaming. Overall, the Philippine consumption of Hallyu has been largely limited to Korean pop music and Korean dramas and movies, and most of the consumption patterns are through illegal means.

Furthermore, unlike the attention earned by Filipino celebrities endorsing products and services, Hallyu celebrity endorsements is at an comparatively infancy stage. Exposures have been in short-term spurts of promotion, such as actor Lee Min Ho and actress Park Shin Hye for Bench, who had a short stay in the Philippines for some fan meeting events. Idol Park Dara for Penshoppe is an exception since she had a prior career in the Philippine entertainment industry. Another Hallyu celebrity, idol Krystal Jung for Giordano, a popular brand in the Philippines, has not even visited the country. In other words, the exposure of Filipinos to Hallyu celebrities outside dramas, music, and concerts has been significantly limited.

Looking at the past and present Hallyu celebrity endorsers of the six skin care firms covered in this research, it can also be seen that only a handful of them have visited the Philippines, but mostly for concert performances, most notably EXO, SHINee, Super Junior-M, 2NE1, and Girls' Generation. They are immensely popular with the younger Filipino demographics, who have relatively lesser purchasing power towards Korean beauty products. As for the actors and actresses,

they are more well-known with the older demographics, but are relatively less involved in Hallyu compared to the younger Filipinos.

These gaps emphasize the reality that regardless of the prospects, potential, or attractiveness of a target market, issues on purchasing power can be an overriding factor (Echanis, 2016). Therefore, even though that there is indeed a fit between the Hallyu celebrity and the beauty product being endorsed, and this fit is reinforced by the aspirations of Filipinos towards the Hallyu celebrities of their fanboying or fangirling, as what has been observed in other markets (Park, 2015; Wangwiboolkij, 2012), doubts on Filipinos' purchasing power for these beauty products remains a significant issue.

Aside from the issues on purchasing power, Filipinos' everyday habits in terms of beauty and skin care also tell an interesting story. Filipinos do not pay full attention to their beauty and skin care concerns as much as Koreans do, with the Philippines' humid climate playing a very significant role in this lack of attention. Therefore, these beauty products are severely underutilized and underappreciated. Additionally, there is also a lack of education and appreciation of what Korean beauty products can do to the Filipino skin, especially within the highly-vaunted ten-step regimen to real Korean skin care. Filipinos are still geared towards being practical, always looking for value-for-money bargains (Euromonitor, 2017h), instead of investing heavily on oneself. On the other hand, the Chinese market both has the purchasing power and a greater attention to beauty and skin care concerns (Euromonitor, 2017b). In other words, the marketing and promotions strategy is appropriate and does make sense, but the capabilities, behaviors, and preferences of the intended target market is something that is lacking.

4.3 Is the operations and supply chain strategy appropriate for the target market?

The differences in distribution channels are also significant. In South Korea, non-grocery specialists are the biggest group of retailers (Euromonitor, 2017c). However, in the Philippines, most distribution channels are grocery retailers, and very little online retailing (Euromonitor, 2017d). In China (Euromonitor, 2017b), on the other hand, the significant distribution channel is Internet retailing. This alone explains two important management issues: the management's understanding demographics and psychographics of the target markets based on where they shop, and the management decisions regarding their preferences on control over all aspects of distribution.

Table 10: Distribution Channels of South Korean Skin Care Products in the Philippines

	Grocery	Non-Grocery Specialist	Department Stores	Direct Selling	Internet Retailing
South Korea	20.7%	29.7%	15.9%	18.3%	9.2%
Philippines	50.6%	23.8%	13.1%	11.8%	0.4%
China	29.1%	19.5%	18.7%	11.3%	20.6%

These numbers are consistent with the impressions on the chosen distribution strategy made by South Korean companies, where they prefer to have their own physical stores, classified as non-grocery specialists, rather than having their products present on grocery and department store shelves. Aside from exerting greater control over the store design and product presentation, South Korean firms prefer offering a personal touch while attending to their customers. This is something that cannot be easily done in other distribution channels, if at all. The entire process to maximize the potential benefits of using South Korean beauty products is complex compared to other brands, necessitating some instruction and education. This requires some personal attention from trained sales personnel to orient and educate customers. But by experience, Filipinos tend to shy away from such focused and personal attention, preferring to make product comparisons and purchase decisions by themselves instead of asking for help or advice from sales personnel.

Furthermore, this explains why Unilever and Procter & Gamble, with their mass-market brands, are more dominant in the Philippines, since they chose to have their products such as Olay, and Pond's and Eskinol, respectively, distributed through groceries. Such products do not require similar levels of complexity to use. Additionally, since purchasing power is already an issue, products that are priced at grocery store levels, which are comparatively lower than those sold in standalone retail outlets and boutiques, are therefore more attractive.

A second concern is the technological and people development of South Korean firms, evidenced by the increasing research and development and human skills development efforts resulting to better and more innovative products over increasingly shorter periods of time. This is supported by sound economic, infrastructure, social, and technological environments present in South Korea, but significantly lacking in the Philippines. South Korean beauty products adhere to

some level of complexity and sophistication in their use, both individually and complementary to each other as demonstrated in their ten-step regimen, which simply cannot work presently within the Philippine context.

Additionally, the comparative infancy of online retail channels in the Philippines is a major cause as to why Internet retailing has such a low contribution to total distribution. This is in stark contrast to China, where there is a significant Internet retailing presence. Internet-based retailing is a cost-effective strategy for international expansion, where there are little required capital-intensive efforts to set up business in other countries compared to establishing physical stores. Moreover, China experiences a significant boom in online buying and selling, making this channels a very attractive alternative. In other words, the operations and supply chain strategy is appropriate, but the infrastructure required for sustainability is lacking, hampering growth.

5. Conclusions

5.1 Discussions

This research analyzes the case of South Korean skin care companies in the Philippines, describing the current situation and evaluating observable practices vis-à-vis the local business environment. This is done through the multiple lenses of management practices, marketing management, and operations management. Furthermore, this research has highlighted several factors that either complements or hinders their performance, underlying the need for matching strategies (Rho & Yu, 1998) and integrating approaches (Calantone et al., 2006; Kang, 2012; Narasimhan & Kim, 2002) to better analyze and evaluate international business situations and performance.

5.2 Theoretical Implications

This research, in adopting the case method, emphasizes several theoretical implications. Firstly, this research highlights the importance of integrated approaches to a current, fast-moving, but encompassing topic of interest. In other words, there is no one theory, no matter how overarching it can be, that can explain a phenomenon in its entirety. In the domain of international business management, one cannot do an examination and analysis from a single theoretical perspective, nor from a single methodology.

As demonstrated, the theoretical applications of marketing communications were as sound as they can be, exhibiting that there were indeed several good “fits” amongst the product being endorsed, the chosen celebrity endorser, and the target customers’ aspirations. It is important that the use of celebrities must make sense, in terms of appeal (Singer, 1983), congruency (Graeff, 1996; Higgins, 1987;

Onkvisit & Shaw, 1987), credibility (Erdogan, 1999; Hovland et al., 1953; Ohanian, 1991), and consistency (Kahle & Homer, 1985; Kamins, 1990; Kamins & Gupta, 1994; McCracken, 1989), most especially so for Hallyu-driven business ventures (Park, 2015; Wangwiboolkij, 2012). However, as also demonstrated, while there was indeed “fit” with the marketing communications, there was some concerns if the intended target audiences were indeed the actual target market who have enough purchasing power and appropriate consumer behaviors to fully patronize these beauty products.

Another benefit of opting to combine several frameworks together instead of employing a single theoretical lens is that this enables a more encompassing picture assessing a given situation. As observed, the combination of a marketing view detailing consumer demographics, behaviors, and lifestyles and of an operations view describing the economic, political, infrastructure, competence, social, and technological landscapes paints an obviously better picture (Aguilar, 1967; CMI, 2013; Srinivasan et al., 2014) that can either reinforce or give pause to preexisting biases regarding potentials and prospects (Echanis, 2016).

5.3 Managerial Implications

For the managerial implications, the biggest takeaway from this research is the folly of overreliance on Hallyu to drive one’s business. No matter how good the Hallyu-driven marketing communications are, if these efforts are not complemented by a deep and thorough understanding of the target market, and the appropriate management styles and complementing operations strategies, the business will not succeed as expected.

The apparent differences between the Philippine and South Korean environments should provide causes for pause or even concern about the push of Hallyu-driven businesses. Furthermore, this research has also pointed out some of the glaring differences between the Chinese market, South Korea’s number one beauty products export market, and the Philippines. It is obvious that consumer behavior-wise and infrastructure-wise, China is closer and more similar to South Korea, and hence would be more receptive. In other words, there are too many differences between South Korea and the Philippines that Hallyu-driven marketing communications alone cannot overcome.

Another key managerial implication here is the necessity of current domestic management styles to change and adapt to embrace a worldlier view. It is obvious that South Korean beauty brands, despite their innovation and attractiveness, are still significantly behind the Western brands dominating the global markets for a much longer period of time. In other words, what worked within the South Korean

borders does not necessarily work in the international landscape. Big firms such as AmorePacific and LG Household & Health Care and smaller players such as Nature Republic, TonyMoly, and F&F should embrace the rules of the international business environment, and be more proactive in the scene. In fact, adoption of some fast-fashion supply chain principles is a step towards the right direction if they want to close the gap and catch up to the top players like Unilever, Procter & Gamble, and L’Oreal, who have years of experience and dominance. But this can only be sustained with a more agile management style and structure, something that a lot of South Korean firms still struggle to have and embody in their organizations.

Furthermore, it does and will take time to develop the required technological infrastructures and the necessary human resource skills to sustain such kind of operations, especially in this kind of industry. Even if the Philippines is currently a mere distribution hub, it is important that the country is still able to keep up. Specifically, the Internet infrastructure required to facilitate a steady online marketing and promotions, and later on online purchasing, is comparatively bad in the Philippines vis-à-vis South Korea and China. Even as simple as promoting episodes of “Get It Beauty”, which is available on YouTube via OnStyle’s official channel, can be a significant step towards the right direction in informing and educating Filipinos on how to maximize South Korean beauty products. But this alone requires a steady Internet connection, which is currently lacking in the Philippines.

5.4 Limitations and Directions for Future Research

To make this research more robust, a look at the financials of these South Korean skin care companies would be most welcome. Secondly, more in-depth interviews and more observations at both the head office and at the branch levels would also provide more insights as to the day-to-day operations of these six companies. These two additional angles can provide equally valuable contributions to the understanding of business expansions riding on the crest of Hallyu.

Secondly, another obvious limitation is the focus on just one industry. Although skin care is one of the biggest international businesses coming out of South Korea that has close ties to Hallyu, two other industries also have similar situations. These are the food and the fashion industries, where different brands also employ Hallyu celebrities as endorsers. Examining these two industries can contribute to the robustness of this research’s present findings and discussions to further benefit South Korea’s ongoing international business expansions as a whole.

5.5 Concluding Remarks

Appreciating South Korean businesses and products in the Philippines through the mere lens of Hallyu is only the beginning. There is more to patronizing South Korean products and services aside from satisfying one's own fanboying or fangirling towards Korean dramas and pop music. Just because a Filipino adores a K-Pop idol, it does not necessarily mean that he or she will easily purchase the products that the K-Pop idol endorses, even if it is available in the Philippines.

This is merely the first step. The marketing communications make sense, but it is unable to make a profitable call to action and encourage Filipinos to actively purchase. To be a viable and sustainable market, the Philippines must address the gaps identified in this research, namely the information dissemination and education in the use and maximization of South Korean beauty products, and the development of a sound technological infrastructure to support more intensive online marketing, promotions, and purchasing. The next big step for this research is to ultimately answer the question on how to reconcile these differences, and consequently address these gaps.

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Reactor's Note

Hallyu and Filipino Consumer Behavior
A Reaction to *"Effects of Hallyu on corporate performance"*

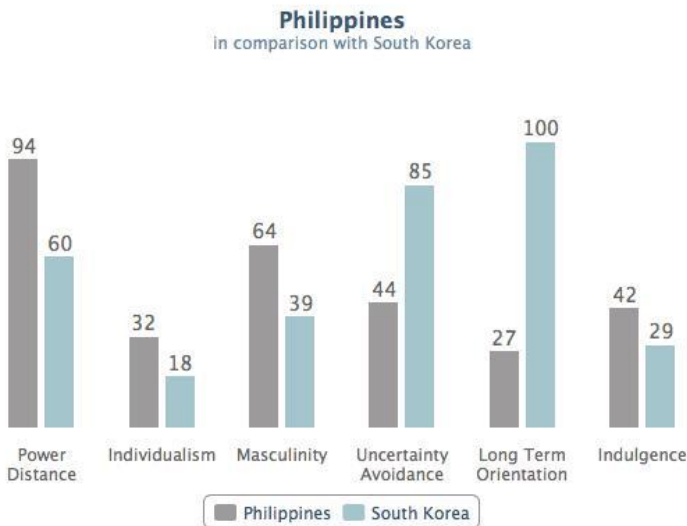
Dave Centeno, Ph.D
Cesar E.A. Virata School of Business
University of the Philippines, Diliman

The paper has great contributions and potential to further investigating the intricacies and cultural fit between South Korea and the Philippines in the aspects where entertainment and pop culture (otherwise known as Hallyu/Korean wave), consumer behavior, and corporate performance where brand equity are all understood by a holistic analysis.

Dr Capistrano's passion and knowledge on Korean wave are apparently showcasing the paper's ability to propose an initial exploration of how South

Korean business can operate in the Philippines where Hallyu is presently growing. And like many others – scholars and consumers alike, are fascinated with the Korean culture – from pop and entertainment, food, language, and consumer products that are vibrant and whimsical, must-try, and much-needed. From fascination to continual lifestyle integration, South Korean influence to everyday choices among consumers indeed needs special attention from scholars.

Cultural fit must be understood in dimensions such as those models offered by Hofstede and other scholars attempt to qualify cultural characteristics, albeit the cognitive and behavioral fit among the individuals inside each culture (Hofstede 2001, Chang and Chieng, 2006). Meaning that, cultural fit is understood in reference to systems of meanings and behavioral norms shared by members of each group. The Philippines and South Korea, for example, are substantially similar in their indulgence – or the extent to which people control their desires and impulses; and collectivism – or the degree of interdependence a society maintains among its members. It would be an interesting point if dimensions of culture model (i.e., Hofstede) are used to understand why Filipinos are comfortable with Hallyu and that the cultural identity and meaning-making



processes among locals are less distant than other foreign cultures.

(Figure 1: Comparison between the Philippines and South Korean dimensions of culture according to Hofstede, 2001)

The paper may want to anchor the premise of investigating Hallyu's compatibility with Filipino consumers' desires and wants linked to their admiration to Korean culture, so as to establish an enduring strategic approach to the market's potential.

I agree with the argument where the paper says that "one cannot do an examination and analysis from a single theoretical perspective, nor from a single methodology", especially if the problematique of a research endeavor is integrative and comprehensive. One possible solution to that, is to identify a single track of focal issue and attempt to explain via paradigmatic lenses where either the firm, the consumer, the agents, or the culture is explained.

Cosmopolitanism or a consumer cultural orientation that transcends a particular culture or setting, is said to be a cultural disposition involving intellectual and aesthetic appreciation and open-mindedness towards peoples, places, and experiences from culture different from one's own (Cannon and Yaprak 2002). Contemporary Filipino consumers are becoming more and more accepting of objects and attitudes from different cultures; but then again, cultural fit, even physiological fit must be achieved or cultivated via glocalization (Robertson, 1995). COO, or country-of-origin concept (Elliot and Cameron, 1994), has surpassed consumer animosity when it comes to preference and choice toward Korean products (compared to other COOs).

Overall, the paper's intended contribution to understanding the market trends in Hallyu's influence in the Philippines is clearly met – in terms of brand presence, distribution, communications, and consumer profiling – which South Korean enterprises and Philippine counterparts can use as a takeoff point to deciphering market potential and cultural fit; and in the end, establish a more durable and substantial market segment and consumer value.

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A CRITICAL DISCOURSE ANALYSIS OF SOUTH KOREA AND ITS CITIZENS IN PHILIPPINE NEWS

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In this study, we use Fairclough's Critical Discourse Analysis (CDA) to examine the coverage of Korea and Koreans in Philippine news in the domains of politics, business, culture, and crime. Grounded on a quantitative and qualitative analysis of data from 492 stories from print (Manila Bulletin and Philippine Star), online (Inquirer.net and Rappler.com), and television (ABS-CBN's TV Patrol, GMA's 24 Oras) news outlets, we described, at the micro level, the elements, time, space, and characters in the coverage. We then interpreted these findings to surface the meso level discursive practice which emerged from the coverage within and across domains. Finally, at the macro level, we surfaced the social practice that is the reporting of Korea and Koreans in local news. Specifically, we revealed 1) twins in the coverage due to the dominance of political news, the twinning of South Korea and North Korea in the news, and the distinction between international and national news; 2) the paucity in non-political news and the absent discourse of Filipinos in Korea; 3) the color of crime, a domain which was not part of our original conceptualization but which emerged as a separate category during our iterative analysis; and 4) the medium-based nature of the coverage. We conclude with recommendations for a communication and media plan that is informed by the medium-based messages which emerged from this CDA.

Keywords: Critical discourse analysis, Korea, Koreans, Philippines, politics, business, economics, crime, platform, news coverage

1. INTRODUCTION

The widely-reported Spring 2017 Global Attitudes Survey by the Pew Research Center indicates the Philippines as the only Asia-Pacific country in which a majority (53%) holds a favorable view of North Korea (Cabuenas, 2017). The finding has led to concerns whether Filipinos are indeed able to delineate between North Korea and South Korea (Tordesillas, 2017) as this has implications on the

relations of these three countries.

Understanding how South Korea is covered in local news can help us explain this finding since foreign relations are mainly a mediated topic. Specifically, we know that people's knowledge about a country and our relations with it are mainly based on the news. Such news coverage sets and frames the agenda (Scheufele, 1999) about the country, which then potentially impacts how our public perceives--and acts--towards it.

Unfortunately, we do not know much about the coverage of Korea and its citizens in local media. Thus, in this research, we seek to address this gap, especially since the literature on media between Korea and the Philippines has focused on the perception (Molina, 2011) and interpretation (Sanchez, 2014) of Korean novels. Indeed, despite the rich exchange between the two countries, there have been no studies on how Korea and Koreans have been covered in Philippine news. Exploring such news coverage is important because news coverage sets and frames the agenda about a given topic. Learning how Korea and Koreans are covered in the news can, for instance, help us reveal nuances in the mediated reports and representations about them.

In this study, we use Fairclough's Critical Discourse Analysis (CDA) (1995) to examine the print, TV, and online coverage of Korea and Koreans in Philippine news in the domains of politics, business, and culture. Following a three-pronged approach, we analyze:

1. At the micro level, through the description of the text, the coverage within and across platforms;
2. At the meso level, through interpretation, the discursive practice which emerges from the coverage within and across domains; and,
3. At the macro level, through explanation, the social practice which surfaces across the platforms and domains.

Addressing these objectives can help us in the formulation of a communication and media policy for a nuanced coverage and discussion of Korean affairs. Two studies particularly illustrate the use of content/coverage analysis as a tool for media policy development. Harness (2016) conducted a critical discourse analysis of media coverage regarding public sector/teacher unions between 2011 and 2015. Findings revealed a dichotomous portrayal of union members as the evil that was destroying, and the government as the savior that was seeking to address problems in, the educational system of the United States. The duality could result, Harness argued, in public support for policies which could weaken the union system which

affords protection for its members. Moreover, it surfaced the need for 1) media policy that balanced and clarified “fact from opinion” (p. 118), 2) additional space for nuanced discussion, 3) improved media self-regulation. It also called for the teacher unions to improve their own communication and media efforts.

Meanwhile, a content analysis of children’s television content in Indonesia (Hendriyani, Hollander, d’Haenens, & Beentjes, 2011) revealed an increase in such content, but mainly due to material imported from the United States. The findings called for, according to the authors, a stronger implementation of Indonesia’s Broadcasting Act of 2002 which mandated the production of local content.

2. FRAMEWORK AND RELATED LITERATURE

We are guided in this study by Fairclough’s CDA in which micro level literal readings of text serve as foundations for meso level surfacing of discursive practices. Such discourses are extrapolated towards social practices about the phenomenon under investigation. This system of iterative and reflexive analyses within and across the three levels reveal insights more potent than standard frames analyses (see Figure 1).

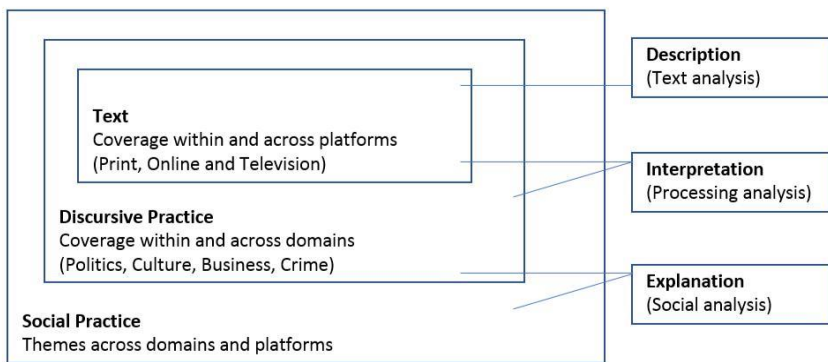


Figure 1. Critical Discourse Analysis for the Coverage of Korea and Koreans in the Philippines

In our study, we anchored our CDA on an exhaustive quantitative content analysis of the coverage which was then subjected to a qualitative reading which involved interpretation (discursive practices across domains) and explanation (across domains and platforms). To ground ourselves in the complexity of today’s

media, we studied news coverage about Korea and Koreans within and across three platforms:

1. Online: Inquirer.net (IN), Rappler.com (RC)
2. Print: Manila Bulletin (MB), Philippine Star (PS)
3. Television: ABS-CBN's TV Patrol, GMA's 24 Oras

The six outlets were chosen for being among the most popular in their respective platforms according to media industry monitoring data. Inquirer.net and Rappler.com respectively get 75 million and 40 million page views respectively, of which 7.1 million are unique per month. On the average, Rappler gets 10 million unique visitors compared to the Inquirer's 7.1 million. Among the broadsheets, the Philippine Daily Inquirer has the biggest circulation, but since we already covered its online edition, we chose Manila Bulletin and Philippine Star which respectively have a daily circulation of over 300,000. Meanwhile, Kantar, a media ratings agency, reports that in January 2018 TV Patrol and 24 Oras had a share of 55% and 32% respectively. Their weekend editions had a share of 40% and 34% respectively.

We examined political, economic, and cultural domains because, according to literature, it is where Korea and the Philippines have points of convergence and divergence, a tension that is important for CDA. The three domains also provide the context that is important in the analysis of discourse (Haider, 2017). Specifically, we covered three domains, focused as follows:

1. Politics: Korean government; bilateral relations between Korea and the Philippines
2. Business: Long-term (i.e., for work/study) and short-term (i.e., for tourism) migration of Koreans in the Philippines and Filipinos in Korea; Korean investments, companies, and products in the Philippines
3. Culture: Korean cultural products (i.e., Korean novels, K-Pop, Korea as tourism destination)

Do note that we used these domains as axes to help facilitate the qualitative coding. As such, we did not treat them to be mutually exclusive. Stories could be primarily about politics, but they could also be tangential to politics and culture. Since we considered the domains to be fluid, we did find the need for a fourth domain on crime.

2.1. Historical and Political Ties

South Korea and the Philippines have very different backgrounds but parallel contemporary histories. South Korea is known for being ethnically and linguistically homogenous (Lee, 2013), with only Korean as the main language in the Korean peninsula (Kim, 2014). In comparison, the Philippines, with its pre-colonial and colonial history is a culture of hybridity. In the Philippines, over 183 languages are spoken currently (Simons & Fennig, 2017).

Koreans have persevered through incursions by its neighboring countries such as China, Mongolia, and Russia. Its relations with Japan, which invaded Korea during the Second World War, are paradoxical. There is significant resentment among Koreans over wartime atrocities, but Japan's economic success has also provided Korea a model which it needs to overtake (Ramirez & Rubio, 2010). The tenacity, compared with its East Asian heritage, in which cultural values and Confucian teachings converge (Ramirez & Rubio, 2010), has resulted in South Korea's standing as a global economic leader. The Philippines also has a long history of colonialism, having been under Spanish rule for over 300 years since 1521. After it declared its independence from Spain in 1898, the Philippines then became colonized by the United States and Japan. Unlike Korea, however, the Philippines has had a stronger history of assimilation, especially when the United States introduced public education in the country, with English as the main mode of instruction.

During the Korean War, the Philippines sent its Expeditionary Forces to South Korea. Since then, the two countries have had parallel contemporary histories. Today, Korea and the Philippines are Asian democracies with a contemporary post-reform history of protest and dissent—Korea's Sixth Republic was established in 1987 while the Philippines regained its democracy in 1986. Governments in either country has had to negotiate the introduction of reforms and the rebuilding of institutions alongside allegations of corruption and incidents of man-made or natural disasters. Governments in either country has been embroiled in corruption scandals which involved the prosecution of corrupt politicians and their cronies (Choi & Woo, 2012).

Bilateral relations between the two countries are the oldest in Southeast Asia and have focused on their shared commitment to peace in the region. However, such relations have been thorny lately with the abduction and killing of expatriate Jee Ick-joo as the latest and most high-profile of such cases involving Koreans thus far (Placido, 2017).

2.2. Economic links

It is in the democratic milieu that Filipinos and Koreans are now interacting increasingly with each other (Cruz, 2015). More Filipinos are going to South Korea for work and South Koreans are travelling to the Philippines for tourism, business, and education.

Korea is the fifth biggest investor in the Philippines, with stakes in manufacturing, shipbuilding, gaming, among others (Philippine Information Agency, 2016). Major South Korean companies operating in the Philippines include Hanjin Shipbuilding, Samsung, LG, Eastern Group, and Korean Electric Power Corporation (Wong, 2013). Korea exports to the Philippines products such as semiconductor components and devices, petroleum products, petrochemicals, electronic data processing machines, iron and steel metal manufactures, metal-based construction materials, motor vehicles, among others (Wong, 2013). Moreover, South Korea is also one of the largest sources of foreign investment to the Philippines, alongside Japan, the United States, and the Netherlands (Wong, 2013).

The business activity also works at the level of individuals. An estimated 90,000 Koreans now reside in the Philippines, either to work or study, with their respective Little Koreas across the archipelago. Moreover, Korea is the top source of tourism in the Philippines, in terms of both number of arrivals and total spending (Statistics, Economic Analysis and Information Management Division, 2017). Conversely, Korea is host to a significant number of Filipinos. Since 2004, according to the Philippine Overseas Employment (2016), 46,000 Filipino workers were sent to Korea under the Employment Permit System. The 2016 quota for the number of deployed Filipinos in Korea was 6,800, a 48% increase from the previous year.

Philippine exports to Korea are also increasing, covering such diverse products as semiconductor components and devices, electronic parts, copper products, electronic data processing machines, coconut oil, and marine products, fresh fruits, among others (Wong, 2013).

2.3. Cultural Connections

Korea is a major source of cultural products for Philippine audiences. Koreanovelas, for example, have become a staple in Philippine television, with over 100 of them having been shown on free TV since their introduction more than a decade ago (Hicap, 2009). Some of them have also been adapted into local productions (Sanchez, 2014), though these have not been perceived to be as good as their original versions (Molina, 2011). Beyond popular culture, there are

numerous intersections between and references to Korean culture in the Philippines and Filipino culture in Korea given the diverse and extensive connections between the two countries.

Hallyu, or Korean wave, refers to the international circulation of South Korean cultural products from drama to music. First used in Chinese media, the term first served as some sort of caution for Chinese people consuming these cultural products (Igno & Cenidoza, 2016). Currently, it pertains to the flow and popularity of Korean cultural products which are distributed or disseminated among foreign audiences. Kim and Nam (2015, p. 3) argue that the positive effects of the Hallyu phenomenon include “the annual growth of cultural industry revenues; growing interest in Korean culture; increasing sales of Korean products; and increasing number of tourists visiting Korea for a variety of reasons.”

Philippine audiences were introduced to Hallyu in the early 2000s when Asian dramas from Korea, Taiwan, and Japan began to be shown on local television. Espiritu (2011) notes that Hallyu specifically started in the Philippines in 2004 when GMA-7 imported television dramas from South Korea in response to the success of rival network ABS-CBN’s airing of Taiwanese dramas. GMA-7’s broadcast of Korean dramas *Bright Girl*, *Endless Love: Autumn in my Heart*, *Stairway to Heaven*, and *Full House* was well-received by Filipinos across various audience segments (Kwon, 2006 as cited in Espiritu, 2011).

Studies find that Filipinos have a “cultural affinity” (Espiritu, 2011, p. 360) or “sense of identification” (Igno & Cenidoza, 2016, p.725) with Koreans when they watch Korean television dramas. Specifically, Igno and Cenidoza (2016) say Filipino viewers believe they share with Koreans values such as being collectivistic, family-oriented, and respectful of the elderly as these are portrayed in the television dramas. Moreover, both cultures, according to the viewers, have a sense of courteousness and hospitality (Igno and Cenidoza, 2016).

Espiritu (2011, p. 360), however, argues that this affinity takes place in a “theater of struggle” because Filipinos remain adamant about their own cultural identity. Meanwhile, Kim, Long and Robinson (2009, p. 327) assert that Hallyu reception in Korea’s Asian neighbors “may be interpreted in relation to theories of cultural proximity, comparable to the popularity of ‘telenovelas’ in countries bonded by shared cultural-linguistic considerations including language, history, religion, ethnicity and culture in several senses.”

3. METHODOLOGY

To address our objectives, we studied coverage from 31 May 2012 to 1 June 2017 for print and online media. The medium-term five-year time frame (Harness, 2016)

allowed for a longitudinal analysis of coverage that neither dominated by specific, seasonal, or short-term events nor handicapped by missing archival data. We used constructed week sampling to identify specific dates for print (Lacy, Riffe, Stoddard, Martin, & Chang, 2001) and online (Hester & Dougall, 2007) news coverage. We also randomly selected two other dates based on constructed week sampling protocol. We used these dates as replacement in cases when there were no reports on Korea and Koreans in our originally-chosen date. We then studied coverage in and across three platforms: Inquirer.net and Rappler.com for online news, and Manila Bulletin and Philippine Star for print. For television, we covered only the 2016 and 2017 broadcasts of ABS-CBN's TV Patrol and GMA's 24 Oras given the archival data that was available either for free or for subscription.

The sampling scheme facilitated the study of news coverage in the domains of politics (Korean government; bilateral relations between Korea and the Philippines), business (long-term (i.e., for work/study) and short-term (i.e., for tourism) migration of Koreans in the Philippines and Filipinos in Korea; Korean investments, companies, and products in the Philippines), and culture (Korean cultural products (i.e., Korean novels, K-Pop, Korea as tourism destination)). We added the domain of crime after initial coding revealed that it operated differently from the three domains we have previously identified according to the literature.

3.1. Variables and Measures

The content analysis, as the foundation for our CDA, involved the coding of header entries and article or story length which we measured in terms of square centimeters for print, number of paragraphs for online, and in minutes and seconds for TV. Additional topline data included page placement and location for print as well as tags, keywords and related links for online.

For the general news format, we covered the following variables, tailored for the peculiarity of each platform: section header/segment, format, main topic, news headline, length of headline, news header, news writer/anchor/presenter/reporter, dateline setting, and presentation format. We also encoded the number, type, and name of news sources. We also included, where possible, the sex, age, and occupation, organizational status and location of the news sources. Finally, we noted how frequently they were quoted and how they were presented (favorable or unfavorable).

For audio-visual elements in the news, we encoded imagery and picture size. For videos, we included type and length. We also looked at other components such as audio materials, teasers for related news, program and product placements, infographics, graphs and charts, polls, games, and advertisements.

For plot, we covered the characters in terms of who is the main subject of the story. Related to this was their nationality and centrality relative to the actors in the story. In terms of the story itself, we coded the plot level (main versus secondary), valence (positive versus negative), domains (crime, international relations/politics, culture/custom, business, education, employment, health, territorial issues, and others).

For the latent content, we included tone of news presentation (straightforward or emotional (dramatic, satirical/sarcastic, or light/whimsical/humorous)). We also considered metaphors as well as framing types according to literature (Entman, 1993; Di Gregorio, Price, Saunders, Brockhaus, 2010):

1. Diagnostic: What is the problem and who is to blame for it
2. Prognostic: What is a potential solution for the problem
3. Symptomatic: Why the issue is a problem based on its consequences
4. Motivational: What are the moral reasons for trying to solve the problem

At the same time, we also considered primary framing types according to Semetko & Valkenburg (2000):

1. Human interest frame: Brings a human face or an emotional angle to the presentation of an event, issue, or problem
2. Economic consequences frame: Reports an event, problem, or issue in terms of the consequences it will have economically on an individual, group, institution, region, or country
3. Morality frame: Puts the event, problem, or issue in the context of religious tenets or moral prescription
4. Responsibility frame: Presents an issue or problem in such a way as to attribute responsibility for its cause or solution to either the government or to an individual or group

3.2. Data Gathering and Analysis

We used a database sheet to encode the data. The sheet comprised six parts, namely: header entries; general news format; news sources; images, videos, and other components; plot; and latent content. Two research assistants and six student assistants were involved in data gathering and data construction.

For the quantitative component, intercoder reliability was performed on 7 June 2017 with the following Cronbach alpha coefficient scores: 0.79 for online, 0.94 for print, and 0.55 for television. Data were analyzed using a statistical software to establish significant differences within and across platforms and domains. Meanwhile, for the qualitative component, the research team met on 9 July 2017 to discuss preliminarily the findings of the study to ensure intersubjectivity in the interpretation of findings. A debriefing was also conducted to address the low reliability score for television. The team also studied the qualitative data for exemplar entries which the members collected during data construction.

3.3. Scope and Limitations

This study covers print and online news items involving South Korea as originally proposed. However, it only includes television data for 2016 and 2017 because of unavailability of archived materials for TV Patrol and 24 Oras, even those available through paid subscription.

The smaller base for TV notwithstanding, we found cause to expand the thematic domains through the course of the CDA. We originally considered only three thematic domains: politics, economics, and culture. However, we realized during data analysis and construction that crime comprised a distinct domain and is discussed accordingly Section 4.

4. RESULTS

4.1. The micro level: Coverage within and across platforms

4.1.1. *The big story*

We coded a total of 492 stories featuring Korea and Koreans across the three platforms. We found 212 print and 258 online stories in the five-year period, as well as 22 television stories in the last two years. Most (86%) of the stories are news reports, and this was consistent across platforms. However, there was a significant difference between print media outlets ($\chi^2(3, N = 208) = 7.1, p = 0.07$): 92% of all MB compared to only 81% of PS stories were news reports. PS had a bigger percentage of feature stories (12%) than MB had (6%).

Most (85%) of the stories were straightforward in tone (mere statement of developments or events). The remainder of stories were imbued with an emotional tone, which could either be 1) light, whimsical or humorous (ten percent) or 2) dramatic (five percent). This pattern held for print and online, but differed for TV where there was an equal proportion (45%) of straightforward and light stories ($\chi^2(4,485) = 61.2, p < 0.05$). Tone, a standard content analysis variable, is based

according to a how “a story’s content is constructed via use of quotes, assertions or innuendo” (Pew Research Center, 2018).

We used two approaches to framing by Entman (1993) and Semetko and Valkenburg (2000) (see Section 3.1). We found that stories focused on problem identification and attribution. Stories such as South Koreans ramming the Japanese embassy gate in protest (IN, 2012) and Korean nationals allegedly choking a traffic enforcer who apprehended them due to a violation in Pasay City (MB, 2013) identified the issue and who were the proponents behind it. Indeed, two-thirds of the stories were diagnostic in nature (Entman, 1993) and 52% used the responsibility frame (Valkenburg, 2000).

We also observed consistent diagnostic and responsibility framing between print (65% and 44%) and online (69% and 60%) media. Using Entman’s typologies, we also observed within-platform framing differences for print ($\chi^2(2,208) = 10.9, p = 0.012$) and online media ($\chi^2(2,242) = 28.7, p < 0.05$). More RC than IN (84% versus 52%) and more PS than MB (68% versus 63%) stories were diagnostic in nature. Conversely, more IN than RC (26% than 11%) and more PS than MB (18% versus 9%) stories were symptomatic. The focus on consequence is illustrated in such stories as the Philippine government’s subsequent apology to the South Korean government and the wife of Jee Ick-joo as reported in TV Patrol (“Malacanang, nag-sorry sa gobyerno ng South Korea at sa misis ng pinaslang na si Jee Ick-joo”).

Using the typology by Semetko and Valkenburg, we discovered 29% of stories were framed in terms of human interest (29%) and economic consequences (18%). Compared to print and online media, TV behaved differently since its stories had a balance between human interest and responsibility (48% respectively). We also observed similar within-platform framing differences in print ($\chi^2(2,208) = 13.6, p < 0.05$) and online ($\chi^2(2,247) = 23.4, p < 0.05$). media. RC relied on responsibility framing (71%) whereas IN used both responsibility (47%) and human interest (37%) framing.

Though stories were presented as straightforward news reports, we felt that they left a fairly equitable distribution of valence: 37% of the stories were neutral whereas 29% and 34% left a positive and negative impression respectively. However, even if we found no significant differences in valence across platforms, we did find such valence differences within them. For print media ($\chi^2(2,208) = 23.75, p < 0.05$), the biggest group of stories had a positive valence for MB (46%) but a negative valence for PS (48%). For online media ($\chi^2(2,253) = 27.3, p < 0.05$), 47% of RC stories had a negative valence, in comparison to the neutral valence for the biggest group of IN stories (47%).

4.1.2. *A tale in space and time*

More than six out of ten (62%) of the stories were datelined from another country, but there was a significant difference across platforms ($\chi^2(2,486) = 44.4, p < 0.05$). Almost all television stories were reported from the Philippines whereas 72% of online and 56% of print materials came from outside the country. There was also a significant difference within online media ($\chi^2(1,256) = 13.9, p < 0.05$): RC had a bigger proportion of internationally-datelined stories than IN (82% versus 61%).

The dateline also aligned with the international (67%) geographic framing of the stories, though one third of the stories did frame them as national (20%) or sub-national (13%) matters. The platforms differed significantly in this regard ($\chi^2(4,488) = 60.5, p < 0.05$): international framing was most frequent in online stories (77%), compared to print (61%) and most especially in contrast to television stories which framed Korea and Koreans from a local perspective. Hallyu stories got this localized treatment in stories such as how the Filipino voice-over of Lee Min Ho got interviewed when the South Korean actor started his two-year military service (TV Patrol, 2017).

A qualitative analysis of the articles surfaced the intertwining of South Korea and North Korea in the international stories. Inquirer.com, for instance, featured stories headlined as “South Korean man sentenced for retweeting North Korean posts” (2012), “High-level North-South Korea talks called off” (2013), “1,500 N. Koreans escape to South in 2013—ministry” (2014), “S. Korea activist sends 'The Interview' DVDs into North” (2015), “Seoul delivers barrage of K-Pop across to North Korea” (2016), and “South Korea's new president says willing to visit rival North Korea” (2017).

We coded 65 stories in 2012, 74 in 2013, 76 in 2014, 66 in 2015, 81 in 2016, and 126 in 2017. Across the print and online media sample, we found an almost equal distribution of stories between 2013 and 2016, with about 15% of stories spread across in each of those four years. In comparison, stories in 2012 and 2016, where the samples comprised only half the year, comprised 14% and 24% of the sample respectively.

Across the years, and including the sample from television, we found no significant differences in the dominant story format (news reports, followed by feature stories), tone (consistently straightforward), and framing type according to Entman's typology (primarily diagnostic, followed by symptomatic, framing). However, there were differences in dateline setting ($\chi^2(5, 486) = 26.6, p < 0.05$) and geographic framing ($\chi^2(10, 488) = 25.1, p = 0.005$). From 2013 to 2016, there was a steady increase in stories that were datelined from another country and

accordingly framed as international matters, ranging from 59% to 75%. However, there was an equal number of Philippine and overseas reports in 2012 and 2017, during which about a quarter of stories were framed as national stories. Moreover, sub-national stories accounting for over a tenth (14%) and almost a fifth (19%) of stories in 2012 and 2017 respectively. Exemplars of local news about Koreans as featured in IN (2012) included how two Koreans faced raps for defrauding telecom firm and how a Korean and three Filipinos were held for kidnapping.

4.1.3. Characters in the coverage

In terms of the stories' characters, we looked at two dimensions: whether it was Koreans or Filipinos that were the main subject and how central Koreans were in the story. We found that, overall, over two-thirds (69%) of the stories were about Koreans, and only a fifth about Filipinos. Politicians such as former South Korean President Park Geun-hye, Koreanovela and K-pop celebrities, and Korean citizens (unfortunately involved typically in crime) comprised the main characters in the coverage. The remainder had an equal discussion of Filipinos and Koreans. For example, IN featured stories on the defense cooperation between the Philippines and South Korea (2012) and how Filipino students got 5,000 pianos from a Korean firm (2016). We also found that stories which focused more on Koreans were featured more frequently in online (76%) than in print (65%) media. In contrast, two-thirds of television stories were more about Filipinos in relation to Korea or Koreans.

In terms of centrality, 64% of the stories featured Koreans as their main subject, with significant differences across platforms ($\chi^2(2,475) = 13.5, p = 0.009$). Over two-thirds (69%) of print stories focused on Koreans, compared to 60% of online and 52% of television stories. Indeed, for television, over a third of stories only mentioned Koreans as part of a list. There were significant differences in the centrality of Korean subjects within print ($\chi^2(2,208) = 7.2, p = 0.027$) and ($\chi^2(2,258) = 21.3, p < 0.05$) and online outlets. More PS than MB (74% versus 65%) and more IQ than RC (75% versus 47%) stories featured Koreans as main subjects. Furthermore, over a quarter of RC stories (28%) mentioned Koreans as part of a list.

4.2. The meso-level: Coverage within and across domains

Using our original three domains, we found 177 stories on politics, 142 on culture, and 36 on business. However, in the process of coding, we found that crime comprised a distinct domain, accounting for 92 stories altogether. Across these domains, we observed significant platform differences ($\chi^2(4,488) = 34.3 p <$

0.05). Whereas the hierarchy of domains was similar for print and online, the relative proportions between them differed. Online (41%) than print (33%) media devoted more space to politics and international relations whereas print than online media had more stories about crime (22% versus 15%) and business (11% versus 5%). The impeachment case against the South Korean president were headlined as “South Korean president's confidante snubs impeachment trial” (IN, 2017), “South Korean president refuses to testify in impeachment trial” (MB,

2017), and “New history for South Korea after Park's impeachment” (MB, 2017).

Domains played out differently for television: half of the stories were about culture and 36% were about crime. TV Patrol in 2017 featured soft news such as how the Philippines' most famous YouTube celebrities gathered for a Hallyu fanfest whereas

hard news and hard news such as how two assets by the National Bureau of investigation were supposedly involved in the Jee Ick-Joo case (“Dalawang

NBI asset, sangkot din umano sa pagdukot at pagpatay sa Koreanong si Jee Ick Joo”).

We discovered within-platform differences thematically. For print media ($\chi^2(2,208) = 15.3, p = 0.004$), MB and PS generally provided equal coverage to crime and politics. However, MB than PS featured more culture (38% versus 23%) stories. Conversely, PS than MB has more business items (15% versus 7%). For online media ($\chi^2(4,258) = 18.2, p = 0.001$), RC than IN had more political stories (51% versus 31%) whereas IN than RC had more culture stories (44% versus 10%).

Where the stories come from within each domain significantly differed ($\chi^2(3, 446) = 33.6, p > 0.05$). Over three-quarters (78%) of political and more than a majority (58%) of business stories were datelined abroad. In politics, the ongoing talks between North Korea and South Korea were a staple. In 2013, IN and RC respectively had stories entitled “Korea talks raise hopes; history may scuttle them” and “S. Korea leader wants talks with North on industrial park.” Four years later, IN and RC respectively continued to feature related stories such as “High-level North-South Korea talks called off” and “North Korea, Japan to hold first direct talks in 4 years”.

In comparison, there was a balance between local and foreign stories when it came to crime (49% versus 51%) and culture (50% equally). For crime, examples, include a carjacking case in 2013, a Korean committing suicide in a Tayabas hotel in 2014, and a sex slavery den discovered in 2015. For culture, there were stories about a night of culture and the arts that was celebrated together by Filipinos and Koreans (2015) and how K-pop stars united for One Korea world peace campaign (2017).

In terms of the balance between Koreans and Filipinos in the coverage, Koreans dominated the stories across all four domains with varying degrees ($\chi^2(6, 447) = 26.9, p < 0.05$). Specifically, 83% of political stories, 64% of crime, 63% of culture, and 56% of business stories were more about Koreans than Filipinos. Beyond the stories involving North Korea and the South Korean president's impeachment, other political stories headlined by Korea or Koreans included the apology of a South Korean dictator's apology for the abuses of her father's regime (2012). In crime, Jee Ick-joo was a central figure, with coverage about his case straddling 2016 and 2017. In culture, various celebrities were the main character. In 2015, for example, Rain established his own agency, Kim Woo Bin looked happy with his girlfriend, and Sandara Park planned to appear in an online drama, among others. In business, among the stories were the competition for a shipping port berth (2014), an incident at Korean Air (2015), and an insider trading allegation against a K-pop celebrity (2016).

A quarter of business, 24% of culture, 17% of crime and 12% of political stories were more about Filipinos. In 2017, Filipino involvement in Korean affairs unfortunately centered around the Jee Ick-joo case as featured in IN stories such as "7 cops in extortion of Koreans confined in Camp Crame," "Cops in Korean's slay to be transferred under PNP custody' – Aguirre," and "Panelo: Cops in Korean's slay will pay." In comparison, in 2012, Koreans figured in various crime incidents as reported in IN stories such as "2 Koreans face raps for defrauding telecom firm," "Korean loses cash, expensive watch in Mandaue spa," and "Bodies of 2 missing Korean tech divers located off Batangas."

There was a significant difference in the valence across domains ($\chi^2(6, 442) = 81.6, p < 0.05$). We felt that a great majority (59%) of crime stories left a negative impression. Conversely, over a majority (51%) of culture stories had a positive valence. Politics were in the balance between neutral (41%) and negative (34%) valence. For business, 42% and 31% were negative and positive respectively.

Negative political news invariably involved stories on North Korea, but which included south Korea. In 2016, for instance, MB featured stories regarding how North Korea 1) called the president of South Korea a psychopath, 2) sentenced a Korean American to 10 years of hard labor, 3) continued to stroke tension in the Korean peninsula, and 4) labeled a diplomat detector as a human scum.

We also noted significant differences regarding domain ($\chi^2(20, 488) = 40.4, p = 0.004$), framing using the Valkenburg and Semetko typology ($\chi^2(10, 488) = 25.1, p = 0.005$), and valence ($\chi^2(10, 482) = 24.2, p < 0.05$). In terms of domain, stories about culture comprised the biggest grouping in 2012 (31%), 2014 (37%),

and 2015 (41%). Stories about politics and international relations, meanwhile, featured most prominently in 2013 (45%), 2016 (41%) and 2017 (40%).

Crime was a staple across the years, accounting for about 13 to 18 percent of annual stories between 2012 and 2016. However, crime jumped to second place in 2017, accounting for 30% of all stories that year, presumably because of the inclusion of television in the sample and the developing kidnapping and killing Jee Ick-joo. This included the reinvestigation of the Jee Ick-joo case by the Department of Justice, the request by a socio-civic group for Congress to probe the case, and the response by the Philippine National Police to calls for its chief to resign considering the developments with the case.

Guided by Valkenburg and Semetko, we found that while responsibility typology was the consistent framing device between 2013 and 2017, there were differences in the ratio between human interest and economic consequence frames. From almost being equal in 2013 (22% and 24%), the ratio was relatively wide in 2014 (37% versus 12%) and narrow in 2015 (33% versus 27%). In 2016 and 2017, the differences between them were 12% and 16% respectively. In terms of net valence (positive minus negative impression), we found that coverage from 2012 (5%), 2013 (8%), to 2014 (3%) skewed towards the negative, improving towards the positive between 2015 (12%) and 2016 (5%). In 2017, the valence was heavily negative (41% versus 21%).

4.3. The macro-level: The domains across platforms

According to critical discourse analysis, social practice emerges inductively from discursive practices which are an interpretation of text that has been previously described in detail. Using this interplay between 1) the elements, time, space, and characters in the coverage and 2) the domains which subsequently emerge from them, we surfaced four themes which, we argue, comprise the social practice that is the coverage of Korea and Koreans in Philippine news. We discuss the fourth theme, directly pertinent to media, in relation to our communication and media policy implications and recommendations.

4.3.1. Where the twains don't meet

We originally thought that the intensive and extensive intersections between South Korea and the Philippines would translate into a rich news coverage involving the two countries, operating across international and national levels. We find, however, that there are three streams within which we observe twains in the coverage.

Firstly, there is the stream of domains, in which political stories dominate over--and are distinct from--business, culture, and crime in the coverage. We were surprised to find an apparent homogeneity in the coverage because of the dominance of straightforward political news from wire agencies. To us, this underscores the power of a third party to mediate the news for two countries which have very mature industries. We argue that the resulting coverage is generic since it is founded upon news that is designed for a big swath of audiences. The absence of context is an issue here since the Philippines and South Korea have very direct and active relations with each other. We believe that the reportage can be imbued with much nuance for the local audience. For instance, we did not see parallelisms between the impeachment proceedings of the South Korean president (Choi & Woo, 2012) and those which earlier transpired in the Philippines.

Secondly, there is the stream of political news which centers on the relationship between North Korea and South Korea and which decenters the coverage from the relationship between the Philippines and South Korea. We set out to study the coverage of South Korea on its own. However, we find that almost attendant to the mention of South Korea is North Korea. Moreover, even in cases where many other parties are involved, the coverage invariably focuses on the bilateral relations between the two Koreas. As wire reports refer to the two Koreas as they exist now, often with little contextual information, we surmise it is easy for someone who is not keen with geopolitics to assume they comprise polar ends of the same country. Combine this with the constant positive reference to Hallyu, then it is possible to explain why Filipinos have the only favorable view of North Korea in the Asia-Pacific (Pew Research Center, 2017).

Recent geopolitical realignments have shifted allegiances such that South Korea may now have to form a tripartite alliance with the US and Japan, its historic nemesis (Ramirez & Rubio, 2010). However, we find that these developments have not so far become so prominent as to make it to our study.

Thirdly, there is the geographic stream where international news is distinct from national news. International news is apparently the domain of wire agencies which deliver coverage for wide range of audiences. This coverage, however, can be particularized in local news, a practice which is not widespread based on our analysis. We only observe such particularization in television news, and in some feature stories, where news about celebrities are reported through the purview of local fandom. Local news instead operates within its own proximate domain, mainly featuring criminal activity involving Koreans.

4.3.2. Absent discourses

Critical discourse analysis surfaces not just what is present in the discourse, but what is also missing.

Our study is premised on the domains of politics, business, and culture given the connections between the Philippines and South Korea. Regarding business, South Korea is the fifth biggest investor (Philippine Information Agency, 2016) and the main source of tourists in the country. Regarding culture, Hallyu (Igno & Cenidoza, 2016; Yang, 2012) has had a steady foothold in the Philippines since the introduction of Korean novels in (Hicap, 2009), and their adaptation for (Sanchez, 2014), local television. However, we find a paucity in the coverage in either the case of business or culture, especially in relation to the importance that the literature puts on these domains.

Another absent discourse is the coverage of the experiences of Korea-based Filipinos who otherwise number in the thousands (Philippine Overseas Employment Administration, 2016). If we are to believe the adage “no news is good news,” this could then indicate Filipinos in Korea are doing well relative to Filipinos in other host countries that regularly appear in local news. We could speculate that this paucity results from the limited system or infrastructure for news flows from Korea to the Philippines among local news agencies. However, the absence of such formal structures has not precluded local news outlets to feature stories about overseas Filipinos who find themselves in precarious circumstances.

4.3.3. The color of crime

What was originally absent in our conceptualization but which emerged through the course of our critical discourse analysis is the domain of crime. Unlike the rather homogenous nature of political news and the limited coverage of business and culture, this domain is quite rich and localized: Koreans appear to get entangled in a diversity of crimes, citizens and governments are forced to relate to each other to address a criminal situation, and crime transpires at both the national and sub-national (i.e., provincial) levels. Moreover, whereas political news tends to be straightforward, it is crime which skews the valence of the coverage towards the negative. The negative valence of crime is a given considering the normative ideals of society where the pursuit of peace and order is paramount. Thus, as per the adage we earlier cited, crime is by nature bad, and will be reported accordingly.

We must note, however, that the extent of coverage about crime is not a cohort of actual crime rates (Tiergreen & Newman, 2009). Thus, the stories which feature Koreans in a criminal context is not an indicator of widespread criminality, but they indicate the prominence and proximity--two important news values--of Korean community in the Philippines. Thus, a purported criminal activity by a Korean will be featured because it resonates with readers given the close contact between Koreans and Filipinos. Unfortunately, however, as Tiergreen and Newman (2009) assert, such reportage unduly influences public perception of groups which are reported in crime stories even if the number of such stories is disproportionate to actual incidences of crime. There is thus a need to mitigate the impact of such news, procedures for which are discussed in the next section.

5. SUMMARY, IMPLICATIONS AND RECOMMENDATIONS

5.1. Summary and Implications: The message in the medium

In 1964, noted theorist Marshall McLuhan (2003) argued that the medium is the message, indicating that the platform, more than the content, is the pivotal element in the communication process. His argument was technologically deterministic, but his play on words informs our observations in this project. We find that, indeed, as we originally conceptualized, messages in the coverage differ across platforms. We argue that, unlike McLuhan, these differences are not simply because of the technologies per se but because of the practices which optimize the various platforms' affordances and audiences.

We find differences in the coverage across platforms. Online media focused solely on international politics. In comparison, print media also devote significant space to international politics but also provide a sizeable room for local crime and business. In this regard, online media serve to shovel news from wire agencies. This helps keep their pages active, a necessity in the 24/7 nature of online media. Meanwhile, the print media, as papers of record, also subscribe mainly to wire agencies for their international news. However, they have beat reporters and editors for established sections which then help diversify their content to include local items. Of the three platforms, television behave the most differently. It hardly reports international news but reports instead on culture and crime from a purely local perspective. This harnesses the news value of proximity in its reporting for its local audience. Across platforms, we thus find little tailoring of international news for Philippine news consumers.

We also note peculiarities in the coverage in each of the six titles in this study. Manila Bulletin, compared to The Philippine Star, primarily delivers

straightforward, positive news that focused on an issue's consequences (symptomatic framing). Meanwhile, The Philippine Star provides space for crime news, feature stories and business news. Its stories tend to be problem oriented (diagnostic framing) and skew towards a negative valence. Inquirer.net, compared to Rappler.com, has more culture stories and its news reports tend to be neutral and use symptomatic framing. Rappler, meanwhile, is more international, political, and diagnostic in its choice of news. In terms of valence, its stories tend to leave a negative impression.

Across platforms, however, we see the overarching influence of wire agencies, as the well from which the stories emanate, in setting the agenda about Korea and Koreans in Philippine news. Accordingly, the reports are written from a rather straightforward, if context-free, perspective which helps little in highlighting the value of a news item for the Philippine audience. In the absence of context-setting or adaptation for the local audiences, it is thus possible that nuance is lost among them.

5.2. Recommendations

5.2.1. A communication and media plan

Given the centrality of international news, two courses of action can be done locally. Doing this can help educate local audiences about the distinction between North Korea and South Korea, among other fine-grained concerns which can otherwise be lost in the flow of wire news.

Firstly, editors of foreign sections, especially for print and online media, can be trained on how to contextualize generic foreign stories from wire agencies in the local setting. This requires giving them a crash course on the intersections between Korean and Philippine history, economy, and culture—and how these intersections potentially inform current news and public affairs. Currently, there is an incentive scheme for editors and reporters for the foreign beat to travel to Korea to learn about Korean culture. In exchange, they are to publish a certain number of stories about Korea and Koreans. However, as we show in this study, extensive coverage is just half the equation. Instead, the coverage must be intensified for local audiences by explaining how it links to the Philippine experience.

A second course of action is to appoint a media point person at the local Korean cultural affairs office who will do the contextualization we have described. This point person will monitor wire reports about Korea then provide additional or accompanying materials that will link these reports to the Philippines. These releases will then be sent to the foreign desks to help editors tweak what will

appear in their publications. This will save the desks significant time and effort in tailoring news stories. It will also be sustainable in the long term as the contextualization will not depend on whether reporters and editors have had the training we have stated as the first course of action. It is important, however, that the point person must be knowledgeable with historical and contemporary issues that bind South Korea and the Philippines if the context that s/he provides is to be nuanced. S/he must also be well connected to the foreign desk point persons.

We consulted informants from the six media organizations who did confirm they were primarily and directly reliant on foreign news wires. At most, as with one organization, a research team composes a side bar story while maintaining the wire news in its entirety. The informants said they neither had training nor a special system to tailor foreign news for local audiences. There is, therefore, a strong need to engage foreign news desks in providing nuance to foreign news stories for their readers.

Negative impressions mostly come from the involvement of Koreans in local crime, either as victims or as perpetrators. It is thus important to have a media point person at the Korean embassy that monitors, and, if necessary, responds, to such reports. This may be difficult given the number of Koreans in the Philippines, but addressing issues such as problem attribution and consequences can help in mitigating the tendency towards negative valence of coverage about Koreans especially. This addresses the primarily diagnostic, and secondarily symptomatic, framing of the news.

Considering the popularity of Hallyu in the Philippines, we find it interesting that its coverage is not that extensive in the news. The little coverage about it comes from television advertorials that promote upcoming K-pop performances of K-pop and release of new Korean novels. Since culture-related stories leave a very positive impression on local audiences, it is thus necessary to create a year-round communication and media plan which optimizes the release of news and features stories about Korean celebrities.

We find that the same concern exists for business news. We see a paucity of such news, especially given that Korea is among the top investors, and Koreans are the top tourists, in the country. A consortium of the public affairs officers of Korean firms with a stake in the Philippines can be formed. The consortium subsequently draft a proactive communication and media plan to highlight the benefit and potential of, as well as mitigate concerns about, Korean businesses here.

5.2.2. A communication research agenda

In this study, we did a comprehensive review of print and online coverage about Korea and Koreans in Philippine news. We had difficulties with television coverage because of the limited availability of archival material that is publicly accessible, either for free or with a subscription. Moving forward, therefore, it is a good idea to do a sustained and continuing monitoring of media so that the dataset is not subject to issues of access.

As this was a cross-platform study, we looked at variables that apply across television, print, and online media. We identified platform differences using statistical tests. However, there is also value in looking at how news is essayed in-depth in a platform. For online media, for instance, among possible topics are the 1) interplay between a news item and its comment thread, 2) the role of social media in the coverage, and 3) the tracking of the same news story between print and online media. For print media, we only looked at elite media, so there remains the question of what news is presented in tabloids. Conversely, for television, we considered only the top vernacular primetime evening news programs. Thus, another possible study is to look at the content of the 24-hour network news, both in Filipino and in English. Finally, we did not include radio in this study and it could therefore be the locus of a subsequent study.

Finally, we focused on the coverage of this study. It now bears the question of how Filipinos receive and/or consume the news about Korea and Koreans. As the cursory Pew study reveals, there appears to be significant misunderstanding among Filipinos of the two Koreas and it would be interesting to discern the roots of such misinformation.

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Critical View on Philippine and Korean Interaction as Portrayed in Philippine Media

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The interaction of Philippine and Korean societies started as early as 8th century (precolonial era in the Philippines and Silla Dynasty in Korea). It is said that a military general called Chan Bogo expanded trade to China, Japan and Southeast Asia, and then entered the Philippines for the first time (Kutsumi, 2007). In 1837, three Koreans including Father Kim Dae Gun took refuge in the Philippines and stayed in a monastery in Lolomboy, Bulacan, which became the foundation of Korean Catholic community in the Philippines. They also named the church in the area St. Kim Daegun Andrew Parish, commemorating the Korean priest's martyrdom. In 1935, the first generation of Korean migrants arrived in the Philippines. According to Kutsumi (2007), the Koreans were from Wiju of Pyeongan-bugdo in North Korea who went to China by land in order to sell ginseng and arrived in the Philippines via Vietnam. Some of the Korean merchants decided to stay in the country and married Filipina women. During the Japanese occupation in 1942-945 (Pacific War), many Koreans arrived in the archipelago as soldiers under the Japanese Army, Korea was also a Japanese colony from 1910-1945. When the Korean War broke out in June 1950, the Philippines sent about 7, 200 Philippine officers, soldiers, engineers to the peninsula as part of United Nations Forces. Benigno Aquino, Jr. is the youngest journalists who covered the Korean War for *The Manila Times*. In the old 500-peso bill, Ninoy's picture as a reporter can be seen and in the background, is an article he wrote about the Korean war. After the Republic of Korea was established, embassies in both countries were set-up in 1958. In 1980s, many small to medium-sized companies owned by Koreans businessmen were established in the Philippines as a result of worsening condition in Korea.

Labor-intensive industries began relocating their companies overseas because of many problems in South Korea, such as the rise of wages, the shortage of laborers, the rise of the US dollar-Korean won exchange rate. The Philippines has been promoting an introduction of foreign capital policy since the 1970s, an export-processing zone was built, and measures of treating foreign companies favorably were taken. (Kutsumi, 2007, p.62)

In the 2000s, Hallyu (Korean wave) started to flow in the Philippines through Korean dramas and pop songs. There is also a constant rise of Korean tourists in the Philippines. The country is also the top destination in Asia for Korean students who want to study and improve their English skill. From 2013 up to present, Korean students top the Bureau of Immigration list of foreign students in the country. There is also a rising trend in the number of Koreans who decide to retire in the Philippines. The Korean government, non-government organizations and religious sectors also send many volunteers in the Philippines.

In this interaction, it could be observed that the push and pull factors include not just economic (business/trade) but educational, religious, cultural and political in nature. Whenever there are exchanges between the two countries, these are shown and propagated in the media such as news, radio, TV and internet. The study “A Critical Discourse Analysis of South Korea and its Citizens in Philippine News,” by Dr. Fernando Paragas, Ms. Bea Mae Caloyloy and Ms. Queenie Rose Chico bridges the gap on the lack of critical view on how the Philippine media portray Korea and Koreans in Philippine news. Using the Critical Discourse Analysis of Norman Fairclough, the research examines the print, TV, and online coverage of Korea and Koreans in Philippine news in the domains of politics, business, and culture from 2012-2017. This study is commendable as it covers the mainstream media outlets (ABS-CBN, GMA, Manila Bulletin, Philippine Star, Inquirer.net, and Rappler.com) and different domains of Philippine and Korean society. Moreover it utilizes a well-designed framework and systematically structured methodology. As a result, the researchers were able to acquire huge amount of quantitative and qualitative data, of which if processed well, could provide an extensive image of Korea and Koreans in Philippine media.

Critical discourse analysis (CDA) is a research movement that aims to (1) analyze discourse practices that reflect or construct social problems; (2) investigate how ideologies can become frozen in language and find ways to break the ice; (3) increase awareness on how to apply these objectives to specific cases of injustice, prejudice, and misuse of power; (4) demonstrate the significance of

language in the social relations of power; (5) investigate how meaning is created in context; and (6) investigate the role of speaker/writer, purpose, and authorial stance in the construction of discourse (Bloor & Bloor, 2007). Basing on these objectives, the current research can use this as a guide in interpreting and explaining the textual analysis.

In the article “Subjectivity and Representations: News Reports in the Independent on the 1896 Philippine Revolution,” Abejo (2013) examined the perception of Korean reformist intellectuals on the Philippine revolution writing for the newspaper *The Independent*. Based on the English news articles published in the newspaper, the researcher found out that the Korean intellectual writers were guided by the ideological frameworks of *munmyeong gaehwa* (civilization and enlightenment) and Social Darwinism. Furthermore, in using the pejorative labels such as insurgents, rebels, looters, rabble and indolent, the printed outlet had shown negative representations of the Filipino revolutionaries. Lastly, clouded by its bias against armed struggles and instead leaning towards reforms in Korea, *The Independent* presented its Korean readers with an ambivalent position of sympathizing with the Philippine cause for independence but at the same time criticizing the Philippine armed struggle (Abejo, 2013, p. 42). In CDA, the first level of the analysis is the describing of language use or the text. Fairclough (1995) believes that language and ideology are interconnected as language is a material form of ideology and language is invested by ideology. Therefore, in interpreting and explaining the textual data of the current research, it is important to answer the question: Based on the usage of language, what ideology/ies is/are embedded in the framing of different media outlets? It could then be linked to the political economy of different media outlet in the Philippines. Based on the preliminary data, it could be asked: In print media, why does Manila Bulletin centers on Korean culture while Philippine Star focuses more on politics?; In TV, why does 24 Oras feature local adaptations of Korean drama in their newscasts while TV Patrol focuses on the Hallyu wave in general?; and in online platform, why does Inquirer.net rely on regional wires that provide articles straight from South Korean sources while Rappler is dependent on established wires from foreign agencies? As an applied linguist, I am also curious if there is a difference in media portrayal using Filipino and English language.

Lastly, aside from language, context is also an important aspect of discourse analysis. The researchers found out that in all media platforms, in quantitative analysis, there is neutral portrayal of Korea and Koreans followed by negative and positive portrayal, respectively. However, it is also important to flesh out the context of this portrayal related to the issue, event, place, people involved and

even the target audience of each media outlet. Overall, this research has a great potential in presenting the portrayal of Korea and Koreans in different Philippine media outlet and a significant contribution to the growing scholarship of Korean studies in the country.

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On April 27th 2016, the University of the Philippines launched the Korea Research Center, with the support of the Academy of Korean Studies (AKS) Korean Studies Promotion Service, aiming to provide Filipino scholars and researchers with opportunities to widen their interest in Korean studies. The Center hopes to be a venue for students and professionals to produce meaningful comparative researches and also to promote collaborative partnerships among Korean and Philippine institutions.

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