

DISCUSSION

by **Myrna Austria**, De La Salle University

I have read with much interest the papers of Dr. Fernando Aldaba and Mr. Ser Percival Pena-Reyes on “Enhancing the Future of Economic Relations between the Philippines and South Korea” and the paper of Dr. Kim Song Kyoo on “Startup Ecosystem in Korea”.

On Dr. Aldaba’s and Mr. Pena-Reyes’ paper:

The objective of the paper is clear, i.e. to examine how the Philippines can maximize its participation and take advantage of the growing ASEAN-South Korea relations. To answer this objective, the paper reviewed the macroeconomic performance and policy challenges of the Philippines and South Korea and based on the analysis, identified four possible areas where the economic relations between the two economies can be further enhanced.

The analysis indicates positive growth prospects with low inflation rate for both economies. However, making the positive economic growth more inclusive continues to be a major challenge for the Philippines. And to address this challenge, the paper identified the following areas where the Philippines can benefit from an enhanced economic relations with South Korea: (i) investments in infrastructures, given the country’s infrastructure backlogs that have limited its growth potentials; (ii) tourism, given that South Koreans topped tourist arrivals in the country; (iii) official development assistance, given that South Korea ranked 7th among the

countries development partners; and (iv) industrial policy, given the growing trade between the two economies.

On Dr. Kim's paper:

The paper is a case study on the startup ecosystem of South Korea. The paper discussed the challenges faced by Startup Alliance Korea, a non-profit NGO, in establishing the startup ecosystem in the country. It identified the various players in the ecosystem (which include the research teams, academe, investors, government, service providers, funding organizations, incubator, corporations, etc.) and their strategic decision-making activities to help companies that want to start their business in South Korea.

The paper, however, failed to include a discussion on the significance of South Korea's experience in building its startup ecosystem to the Philippines-Korea economic relations. This is one area which the discussant would like to include in the discussion below.

Comments and Discussion

I agree with the points and issues raised by the paper of Dr. Aldaba and Mr. Pena-Reyes. My discussion will focus on the trade relations between the two economies and how this relation can be further enhanced to bring about more inclusive growth for the Philippines. While the paper of Dr. Aldaba and Mr. Pena-Reyes discussed trade between South Korea and the Philippines, the focus was on (i) total trade and (ii) the Philippines thru the ASEAN. The analysis somehow masked the details of the trade relations.

Table 1 shows the indicators for the trade between the Philippines and South Korea. The share of South Korea in total exports of the Philippines has been increasing since 1990, from less than 3% in 1990 to almost 6% in 2013. Majority of the country's exports are semiconductors and electronic products (23%). The increasing trend is the same for imports although the share of South Korea is greater in imports than in exports. From the perspective of the Philippines, trade balance between the two economies is negative. That is, the value of imports of the Philippines from South Korea is greater than its exports to the country.

In contrast, the share of the Philippines in South Korea's total exports and total imports hardly increased since 1990. Also, the share of the Philippines is greater in exports than in imports. From the perspective of South Korea, the trade balance between the two economies is positive. That is, the value of South Korea's exports to the Philippines is greater than its imports from the country.

Among the ASEAN-5 economies, the Philippines had the lowest share in exports and imports of South Korea (Table 2). The contrast is magnified when compared with South Korea's trade with China, with the latter accounting for a quarter of the former's exports.

What could possibly explain the trade performance? The trade relation between the two economies started in the mid-1990s when they became part of the global production networks (GPN) of multinational companies from developed countries, particularly in the electronics and semiconductor industry. South Korea's participation and the other NIEs (Singapore, Hong Kong and Taiwan) in GPN came much

earlier than the Philippines when they were involved in the assembly of parts and components, involving cheap labor, in the mid-1980s. Over time, these economies developed their technological capacities and moved from assembly to higher value-added products in the value chain. The production shift and industrial upgrading in the NIEs opened the opportunity for the ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand) to become part of GPN, focusing on the lower-end of the value chain. That is, they import parts and components from the NIEs and assemble them into final products and export them to developed countries, like the US and Japan. As presented in Dr. Aldaba's and Mr. Pena-Reyes' paper, electrical and electronic equipment is one of the top products traded between South Korea and the ASEAN, accounting for 23% of total trade. Of the total, the Philippines accounted for 16%. This could help explain the higher share of South Korea in Philippine imports than in Philippine exports.

Since the Philippines is involved in the lower end of the global value chain, the negative trade balance between the Philippines and South Korea could be much higher if the 'trade in value added' (TiVA) approach is used to measure the value of international trade between the two economies. The approach measures the value-added contents of a traded product, instead of the traditional approach of trade balances based on foreign trade statistics.

The continuing challenge for the Philippines since the start of the new millennium is how to move up the ladder in the value chain. This will involve industrial upgrading, creating more value for its products through technological advancement. Given the successful experience of South Korea in this area, the country should increase its ODA to expand

training and technology capacity-building programs; exchange of scholars, researchers and scientists; and capacity building for startup ecosystem.

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She earned both her Masters in Development Economics and Doctor of Philosophy in Economics at The Australian National University in Canberra, Australia. She has done consultancy work with international development agencies such as the World Bank (WB), Asian Development Bank (ADB), International Development Research Centre (IDRC-Canada), U.S. Agency for International Development (USAID), APEC Business Advisory Council (ABAC), ASEAN Secretariat, and the Institute for South East Asian Studies (ISEAS).

Her areas of specialization include: trade, investment and industrial policy, development economics, international trade, competition policy, and regional economic integration. She has published journal articles, monographs, books and chapters in books along these areas.