

Philippines: The Hanjin ‘model’ of development

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The tragedy of Hanjin Philippines illustrates the folly of a development model that relies exclusively on a volatile global export market, has no forward or backward linkages with the national and local economies, and relies on incentives and subsidies from the host government.

Hanjin Heavy Industries and Construction Philippines started operations in 2006. It hardly brought in capital of its own but instead borrowed \$412 million from Philippine banks and \$700 million from Korean lenders for total loans of \$1.112 billion. For no apparent reason, the Philippine banks granted collateral-free loans, merely accepting a letter of guarantee from Hanjin Korea.

In addition, Hanjin took advantage of generous perks and tax holidays accorded to Special Economic Zone locators under the Philippine Economic Zone Authority.

Hanjin initially enjoyed a boom in its operations, earning export values of \$7.2 billion in ship deliveries and sales and raising its total investments to P88 billion. It became the 10th largest shipyard in the world, built and delivered 94 ships, 27 of which were bulk carriers, and reported total assets of P1.7 billion as of 2017. The company also paid taxes totaling P4.65 billion from 2007 to 2018.

In Korea, meanwhile, the company earned notoriety as a scandal-ridden conglomerate ran by a dysfunctional family. Its chief, Cho Yang-ho, was indicted in 2013 of embezzling millions of dollars in company funds. The family was also accused by the Korean Customs Service of “habitually smuggling luxury goods into the country” using family-owned carriers. Cho was subsequently fired as chair of the organizing committee of the 2018 Pyeongchang Winter Olympics.

Cho’s wife, Lee Myung-hee, and their three children were involved in scandals over public displays of uncontrollable “congenital anger management problems.” A daughter, Cho Hyun-ah, was convicted and jailed in 2014 for “hampering airline operations and violence against cabin crew members.” A younger daughter, Cho Hyun-min, was “prone to screaming fits, (once) throwing a water bottle in the face of an advertising staffer.” Both daughters held executive management positions in family-owned airlines and hotels and were both fired in 2018 for their misbehaviors.

These scandals enraged Hanjin workers, who held a rally calling for Cho’s resignation. In 2011, the workers also staged a marathon 190-day strike to protest mass dismissals.

By 2016, the shipbuilding industry was suffering from overcapacity and lower demand for container vessels, bloated US inventories, weak global economic growth leading to changing consumer spending patterns and the Chinese economic slowdown. The Hanjin group fell into a debt-dependent abyss, with its shipping arm accumulating more than \$5 billion in unserviceable loans. Its debt-to-equity ratio rose to 699 percent.

In August 2016, Hanjin Shipping (Korea) filed for bankruptcy after its creditors withdrew support,

rejecting a funding proposal by the company as inadequate. This created a massive worldwide ripple effect, with ship inventories stuck at ports, canals and the open sea waiting for cash payments that never came.

In the same year, the once-rosy picture for Hanjin Philippines turned equally bleak. In 2016, Hanjin Philippines was now reporting losses and negative net incomes. On Jan. 8, 2019, it filed for bankruptcy at the Olongapo City Regional Trial Court, defaulting on its \$1.112 billion loans. From a high of 33,000, the shipyard workforce was reduced to about 300 while retrenched workers struggled to collect separation benefits due them [1].

One of Hanjin's potential "white knights," port container magnate Enrique K. Razon Jr., rejects the Hanjin model of development, declaring that: "The Philippines is not really competitive in this area [shipbuilding], nothing that the shipyard uses is made in the Philippines." He might as well have added: "Nothing that Hanjin produces is used in the Philippines, either."

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P.S.

- Philippine Daily Inquirer / June 01, 2019:
<https://opinion.inquirer.net/121695/the-hanjin-model-of-development>
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Footnotes

[1] see "Prioritize Hanjin workers' rights," Opinion, 5/1/19, available on ESSF (article 49279), [Philippines: Prioritize Hanjin workers' rights](#).