

Column for Business Mirror
MANNY VILLAR
September 17, 2012

The Entrepreneur

Clouds on the Horizon

THE Philippine economy ended the first half of 2012 with a growth of 6.1 percent, second highest in Southeast Asia and third behind China, the world's second-largest economy.

However, I think we should restrain ourselves from moving forward with blind optimism in view of the clouds on the horizon, which may be keeping hidden dangers from our view. I'm referring to external threats—the euro crisis and the struggling US economy.

While globalization has brought many benefits to the Philippines and other developing countries, it also made us vulnerable to adverse developments in the wealthy economies of the world. The financial crisis of 2007-2008 in the United States, for instance, plunged other countries into recession.

Fortunately, the Philippines still managed a positive growth of less than 1.1 percent in terms of gross domestic product (GDP). Still, as early as January this year, the World Bank warned that developing countries should prepare for further downside risks, as debt problems in Europe and weakening growth in several big emerging economies were dimming global growth prospects.

During the recent summit of the Asia-Pacific Economic Cooperation (Apec), International Monetary Fund Managing Director Christine Lagarde said: "The Apec economies, of course, are not immune to developments in other parts of the world. There remains particular concern about Europe and the euro zone."

The euro crisis, which initially affected the small economies in the union like Greece, is now affecting even the strongest economies like Switzerland. The Swiss economy unexpectedly shrank in the second quarter as the euro-zone crisis caught up with a country that had seemed relatively immune to the debt problems of its neighbors.

In the United States manufacturing has faded as a driver of the recovery in the US economy, which is still struggling to add jobs more than three years after the recession was formally declared over.

Manufacturing in the United States shrank at its sharpest clip in more than three years last month, according to an Institute for Supply Management survey. And the US economy added just 96,000 new jobs in August, far below economists' expectations and from the 163,000 jobs in July. The unemployment rate dipped 0.2 percentage points to 8.1 percent, but has remained above 8 percent for three years, the highest since the Great Depression.

Even global economic powerhouse China is feeling the impact of the global slump. The country's economy, which had enjoyed double-digit growth rates just a few years back, posted a 9.2-percent GDP growth in 2011, down from 10.4 percent in 2010. This year China is forecast to decelerate to 8.5 percent. The country posted a 7.8-percent GDP growth in the second quarter of 2012.

China acknowledged that it is facing a highly complicated external environment this year, as the European Union and the US remain sluggish, and the global financial market is turbulent and protectionism is on the rise.

So far, Philippine exports have been growing despite the problems in the international markets. Aggregate exports from January to July rose 7.7 percent to \$31.564 billion from \$29.306 billion during the same period last year, according to the National Statistics Office. Exports increased 7.8 percent in July from a year earlier and up from the 4.3-percent growth in June. Exports in July registered \$4.807 billion in receipts, higher than \$4.460 billion reported in the same month last year.

However, exports of electronics—the Philippines' largest export products (accounting for about a third of revenue in July)—plunged by 25.6 percent to \$1.675 billion from \$2.253 billion registered in July 2011. Electronics produced in the Philippines are used to manufacture end products like computers in China and in developed countries.

Based on these developments, as well as the grim prospects of recovery in Europe and in the US, the Philippines should not only prepare for the worst, but also work to sustain its performance in the first quarter.

This would not be easy. It will require determination and hard work to post gains, inch by inch, to reach the peak of the economic hill. And it is time, now more than ever, for the Philippines to draw on its inner strengths.

For comments/feedback e-mail to mbv_secretariat@yahoo.com. Readers may view previous columns at www.senatorvillar.com.

LINK:

<http://www.businessmirror.com.ph/index.php/news/opinion/2932-clouds-on-the-horizon>