

Some say the world will end in fire, some say in ice....

Emmanuel S. de Dios

Dr. Paderanga's report has identified the most important threats to continuing economic growth in the Philippines, namely: a threatening US recession and its fallout on international trade and finance; the continuing trend of peso-appreciation and dollar-weakening; and finally high global prices of petroleum. My comments seek to elaborate on these. During periods of uncertainty such as the present, it is most important to address the most crucial factors, taking all interconnections into account. In short, to paraphrase Robert Frost, we must be clear whether we think the world will "end in fire" or "ice".

A US recession and oil prices. Take for example the element that now dominates the headlines, namely, the impending weakening of the US economy. By itself, this is, of course, a negative element, directly affecting demand for exports. On the hand, if indeed a full-blown and deep US recession occurred, petroleum prices world-wide would most likely soften. Indeed, the initial news has been drastic fall in the foreign stock markets has caused oil prices to fall somewhat (i.e., oil futures fell from around \$100 to now \$89 per barrel on NYMEX). The upshot of this is that it is unlikely that one can have both a deep US recession as well as continuously rising oil prices. Either the recession will be deep and possibly drag other major economies with it – or, it will be on more than a slowdown, which in turn means oil prices will soften.

My own guess is that many reasons – the stance of the US Fed, the unpopularity of President Bush, this is being an election year, the Democrat control of Congress, and continuing growth in Asia that could provide an alternative engine for world growth – the likely weakening of the US economy is unlikely to be severe or prolonged. If this prognosis holds, however, it also means the problem of high oil prices will not go away soon and must be continually addressed.

A US recession and the exchange rate. A second linkage is between a possible US recession and peso appreciation. There still some question whether a US recession will or will not cause the peso to weaken.

On the one hand, a US recession could cause a diminution of dollar-inflows into the country if it affected overseas remittances, or portfolio investments, or both in a major way. This is known as a "flight to quality". Then this could take some of the pressure off the appreciating peso. On the other hand, this would be at most minor relief, since it would occur with possibly diminishing exports, while resulting peso weakening would push up the prices of imports, including oil, putting a dent on domestic consumption.

Alternatively, some have argued that the consequent fall in US stock-markets and lower foreign interest rates might cause hot money to seek higher returns in

emerging markets. It has also been observed that foreign remittances – more precisely those from the US – may prove resilient in a US recession, since many Filipino workers are in essential services such as health care or education, which are politically difficult to cut. If so, then a US recession could in fact worsen the problem of peso appreciation. The upside to this scenario, of course, is that a further appreciation of the peso would sustain domestic price stability and hold consumption up.

Between these two, however, the more likely scenario is the “flight to quality”. This means that the country is more likely to experience some reversal of the peso’s strength. All the more so if the US recession turns out to be severe.

If this assessment proves correct, then in the short term we should expect:

- a. Only a mild softening of global petroleum prices and
- b. A minor pull back of the peso relative to the dollar, both of which lead to
- c. A continuation of high energy prices domestically.
- d. Meanwhile, experts are likely to take more heat, owing to weakening US- and then world-demand as well as the lack of relief on the exchange-rate front;
- e. While domestic consumption, hitherto the main growth-driver, may decelerate owing to a higher inflation

This leads to a prognosis to a significant slowdown economic growth for this year and the next-the logic thus justifies Dr. Paderanga’s numbers-particularly from the side of private consumption spending, exports and investment. It would be a foolish exaggeration, however, to speak of any threat of collapse. Public spending moreover might possibly make up some of the difference, given the government’s replenished finances, though always remembering the still-precarious condition of revenues over the long term.

In essence, therefore, a careful consideration of recent events and trends does not detract from the urgency of the topic of this summit- indeed it reinforces. Energy prices and energy security are an issue today and our bound to be an overriding strategic issue even beyond the current headlines. Hence rather than sit complacently and rejoice in the thought that one type of disaster is unlikely to befall us, prudence calls on us to prepare for the difficulties we are likely to confront.

For, after all, as Frost’s poem points out, “for destruction, ice is also great/and would suffice.”

Thank You!