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## Exports misses target amid US recession fears

**E**xport growth in 2007 was a lackluster 6.2%, falling short of the 11.0% target and much lower than the 15.0% recorded in 2006. Aggregate dollar revenue for the year stood at US\$50.27 billion, down from US\$47.41 billion in 2006. The country's balance of trade in goods, meanwhile, registered a US\$5.05 billion deficit, representing a 15.7% increase from the previous year.

Electronics products was the biggest contributor to export revenue, followed by mineral products and agro-based products. Garments made the least contribution, falling 13.1 percent from the previous year.

On a year-on-year basis, December merchandise exports increased 20.4% to US\$9.473 billion from US\$7.87 billion the previous year. Revenue from exports likewise expanded 21.2% to US\$4.47 billion from US\$3.69 billion. Balance of trade in goods for the month likewise recorded a deficit of US\$528 million, which is 8.2% higher than the US\$488 million in the same period in 2006.

Accounting for 79.4% of total exports, manufactures grew 12.6% on the back of higher shipments of semiconductors (11.8%), consumer electronics (202.6%) and automotive electronics (159.4%). Shipments of other major commodities also provided a boost, led by mineral products (63.7%), agro-based products (35.3%) and petroleum products (352.3%). Chinese and Indian appetite for metals coupled with increasing prices in the international market led to higher earnings for copper metal (67.0%), gold (160.3%) and coconut oil (111.7%).

The United States remained as the country's top export market with a 16.2% share, besting Japan (14.3%), mainland China (11.5%), Hong Kong (10.9%) and the Netherlands (8.6%).

### Blame it on Peso, power rates, US recession

Sergio Ortiz-Luis of the Philippine Exporters Federation forecasts a 0% export growth for 2008 due to the strong peso, high power rates and an American economic slowdown. Government, however, is enacting measures to help exporters cope with threats.

To achieve the planned 12% export growth in 2008, government hopes to increase the competitiveness of Filipino exporters. "To meet the target for the year and over the medium-term amidst the appreciating peso and lower United States economic growth, efforts should be directed towards strengthening export competitiveness in the areas of addressing infrastructure bottlenecks, labor productivity and reducing power costs through greater competition," Acting Socioeconomic Planning Secretary Augusto Santos explained.

Santos, who is also Director-General of the National Economic and Development Authority, also said that government is reformulating its foreign borrowing mix to 70-30 in favor of domestic sources to ease Peso appreciation. He added that government is also taking a closer look at prospective official development assistance projects to help lessen dollar inflows that help strengthen the local currency.

### Export growth by commodity group, in percent

Commodity Group	December		Jan-Dec	
	2007	2006	2007	2006
<b>TOTAL EXPORTS</b>	<b>21.4</b>	<b>-3.6</b>	<b>6.2</b>	<b>15.0</b>
Total agro-based products	35.3	-19.7	12.9	1.4
Forest products	-65.3	-5.1	22.9	-16.5
Mineral products	63.7	203.9	21.2	156.7
Petroleum products	352.3	-53.6	20.7	56.8
Manufactures	12.6	-7.0	5.3	10.1
Of which: Electronic products	12.3	-12.1	4.5	8.7
Garments	-7.8	-7.5	-13.1	14.9
Machinery and Transport Equipment	5.5	-3.1	8.3	-6.6

*National Statistics Office*

The Bangko Sentral for its part introduced a hedging facility that hopes to shield exporters through foreign exchange insurance and forward foreign exchange protection products. In a report to Congress, Governor Amando Tetanco, Jr. said that avilment of such products ballooned to US\$9.9 million as of February 13 this year compared with US\$113,000 in September 2007. Government is also doing everything it can to reduce borrowing costs.

To address power costs, government is pursuing a power sector reform program, as embodied in the EPIRA law passed in 2001. It aims to encourage private sector investment by selling generation and transmission assets. Reforms embodied in the EPIRA may take some time, but the long-term consequence of lower power rates are well worth the wait.

A US recession, on the other hand, is expected to hit several exporters, as the US remains to be the country's top export market. To address this, government has been pursuing better trade relations with other countries to lessen the country's dependence on the US.

The country's increasing imports can also be a sign of future increases in exports since many Philippine-based exporters import raw materials for production from abroad. "The increased imports of non-fuel items is an indication of a continuous growth in industrial production in the coming months," Sec. Santos clarified.

### Decoupling a myth?

In light of a looming American recession, many government officials and experts highlight the country's declining dependence on the United States, especially when it comes to external trade. Exports to the world superpower, for instance, have contracted in recent years, from about a fifth to just over 16% in 2007. At the same time, they say that trade with other emerging markets such as India, China and ASEAN has increased. They fail to note, however, that these other markets are also largely dependent on the US, which could indirectly affect local exports' performance once the US enters recession.

Former Budget Secretary Benjamin Diokno noted that "the simultaneous plunge in 43 stock markets around the world – including India, China and Europe – is the best proof that the theory is false." While improving trade relations with other markets may be beneficial to some extent, Diokno explained that it may not be enough to offset losses.

"Don't expect diversification to work in a big way at this time when the world's premier market – the United States – is slowing. With decoupling theory discredited, a US recession means less imports from China, Japan and the rest of the world. It also means less direct foreign investment from US and the relatively weakened developed countries," he stressed.

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