Here comes the Son


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INTROSPECTIVE
ROMEO L. BERNARDO

I am pleased to share excerpts from our Globalsource Partners quarterly forecast report (May 31), the summary page, and the concluding political section. GSP (*globalsourcepartners.com*) is a subscriber supported network of independent analysts in emerging market countries providing macro, financial and political risks analysis and forecast based in New York. Christine Tang and I are their Philippine Advisers.

SUMMARY FORECAST

The Philippines just elected its first majority president since the return of democracy in 1986 and delivered a not typical "tandem vote" by choosing his running mate as well. The convincing mandate given to President-elect Ferdinand Marcos, Jr. and Vice-President-elect Sara Duterte resulted from a generally orderly election and subsequent quick count. The new administration will take office on June 30.

So far, the incoming administration has handed the business community what it wanted — a knowledgeable and experienced economic team, drawn from current and past administrations, that could hit the ground running. Despite looking like a gerontocracy, media interviews given by key members of the team reveal readiness to put into action learnings gleaned from decades of working in their respective fields.

Although there is palpable unease, including among foreign observers, with the rise of the son of the former dictator, we, like the rest of the business community, are opting to give the president-elect the benefit of the doubt especially during his honeymoon period. A challenging global environment awaits his administration with economic growth slowing down, commodity prices staying elevated, monetary policies and financial conditions tightening, neighbor China still under COVID-19 lockdown, and geopolitical tensions causing greater policy unpredictability.

Domestically, the president-elect will be facing difficult choices. At the macro level, fiscal policy is constrained by much higher public debt and continuing large budget deficits, monetary policy is constrained by rising inflation with interest rates on their way up, and the external sector is impaired by the deterioration in the terms of trade, increased reliance on food imports to manage domestic inflation and potential risk-off conditions aggravating capital outflows. He will also need to act quickly to avert power shortages over the medium-term.

Although Q1 GDP growth was higher than expected, we think much of the surprise was due to election spending and unlikely to be sustained beyond 1H. However, the increased likelihood that COVID-19 has become endemic in the Philippines has raised our confidence in continuing freer mobility and gradual expansion of close-contact services, particularly tourism and in-person classes. We are thus raising our GDP forecast for 2022 from 6% to 6.8% but keeping our 2023 forecast at 5.5% pending clearer demonstration of the executive's ability to build on and implement recent reforms, particularly in attracting foreign investments.

Downside risks are significant, emanating mainly from the many risks in the global environment, including US recession risk from much more aggressive Fed policy rate hikes and the impacts on highly indebted economies and emerging markets, possible escalation of the war in Ukraine and sanctions on Russia that could cause not just energy prices to soar anew but food shortages and more export bans, as well as a further slowdown in world growth due to the knock-on effects and China's strict zero-COVID policy. Locally, downside risks include the continuing challenge of managing possible COVID-19 outbreaks, more rapid increases in inflation that de-anchors expectations and lead to more aggressive monetary tightening, and failure to maintain financial market confidence in the new administration's commitment to macroeconomic stability in general and fiscal sustainability in particular.

Any upsides to enable the economy to sustain growth above 6% will hinge on the new administration's ability to raise market confidence in its managerial ability and economic program (including broadening the base of economic growth), as well as a less tumultuous global environment that makes cross-border investment decisions possible. In this regard, recently legislated freer foreign investment rules can help attract foreign capital.

POLITICS: WHO HAS THE PRESIDENT'S EAR?

He may look, talk and even share his father's name but by all accounts, President-elect Ferdinand Marcos, Jr. is not his father, the strongman who ruled the Philippines for 20 years until his ouster in 1986.

For many, this is both good and bad: good, because he does not have the drive to become the autocrat that his father was; bad, because he does not have the vision to catapult his presidency to the heights afforded by his majority electoral win. In fact, the most worrisome political risk we hear now is that his may be a feckless presidency marked by indecisiveness and unresponsive leadership...

For longtime observers of policy making in the Philippines, it does not really matter who occupies the presidential palace and what his background and temperament are, as long as he knows how to delegate. President Duterte provides a radical example, practically giving his finance secretary, Carlos Dominguez, full control on the executive's economic policy. His being the head of the economic team as finance secretary was greatly facilitated by the full trust of and access to the president, a relationship developed as early as primary school...

.... Many, ourselves included, think that Mr. Marcos could not have chosen a better economic team with the qualifications and experience that could hit the ground running during these challenging times. On the other hand, some of the members of this team must still remember their time in the Estrada government in the late 1990s, Mr. Diokno included who was then budget secretary, when the good policies framed by a first-rate economic team could not withstand the harm devised by an informal rent-seeking "midnight" cabinet.

For now, we can only give Mr. Marcos the benefit of the doubt that goes with his honeymoon period and trust in the experience and political instincts of his economic team. There are many challenging decisions on the economic policy front in the near term, including clarifying the President-elect's campaign statements supporting direct government intervention in the rice and oil markets, that will reveal who has the president-elect's ear. ■

Forecast summary (Base case)

	Unit	Global Source May (February) 2022	Global Source May (February) 2023
GDP annual change	%	6.8 (6.0)	5.5
CPI inflation (annual average)	%	5.5 (3.8)	4.0 (3.3)
Policy rate (eop)	%	3.0 (2.5)	3.5 (3.0)
Exchange rate (eop)	PhP/USD	52.60 (52.30)	54.20 (53.44)
Fiscal balance/GDP	Unit	-7.5 (-7.7)	-6.3 (-6.5)
Current account/GDP	Unit	-3.7 (-2.3)	-3.5 (-2.6)
International reserves	USD bn	102.9 (105.6)	101.0 (102.8)
External debt/GDP	%	26.8 (27.0)	25.6 (26.7)

NOTES: NUMBERS IN PARENTHESES ARE PREVIOUS AUTHOR'S AND CONSENSUS FORECASTS (NONE IF UNCHANGED.)

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Empire ambitions

EARNING OUR TOMORROW
PHILIP ELLA JUICO

The invasion of Ukraine launched by Russian autocrat Vladimir Putin continues without let up four months since it started on Feb. 24. The Russians had hoped to proclaim victory by capturing Ukraine's capital Kiev and disposing of the Ukrainian President Volodymyr Zelensky, his family, and all other Ukrainians, government and private personalities, who "brought Ukraine closer to the west," a few days after marching into Kiev.

Putin's first rationale for the invasion was to "de-Nazify" Ukraine. The truth of the matter is the message did not fly since Zelensky and millions of Ukrainians are Jews. The Denazification message was meant to camouflage his personal dislike and disdain for Zelensky, a former actor-comedian who won election by a substantial margin over a Russian-backed candidate.

In a recent television address to the world, Zelensky issued a renewed appeal for help from the West, pleading for heavier artillery to counter the invasion which, by Zelensky's count, has launched 2,606 cruise missiles, hitting different cities to cause deaths and untold suffering. It seems the Russian objective is to bring down Ukraine "no matter the cost." Achieving that objective meant adopting a "scorched earth" policy which calls for destroying every object around and killing anything that moves. Farm lands which produce wheat that is supplied to many regions, most notably Africa and Latin America, have been destroyed. Milling facilities have been bombed. Grain that is being shipped to other countries has been blocked by the Russian naval armada in the Black Sea, threatening to create a serious famine especially among vulnerable nations already confronting an oil crisis. In short, a double whammy.

As of now Putin and his generals (a number of whom have perished in the battlefront more likely for recklessness based on over-reliance on Russia's military superiority) are concentrating on capturing the key industrial city of Severodonetsk in Ukraine's eastern region. This shift in focus occurred almost four months after Putin invaded Ukraine to "de-Nazify" the former member of the Union of Soviet Socialist Republics (USSR). Now, Putin has radically changed his tone. The Russian President, who has ruled Russia for more than 20 years, is now invoking Peter the Great to justify the invasion of Ukraine.

During a tour of Moscow and the Red Square in 2013, our Ukrainian tour guide (who has, incidentally, gone incommunicado after expressing deep sadness on the first day of the invasion of Ukraine), described Peter the Great as an egotistical and self-centered leader, who co-ruled Czarist Russia with a step-brother for some time, from the age of 10 until he died at 52. Peter the Great formed an anti-Sweden alliance and waged war against Sweden to recover lost territories and to enhance his stature and prestige among monarchs during the 17th century. Like Peter the Great, Putin is whipping up patriotic fervor with the aid of media which were nonexistent during Peter the Great's reign. During Putin's reign, Kremlin-controlled media is leading the formation of so-called patriotic youth groups. For example, these patriotic groups are told that Ukraine — and probably other now-independent countries like Lithuania and Estonia — have to be recovered at some point to complete and rebuild Russian glory. Such threats have led to calls by Putin allies for the derecognition of the independence of Lithuania. Of course, Putin's sagging image will be rebuilt by these wars. Putin is clearly copying Peter the Great — although physically, the 6'7" Peter the Great dwarfs Putin who is probably no more than 5'9".

Many measures are being taken by Russian authorities to support the use of patriotism as the reason for the war against Ukraine. One of these is the creation of normalcy among Russian cities. One obvious example of this attempt is, as reported by CNN, to assure the Russian person-in-the-street, especially the middle class, that everything is under control despite all the sanctions that have hit the Russian economy. Several American and global brands have left Russia in protest over its illegal invasion and occupation of Ukraine.

McDonald's, the burger chain which represents American business presence in virtually all countries, left Russia and closed all its stores to protest the invasion. Kremlin made sure the burger chain, very popular among its middle class, was replaced almost immediately by a new local brand, Vkusho & Tochka (Tasty and That's it), lest Russians start to wonder why global brands and businesses are terminating business in increasing numbers. Putin's propagandists probably felt it was not enough that Russians are incessantly bombarded by state media about patriotism, recovering territory that is theirs, and reliving the glory days of Czarist Russia. They have to see and feel for themselves that everything is normal by being able to enjoy the simple pleasures of daily living in a world power like Russia. All these are designed to take their minds off the few bits of news that slip through the censorship net about atrocities committed by Russian soldiers, including rape, bombing of hospitals, the loss of Russian lives and the enormous expense to wage an unjustifiable war. Whatever, however you call it in whatever language, it is still not McDonald's.

What are the implications of this war on the Philippines?

The Philippines voted to condemn the Russian invasion of Ukraine in a Resolution passed by the United Nations General Assembly. Although a moral victory for the West and its allies like the Philippines and Singapore in Southeast Asia, the Resolution is non-binding and it is up to individual countries to carry out that Resolution, if at all. Consistent with the Duterte administration's approach to Philippine relations with Russia and the United States, it was reported later on that the president declared that the Philippines is neutral in this conflict.

According to statistics provided by the Bangko Sentral ng Pilipinas (BSP), the country's total exports to Russia in 2021 amounted to about $120 million, or about 0.2% of its total exports, while the Philippine exports to Ukraine amounted to $5 million. Imports from Russia in the same year comprised 0.6% of its total imports and for Ukraine, 0.1%. While trade between Russia and the Philippines has increased over the years, Russia remains far down the list, at 31, of the Philippines trading partners. Ukraine must even be much lower.

The modest level of trade and business involving the Philippines and Russia on one hand, and the Philippines and Ukraine on the other, is probably one of several reasons why economic managers like Finance Secretary Carlos Dominguez III thinks the impact of the Russia-Ukraine crisis on the country is "temporary."

Whether temporary or longer lasting, the impact that the conflict will have on the country is in energy and food prices, the two major cost items for most Filipinos. And the impact is not a direct one but rather due to the effect the crisis has on our major trading partners like the US and the European Union.

The problem and issues can be broken down into smaller components to have a better sense of what solutions would have a better chance of success. The incoming administration has its work cut out for it. ■


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DESTROYED BUILDINGS AND CARS on the streets of Kharkiv, Ukraine, March 3.

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