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Focus on development, not just staying afloat

MEASURES TAKEN by the Philippines to keep the economy afloat amid the global slowdown – more public spending and wider access to credit – are correct but policy makers should particularly devote resources to achieving economic development in the medium to long term, a United Nations (UN) official said.

Jomo Kwame Sundaram, UN assistant secretary-general for economic development, said developing countries such as the Philippines should increase investments toward the development of industries.

Emerging economies are in fact declining as much as developed ones, Mr. Sundaram told a forum organized by the Action for Economic Reforms at the Ateneo de Manila University.

And contrary to widespread belief, "less leveraged" markets will not be necessarily spared from the global downturn since economies have become more interconnected due to globalization.

Emerging economies, Mr. Sundaram said, will not escape a drastic decline in trade which will translate to lower demand for exports and a rise in unemployment.

In addition, exporters will be hurt by a decline in prices of commodities.

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"Decoupling is not an option at this point," Mr. Sundaram said.

"Developing countries will bear the brunt of the crisis," he added.

The Philippines will also be hit by a decline in investments as well as remittances from overseas Filipino workers, the UN official warned.

Aside from ensuring liquidity in the financial system and increasing public spending, equally important are policies that will have an impact on medium- to long-term development.

"There should be support for policies which are crucial for development," Mr. Sundaram said, noting that the industrial sector is generally weak among Asian economies.

The Philippine government is preparing a P330-billion stimulus package, dubbed the "Economic Resiliency Plan."

It consists of a P160-billion increase in spending under the P1.415-trillion national budget this year, a P100-billion infrastructure fund to be financed by private and government banks, P40 billion in foregone revenues from tax relief measures and the reduction in the corporate income tax rate, and P30 billion from temporary additional benefits from social security institutions.

The central bank cut its interest rates by half-percentage point last month, and market players are expecting a similar move when the Monetary Board meets on March 5.

Mr. Sundaram declined to comment on the merits of the government's fiscal measures, but he said cutting interest rates may not be effective as banks in general tend to be cautious on their lending activities during a downturn.