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MANNY VILLAR
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The Entrepreneur

A Huge Opportunity to Attract Investments

THE turnaround in the flow of foreign direct investments (FDI) in the first seven months of 2012, as reported by the Bangko Sentral ng Pilipinas (BSP), was just the start of a series of good news supporting my call for an all-out drive to attract investments. In other words, the odds are in our favor; the ball is in our field.

The biggest and most recent news, concerning the Philippines's capability to attract investments, was the decision by Moody's Investor Service on October 29 to upgrade the country's sovereign-credit rating to one notch below investment grade.

With Moody's decision, all of the world's three major credit-rating agencies now uniformly rate the Philippines at one notch below investment grade. London-based Fitch Ratings was the first to place the Philippines at a notch below investment grade in June 2011. US-based Standard & Poor's made the same decision in July 2012.

Economic managers and analysts now agree that a further upgrade to the coveted investment grade will come, in the words of BSP Governor Amando Tetangco Jr., "sooner rather than later."

Moody's provided guidance on how the Philippines can earn a further upgrade: adopting and implementing structural revenue reforms, a more rapid reduction in the government's debt stock and accelerating public spending to achieve faster economic growth.

Basically, what Moody's wants to see is further and sustained progress in the same areas that the agency used to raise the Philippines's sovereign rating to a notch below investment grade, as follows: the economy's performance, which saw our gross domestic product (GDP) growing by 6.1 percent in the first semester and healthy fiscal condition; the economy's improving growth prospects despite the global uncertainties; and the stable financial system.

Moody's noted that the Philippine banking system as a whole remained reasonably capitalized, profitable, well-managed and very liquid, and that the Philippine economy demonstrated strength and resilience despite the slowdown in exports caused by the crisis in Europe and the sluggish recovery in the United States.

Thus, the rating firm said, the country "is poised to record a combination of faster growth, lower inflation, exchange-rate appreciation, and an increase in foreign-exchange reserves, while maintaining trend debt consolidation." Even the lack of progress in the Public-Private Partnership Program is not expected to stifle growth because of the increasing government spending on infrastructure, which is supported by improving revenue generation.

Moody's also noted the continuing increase in remittances from overseas Filipinos despite the global economic slowdown. Remittances, according to the agency, have been sustaining private consumption and the increase in the country's international reserves.

An executive of global investment bank Goldman Sachs made similar observations and forecast for the Philippines. Goldman Sachs Vice Chairman Carl Stern told local media on October 31 that the Philippines could even outperform the other countries on the bank's "Next 11" list of booming economies. The list consists of

Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Turkey, South Korea, Vietnam and the Philippines, which Goldman Sachs expects to lead global growth in the 21st century.

Stern said the growing investor interest on the Philippines was due in part to the crisis in the euro zone and the uncertainties in the US. “Investors go where there’s money to be made,” he was quoted as saying.

That sounded like what I wrote in this column last week: “Money does not disappear during crises; it just goes somewhere else.” And I also said that “crises create opportunities, including profitable opportunities for investments.”

As for opportunities, I recall the World Investment Report 2012 of the United Nations Conference on Trade and Development (Unctad), which said that transnational corporations (TNCs) were “holding record levels of cash, which so far have not translated into sustained growth in investment.”

The current cash “overhang” of the TNCs, whose foreign affiliates employed an estimated 69 million workers, who generated $28 trillion in sales and $7 trillion in value added, may fuel a future surge in FDI, Unctad predicts.

These developments certainly translate to a huge opportunity to attract investments that will allow us to catch up with our neighbors.

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