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Blowing Hot and Cold

There's a reason why in the past few weeks, and even longer, we have been a little more interested in foreign news carried by the cable channels, especially those dealing with the American economy and its politics, than in our domestic reports of natural disasters and scandals. The players in our own investment environment happen to include foreigners. Also, the global interconnection of the financial system like the body itself ensures that a stubbed toe somewhere causes a yelp of pain in the distant brain. It is not just in basketball where the sources of talent come from abroad, increasingly from the Dark Continent, but also in the financial sector where fund managers looking for better yields take a spin, no matter how temporary, in the place billed as offering more fun...and profits.

What happens (or does not happen) abroad has a ripple effect, sometimes in the tsunami category, crashing on the white beaches of our shores. (Is this why they're called offshore funds?) Thus do we have a stake and have to listen to talking heads going on about financial apocalypse and the end of the financial world as we know it. The doomsday scenarios hatched in Washington and its trading partners seem to also offer their nightmare menu to us across the Pacific. Money from abroad expands and contracts here like waves with the local news there.

By definition, after all, hot money does not come from hot springs. It is one import that seems to enjoy a surge in the recent past. Still, many development economists cast a jaundiced eye on this quick source of funding.

Economics can come up with surprising imagery when it comes to money. One current fear or hope, depending on who you talk with, is the matter of "hot money". This is defined as monetary flows from outside that seek temporary havens in search of high returns in the short run. Economic planners are uncomfortable with these motel-like guests that check in using probably fictitious names, do their thing, and then check out without staying for the breakfast buffet. Establishments catering to these short-timers are referred to as "gentlemen inns". This euphemism for short-timers accord them some cover on their nefarious intent. Host countries apparently do not want to be lumped in this motel category when it comes to foreign investors.

The ease (the word suggests frictionless movement) with which such funds enter and exit causes concern as they tend to inflate currency and stock values only to let them fall again in a hard crash when other investment opportunities beckon elsewhere. Critics of hot money liken such portfolio investors to those in the oldest profession (after landscape architecture). The similarity one presumes is the temporary pleasure, and okay, liquidity, offered to a tourist with carnal (as opposed to carnivorous) desires. Note how the metaphor gets mixed. It is after all the customer looking for fleeting pleasure and not the host providing the opportunity that describes the so-called hot money. The heat therefore in this economic application is provided by the customer not the hostess (or host). Hot money should not invite comparison then to the provider of the service but to the one seeking it.

Still, the element of promiscuity does enter the picture. The term "hot" has promiscuous overtones. The expression, "having the hots" for somebody, uses the word in its slang meaning of physical attraction. (She can also discuss Plato, after all.) As in such hot matters, the interest, as well as the interest rate, is short-term. Portfolio investments can make a quick buck (rhymes with truck) for the investor. But do they create jobs outside of the researchers that push certain stocks and fund managers that make money (or lose it) for their clients?

If there is hot money, is there an opposite and presumably more palatable type? Is there such a thing as cool money? The hot critics prefer the longer staying funds invested in factories, call centers, casinos, electronic, tuna processing plants, and resort hotels. These are not really called "cool" money. Economists refer to this type of funds as Foreign Direct Investment (FDI). These amounts are used more handily to gauge the attractiveness of a country as an economic "hot spot", though not in the sense of a troubled place that attracts foreign correspondents and the twitterati but to a desirable destination. Maybe, the better term is "sweet spot".

In the matter of FDIs, we lag behind our neighbors. The UNCTAD numbers in 2012 show the ASEAN countries' share in this longer term faith of foreigners in the country's growth. Singapore tops the list (US$54.4B) followed by Indonesia (US$19.2). The Philippines is sixth after Cambodia (US$1.8B) at US$1.5B. It is this FDI flowing in and staying put that creates jobs. Coincidentally, the net hot money in 2012 is US1.2B. The gross amount is four times bigger and hit a two-year record (26 months to be exact).

The latest figures (July 2013) show a 227% increase in FDI from a year ago $553Million in 2013 versus $163 Million, same period last year. In the seven months to July 2013, the level of FDI was 22% up from $2.136 Billion to $2.615 Billion.

The difference between hot money and FDIs can be likened to a tryst for the former and a long engagement (even marriage) for the latter. As one will note, the two need not be mutually exclusive. A date, even a hot one, can lead to a more permanent arrangement. Thus, hot money may be the introduction to a longer type of romance that goes beyond mere lust in the economic sense.

There's nothing really wrong with designating certain economies, like we seem to be at this time, as "sexy". The imagery of having some fiscal appeal may be a fleeting thing that generates enough allure to attract hot money. Is that so bad?

The promise of achieving an investment grade rating by three international agencies turns the hot tomato into a respectable mate that can be introduced to the staid investors taking care of retired teachers and retirement funds for municipal workers.

There is also a "ripple effect" when the country somehow gets into the radar screen of first world investors. The foreign interest goes beyond the stock portfolio and spills over to Philippine art as well as local tourist destinations. The slogan then for the tourist industry of it being more fun here can be heated up—it's hotter in the Philippines. And we're not talking about the weather. Anyway, as every new star knows, when you're hot, you're hot...until you're not.

Unfortunately the loss of sex appeal can be the lack of appetite from the previously ardent suitor...because of troubles at home. Isn't that a familiar story?