

ZTE-NBN scandal triggers political crisis in the Philippines

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President Gloria Macapagal Arroyo is once again mired in a growing scandal that erupted early last year over allegations of massive pay-offs from the Zhongxing Telecommunication Equipment Co. (ZTE), a Chinese government-backed corporation, for the approval of a nationwide broadband network (NBN) deal worth \$329.4 million.

Suspicious were first aired in April 2007 when the ZTE contract was reported to have been stolen just hours after its formal signing in China. In the following months, the regime refused to provide copies of the contract to the media even as opposition congressmen claimed a cover-up and corruption. By October, the scandal was in full blow. Joey De Venecia, son of the lower house speaker Jose De Venecia, testified in a Senate investigative hearing that the NBN deal was massively overpriced by \$197 million.

The younger De Venecia had been manoeuvring for the deal himself but had been sidelined by the ZTE proposal. Damagingly for President Arroyo, he charged that Benjamin Abalos, electoral commission chair and key Arroyo ally, was the “facilitator” of the contract and Miguel “Mike” Arroyo, the president’s husband, was its backer. Allegedly, Abalos had been set to receive a \$130 million in commission, while Miguel Arroyo’s cut was to have been \$70 million.

In the same month, another Arroyo official, Romulo Neri, the former head of the National Economic and Development Agency (NEDA), testified that Abalos had attempted to bribe him with a \$4.8 million offer for his approval of the deal. Significantly, Neri also claimed to have informed the president of the bribe, but did not disclose her reaction. But the fact that the deal was approved, and Neri was later removed from NEDA, underlines Arroyo’s tacit approval of, if not complicity in, the deal.

As the scandal escalated, Abalos resigned from the electoral commission. Arroyo announced the cancellation of the contract and ordered an investigation. These steps, coupled with stonewalling by key officials, enabled the administration to temporarily contain the controversy for the rest of 2007.

Last month, however, a new witness emerged. Rolando “Jun” Lozada testified that he had attended a crucial meeting at which Abalos assured ZTE officials of the government approval for the NBN project. He claimed that Miguel Arroyo had been present, apparently to lend weight to Abalos’s assurances to the increasingly skittish ZTE representatives. Lozada had been the head of a government-owned corporation and technical consultant on the broadband deal for NEDA. He also accused the security and police agencies of kidnapping him to prevent his appearance before the on-going Senate investigation of the scandal.

Lozada’s allegations have ignited an intense public debate. Sections of the Roman Catholic Church, the business elite and the political establishment have mounted a strenuous campaign against President Arroyo, but have so far refrained from calling for another “Peoples Power” movement to remove her. Instead, the Catholic Bishops Conference of the Philippines, the official organisation of the church

hierarchy, has called for amorphous “communal action” on the basis of a “search for truth and accountability”.

Several large, but not massive, anti-Arroyo protests have been organised by a loose and disparate coalition stretching from right-wing politicians, well-heeled business representatives and Catholic priests to the various leftist and Stalinist groups whose political function is to block any independent movement of the working class.

Like any scandal, the latest involving Arroyo is not primarily about corruption, but involves a bitter factional dispute in the Filipino ruling elite. The president’s opponents paint Lozada as a saint and Arroyo as “evil” and attempt to corral popular dissatisfaction with her rule behind their demands. Arroyo’s supporters have responded by pointing to Lozada’s less than perfect record and her administration’s role in creating economic growth. In all of the vast coverage and commentary on the affair, no attempt is made to probe to the real issues at stake.

One important fact reported in the British-based *Financial Times* last year, but rarely discussed in the Philippines, was that the NBN deal had been a three-cornered contest. ARESCOM, an American company, proposed to build the network with US technology and US suppliers funded by the US Export-Import Bank. The US ambassador, apparently aware of the machinations, sent the government a letter urging fair and transparent consideration of all proposals. Nevertheless, the \$135 million ARESCOM proposal was trumped by the \$394 million ZTE plan and the deal was awarded to the latter.

Amid the swirling NBN scandal, the China State Grid defeated the San Miguel Corporation, one of the biggest Filipino corporations, for the right to operate TRANSCO, the Philippine power transmission grid, for 25 years. This \$3.95 billion deal did not escape controversy. Allegations emerged that Monte De Oro, China State Grid’s partner, is partly owned by a key Arroyo ally. In addition, a disqualified bidder charged that TRANSCO had been grossly under priced—its nationwide communication network was worth \$3 billion aside from its power grid assets.

These two deals are part of a broader trend. In 2006, total Chinese investments in the Philippines reached \$430 million. While still small alongside an estimated \$6.5 billion from the US, the figure was a huge increase over the annual average of just \$7.3 million over the previous five-year period. In 2007, China, including Hong Kong, became the country’s biggest single export market—accounting for more than 23 percent of exports as compared to 17 percent for the US. Of electronic products, which make up almost two-thirds of Philippine exports, China-Hong Kong received 23 percent as against 14 percent for the US.

The financial influx from China is generating sharp tensions within the Filipino elite that has traditionally been aligned with the US, the former colonial ruler, and European powers. The conflicts are being compounded by fears of an economic downturn. While growth is currently running at around 7 percent, there is considerable nervousness in business circles over international financial instability, the prospect of a US recession and its ramifications for China.

Significantly the current campaign against Arroyo is backed by the influential Makati Business Club (MBC), an elite, invitation-only group that includes the country's largest corporations. Its members include the San Miguel Corporation, American Chamber of Commerce, Asian Institute of Management, British embassy, European Chamber of Commerce, De La Salle University, MERALCO and the *Philippine Daily Inquirer*.

Its opposition to Arroyo is not over corruption as such—some of its members have previously been embroiled in their own public scandals—but over her turn to China for financial aid and investment. After being installed as president in 2001, Arroyo forged close ties with the Bush administration and backed its bogus “war on terrorism” to the hilt. But since allegations of fraud in the 2004 presidential elections, the Arroyo regime has limped from one crisis to another. Its ability to hang onto power has depended heavily on government spending, both to prop up its political allies at the local and national level and boost economic growth.

Arroyo continues to insist that she will not resign and still has the backing of the country's powerful military. In an extraordinary political intervention, hundreds of top officers, including the heads of all wings of the military and police, held a “unity march” on February 25 to the EDSA shrine, which commemorates the so-called Peoples Power movement that brought down the Marcos dictatorship in 1986. The top brass has issued warnings to any officers considering a move to oust Arroyo.

At the same time, there are fears in ruling circles about the political consequences of another EDSA or Peoples Power movement. Arroyo herself was inserted into the presidency in 2001 in this fashion in what amounted to a constitutional coup by sections of business, the military, the church and state apparatus to remove the elected president Joseph Estrada over a corruption scandal. Appealing for another EDSA to force Arroyo out carries the danger of unleashing a real movement of working people who begin to raise their own demands for jobs and decent living standards. The latest official poverty figures show that poor families have increased from 24.4 percent of the total population in 2003 to 26.9 percent in 2006.

Significantly, the MBC, along with its key allies, the Management Association of the Philippines (MAP) and the Finance Executives of the Philippines (FEP), have not called for Arroyo's resignation, but only the removal of two officials—Neri being one. The Catholic Bishops Conference has not sought Arroyo's resignation but instead called on her to lead the fight against corruption. Both the MBC and the Bishops have insisted that another EDSA is not on the agenda.

Arroyo has sought to adapt to the demands of these layers. Eleven official development aid projects worth billions of dollars—68 percent of which is sourced from China—have been suspended. Her administration has offered seats to the MBC on a committee with a remit to investigate the integrity of the suspended NBN contracts. In addition, the regime has signalled its willingness to drop Neri from the cabinet as demanded by the MBC.

Whether Arroyo will be able to tough it out remains to be seen. While Arroyo and her opponents may reach an accommodation, the protests have the potential to become a vehicle for popular anger over the impact of her administration's economic restructuring measures and authoritarian methods. Unemployment and rising prices have generated widespread dissatisfaction among working people, who generally regard the entire political establishment with contempt and hostility. All factions of the ruling elite depend on the various leftist and Stalinist groups to confine the opposition within the existing political and social order.

A large anti-Arroyo rally last Friday was a graphic illustration of this political mechanism in operation. Billed as an “interfaith prayer rally to call for truth and accountability,” it was designed to let off steam without directly challenging the Arroyo administration. More than 25,000 people

gathered in Makati City, the main business centre in Manila, and were kept busy with a mass and continuous prayers. Occasionally they were allowed to shout “Gloria resign!”

The platform included two former presidents—Corazon Aquino and Joseph Estrada—both of whom exhorted the Filipino people to fight for “truth and transparency”. For sheer cynicism, the event was breathtaking. Even the hardened Filipino media could not avoid cautiously pointing to the incongruity of Estrada, who was ousted in 2001 for corruption, sitting alongside Aquino, who was prominent in the Peoples Power movement that forced him out, to make way for Arroyo, who was hailed at the time as the great saviour of the nation. The roles may have changed since 2001 but the game is the same—to rearrange state affairs while blocking any eruption of popular anger.

The various elements of the Philippine “left” dutifully played their part, maintaining a diplomatic silence on Estrada's presence, whom they denounced in 2001, and demanding the resignation of Arroyo, whom they backed to the hilt in 2001. If the ruling elite finally decides that Arroyo has to go, then the Stalinist Communist Party of the Philippines (CPP) and its breakaway rivals such as SANLAKAS will no doubt hail the installation of another establishment figure as a great victory. In the meantime, these layers function as the cheerleaders and protest organisers for figures like Aquino and Estrada, the church hierarchy and the Makati Business Club.

Far from criticising this rotten alliance, head of the CPP's front BAYAN, Renato Reyes, enthusiastically praised the “unity” shown at the rally as “unprecedented”. “This will be the biggest show of force, the strongest message of rejection of President Arroyo. Hopefully, it will pave the way for bigger actions in the future. And this will somehow strengthen unity of various groups,” he declared.

Alberto Lim, executive director of the Makati Business Club, who paid a large portion of the rally's expenses, was especially pleased. Commending the role of the “left”, he told the *Philippine Daily Inquirer*: “This is an interfaith gathering; there is no shouting of slogans against imperialism, etc., which turns off many people.” In other words, in the name of “unity” with sections of the ruling elite, there is nothing the “lefts” will not do—including shelving their empty anti-imperialist posturing.



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