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Off the Rails in the Philippines

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A major American ally is in trouble. A massive scandal involving a Chinese telecommunications company has driven politics in the Philippines off the rails. As the Philippines seeks to address the scandal, the United States should help it avert what has the potential to become a major constitutional crisis.

The Scandal. That the intersection of business and politics in the Philippines is rife with corruption is hardly a revelation. Nor is it extraordinary by the standards of current practices in Asia. What is troubling, however—perhaps only because, unlike corrupt dealings in other countries, it takes place within a lively, often raucous democracy—is the way corruption has come to dominate public discourse so thoroughly.

The scandal involves a \$330 million contract to provide the government with a national broadband network. The company involved is a major Chinese telecommunications company, ZTE Corporation. The principal allegation under examination in the Philippine Senate is that the obviously inflated price is a result of a new, shameless level of corruption. Who exactly is accountable is the devil buried in the details. Suspicions and investigations have converged on President Arroyo's husband and a few key officials.

As big as the scandal is in dollar terms, the most spectacular charge to emerge from the controversy is that the contract flows from a 2004 China–Philippines deal to put aside sovereignty claims in the South China Sea in order to conduct a joint seismic

study. The South China Sea, of course, remains a source of contention among several countries, including the Philippines and China. The dispute has been mostly dormant since 2002, when ASEAN and China reached a working accommodation to resolve differences by peaceful means and not to “complicate” or “escalate” the dispute.

The striking thing about the seismic study is that it will include not only disputed areas of the South China Sea, but also parts of the Philippine continental shelf. The obvious danger is that such cooperation—far from the China mainland but close to the Philippines—will eventually threaten Filipino sovereignty. A study today will lead to a joint tapping of resources tomorrow and ultimately reinforce Chinese claims on the territory. Indeed, such a concession is difficult to understand strictly from an assessment of the Philippines' national interest.

The ZTE deal is only one element to emerge from \$2 billion per year in Chinese project loans offered soon after the deal on the seismic study. The loan program extends until 2010, President Arroyo's last year in office, and has already facilitated dozens of deals beyond the ZTE broadband project. Another massive deal that has aroused suspicion is the 25-

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year concession to the Philippines' power grid. The biggest privatization in Philippine history, the \$4 billion deal has a similar confluence of factors: Chinese involvement, high-value assets, and charges of connections to the Filipino first family.

The economic costs of corruption are well documented. What is alarming about these cases is the possibility that corruption in the Philippines may have reached the point of trumping national interest. Judging by the public debate, that is the conclusion reached by a great many prominent Filipinos. The most sensational of the commentary is calling the South China Sea deal "treason" on the part of the President. While to date the evidence of a connection between the seismic deal and official corruption appears circumstantial, the new depths being plumbed in this "debate" are reason enough to be concerned.

What's at Stake. The Philippines is one of America's principal allies in the Asia Pacific. A country with a unique historical, cultural, and even demographic connection with the United States, it is a natural American ally. As Washington calculates its diplomatic and geopolitical interests, politics in Manila going completely off the rails should be a serious concern. Even more disturbing is the thought that a pillar of the United States' historic presence in the Pacific may be for sale.

President Arroyo deserves a fair hearing, if for no other reason than that she is the duly elected President of the Philippines. The immediate situation

may be salvageable. If not guilty of "treason," the government may yet garner enough trust among the Filipino elite to put the controversy behind it. Certainly, judging by the still-meager protests, public outrage has not reached a level that rules out amicable settlement.

However, if the Philippine people—as represented by their representatives and senators—determine that the President is guilty of impeachable offenses, the Constitution of the Philippines has mechanisms for dispatching her. If opponents judge the process too corrupt to render an accurate judgment, the answer does not lie in appeal to extra-constitutional means, but in a concerted effort to fix the system, however difficult and lengthy that may be. From the perspective of a concerned friend, it would be far more preferable for the President to finish her term in office—even if under a cloud of suspicion—than for the Constitution to be breached.

What the U.S. Can Do. The United States should hold up a mirror to the Philippines. The U.S. does its Filipino friends no good by pretending corruption is any less than a cancer eating away at its body politic. The recent decision by the Millennium Challenge Corporation to qualify the Philippines for "large-scale grant funding" is a major step to that end. Above all, the U.S. must be crystal clear that it supports the constitutional order in the Philippines.

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