OPINION

Powering Down the Philippine Economy

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This "opinion" article from Greg Rushford is interesting in that it shows both the strength of pressures from TNCs for more neoliberal counter-reforms in the Philippines, and the intensity of Philippine "big families" conflicts within the socalled state owned sector [ESSF].

Philippine President Gloria Arroyo took a whirlwind tour of the U.S. this week. At every stop, she boasted that her country's economy is on the move, having enjoyed an impressive 7% growth rate last year. Tomorrow in New York, Ms. Arroyo will woo well-heeled potential investors at a $5,000-a-table luncheon at the Waldorf-Astoria, where she is expected to give an upbeat presentation on Philippine infrastructure financing and ongoing privatization efforts.

Ms. Arroyo's boasts ring hollow, however, given her country's inhospitable climate for foreign investment. Four decades ago, the Philippine economy was the second strongest in Asia, after Japan. Today, it's been outpaced by South Korea, Hong Kong, Taiwan and also by every other country in Southeast Asia — save the likes of Burma, Cambodia and Laos. Last year, Vietnam attracted $15 billion in foreign direct investments, compared to the Philippines' $2.5 billion. Even worse, Ms. Arroyo and her political allies back in Manila don't seem to care that they are sending signals that would cause any potential investor to cringe.

Take the most recent bungle: the liberalization of the notoriously inefficient Philippine energy sector. In 2001, a newly sworn-in President Arroyo signed legislation calling for at least 70% of the government-owned National Power Corporation, known as Napocor — long one of the country's worst symbols of inefficiency and corruption — to be privatized. Even though Ms. Arroyo's administration has dragged its feet in following through with the reforms, the Electric Power Industry Reform Act of 2001 is working, albeit slowly.

Today, slightly more than 40% of Napocor is privately owned. In April, America's AES Corporation completed a $930 million purchase from the government of a 660-megawatt coal-fired thermal power plant in Zambales Province in Luzon. Currently, seven interested foreign bidders — including AES, France's Alstom, Marubeni Corp., and a subsidiary of Korea Electric and Power Co., according to news reports — have been invited to compete for Napocor's 620 megawatt power plant in Limay. Those bids should be in by the end of July. By year's end, the reform act's goal of privatizing at least 70% of Napocor could be realized.

But will Manila allow that to happen? Last December, the Arroyo administration announced that it wanted to amend the reform act by Christmas, to ensure that the government would retain control of at least 50% of Napocor. Hardly for the first time, the government in Manila was reminding foreign investors that the economic goal posts could be moved in the late innings. In the House of Representatives, the antireform legislation's chief sponsor is the chairman of the energy committee, Rep. Juan Miguel "Mikey" Arroyo, the president's son.

When the heads of the Joint Foreign Chambers of Commerce protested the roll-back of Napocor’s privatization in a May 27 letter to Ms. Arroyo, the president’s allies in the senate exploded in nationalistic outrage. Summoned to a June 6 hearing, Hubert D’Aboville, the French president of the European Chamber of Commerce, tried to speak on behalf of the foreign chambers, whose members hail from the U.S., Korea, Japan, Australia, Canada and New Zealand. Mr. D’Aboville prepared testimony that pointed to the “negative consequences” of amending the privatization law and thus dampening confidence among the foreign investment community (a view enthusiastically shared by the more enlightened members of the Philippine business community in the influential Makati Business Club). But Mr. D’Aboville was not allowed to present his testimony.

“My goodness, get out of this country if you can’t live with us,” Sen. Juan Ponce-Enrile told Mr. D’Aboville, who has lived in the Philippines for 31 years and is married to a Filipina. Added another presidential ally, Sen. Miriam Defensor-Santiago, “You may not continue. You do not determine what you can say or not say. I determine.”

Unembarrassed by such a display of legislative intemperance, Ms. Arroyo has brought Sen. Santiago with her to New York, where the president is lobbying the United Nations to give her a seat on the International Court of Justice. Asked by reporters right after the hearing if the senators’ June 6 bullying of the foreign businessman had been inappropriate, presidential spokesman Ignacio Bunye said he didn’t think so. A few days later, Ms. Arroyo — possibly having been informed that several European ambassadors were prepared to file a formal diplomatic protest — came out with a statement thanking foreign investors for being part of her country’s “success.”

Ms. Arroyo has argued that government control of power plants is a more efficient way of keeping electricity prices down than private competitors who will compete in the marketplace — surely a strange argument from a woman who has a doctorate in economics. Making matters worse, her administration is engaged in a separate but equally embarrassing power struggle for control of the board of directors of the Philippines’ largest private electricity distributor, the Manila Electric Co. The company is controlled by the powerful Lopez family, one of the Philippines’ most enduring oligarchies. In addition, the Philippine government holds a 30% stake and is represented on the board.

To be sure, there is a case that could be made that Meralco, which controls some 70% of electricity on the big island of Luzon, is a monopoly that should be subjected to the pressures of real market competition. But the political intensity of the Arroyo administration’s personal attacks on the Lopez family suggests — especially to watching foreigners — that an agenda is at work that goes beyond economics. Specifically, the fight between Ms. Arroyo’s family and the Lopez business empire seems to personify the latest example of feuding family clans that have long been a major source of the Philippines’s economic and political fragility. In the early 1960s, when Ms. Arroyo’s father, Diosdado Macapagal, was president, he also tried to wrest control of Meralco from the Lopez family.

Ms. Arroyo needs to understand that when Manila promises to open up major sectors of the economy to reforms that would foster real competition, those promises should not be broken. This would seem to be especially relevant, considering that economic projections warn that the Philippine electricity sector could, in the next several years, face more of the blackouts that crippled economic growth in the late 1980s.

The president might also reflect upon the plans of Alstom, the power company from France that is reported to be interested in the current bidding process to buy Napocor’s Limay power plant. If the Philippine government continues to delay this ongoing bidding process, Alstom has choices. Late last year, as Ms. Arroyo’s government announced its legislative priority to roll back the power sector’s reform process, Alstom Hydro announced that it would build Southeast Asia’s largest hydro power plant — in Son La, Vietnam.

P.S.

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http://online.wsj.com/article/SB121443018402404837.html?mod=rss_opinion_main

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