

Philippines in Crisis Turns to China

by Mike Billington

Philippines President Gloria Macapagal-Arroyo, just weeks after her dramatic decision to withdraw the small Filipino military contingent from Iraq, and the hostile retaliation to that act from the Bush-Cheney regime in Washington, has now carried out a high-profile three-day state visit to China, signing a series of breakthrough agreements. These agreements, covering especially Chinese investments in Philippine infrastructure, oil development in the contentious Spratly Islands region, and defense cooperation, are significant not only for the region, but for the world.

However, faced with national bankruptcy, President Arroyo has also opted to implement a set of vicious austerity conditions on the nation, in a desperate effort to appease the International Monetary Fund (IMF) and the Anglo-American financial institutions, in order to pay an unpayable debt service, which payments will translate into the destruction of the livelihood of even more millions of Philippine citizens.

President Arroyo's visit to China is an effort to counter Washington's anger over her hubris in defying Cheney's imperial war policy, by turning to China to find alternatives to her nation's overwhelming economic dependence on the United States. But she must also recognize that the horrendous economic crisis in her country, while brought on by the foreign looting facilitated by the former regime of Kissinger asset, President Fidel Ramos, and her own adoption of similar policies in her Presidency to date, is not simply a domestic issue, but a reflection of the ongoing collapse of the global monetary-financial system. Austerity measures will not solve the problem, but will bring on more misery. Sovereign economic policies, defying the "Washington consensus," as she has defied the Cheney war policy, while joining forces with like-minded leaders around the world to demand a new world monetary system, is the only path to avoid the "Argentina-style" destruction planned for the Philippines today.

State Visit to China

The Sept. 1-3 visit to China by President Arroyo and her entourage, was planned long before the recent conflict with the United States, for her to speak at the International Conference of Asian Political Parties being held in China. But the visit was upgraded into an official state visit, in the past weeks, following the crisis in U.S.-Philippine relations. Soon after the crisis emerged, on Aug. 10, Philippine Sen. Miriam De-

fensor-Santiago, a member of the President's party, and the incoming Senate Foreign Relations Committee Chairwoman, warned the Arroyo Administration to expect "punishment" from Washington for the pull-out from Iraq, and suggested that "we should prepare and begin scouting for other big powers, other highly influential foreign governments that can help boost our trade relations outside the country. . . . We should be wary of the kind of punishment we are about to receive."

One of several dramatic results of the China visit is that the Philippines will now join other nations of Southeast Asia as recipients of China's ambitious and generous infrastructure development policy. China has extended a nearly \$400 million development loan for the first phase of the rebuilding of the main railway line in the Philippines, the North Luzon Railway, connecting the capital city, Manila, with northern Luzon Island. This crucial railway, as described in detail in the accompanying article, has been dormant for 20 years—a symbol of the systemic decay of the Philippine economy.

China, unlike the United States, still holds to the former American belief that generous state infrastructure aid to developing nations benefits both lender and recipient, through enhanced productivity—even if the terms do not provide assured profits to private investors. As President Arroyo told CNN, the Chinese "provide us with the most generous financing terms for our major projects," unlike the onerous "unequal contracts" imposed by Enron and other pirates during the Ramos regime in the 1990s, which have left the nation bankrupt. President Arroyo also reported that China is expected to invest in the subsequent phases of the Northrail project, and in other infrastructure projects over the coming years.

Equally dramatic was the decision to undertake the joint development of the oil and gas fields in the highly contentious Spratly Islands in the South China Sea, which are subject to multiple territorial claims by nations in the region. Sen. Aquilino Pimentel, the head of the opposition in the Senate, joined President Arroyo on the China visit, and said afterwards, "the best thing that can be said of the trip is that it started some concrete, modest steps to ease tensions in the Spratlys." He described the intention of the agreement as a "condominium development approach to the utilization of resources that may be discovered in the islets . . . to avoid resorting to force to settle the [territorial] dispute." The agreement calls for an initial "Joint Marine Seismic Undertaking" to determine the potential for drilling in the region.

Perhaps the greatest concern that President Arroyo's trip provoked in the backrooms of the neo-conservative enclaves within the Bush Administration, is that China and the Philippines have agreed to significant defense cooperation. Beginning with military exchanges, training assistance, and intelligence information-sharing, the agreement will soon be further developed in a visit by Philippine Defense Secretary Avelino Cruz to Beijing.

The two nations also determined to double their current two-way trade to \$20 billion. Trade relations were already



Philippines President Gloria Macapagal-Arroyo, shown here at a meeting in Manila earlier this Summer. Her Sept. 1-3 visit to China resulted in breakthrough agreements on infrastructure projects and defense cooperation. But her country still faces bankruptcy, due to her subservience to the austerity conditionalities of the International Monetary Fund.

expanding rapidly, from \$5.26 billion in 2002 to \$9.4 billion in 2003.

Nuclear Power and Austerity

Although nuclear power development was not on the agenda in Beijing (at least, not publicly), the Arroyo Administration has announced a major shift of national policy in this regard, which is crucial for the nation's future. In addition to the deserted Northrail line, there is a second symbol of decay in the Philippines—the fully completed nuclear power facility, built by Westinghouse in the 1980s, which was deserted after the coup against President Ferdinand Marcos in 1986—without generating even one watt of electricity—under the guise of the irrational hysteria against the use of nuclear power. (It is noteworthy that Westinghouse built two nuclear power plants for South Korea at the same time, which have contributed to that nation's dramatic economic development.) The Philippines is still paying \$155,000 *per day* in debt service on that deserted nuclear facility.

However, on Aug. 18, Philippine Energy Secretary Vincent Perez announced that “Nuclear power has been a component of countries that are energy independent—South Korea, Japan, China, Taiwan, someday Vietnam. So it should always be an option.” The Arroyo Administration also hosted Iranian Foreign Minister Kamal Kharrazi in late August, despite Bush Administration efforts to paint Iran as a target for pre-emptive war, because of its nuclear power development project. The joint Iran-Philippine communiqué even asserted “the need to strengthen the nuclear non-proliferation regime, as well as Iran's right to use nuclear technology for peaceful purposes.”

But here a paradox becomes apparent. While opening up to the only viable means for solving the energy crisis—bilateral ties to oil producers, cooperation with China in developing oil resources, and reviving nuclear energy—President Arroyo has adopted for the short term an energy policy which is unworkable, and in the long term self-destructive. Faced with both a power crisis and a national debt crisis, she has adopted vicious austerity, increased energy prices to businesses and consumers alike, restricted energy usage, and promoted wasteful so-called “renewable” energy resources such as wind and solar. A solution to the energy problem requires rapidly *expanding* energy usage in rebuilding the advanced energy (and other) infrastructure for the future, just as the only solution to the debt crisis is to implement a debt moratorium on the artificial and unjust portions of the foreign debt, while new credits are directed toward reconstruction rather than debt service. Anything less would simply aggravate the crisis.

The real state of the economic crisis was outlined by Ernesto Maceda, the former Philippines Ambassador to the United States. He wrote on July 27 that President Arroyo, in her State of the Union Speech, should have reported: “The number of hungry people has soared to 43% or 36 million Filipinos, up from 31%. . . . The unemployment rate is at a record 13.7%. . . . Seventy percent of our revenues will be used just to pay our foreign obligations. . . . There is a deterioration of the educational system with the chronic shortage of school rooms, teachers and books unsolved. . . . Government health services cannot keep up with the needs of the population. Doctors are leaving [and taking jobs] as nurses. Trained

nurses are all applying to leave for foreign shores. . . . The peso-dollar rate is at an all-time high. Prices of everything are up, including meat, fish, vegetables, electricity, water, gasoline, toll rates and transportation fare.”

On Aug. 23, President Arroyo admitted the severity of the situation, by declaring a “financial crisis” in the Philippines as a result of the huge and growing national debt. However, the declaration followed the release of a scurrilous report by a team of economists from the University of the Philippines (UP), called “The Deepening Crisis: The Real Score on Deficits and Public Debt,” which warns of state bankruptcy and the “Argentina treatment” within two years. Although the warning is viable, their solution is insane, following classic IMF austerity demands, including the slashing of wages and government spending, raising taxes and fees, and retaining the portion of national tax funds which are (by law) returned to the local governments. The IMF-apologists from UP also denounced the growing calls for a moratorium on the debt, despite the fact that debt service could consume upwards of 70% of the federal budget next year.

President Arroyo essentially adopted the proposals, although she included hopeful calls for increased infrastructure and new jobs—which will be impossible to achieve within the confines of the austerity program.

More ominously, the “financial crisis” may be used to justify presidential decrees, to impose policies which are certain to create social crisis. This includes the possible withholding of tax funds to local governments—a policy which was imposed on Argentina by the IMF, and which contributed to intense civil strife between the regions and the central government. It also may include tax hikes, which are unlikely to pass through the normally required Congressional approval process. Such an “economic martial law” was imposed (with a rubber stamp from the Congress) by former President Fidel Ramos, allowing him to establish energy contracts with his cohorts among the foreign energy pirates, without any oversight—contracts which placed the entire risk on the Philippines, forcing the nation to buy unneeded electricity at dollar rates, in deflated pesos, a process which has drained billions out of the Philippines economy. An emergency *reconstruction* policy, rather than an emergency *austerity* program, would not only win Congressional approval, but rally a suffering people to a new national mission.

In that light, the League of Filipino Democrats (Katipunan ng Demokratikong Pilipino) and the LaRouche Youth Movement of the Philippines issued on Aug. 24 a “Call to Defend the Filipino People,” which is being widely circulated in the country. The call, in part, makes a request of the leaders of the nation “to exercise the mandate given to them to protect the general welfare and to defend our right to exist as human beings.” It calls on President Arroyo “to recognize that the global financial system is presently collapsing, and to guard our people from all those who seek material gain through a dehumanizing process,” and calls on the Filipino people to

act in solidarity with all “victims of the IMF and the financial oligarchy.” It proposes a moratorium on foreign debts, to “allow time to rebuild and expand a productive physical economy,” and outlines a program to achieve the required physical and social infrastructure development to reverse the current decline into chaos.

Railway Diplomacy In the Philippines

by Gary L. Satre

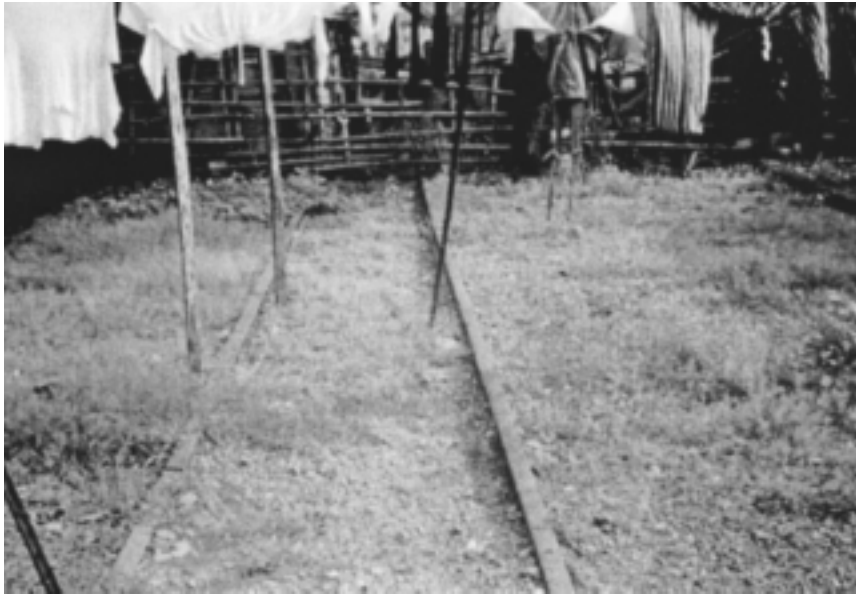
Gary Satre, a longtime friend of EIR who lives in the Philippines, received a master's degree from the University of the Philippines after working as a U.S. Navy journalist. He writes and speaks on railroad issues in the Philippines.

When most Filipinos in their late teens or early 20s think of trains, images of the light-rail transit system usually come to mind—if they live in Metro Manila. The first of those three commuter lines made its appearance in 1981, after nearly a 40-year absence, after the destruction of the Manila metro rail during World War II.

Their parents, however, may recall long-distance trains going to places like Dagupan in the north, and south to Legaspi. If they are from Panay Island, the sixth largest in the archipelago, they may remember the line across that island. Those memories are certainly fading, however, due to decades of government neglect of the rail system.

Rail service today south from Manila to Legazpi is marginal; one train a day each way. The line north has not seen any trains on it for least the last 22 years! The latter is apparently about to make a comeback, with substantial help from the Chinese—support for the “NorthRail” project was the first of five agreements signed during President Macapagal-Arroyo’s recent trip to Beijing (see accompanying article). NorthRail, a subsidiary of the “Bases Conversion Development Authority” (created to restructure the U.S. military bases after the Philippines Senate refused to extend their contracts in 1991), is about to restore and substantially increase the capacity of the historic North Main Line, the route of the Manila-Dagupan railway. A supplier credit of \$395.22 million is being furnished by the China National Machinery and Equipment Corporation. This loan will be payable in 20 years, at 3% interest, with a grace period of five years. “This is the first time China has given a 20-year concessionary loan to a country,” Economic Planning Secretary Romulo L. Neri pointed out on Aug. 16th.

“The Manila-Dagupan railroad was the single most important infrastructure [project] built in the Philippines during



Traces of what was once a four-track stub yard are seen among the squatter shanties near San Jose Station.

the Spanish colonial period that was not initiated by the [Roman Catholic] Church,” Dr. Arturo G. Corpuz points out early in his book *The Colonial Iron Horse: Railroads and Regional Development in the Philippines*. Dr. Corpuz, an urban planner with Ayala Land, Inc., and a professorial lecturer in the School of Urban and Regional Planning, University of the Philippines, drew on his 1989 Cornell University dissertation for his text.

“It has long been an accepted notion that transportation is an important component, whether as cause or effect, of economic development” Corpuz writes. “In the Philippine Islands, the importance of transportation was highlighted by the Philippine Commission; just twelve days after it became a legislative body in 1900, the governing body of the colony enacted its first piece of legislation, appropriating one million dollars for the construction and repair of roads and bridges.”

The Schurman Commission, charged with looking over the islands after the signing of the Treaty of Paris (ending the Spanish-American War in 1898), found anything but a modern nation, after more than 370 years of Spanish rule. Poor infrastructure was one sign. Earlier, the German scholar Fedor Jagor traveled extensively on the largest island of Luzon, from 1859 to 1861, using Manila as his base. He believed that bad road conditions reflected Spanish colonial policy, “which was always directed to effect the isolation of the separate provinces of their great transmarine possessions, and to prevent the growth of a sense of national interest in order to facilitate their government by the distant mother country.” The Philippines was the farthest outpost in Spain’s empire.

Opened for business in November of 1892, the Manila Railroad Company’s (MRC) 196 km-long line to Dagupan played a significant role in the Philippine Revolution and the Philippine-American War. Corpuz: “From 1896 to 1900, the Manila-Dagupan line was successively under the control of the Spaniards, the Filipinos, and the Americans. After American rule was established during the first decades of the 20th Century, the MRC began expanding its lines northward and southward.”

Thus, it’s ironic that the Philippines’ first long-distance rail has been virtually abandoned for more than 20 years, while the 479 km South Main Line remains in operation, but just barely—just two trains a day, down from four just a year ago.

The NorthRail project calls for a double-tracked narrow-gauge line to San Fernando in the north. The original MRC line was single-tracked. It will use the same track width widely used in Japan on its conventional main lines. The project is in four phases:

Phase I’s first section is from Manila to the former Clark

Rail Development in Luzon



Air Base, now also known as Macapagal International Airport, named for the former President and father of the current President Gloria Macapagal-Arroyo.

Phase II is a branch line running from Clark to the Subic Bay Freeport. There's historical precedence for this line too. Eduardo Lopez Navarro, senior engineer-in-charge of the railroad planning committee, mentioned in his February 1876 general plan a branch line along this route, which passed through the hometown of the Macapagals.

Phase III is an extension within Metro Manila.

Phase IV is from Clark to San Fernando, to the north.

Connecting to the Eurasian Land-Bridge

It was suggested by this reporter in the December 1999 issue of the *Japan Railway and Transport Review* that reviving the Cabanatuan Line and filling the gap from Cabanatuan to San Jose along the abandoned 55 km San Jose Branch Line, would bring points to the north closer to Metro Manila. This would be particularly useful to the operations of the Cagayan Economic Zone Authority (CEZA) and Free Port, centered in Santa Ana on Luzon's northeastern coast. Providing this link, and extending the line to the northern coast, would allow the Philippines to connect with the Eurasian Land-Bridge rail route from China to Europe. Cargo could be shipped through Santa Ana to China or to Busan, South Korea.

In an interview with this author, Librado Quitoriano of the Infrastructure Staff of the National Economic Development Authority (NEDA) said that he believes that, while the project's start is mostly a done deal financially (the diplomatic spadework was completed in February), one major issue that still needs to be dealt with is how to best relocate the squatters that live very close—dangerously close to be accurate—to the right of way. This part of the project is being handled by the National Housing Authority (NHA). NHA has identified 18,135 families along the abandoned right of way of the Caloocan-Malolos section that will need to be moved elsewhere. Each family will receive government assistance totalling P202,470 (about \$3,616), for the families to build modest homes and for livelihood assistance.

What will come of NorthRail remains to be seen. But this reporter has not heard rail-related talk coming from high places as intensely as this since the first State-of-the-Nation address of former President Joseph Estrada in 1998. This time, it comes with large participation from the People's Republic of China. Let's see if Mrs. Arroyo's government can rebuild the railway line which had such a dramatic impact at a turning point in Philippine history. As Corpuz pointed out: "The railroads of Luzon benefited many of the settlements along its route by significantly improving regional linkages and thus providing local economies more opportunities to respond to larger markets. Many towns served directly by the railroad, especially those that were previously inaccessible, experienced extraordinary urban and economic growth."