

JUNE 2021

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## CHINESE INVESTMENTS IN THE PHILIPPINES: ARE THEY CORROSIVE CAPITAL?

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# CHINESE INVESTMENTS IN THE PHILIPPINES: ARE THEY CORROSIVE CAPITAL?

In 2017, President Rodrigo Duterte launched the “Build, Build, Build” (BBB) program, aimed at ushering in the “golden age of infrastructure in the Philippines.” In its original version, the program intended to spend about P8 to P9 trillion on infrastructure and, in the process, “create jobs, increase incomes, and strengthen the investment climate leading to sustained inclusive growth” from 2017 to 2022 (Philippine Infrastructure Transparency Portal, n.d.).

In the Global Competitiveness Report of the World Economic Forum from 2015 to 2016, the Philippines ranked 106<sup>th</sup> out of 140 countries in terms of the overall quality of infrastructure. Among the countries in the Association of Southeast Asian Countries (ASEAN)—except for the unlisted Myanmar—the Philippines was in the last spot, as it has been for several years. Poor infrastructure has hindered Philippine economic growth and contributed to restraining investment flows as well as employment generation.

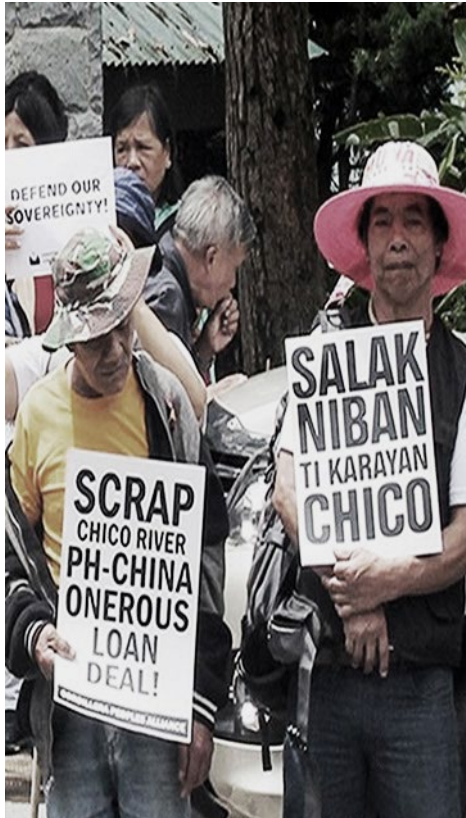
The reaction to the BBB program was generally upbeat as it would boost the economy even further than what the Aquino administration has accomplished. But, given the massive amount, the obvious question is how to finance the entire program. The projects were to be funded from a combination of sources, with a heavier reliance on government revenues and Official Development Assistance (ODA) in the form of concessional loans.

Early in his administration, President Duterte announced that the Philippines was breaking away from the United States to pursue China and its promise of infrastructure and job creation for Filipinos. For China’s President Xi Jinping, that meant bringing the Philippines into the fold of the Belt and Road Initiative (BRI), its strategy in investing in infrastructure development to connect Asia with Africa and Europe via land and maritime networks with the aim of improving regional integration, increasing trade and stimulating economic growth. Internationally, however, the BRI suffers from a reputational burden as an instrument for debt-trap diplomacy.

This paper will explore four cases of Chinese investments in the Philippines. Two of these are banner projects under the BBB program, funded by an ODA from China, and officially included in the BRI list—the Chico River Pump Irrigation Project and the New Centennial Water Source-Kaliwa Dam Project. The third project, also an ODA from China, is the Safe Philippines Project. The final case is that of DITO Telecommunity, while not part of the BBB program nor a BRI project and is neither an ODA from China, represents an infusion of investment in the Philippines.

These projects have become controversial for the Duterte administration primarily due to allegations that they followed a unique way of doing things that disregarded the rule of law and characteristically lacked transparency and accountability.





## Chico River Pump Irrigation Project (CRPIP)

The Chico River, considered as the most extensive river system in the Cordillera region, has a controversial history that begun with the Marcos-era Chico River Dam Project. After several decades out of the limelight, the “river of life” for the Kalinga people was, once again, thrown into the national scene with the introduction of the Chico River Pump Irrigation Project (CRPIP) as the first flagship project under the Duterte-initiated BBB program to be financed by China (National Irrigation Administration, n.d.).

Through the construction of new diversion and canal systems, the project—targeted to be completed in three years—is intended to provide stable water supply to 8,700 hectares of agricultural land, increase agricultural productivity and benefit some 4,300 farmers in 21 barangays from the municipalities of Tuao and Piat in the province of Cagayan and Pinukpuk in the province of Kalinga. Furthermore, the CRPIP aims to contribute some 36,000 metric tons of milled rice to the country’s rice supply, generate about USD16 million in savings from rice importation, and yield an incremental income of about P75,000 per hectare per year (Simeon, 2019).

Based on information from the official website of the National Irrigation Administration (n.d.) and the Loan Agreement on the Chico River Pump Irrigation Project (2019) on the official website of the Department of Finance (DOF), the project is worth P4.372 billion (or about USD87 million), with about 85 percent or P3.7 billion of which loaned from the state-owned China Export-Import Bank as an ODA with an interest of two percent per annum and a maturity period of 20 years, inclusive of a seven-year grace period.

Despite the anticipated benefits, the project has taken a controversial path. Serious governance issues have plagued the CRPIP from inception to



## FEATURES

### ON THE COVER

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## CHICO RIVER PUMP IRRIGATION PROJECT (CRPIP)

The agreement contained a “confidentiality clause” that could have prevented the timely release of the document to the public. The officials claim to have negotiated some way out of it, culminating in the slow release to the public a copy of the Preferential Buyer’s Credit Loan Agreement

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## THE NEW CENTENNIAL WATER SOURCE-KALIWA DAM PROJECT (NCWS-KDP)

The long-standing issue against the Kaliwa Dam project all these years is about the effects that it would bring to the environment. Several groups have lobbied for the abandonment of the project, saying that it will cause “long-term, irreversible environmental damage to the Sierra Madre and its biodiversity”

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## DITO TELECOMMUNITY

One of the campaign promises of President Duterte was that he would dismantle the Globe-Smart duopoly by allowing a third player in the industry. In November 2017, Malacañang announced that President Duterte offered China to become the third telecommunications operator in the country

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## SAFE PHILIPPINES PROJECT

The issue of individual’s privacy is also a priority concern about this project, in light of the facial recognition feature of the CCTV cameras. This apprehension is fueled by the administration’s perceived low tolerance for criticisms and its predisposition for red tagging those who show the slightest hint of disagreement with government policies or actions



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## CONCLUSION

It is definitely without question that the Philippines needs investments—whether in the private or public sector—to promote economic growth. It is important to realize, however, that these investments are hardly altruistic in character and are anchored on some gain or advantage



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# confidentiality clause

implementation. From the very start, the main issue against the CRPIP was the lack of transparency that has permeated many of the critical details of the project—such as the procurement of the funding and the supplier, including project milestones and accomplishments.

The 1987 Constitution provides in Section 21 of Article XII that “information on foreign loans obtained or guaranteed by the Government shall be made available to the public.”

On 10 April 2018, Finance Secretary Carlos Dominguez III and Chinese Ambassador to the Philippines Zhao Jinhua, representing The Export-Import Bank of China, signed the Preferential Buyer’s Credit Loan Agreement on the Chico River Pump Irrigation Project and the Agreement on Economic and Technical Cooperation with China Commerce Minister Zhong Shan.

The official copy of the document was uploaded in a post on the DOF website dated 18 March 2019, almost a year after it was signed. The eventual release of the document could be attributed to the mounting pressure for the transparency of the agreement. Salaveria (2019), in her news report, quoted Rosario Bella Guzman, Ibon Foundations’ top researcher, saying that “the DOF had invoked a confidentiality clause when the group tried to get a copy of the loan agreement for the Chico River project.”

As it turned out, the agreement contained a “confidentiality clause” that could have prevented the timely release of the document to the public. The officials claim to have negotiated some way out of it, culminating in the slow release to the public a copy of the Preferential Buyer’s Credit Loan Agreement.

The contested provision in Article 8.8 of the loan agreement reads:

*The Borrower shall keep all the terms, conditions and the standard of fees hereunder or in connection with this Agreement strictly confidential. Without the prior written consent of the Lender, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party unless required to be disclosed by the Borrower to any courts of competent jurisdiction, relevant regulatory bodies, or any government institution and/or instrumentalities of the Borrower in accordance with any applicable Philippine law.*

Moreover, Section 20 of Article VII of the 1987 Constitution also provides that foreign loans on behalf of the Republic of the Philippines may be contracted “with the *prior concurrence of the Monetary Board* (emphasis supplied), and subject to such limitations as may be provided by law.” Despite the loan agreement being signed on 10 April 2018, it appears from the official documents (National Economic Development Authority, 2019) that it was not until 17 May 2018 that the Monetary Board approved the loan agreement.

Even in terms of project completion status, the National Irrigation Administration (NIA), as the implementing agency, hardly releases pertinent information regarding monitoring the progress of the project, responsible officials and their assignments, and other information that will facilitate monitoring and increase accountability. The website of NIA for the Cordillera Autonomous Region (CAR) does not contain much information about the developments of the project either.

Many of the pertinent documents relating to the project remain unavailable to the public, such as the following: (a) NEDA's assessment and basis of approval of the project; (b) compliance documents such as the Environmental Compliance Certificate, and the like; (c) commercial contract between NIA and CAMCE; (d) documents relating to the negotiations between the PRC and the GRP; (e) general technical and financial plans of the project, with details on the need for the project; and (f) documents relating to the selection of the contractor China CAMC Engineering Co., Ltd. (CAMCE).

Conspicuously unavailable are materials about the selection of CAMCE despite this being a thorny issue about the project. The contract between NIA and CAMCE for the CRPIP was signed on 08 March 2018 (NEDA, 2019). In the

Preferential Buyer's Credit Loan Agreement on The Chico River Pump Irrigation Project (2018), one of the whereas provisions state:

*Under the MOU and the abovementioned Note Verbale and Clarificatory Procedures and Arrangements, China CAMC Engineering Co., Ltd. has been selected as the Contractor (hereinafter referred to as the “Chinese Contractor”) for the Project following the Borrower's procurement laws, rules and regulations; (paragraph F)*

DOF Assistant Secretary Lambino, as quoted by Rocamora (2019), said that “China has provided a list of three contractors of good standing and the implementing agency was given the opportunity to vet and request a replacement, if needed.” No less than DOF Secretary Carlos Dominguez III was quoted as saying that “companies that have a bad reputation in the international community will not be able to bid for projects in the Philippines” (PH to screen, 2016).

However, CAMCE was associated with the North Rail project that was subsequently declared anomalous (Lozada, 2016). In the same article, Lozada quoted then Kabayan Party-list Representative Harry Roque, now returning Presidential Spokesman, as saying that he has “discomforts with the track record of some of these companies,” including CAMCE. However, Department of Trade and Industry (DTI) Secretary Ramon Lopez had defended deals with blacklisted Chinese firms, including CAMCE (Trade chief defends, 2016) contrary to the pronouncements of Roque and Dominguez.

Reminiscent of the protests to the Chico River Dam Project during the Marcos years, the CRPIP also experienced challenges from the local communities that led to the “No to Karayan Movement” (Cimatu, 2017). The observance of the right of the indigenous cultural communities (ICCs) and indigenous peoples to self-determination vested under Republic Act No. 8371 or the Indigenous Peoples' Rights Act of 1997 (IPRA) has been put into question. The law also provides mechanisms for the protection of their ancestral domains and the resources present there through the concept of a free and prior informed consent (FPIC), defined as the—

*consensus of all members of the ICCs/IPs to be determined in accordance with their respective customary laws and practices, free from any external manipulation, interference and coercion, and obtained after fully disclosing the intent and scope of the activity, in a language and process understandable to the community. (IPRA, 1997, Sec. 3g)*





# SAVE OUR RIVERS! NO TO DAMS AND MINES!



The Cordillera Peoples Alliance denounced the signing of the P3.135-billion loan agreement for the Chico River Pump Irrigation Project as it is the latest move of the current Philippine government in selling-out our natural resources and ancestral lands to foreign investors, without consent from affected communities.

Moreover, a certification pre-condition (CP) is necessary before a project could proceed, as stated in Section 59 of the law. Official sources (NEDA, 2019) indicate that groundbreaking ceremonies for the project were held in Pinukupuk, Kalinga, as early as 08 June 2018. A groundbreaking event held in Barangay Pinococ in Pinukupuk, province of Kalinga, was documented, and a photo of it was posted on the official NIA-CAR website.

However, it was not until 23 May 2019 that the CP was issued by the National Commission on the Indigenous Peoples (NCIP) en banc, according to NCIP Cordillera Director Roland Calde, as cited by Cabreza (2019). Calde also noted that “the project had already commenced even before they could receive the report” (Cimatu, 2019). In a meeting on 07 May 2019, in response to the situation, the NCIP, NIA-Cagayan Valley, the Regional Development Council, and the Department of Environment and Natural Resources (DENR) agreed to suspend project activities while the CP was processed.

Cimatu (2017) also noted that, according to the Cordillera People’s Alliance and other IPs, the FPICs of the communities where the project is located were not obtained. These are the communities in Katabbogan and Pinococ in Pinukupuk, Kalinga. The groups also claim that there is a lack of full disclosure of information about the project before the FPIC, such as the provisions of the loan agreement, including the Chinese contractor and Chinese workers that will implement the project. Finally, even the final form that the consent was indicated was challenged.

Over and above these issues, the terms contained in the agreement also became the sore point about the project, specifically, the interest rate. The loan agreement between the Philippines and China, in relation to the CRPIP, imposes an interest of two percent per annum. This has been relentlessly questioned citing opportunities to acquire ODA loans from other countries—such as Japan and South Korea—at much lower rates.

The consistent response of the government was to say that “between 2% and 3% interest rate is still much better than commercial loans” (Japan has better rates, 2018). Then Director-General Ernesto Pernia of the National Economic

Development Authority (NEDA) defended the deals by saying, “we need more friends,” referring to China (Rivas, 2018).

Critics also scored certain onerous provisions that included the waiver of sovereign immunity, the confidentiality clause, and the arbitration terms.

As a legal doctrine, the term “sovereign immunity” means that no one can sue the government without its consent. Like other states, the Philippines asserts this principle in Section 3, Article XVI of the 1987 Constitution, which provides that “the State may not be sued without its consent.” There is, however, an express provision in the loan agreement that the Philippines waives that immunity. Perhaps, this is the most controversial and inflammatory issue about the CRPIP given its patriotic sense and in light of reports about the experience of other countries with China regarding the waiver of sovereign immunity. Of particular focus in this discussion of patrimonial assets is the gas-rich Reed Bank (Recto Bank), which, according to retired Supreme Court Senior Associate Justice Antonio Carpio, “could end up being the collateral” (Buan, 2019b). The Reed Bank is controversial because—despite China’s claim over it—the United Nations-backed Permanent Court of Arbitration in The Hague, Netherlands ruled in July 2016 that the Philippines has sovereign rights.

The confidentiality clause in the agreement, as discussed earlier in this paper, was also raised and deemed onerous on the part of the Philippine government.

On the other hand, the arbitration terms were considered heavily lopsided in favor of China, given that any issue that would trigger the arbitration process would be brought before China International Economic and Trade Arbitration Commission (CIETAC)—a Chinese entity in China—using their rules, which will then be final and binding.

## The New Centennial Water Source-Kaliwa Dam Project (NCWS-KDP)

The New Centennial Water Source-Kaliwa Dam Project (NCWS-KDP) and the CRPIP share many parallelisms—in terms of their historical background and significance during the Marcos years, and, in the contemporary issues under the Duterte administration. They are both BBB projects with funding from China.

Putting up the Kaliwa Dam is a project that has been on and off in the government's major infrastructure list since the 1970s. It has not taken off the ground primarily because of environmental, socio-cultural, and technical issues. Discussions resurfaced when certain parts of Metro Manila experienced water service interruptions up to 19 hours per day in March 2019, despite the assurance from Reynaldo Velasco, then-administrator of the government regulatory agency Metropolitan Waterworks and Sewerage System (MWSS) that the supply of potable water is expected to be adequate until 2022, saying "no shortage is imminent" ("MWSS says no imminent," 2018).

In 2012, the MWSS released its Water Security Legacy (WSL) Roadmap. Based on the WSL, the NCWS would have two dams at the Kaliwa watershed—the main Laiban Dam and the regulating Kaliwa Low Dam. However, concerns about the duration and costs of building these led to the option of building them in stages and under different financial schemes. Eventually, this option was followed by the National Economic and Development Authority (NEDA) approving the implementation of the Kaliwa Low Dam as the first stage in 2014. The project was initially planned to be financed under a public-private partnership (Rivas, 2019a). Subsequently, Duterte pursued the bigger China-funded NCWS-KDP.

The NCWS-KDP is intended to supply some 600 million liters of water per day and benefit some 17.46 million people or about 3.49 million households of Metro Manila, Rizal and Quezon by way of a redundant water source to reduce the current 97% dependence on the Angat Dam (Metropolitan Waterworks and Sewerage System, n.d.).

The project, estimated to cost P18.7 billion, would be funded from a combination of a loan agreement under an ODA from China and from the regular budget of the Philippine government. According to official statements, 85% of the project cost, or about P12.2 billion, will be financed by The Export-Import Bank of China (CEXIM) under the Preferential Buyer's Credit Loan Agreement on the NCWS-KDP. The project contractor is China Energy Engineering Corporation (CEEC). Both CEXIM and CEEC are state-owned enterprises.





The long-standing issue against the Kaliwa Dam project all these years is about the effects that it would bring to the environment. Several groups have lobbied for the abandonment of the project, saying that it will cause “long-term, irreversible environmental damage to the Sierra Madre and its biodiversity” (“Construction of China-funded Kaliwa Dam,” 2020).

A specific concern is the threat posed by flooding in the event of dam breakage” (Environmental Impact Statement, 2019, p. 272). Though scientific studies show that this is a distinct threat, the DENR downplayed it saying that *there are no active faults within the immediate vicinity of the dam which can bring about ground rupture* (emphasis supplied) (Environmental Impact Statement, 2019, p. 272).

Another environmental issue against the NCWS-KDP is that the dam is to be built within an area declared as a forest reserve, a national park, a wildlife sanctuary, and a game preserve. As such, concerns were raised that the

CHINA BENEFITED FROM THESE SUBJECT INVESTMENTS IS A FOREGONE CONCLUSION... THE QUESTION POSED IN THE TITLE OF THIS ARTICLE—IF THESE CHINESE INVESTMENTS ARE CORROSIVE CAPITAL—IS LARGELY PREMISED ON THE CONTROVERSIES SURROUNDING THESE INVESTMENTS...

project would disturb the biodiversity of the area, the location of the homes of thousands of threatened wildlife species in the Sierra Madre Mountain forests. Based on an environmental report, the dam area is a key habitat to some globally-threatened species, including the critically-endangered Philippine Eagle and the Hawksbill Turtle.

Moreover, concerns were raised about the displacement of the Dumagat indigenous tribes residing there (“Construction of China-funded Kaliwa Dam,” 2020). According to Marcelino Tena, president of Samahan ng mga Katutubong Agta-Dumagat-Remontado na Binabaka at Ipinagtatanggol ang Lupaing Ninuno (SAGIBIN-LN), some 10,000 members of the Dumagat-Remontado tribe will be displaced with the project (Vergara, 2019). The indigenous communities are in an uncertain position and their culture and livelihood are at risk. Their primary sources of income are farming and occasional guides to Sierra Madre hikers. The area is also the location of their sacred sites and burial grounds.

Despite unresolved environmental and socio-cultural concerns, the Environmental Management Bureau (EMB)—through its Director, Engr. Metodio U. Turrella—issued Environmental Compliance Certificate (ECC) No. ECC-CO-1907-0017 on 11 October 2019. This document paved the way for the implementation of the NCWS-KDP. Yap, Ramos & Gascon (2019), in their report, quoted DENR Undersecretary Benny Antiporda as saying that “the ECC was issued because it was a priority project of the

government and the agency had no recourse but to approve it.” Similar to the CRPIP, this pre-emptive action on the government to proceed with the project reinforced the criticism about the disregard for the consultation process, mandated under the IPRA and the Local Government Code.

To all these concerns, Duterte responded that he would use the extraordinary powers of the presidency to bring an end to water shortages in Metro Manila, even if the solution may pose environmental damage (Ranada, 2019).

The issues relating to the terms and conditions of the agreement are identical. The disadvantageous interest rates and the onerous provisions on the waiver of sovereign immunity, the confidentiality clause and the arbitration terms are the same in the NCWS-KDP and the CRPIP.

However, there was a marked difference on the issue of the selection of the contractor. In the CRPIP, there is hardly any documentation leading to the selection of CAMCE as the project contractor. For the NCWS-KDP, there is a semblance of transparency in the selection of the contractor—China Energy Engineering Corporation Limited (CEEC)—albeit controversial.

Unlike in the CRPIP, the issue for the NCWS-KDP is not so much on having an identified contractor but more on having simulated bidding to appear to have a legitimate winning contractor. The Commission on Audit wrote:



*Only the China Energy Engineering Corporation Limited qualified which is questionable considering that the two [other] bidders were disqualified in the 1st and 2nd stages of the procurement process due to the seemingly intentional purpose of the bidders not to comply with the TWG (technical working group) requirements (emphasis supplied) (Commission on Audit, 2019).*

The two other firms which participated in the bidding process were Power Construction Corporation of China Limited (Power China) and Consortium of Guangdong Foreign Construction (Guangdong).

In the Audit Observation Memorandum (AOM), COA explained that Guangdong failed the eligibility requirements of the Technical Working Group (TWG) when this contractor had already passed the pre-qualification requirements of MWSS. The TWG is the committee in the MWSS assigned to vet the contractors.

On the other hand, Power China was disqualified for submitting a bid higher than the approved budget. But, COA observed that:

*this raises doubt on the bid of the Power Construction Corporation of China Limited since the nominated bidders were already informed in the bid documents and in the Invitation to Bid for the project of the amount of the Approved Budget for the Contract (ABC) and that 'Bids received in excess of the ABC shall be automatically rejected at bid opening requirements (emphasis supplied) (Commission on Audit, 2019).*

COA added:

*In summary, it can be deduced that the two bidders/contractors were included merely to comply with the 'at least three bidders requirement' as stated under the procurement law. Likewise, the procurement of the project is with the semblance of competitive bidding when in reality, it is a negotiated contract from the inception of the bidding process (emphasis supplied) (Commission on Audit, 2019).*

## DITO Telecommunity

One of the campaign promises of President Duterte was that he would dismantle the Globe-Smart duopoly by allowing a third player in the industry. In November 2017, Malacañang announced that President Duterte offered China to become the third telecommunications operator in the country.

Towards the end of having a third player in the industry, the selection process through bidding—overseen by the Department of Information and Communications

“President Duterte once hinted that Filipinos are xenophobic—perhaps even Sino-phobic. Are these projects even being challenged because they involve China? These projects are being challenged because they constitute corrosive capital.”



Technology (DICT)—was set into motion. The NTC released Memorandum Circular No. 09-09-2018 containing the Terms of Reference (TOR) for the companies interested in becoming the third telecommunications operator on 20 September 2018. Interested companies acquired bidding documents at P1 million each. Ten companies were listed as having purchased bid documents (Rivas, 2018a). Of the ten, only three bidders eventually submitted offers: PT&T, Mislattel Consortium, and Sear Consortium. It is interesting to note that the seven other reputable companies that bought the bid documents at P1 million per set simply dropped out.

Reminiscent of the conduct of the bidding for the NCWS-KDP, PT&T and Sear Consortium were disqualified based on contested bidding specifications. These were challenged in courts but did not prosper. Even before the bidding, Duterte already warned courts in December 2017 from interfering in the entry of a third telecom carrier in the country. Presidential Spokesperson Harry Roque quoted President Duterte as saying, “do not issue any TROs (temporary restraining orders) or injunctions,” Billones (2017) reported.

Eventually, Mislattel Consortium was given provisional third telco status. In ceremonies held at Malacañang and attended by Duterte, the NTC granted a Certificate of Public Convenience and Necessity (CPCN) to Mislattel on 08 July 2019. As it received its permit to operate, Mislattel changed its name to DITO Telecommunity.

However, even with the grant of the CPCN, there were still legal technicalities surrounding the ownership, validity and the expiration of the franchise the consortium holds through Mislattel. At

the Senate, Senator Franklin Drilon raised the failure of Mislattel to operate within a year—as required by the conditions of the franchise itself—after its approval. The company claimed that the poor peace and order situation in their franchise areas prevented them from commencing the business within the prescribed periods and complying with the conditions mentioned (Palabrica, 2019). There is, however, no evidence that the NTC was notified of the situation. There were other issues that were pointed out but all these were subsequently settled in Congress, cementing DITO Telecommunity Corporation (DITO) as the newest major telecommunications provider in the Philippines.

As expected, controversial issues were raised concerning the selection of the company and the perceived leeway it has received from the government, including the delay of the company to launch its public rollout. On the other hand, President Duterte has not let up on his tirades against Globe and PLDT-Smart for the poor internet service in the country. On several occasions, the president threatened the companies with a government takeover. Observers have noted how pronouncements from Duterte, ranging from threats to policies, concerning the telecommunications industry have become favorable to DITO. The threat of Duterte to shut down Globe and PLDT-Smart in 2020 has led to the jump by nearly 11 percent of the shares of the holding company for DITO.

DITO is a joint-venture company comprised of Udenna Corporation, Chelsea Logistics and Infrastructure Holdings Corp. (Chelsea), and China Telecommunications Corporation. Dennis Uy is the Chief Executive Officer

(CEO) of Udenna and the Chairman of the Board of Directors of Chelsea. China Telecom, on the other hand, is controlled by the Chinese government (Rivas, 2019b).

Much of the controversy revolves around the fact that Uy, a businessman based in Davao City, is a known close friend and staunch supporter of Duterte. Uy, together with other corporate officers, were major contributors to the Duterte campaign. Almendral (2019), in her article, quoted former Senator Antonio Trillanes IV as saying that “it’s now oozing with preferential treatment and, at worst, cronyism,” referring to the selection of Mislattel. In the same article, Ronald Mendoza, dean at the School of Government at the Ateneo de Manila University, was also quoted as saying that “the bidding process lacked transparency and the ultimate is arguably the creation of yet another powerful force of economic concentration.”

The issues are propriety and fairness. The partnership of Uy with China Telecom after President Duterte offered the license to China in 2017 appears as an uncanny coincidence. Even certain government policies are seen as favorable to newcomer DITO Telecommunity. The common-tower policy adopted by the government—where independent contractors may build cell towers for lease by the telcos—allows DITO to meet its national coverage commitment without having to put undue stress on their finances if the company were to build them on its own. Even relaxing processes concerning permits and licenses at the local government level aid DITO Telecommunity in playing catch-up with the two existing players.

But, perhaps, more than the

controversial award to Uy that smacks of crony capitalism, is the issue regarding the threat to national security. Given the political tension created by the maritime dispute between China and the Philippines and the increasing business interests of Chinese companies in the Philippines, a heightened interest by China in the Philippines should be expected. It is, therefore, baffling that the Armed Forces of the Philippines (AFP) would sign a Memorandum of Agreement (MOA) with DITO Telecommunity to co-locate some of its microwave relay and base transceiver stations for mobile communications services and equipment with that of AFP. The opposition to the AFP-DITO deal is anchored on the fear of espionage, especially given both countries' tense relations.

The AFP assured that there is no cause for alarm in allowing DITO to set up facilities inside military camps, citing similar arrangements with Globe and PLDT-Smart (Andrade, 2020). A significant difference would be the absence of tension between the Philippines and Singapore and between the Philippines and Japan. Globe has partnership ties with Singapore's SingTel and PLDT-Smart with Japan's NTT.

Moreover, China's cyber-record is not particularly positive. China has been dubbed as "the most prolific nation-state mounting attacks on firms, universities, government departments, think tanks and NGOs" (Hymax, 2018). China Telecom, in particular, has been involved in the misdirection of large amounts of internet traffic to China, likely to assist the Chinese government's "surveillance of Western countries and companies" (Punongbayan, 2018). Even the AFP itself recognized the high likelihood of spying threats and the resulting damage posed by its deal, allowing the China-backed third telco to build cell sites in its camps and bases all over the Philippines (Gotinga, 2019).

## Safe Philippines Project

Based on the top voters' concerns—fighting criminality and curbing the widespread sale and use of illegal drugs—during the 2016 elections, President Duterte made a promise to stop crime in three to six months, vaguely referring to nationalizing Davao City's comprehensive CCTV system. President Duterte repeatedly stated that Davao City would be the model city for the policies he will carry out nationwide in his six-year term as president.

To this end, the Department of Interior and Local Government (DILG) entered into a P20-billion agreement with a Chinese contractor to fund the installation of a network of security cameras, in what is dubbed as the "Safe Philippines" project, patterned after Davao City's Public Safety and Security Command Center. Phase 1

of the project—signed during the state visit of Chinese President Xi Jinping in November 2018—would involve an initial 12,000 closed-circuit television (CCTV) cameras in Metro Manila and Davao City in 30 months and a national command center with facial and vehicle recognition software in Clark, Pampanga. Citing the briefer from CITCC, the project is aimed "to reduce crime by at least 15 percent and improve response time by 24 percent" (Romero, 2018).

Like other projects of the Duterte administration with the Chinese government, the Safe Philippines Project also has its share of issues and controversies, some of which resemble those from the said projects. Essentially, the major concerns raised in relation to this project are the same as those presented for the DITO Telecommunity deal—the selection of the contractor, individual privacy, and national security.

Similar to the deals in relation to the CRPIP, the NCWS-KDP, and the DITO Telecommunity, the selection of the contractor and the bidding process for the Safe Philippine Project drew critical attention. The project was made exclusive to Chinese contractors, from the very start, as stated explicitly in the Bid Bulletin No. 1 (n.d.) of the project:

An eligible bidder shall be a legitimate Chinese government-owned corporation (emphasis supplied) and a registered manufacturer of quality equipment and product relevant and required in the Safe Philippines Project.

In what has become a familiar outcome of the bidding process involving Chinese funding under the Duterte administration, two other bidders, Huawei and CMEC, were disqualified



because they did not meet the standards and specifications of the Special Bids and Awards Committee (Department of the Interior and Local Government, 2018). Not much information has been released other than the announcement that the bidding was held and that China International Telecommunication Construction Corporation (CITCC) was eventually selected as the project contractor after the two competitors were disqualified.

Despite the disqualification of Huawei in the bidding process for the main contractor, the company is still the designated supplier of the CCTVs and other equipment for the project. The company has been banned by several countries led by the United States based on allegations of espionage.

Not surprisingly, there are questions about the propriety of entrusting a mass surveillance project to Chinese corporations known for their espionage and hidden backdoor activities.

Moreover, under the ODA law, the President has the power to waive or modify the country's procurement laws. It would seem that an ODA project can effectively sidestep Filipino preference and competitive bidding. Given the special privileges enjoyed by ODA projects, questions were also raised as to whether the project can be truly identified as a national priority project. Under the ODA law, ODA projects have to be proven urgent and necessary and shall not be accepted or utilized solely because of its (sic) availability, convenience, or accessibility (ODA, 1996, Sec. 4).

The issue of individual privacy is also a priority concern about this project, in light of the facial recognition feature of the CCTV

cameras. There are fears that the system may be used by the government to conduct surveillance on citizens not only for anti-crime purposes but also for political ends. This apprehension is fueled by the administration's perceived low tolerance for criticisms and its predisposition for red tagging those who show the slightest hint of disagreement with government policies or actions.

Expectedly, China's involvement in the project makes this sentiment stronger with accounts of how China uses facial recognition to monitor people and engineer behavior combined with their social credit score.


The project also evokes the same national security concerns as those raised in relation to the involvement of China Telecom with DITO Telecommunity. Filipinos generally do not trust China, as consistently shown in national surveys. This may be due to the political tension created by the maritime dispute with China. With China in the Safe Philippines Project, fears and resentment toward the project are intensified because of the specter of the espionage. But, Huawei—or any other Chinese company for that matter—may not have much choice. According to media sources, the National Intelligence Law of 2017 of the People's Republic of China provides that for “Chinese citizens and companies alike, participation in ‘intelligence work’ is a legal responsibility and obligation, regardless of geographic boundaries.

This was also the sentiment behind the strong opposition to the deal between the Armed Forces of the Philippines and DITO Telecommunity that essentially allowed Chinese facilities inside military camps. Again, with China's dismal record as a digital citizen, there is no definite assurance that a data breach will not happen, and if it does, that it will not compromise the Philippines' national security.

The situation becomes complicated given that CITCC—the project contractor for the Safe Philippines Project—is an affiliate of China Telecom, a partner of the Mislattel Consortium (now DITO Telecommunity) that won the contract to be the third telco provider in the country.

Apart from serious concerns over Chinese involvement, there are apprehensions over the government's overall capacity to operate, maintain, and ensure the cybersecurity of the system from even small, domestic, and localized attacks. Multiple instances of Philippine government data being hacked in recent years are worth noting in this issue. The Philippines remains to be the most vulnerable country among ASEAN nations to cyberattacks. The report by Manuel and Joven (2018) reveals that the Philippines has the most cases of advanced persistent cyber threats.

Aside from the issues on selecting the project contractor, the privacy issues, the threat to national security, there were other encompassing transparency concerns.

The background of the page is a photograph of several surveillance cameras. In the top left, a black Hikvision camera is mounted on a metal arm. In the center, a white Hikvision camera is mounted on a similar arm. In the bottom center, a large black dome-shaped camera is visible. The cameras are set against a blurred background of a building and sky.

News reports abound about concerns on the availability of project information and documents for the public that hinder a closer inquiry into the project. An internet search of the Safe Philippines Project will yield the same press release from the DILG containing the statement of Secretary Eduardo Año regarding the benefits of the project and his blanket assurances in relation to the potential threats of the system.

During a Senate hearing on 12 December 2018, then-Senate President Ralph Recto, during his questioning of the DILG officials, was quoted as saying that DILG submitted “insufficient information and data” when he asked for copies of feasibility studies and that he received information that these “were supposedly done by potential suppliers.” The vetting and approval of the project—which allegedly lacked studies, consultations, and validation—are the issues that led to the following provision in the General Appropriations Bill for 2019:

*No amount appropriated herein shall be utilized for any project intended for public video surveillance and communication system with suppliers or service providers that are considered as serious risks to national security or interest or are involved in cases regarding information leakage, computer or network hacking, or other forms of cyber espionage, whether in the Philippines or in other countries (Special Provision No. 17).*

The provision effectively prohibited the government from using unprogrammed appropriations for public video surveillance and communication system.

However, Duterte, in the exercise of his executive powers, line-vetoed Special Provision No. 17 saying in his veto message that he was constrained to directly veto the provision as “it limits the power of the President, as the chief architect of foreign policy, to enter into loan agreements consistent with Section 20, Article VII of the Constitution.”



## Conclusion

It is definitely without question that the Philippines needs investments—whether in the private or public sector—to promote economic growth. It is important to realize, however, that these investments are hardly altruistic in character and are anchored on some gain or advantage.

For governments investing in another country, it is even more logical to behave in a non-philanthropic way, given that this type of disposition of state resources must be subsumed under its foreign policy. And, as a basic principle, a country's foreign policy should safeguard its national interests and must be consistent with the achievement of its own goals through relations with other countries. That China benefitted from these subject investments is a foregone conclusion. Any belief or claim otherwise is the height of naiveté and does not deserve any credence. It is not a zero-sum game either—one side's gain is not necessarily the other side's loss. The question posed in the title of this article—if these Chinese investments are corrosive capital—is largely premised on the controversies surrounding these investments.

One of the common issues was the severe lack of transparency in the deals. An exhaustive search on the web for pertinent information and materials on the projects yields only general information that is generally associated with official press releases from the government. In instances where some information is available, gaps and inconsistencies leave researchers without much substantive progress. Critical information seems to be left out deliberately to force some form of interpretation inconsistency that could eventually weaken one's data presentation and analysis. For instance, leaving out the exchange rate used in the computations will invariably lead to inconsistencies with government data—such

incongruence can be used to undermine the credibility of the data. The strategy seems to be to attack the credibility of the data and the entire analysis, based on certain elements that were deliberately withheld.

There were also observations that information and materials are made available much later when the controversies have died down. While this is so, the possibility that some materials have been uploaded in unsearchable links, only to be revealed at a later time when pressed for it, cannot be discounted. This practice would allow the concerned agencies to defend themselves and claim public posting using the date on the unsearchable link.

Take the case of the CRPIP. Listed in the earlier part of this paper are documents that have not been made available to the public. Although to the government's credit, while more information was disclosed in other projects, they were still significantly incomplete. For the selection of project contractors, there is no information about how CAMCE was selected for the CRPIP. Even conflicting pronouncements from cabinet members regarding the issues surrounding the selection were largely ignored and allowed to die down. For the NCWS-KDP, while the negative findings from the Commission on Audit about the bidding process were publicized, no action resulting from the findings was ever disclosed. It is practically the same level of information dissemination insofar as the bidding process for the selection of the third telecommunications player in the Philippines and the Safe Philippines project are concerned.

Having limited information about controversial projects only serves to add fuel to speculations. This only supports suspicions of pre-meditated irregularities in the project. Moreover, unpublished documents paralyze civil monitoring and the overall transparency of the project. The loan agreements between the Philippines and China for the CRPIP and the NCWS-KDP contain confidentiality clauses that expressly contradict the provisions of the Philippine Constitution.

Moreover, there are other provisions in the agreements that are deemed onerous and inimical to the interests of the Philippines, such as the waiver of sovereign immunity.

The response from the government has, generally, been dismissive and evasive. Presidential Spokesperson and Chief Presidential Legal Counsel Salvador Panelo said the “government could no longer negotiate the terms in the contract” (Corrales, 2019), and that it was not onerous to begin with “because the Philippines will be able to settle its debt anyway” (Geducos, 2019). DOF officials even added that these provisions are standard in loan agreements with China, adding that the agreements were vetted and are above board.

There is cause to be concerned when the best defense of the government is to say that the loan agreements in question are above board and have been vetted. This is tantamount to a mere denial of the issues being raised and, as such, is

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a feeble argument to defend the deal. Likewise, claiming that the agreements have been vetted—even if true—does not necessarily mean that there is nothing wrong with them. Finally, saying that the controversial provisions of the agreement will not materialize because the Philippines is a responsible borrower, can afford the repayments and will not default, as a defense of the onerous provisions is neither here nor there. Moreover, using as a defense the reason that these are standard provisions in loan agreements with China does not abandon the point that they are indeed onerous. Also, it hardly offers any explanation as to why our government officials will concede to terms that are unconstitutional at worst or burdensome at best. If at all, this raises the question as to why the Philippines would even consider loans from China.

All the projects under the subject case studies had issues with the observance of the rule of law. For the CRPIP and the NCWS-KDP, the government actions to sidestep the opposition from the indigenous peoples and other stakeholders resulted in a defective consultation process, in clear violation of existing laws. Even the pronouncement from Duterte of allowing environmental damage in order to have unimpeded progress of the NCWS-KDP straddles on the unconstitutional. Similarly, for the DITO Telecommunity deal, Duterte's admonition to the courts not to issue restraining orders clearly transgresses the separation of powers between the executive and judicial branches of government. At the same time, such overprotection of a business interest can only indicate crony capitalism and potential conflict of interests. The Safe Philippines

project, like the others, had serious procedural lapses that could have warranted serious consequences such as the disqualification of the contractor, under normal circumstances.

Even the concessional nature of the loan has been challenged. While it is true that the interest rate of 2% per annum for the loans is better than commercial rates, this could be misleading. If the interest rates of other ODA projects with other countries, such as Japan and South Korea, are considered, the interest rate imposed on Chinese loans pales in comparison.

Adding other risk factors such as the clear and present danger that threatens the national security of the Philippines, the value of these investments to the country is greatly diminished. In theory, donor countries want their assistance to be mobilized productively and correctly, even imposing certain conditions that foster transparency and strengthen institutions.

But when these investments—as these funds from China did in the Philippines—contribute to undermining good governance practices and democratic processes and in the weakening of institutions, they become corrosive capital. Even adding evidence to that deterioration of public trust is the eerie silence from the bureaucracy to demand that the wheels of accountability are begun.

President Duterte once hinted that Filipinos are xenophobic—perhaps even Sino-phobic. Are these projects even being challenged because they involve China? These projects are being challenged because they constitute corrosive capital.

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