



# Clan Warfare Hobbles The Philippines

by Greg Rushford

**S**PEAKING IN TOKYO last month, Philippine President Gloria Macapagal-Arroyo proudly proclaimed that thanks to her leadership, the impoverished country is headed in the right direction. The Philippine economy grew 6.1% last year, Ms. Arroyo boasted—although she did concede that forecasts for continued growth in 2009 are edging lower because of the current global economic travails. “The Philippines is finally unlocking its full potential,” the president told a high-powered audience of business leaders and diplomats who convened at the Imperial Hotel on June 19. “We want to succeed someday as Japan has succeeded.”

Sadly, despite her boasts, Ms. Arroyo’s speech conveyed a negative message about her country’s development, because it showed she is in denial about the key stumbling block to growth. The Philippine economy is uncompetitive because the government has protected key sectors that are dominated by elite family clans. Instead of competing in the marketplace, these oligarchs joust with each other for political and economic power.

First, consider the economic history. According to the Asian Development Bank, as Asia began to recover its economic footing after the devastations of World War II the Philippine economy was widely regarded as among the most promising in the region, second only to Japan’s. But by 1960, the Philippines, with a per-capita GDP of some \$612, had already fallen behind Malaysia, Hong Kong, Singapore, South Korea and Taiwan. In 1984, Thailand edged past the Philippines, and by 2006 the Thai per-capita income had risen to \$2,549, compared to the Philippines’ \$1,175. Today, the Philippine economy looks impressive only when compared to sad cases like Cambodia and Burma.

What about the growth rate that Ms. Arroyo touts? Last year’s GDP rise was earned on the backs of some nine million to 11 million overseas workers who mostly toiled as servants in Singapore and Hong Kong, sending some \$16 billion in remittances to their families. Subtract those remittances, which amount to roughly 10% of

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GDP, (not to mention the foreign aid from the World Bank, the ADB, the Americans, Norwegians, Canadians, Germans, Swedes, Australians and Japanese), and the Philippine growth would plummet.

In 1994, University of Wisconsin historian Alfred McCoy observed in his *Anarchy of Families* that even though the Philippines is an Asian country, the Philippine economy must be viewed in a Latin American context. In particular, Mr. McCoy pointed to the small group of elite families, oligarchs and cronies whose control of key sectors of the national economy was a lingering reminder of more than 300 years when the Philippines was ruled by Spain. The United States threw the Spanish colonialists out in 1898, but for another half century before the country became “independent” in 1946 the new American colonial masters continued the tradition of ruling the Philippines through the entrenched family elites. As Mr. McCoy put it, Philippine economic growth has long been held back by the unhealthy confluence of “a weak state and powerful political oligarchies.”

Anyone who thinks this is ancient history has only to pick up a Philippine newspaper. The phenomena that Mr. McCoy documented are in the headlines today.

For more than a year, Ms. Arroyo’s administration has been waging a bitter battle to wrest control of the Manila Electric Co. from the powerful Lopez family, whose influence dates back to the Spanish days. Government officials who are close political allies of the president have accused the Lopezes of various (unproven) fraudulent activities. Meanwhile, the influential Lopez-owned television network, ABS-CBN, has been busy reporting on a string of (unproven) scandals involving Ms. Arroyo and her husband. As usual in the Philippines, nobody is being prosecuted, while even the basic facts remain elusive. But one thing is clear: Today’s battles between the Macapagals, the Arroyos and the Lopezes go way

back. (The first family was contacted for this article, but refused to comment.)

The bad feelings between the Macapagals and Lopezes started more than four decades ago. When Diosdado Macapagal, President Arroyo’s father, was elected president of the Philippines in 1961, he “had good reason to dislike the Lopez” family, historian Mr. McCoy writes. “Not only had [family patriarch Eugenio Lopez and his younger brother Fernando] financed his rival’s campaign but they were maneuvering for control of Congress to position Fernando for a presidential bid in 1965.” President Macapagal then “employed the full powers of the state to bring the Lopez empire down.” It was quite a fight: Criminal complaints were drawn up by Macapagal’s Justice Department charging the Lopez brothers with corruption in a land deal, the Bureau of Internal Revenue went after Lopez-owned sugar mills, and the Macapagal administration tried to remove Eugenio Lopez from his position on the board of Meralco, the largest electricity distributor on the main island of Luzon.

Ultimately, the moves failed, and President Macapagal was defeated in his 1965 bid for re-election by a rising young Philippine politician named Ferdinand Marcos, who enjoyed the Lopez family’s support. Fernando Lopez became vice president, but the alliance did not last long. Angered when ABS-CBN started reporting on his administration’s scandals, Marcos broke with the family in 1970. After he declared martial law in 1972, Marcos jailed Geny Lopez, who was Eugenio Lopez’ eldest son.

After Marcos threatened to have the younger Lopez executed, Eugenio Lopez surrendered Meralco and ABS-CBN to Marcos and his cronies. The elder Lopez died of cancer in 1975. Geny, who escaped from jail two years later, lived until 1999. After the so-called People Power revolution that overthrew Marcos in 1986, President Corazon Aquino gave back ABS-CBN and a

controlling interest in Meralco to the Lopez family, whose patriarch is now Eugenio's son, Oscar Lopez.

The bad feelings between the Arroyo family—President Arroyo is married to “First Gentleman” José Miguel “Mike” Arroyo—and the Lopezes go back even further, to a clan rivalry in Iloilo province 80 years ago. In 1929, Iloilo was run by the Arroyo clan, headed by Governor Mariano Arroyo (whose grandson is current First Gentleman Mike Arroyo). Eugenio Lopez—the same Lopez who would be viciously attacked by Ferdinand Marcos in the 1970s—then owned his own father's local newspaper, *El Tiempo*, “and used it to launch himself as a power broker in Iloilo City,” Mr. McCoy writes. Governor Arroyo's problem was that he was taking bribes from an illegal gambling racket—although Governor Arroyo would deny the fact that gambling was going on when the Lopez-owned *El Tiempo* exposed it in a series of well-documented investigative reports.

A protracted battle between the Lopezes and the Arroyos ensued, which ended when U.S. colonial authorities concluded that Governor Arroyo had indeed taken bribes from the gambling syndicate, and had him sacked. “This defeat, indeed destruction, of the province's leading politician was a stunning political victory for Eugenio Lopez who, at twenty-nine, was still a neophyte publisher,” Mr. McCoy noted. The Arroyo family never really regained its political clout until Mike Arroyo married Gloria Macapagal, who became president in 2001. And now, although the president and her husband have denied any ill feelings toward the Lopezes, the recent headlines in Manila suggest otherwise.

Last year, a close political ally of the Arroyos launched the most recent Philippine government effort to wrest control of Meralco from the Lopez family. Winston Garcia is an Arroyo confidant who runs the Government Service Insurance System, the

state pension agency. The Garcia clan, based in Cebu, is widely credited with helping President Arroyo rake in an impressive 77% of Cebu's vote in the controversial 2004 presidential election. Mr. Garcia's sister Gwendolyn is Cebu's governor, having succeeded their father, also a Philippine congressman. To be sure, Meralco, the dominant electricity utility on the island of Luzon, is a classic example of a monopoly badly in need of reform. But it appears the Arroyo administration was more interested in a power grab than advancing economic efficiency. As Oscar Lopez said at the time, the government seemed bent on a “reverse privatization.”

Mr. Garcia's leverage in his battle to have the government take control of Meralco away from the Lopez family was the GSIS's 27% share in Meralco that was retained from the Marcos-era. The respected Philippine news organization, Newsbreak, reported on April 30, 2008: “A battle for control of the country's biggest electricity distributor is brewing.” The report attributed the fight between Mr. Garcia and the Lopez family to “disagreements” that “apparently boil down to personality differences.” The fiery Mr. Garcia had “irritated the Lopezes to no end by his demand for information on how the company is run,” but he failed to find any real dirt, according to the Newsbreak account.

Undeterred, Mr. Garcia announced that GSIS was planning to charge Meralco with various fraudulent activities. After a lot of back and forth, with both sides accusing the other of tampering with the legal process, not much came of this. When the Meralco board met later in May 2008, the Arroyo administration's effort to oust the Meralco management in favor of the Philippine government failed.

The fight didn't end there, however. In October 2008, GSIS sold its stake in Meralco to San Miguel Corp. for \$260.2 million. At 90 pesos (about \$1.86) per share

this was a good deal for the government, as the boardroom warfare had caused Meralco's stock to plunge to about 40 pesos. San Miguel is controlled by Danding Cojuanco, one of the original Marcos allies—the government owns part of San Miguel and Mr. Garcia sits on the board. Mr. Cojuanco has a reputation as a man who wants to control his investments, so his entry into the picture signaled that efforts to wrest control of Meralco was entering a new phase.

Yet the ever-resourceful Lopez family refused to roll over. On March 13, Meralco announced it had found a white knight in Manuel Pangilinan, the chairman of Philippine Long Distance Telephone Co. Mr. Pangilinan bought a 20% interest in Meralco from the Lopezes, and when the dust settled at Meralco's annual May shareholders meeting, PLDT and the Lopezes controlled five seats on the Meralco board, while Mr. Cojuanco's San Miguel had four.

There are reports that San Miguel now might be interested in selling its Meralco shares, which shot up to the 140-plus peso range at the end of last month. News reports suggest the Lopezes have decided to make a graceful exit from Meralco, and that the family will soon sell its remaining 13% ownership share to Mr. Pangilinan—presumably at a healthy profit. The rest of the Lopez business empire, including construction, power generation and the ABS-CBN television network, remains intact.

Meanwhile, ABS-CBN continues to shine a spotlight on President Arroyo and her husband. The network's Web site lists a dozen controversies involving Mike Arroyo—including charges of maintaining secret bank accounts and allegedly receiving "protection money" from an illegal gambling racket. The first gentleman has denied any wrongdoing.

Philippine clan rivalries aside, the more important point involves the man who is now the leading shareholder in Meralco. The PLDT's Mr. Pangilinan is a highly regarded businessman who has earned a solid reputation as a professional manager. Here's an example of how true leadership to end cronyism could transform the Philippines into an Asian tiger economy.

PLDT, years before Mr. Pangilinan came into the picture, long typified the worst sort of inefficient Philippine monopoly. All that changed in the 1990s when the strong-minded Fidel Ramos was president and began to liberalize the economy. After Mr. Ramos broke up the telecommunications monopoly, the talent of the Philippine people began to shine. The Philippines has famously become the text-messaging capital of the world—and even PLDT, the former monopoly, has learned to compete. Today, the profitable company, run by professional executives, is in the growth portfolios of sophisticated investors around the world.

President Arroyo has occasionally tinkered at the edges of real economic reforms. But critical sectors of the Philippine economy—shipping, airlines, banking, retail, agriculture—remain globally uncompetitive. Without deeper deregulation and more foreign investment, the Philippines will never become a tiger economy.

Next year, the Philippines is scheduled to hold elections to pick Ms. Arroyo's successor. The hope is that the next president will pick up where Mr. Ramos left off. Catching up with Japan may remain a forlorn hope, President Arroyo's dreams notwithstanding.

But if her successor breaks the pattern of clan feuding, there is no reason why the country can't perform as well as its Southeast Asian neighbors. ■

