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PROBABLE DEVELOPMENTS IN THE PHILIPPINE REPUBLIC

THE PROBLEM

To estimate the situation and probable developments in the Philippine Republic.

CONCLUSIONS

1. Despite exceptionally heavy physical destruction and disruption caused by World War II, the Philippines has regained its prewar level of economic activity and has achieved a large degree of social and political stability. However, the rapid recovery has not eliminated an excessive concentration of wealth or a political leadership generally reflecting the interests of a small privileged group.

2. In the election of November 1953, the generally conservative Nacionalista Party rode to victory on the immense popularity of Ramon Magsaysay and on promises to improve administration and to ameliorate living conditions for ordinary Filipinos. Magsaysay's prospects for carrying out his program are enhanced because of the resurgence of public confidence in government that followed his election. However, the success of his program depends in large part on his securing the support of the conservative elements which dominate his own party.

3. The Philippine president has broad constitutional and appointive powers. For this reason, Magsaysay can carry out certain aspects of his program, such as the elimination of corruption in government, without recourse to Congress. This

can be accomplished through his executive powers and influence at local levels. Therefore, he can probably achieve a degree of success, at least sufficient to convince the Philippine voter that the government is being rid of graft.

4. The most pressing task confronting the administration is to increase agricultural productivity and to proceed with agrarian reform. Significant progress in this program is likely despite opposition from powerful elements.

5. Magsaysay has set ambitious goals for his administration in the achievement of economic stability and growth. He is likely to make some progress toward achieving these goals by employing incentives to induce productive private investment and may resort to deficit financing. He will, however, continue to look to the US for financial assistance for economic development.

6. The Communist-led dissident Huk movement, reduced in strength from the high of 12,000 in 1950 to approximately 2,500 at present, appears to be no more than a problem in peace and order. Over the next two years, the Philippine Government will probably succeed in virtual-

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ly eliminating organized Huk dissidence, largely through military operations. At the same time, it will probably be able to further reduce the effectiveness of Communist infiltration and subversive activity.

7. In foreign affairs, the Magsaysay administration will almost certainly maintain close Philippine alignment with the US and the anti-Communist countries. In dealing with the US, his administration will be confronted with the problem of reconciling the Philippine desire for special US treatment, particularly in the fields of trade and national defense, with the strong Philippine desire for full national independence and freedom.

8. The Philippine Republic will probably seek to improve relations with Japan and will concurrently seek to expand Philippine-Japanese trade. It is not likely that

within the next few years the Philippine Republic will of its own volition attempt to assume a position of leadership among Southeast Asian nations or to take a dominant role in any Far Eastern regional security arrangements. The Philippine Republic does not possess the strength or resources to assume such a role. However, it is probable that the Philippines can contribute to bringing about somewhat closer economic and cultural cooperation among Southeast Asian countries.

9. Both in the Philippines and in other countries of Southeast Asia there is a tendency to view Magsaysay as being subservient to the US. Should he appear to be compromising Philippine interests in response to US pressure, his prestige could be damaged and his policies endangered.

DISCUSSION

SITUATION IN THE PHILIPPINE REPUBLIC

Political Situation

10. The 20,000,000 people of the Philippine Republic are to a large extent racially homogeneous, being substantially all of Malay-Indonesian stock. There is a small Chinese minority of approximately one percent. Although there are numerous dialects throughout the Philippines, language differences do not present a serious obstacle to national unity. Religion also binds the Philippine Republic together, inasmuch as 90 percent of the people are Christian, 80 percent of the people Catholic. The Philippine literacy rate is over 50 percent and is, next to Japan's, the highest in the Far East.

11. The Philippine Republic was granted full sovereignty by the US on 4 July 1946. Although the Philippine Republic has developed a high degree of political stability, wealth and

political power have been concentrated in the hands of a few. Philippine governments have been controlled by either the Liberal Party or the Nacionalista Party, both of which are conservative and dominated by an oligarchy of wealthy landowners and the representatives of large commercial interests. Such governments have generally functioned smoothly and have maintained political stability, but they have largely ignored the interests of the peasants and laborers, who constitute 85 percent of the population.

12. Philippine political vitality was strengthened by the presidential election of November 1953. Filipinos were impressed by the fact that the elections were honest and relatively peaceful. They also believed that the election of Ramon Magsaysay had brought to power a national hero who would provide a better future for the average man.

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13. Magsaysay gained national prominence as Secretary of National Defense during the regime of his predecessor, President Quirino, a Liberal Party member. Under Magsaysay's energetic leadership, Philippine armed forces were able to suppress, although not destroy, the Communist-led Huk movement. Before the elections, Magsaysay broke with the Liberal Party and became the Nacionalista presidential candidate. He waged a vigorous speaking campaign throughout the islands and concentrated on carrying two main issues to the people: the corruption of the Quirino regime and Quirino's failure to improve the lot of the Philippine farmer. Magsaysay won 70 percent of the votes cast.

14. The Nacionalista Party also was successful in the November elections and established clear parliamentary majorities. The Nacionalista Party holds 64 out of 102 seats in the House of Representatives and 14 out of 24 seats in the Senate. The Democratic Party, formed during the 1953 election campaign by Carlos Romulo, has 3 seats in the House and 5 in the Senate. The latter party was formed principally of defectors from the Liberal Party who supported Magsaysay during the election. Although the Democrats are expected to continue their support of the Nacionalista administration on most issues, the fact that most of the members were formerly Liberals, added to the general lack of party cohesiveness and discipline in the Philippines, indicates that the Democratic Party will be somewhat independent and will on occasion support the opposition.

15. Outside the government, there are a number of groups with considerable political influence. Most of them backed Magsaysay in the presidential campaign, but there are few that he can count on to give consistent support to his policies. Business groups are primarily concerned with advancing their own interests, although some of the younger business leaders recognize the need for reforms such as Magsaysay plans. Church leaders have been cautious about identifying the church with any party. Labor, both agrarian and industrial, has been organized to only a limited degree and has little political influence.

16. However, the executive power at Magsaysay's disposal is considerable. The Philippine Government is more highly centralized than its US prototype, and the Philippine president has broader constitutional and appointive powers than the US president. Many officials at the provincial and other local government levels are appointed by the president, and his influence can reach down through such central government services as public works, the school system, and social welfare agencies.

Internal Security

17. Political stability declined sharply in the Philippines during and after World War II. After the war, elections were marked by violence and fraud, and widespread graft and corruption existed in the government. Conditions of law and order grew steadily worse. At this time, the Communists took action to exploit the prevailing unrest by appearing as champions of reform, launching a labor organization, and transforming the Huks, a former anti-Japanese resistance group, into an armed dissident movement.

18. Following the fraudulent election of 1949, the Huks declared for the overthrow of the government by armed action. By 1950, the Huk organization numbered an estimated 12,000. It had obtained control over much of central Luzon, had expanded its activities into southern Luzon and Panay, and had conducted large-scale raids close to Manila.

19. Upon his assumption of the office of Secretary of National Defense in August 1950, Magsaysay initiated vigorous action to meet the Huk threat. He promoted the most able army officers to command positions and strengthened Philippine Army discipline, the lack of which had alienated civilian support. Through his program of extensive reform, and with US support, Magsaysay greatly improved the organization and effectiveness of the Philippine armed forces.

20. Utilizing the improved capability of the armed forces, US military aid amounting to \$20 million annually, and effective psychological warfare techniques, Magsaysay has been able to reduce the Huk strength to about 2,500. The Huk threat appears now to be no

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more than a problem of peace and order. The most effective phase of Magsaysay's psychological warfare campaign has been the resettlement program which offered free land in Mindanao to Huk guerrillas if they would surrender and lead peaceful lives.

21. The Philippine Communist Party, as distinguished from the Huk movement, has an estimated strength of 3,000. It was outlawed in 1951. Another component of the Communist movement in the Philippines, the local Chinese Communist Party, has a strength estimated to be between 3,000 and 5,000. Although it is assumed that the activities of these two groups are somehow related, the exact nature of this relationship is not known. However, the action of the Philippine Communist Party in exploiting the Huk movement for its own purposes has caused a strong anti-Communist reaction among Filipinos, and the Communist capability for political action and subversion is now very weak.

Philippine Armed Forces

22. At the present time, Philippine forces consist of: 39,000 army personnel, organized into 26 battalion combat teams, 1 field artillery battalion, and 1 cavalry squadron; 6,900 constabulary, organized into 1 guard battalion and numerous miscellaneous units; 3,300 navy personnel with 35 combatant vessels, mostly patrol craft; and an air force of 3,800 personnel, including 240 pilots, organized into three fighter squadrons and possessing approximately 40 F-51D fighter aircraft, 20 C-47 transports, and about 100 miscellaneous trainer aircraft.

23. Judged by US standards, the combat proficiency of the Philippine armed forces is below an acceptable level for conventional warfare. However, the Philippine forces, particularly the army and the air force, have proved very satisfactory in combat effectiveness in conducting antiguerrilla operations. Morale throughout the armed forces appears to be high.

24. The Philippine manpower potential for expansion of the armed forces is roughly comparable to that of the Republic of Korea. The

number of physically fit males between the ages of 15 and 49 is estimated to be 2,600,000. The current size of the armed forces inactive reserve of males between the ages of 22 and 41 is 37,000.

Economic Situation

25. The Philippine economy is underdeveloped. There is little modern industry. Crop yields are low by Far Eastern standards. Income is low and its distribution is extremely unequal. However, the potentialities for development are relatively good, although the Philippines lacks coking coal, and transportation facilities are inadequate. Population densities are high in central Luzon and Cebu, but large areas of Mindanao and other islands suitable for agricultural development are sparsely settled. Considerable resources of arable land, timber, minerals, and water power await development.

26. For several years after the war, the Philippine economy was beset with serious difficulties — inflation, budgetary deficits, and import surpluses. Between 1945 and 1950, US aid, grants, and payments to Philippine individuals for wartime services and damage claims aggregated approximately 1½ billion US dollars; in addition the US spent almost one-half billion dollars in payments for US military pay, construction materials, and services in the Philippines. This money was for the most part channelled into imports of consumer goods rather than reconstruction. By 1950, despite US aid, the Philippine Government faced a critical economic situation as a consequence of its trade imbalance, unrepaired war damages, increasing population, an inadequate tax system, and large expenditures for internal security.

27. In 1950, in answer to a Philippine request, the US sent the Bell Economic Mission to survey all aspects of the Philippine economy. Its recommendations included: tax reform, establishment of a minimum wage, expansion of rural credit, and land tenancy reforms. Late in 1950, the Foster-Quirino Agreement concerning the conditions for extending further US aid stipulated that the Philippine Government must enact new tax legislation

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and minimum wage legislation, and affirm its intention to give close attention to the Bell recommendations.

28. Except for land reform, the Philippine Republic has in the main carried out the Bell Mission recommendations. Largely as a consequence of the imposition of a high tax on purchases of foreign exchange, tax receipts doubled between 1950 and 1952. Direct controls on imports reduced the import of consumer goods. The trade deficit was significantly reduced. The result has been that the Philippine Republic has strengthened its fiscal position and has made important strides in attacking its economic problems.

29. The gross national product of the Philippine Republic increased between 1950 and 1952 from approximately \$3¼ billion to approximately \$4 billion, a gain of 20 percent. The area under cultivation has increased by 60 percent since 1948, and the total area now cultivated is almost 25 percent larger than prewar. The production of rice, the most important food crop, has increased substantially over prewar figures, and by 1953 the Philippines was self-sufficient in this commodity. On the other hand, the rehabilitation of export crops has not been so successful. Although the recovery of coconut products — the largest export commodity — has been rapid, sugar production has only recently returned to prewar levels, and abaca has not yet reached the prewar level. The output of minerals in general is probably also less than prewar.

30. The Philippine Government has made efforts during the past few years to speed up the rate of economic development. In order to provide incentives and protection to industrial development, import control measures have been supplemented by selective credit controls, exemption of selected industries from taxation, and an excise tax structure which is designed to foster Philippine production. The US has provided an Export-Import Bank loan of \$20 million for hydroelectric development. In addition, \$60 million has been spent by January 1954 under the Philippine-US economic agreement of 1950.

31. Although some measures have been taken to stimulate agricultural production through US economic aid programs, the Philippine Republic has concentrated over the past several years on rebuilding and expanding industry. The Magsaysay administration plans to reverse this trend, placing much more emphasis on agriculture and, except for power, less emphasis on industry.

32. The most pressing task confronting the administration is to increase agricultural productivity and to proceed with agrarian reform. Agriculture accounts for 60 percent of the gross national product and more than 80 percent of the dollar-earning exports. Approximately 75 percent of the people are engaged in the production or processing of agricultural products. Yields are low because of antiquated methods, lack of fertilizer, and inadequate irrigation facilities. One-third of the rural labor force is unemployed or underemployed. Land ownership is heavily concentrated, and tenancy and absentee ownership are high. Tenants must often pay exorbitant rents amounting not infrequently to 50 percent of the crop. Usury is widespread because of inadequate credit facilities.

33. The government also faces the problem of adjusting to, or postponing, the gradual loss of the preferential position for Philippine exports in the US market, upon which the Philippines are at present heavily dependent. In 1952, almost 70 percent of Philippine exports went to the US. In the same year, more than 70 percent of its imports originated in the US.

34. The US-Philippine Trade Agreement of 1946 provided for eight years of duty free trade between the two countries. Beginning in July 1954, this preferential treatment is to be gradually eliminated over a 20-year period. The purpose of this arrangement is to enable and to encourage the Philippines gradually to adjust its economy so that its products will be able, by the end of the period, to meet the US tariff and/or compete in other markets.

35. The previous Philippine administration proposed a revision of the Trade Agreement to

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provide for a continuation of duty free status with respect to substantially all exports to the US. The Magsaysay government will probably use this proposal as the basis for a similar request. The Philippine Republic is expected to ask for a temporary extension of the duty free period during which negotiations on revisions can take place.

36. Termination of the duty free period in July 1954, as scheduled, would have only a slight immediate effect on Philippine export earnings and would not produce a strain on the Philippine economy in the early years. Over a longer period, the Philippine Republic may face serious economic problems if producers for export fail to adjust to increasing price competition on the US market by modernizing their methods and diversifying their products, or by establishing alternative markets.

Foreign Policy

37. Philippine foreign policy is almost entirely determined by the closeness of the Philippine tie to the US. By the terms of the US-Philippine Mutual Security Treaty of 1951, the Philippine Republic is in effect assured that US forces will protect the islands against foreign aggression. This treaty is of indefinite duration. The US-Philippine Military Bases Agreement of 1947 gives the US extensive base rights in the Philippine islands for 99 years, and provides that in the interest of international security, any of these bases may be made available to the Security Council of the United Nations.

38. In general, Philippine policies toward other Asian nations have paralleled US policies. The Philippine Republic, which has declared its opposition to Communist expansion in Asia, provided a battalion in Korea. It gives diplomatic support to Nationalist China, opposes recognition of Communist China, and has friendly relations with the Republic of Korea.

39. Relations with Japan have been growing closer over the past several years. It is possible, in fact, that the improvement of diplomatic relationships has moved too fast for

popular opinion in the Philippines. The Philippine people have vivid memories of enormous war damage and of widespread Japanese looting and vandalism. Until recently, Japanese-Filipino negotiations on reparations made little progress, largely because of continuing Philippine resentment. At present, however, a greater willingness to bargain appears to exist on both sides, and prospects for a settlement of the reparations question are better than at any previous time. Once this has been accomplished, negotiations can proceed for the expansion of Philippine-Japanese trade. Because the two economies are to a large degree complementary, it is possible that a sizeable trade can eventually be established, with Japan providing finished consumer goods in exchange for raw materials such as iron ore, chromite, and copper.

40. The Philippine Republic wishes to establish closer relations with countries in South-east Asia and South Asia. To some extent, the close relationship with the US handicaps the Philippines in realizing this aim because certain of these countries, particularly Burma, Indonesia, and India, tend to regard the Philippines as subservient to the US and suspect it of seeking to advance US foreign policies. However, the Philippines share certain regional interests with Southeast Asian peoples, and these interests can be used to strengthen diplomatic relations.

PROBABLE DEVELOPMENTS IN THE PHILIPPINE REPUBLIC

Political Developments

41. During the 4-year term to which he has been elected, President Magsaysay will probably retain a parliamentary majority. The elections of 1955 are not likely to change the complexion of the national government because no House of Representatives seats and only 9 of the 24 Senate seats will be up for vote. The vote-getting appeal of Magsaysay will probably increase Nacionalista strength in the Senate.

42. However, the success of Magsaysay's program depends on the success he has in securing the support of the conservative elements

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which dominate his own party. In those portions of his program, such as land reform, which strike at the interests of the traditional ruling group, he will almost certainly encounter strong opposition. In any event, the opposition of the vested interests to change will probably cause the Magsaysay administration to fall considerably short of the goals it has set for itself.

43. Magsaysay has declared the elimination of corruption in the government to be the first order of business for his administration. He can undertake this largely through executive action, and relatively little new legislation will be required. For this reason, and in view of his vigor and demonstrated administrative skill, he can probably achieve a degree of success at least sufficient to convince the Philippine voter that the government is being rid of graft.

44. Magsaysay has also placed strong emphasis upon the need for strengthening "grass roots" democracy in the Philippines. In pursuit of this goal, he will try to encourage the growth of democratic trade unionism. The Industrial Peace Act of 1953, the so-called "Magna Carta" of Philippine labor, has already encouraged democratic unionism, and Magsaysay has thrown his full support behind this development. Also, through the centralized control of political appointments, Magsaysay will probably replace many of the old-line local and municipal officials with younger, more democratic-minded men. He will also encourage more local autonomy.

Internal Security

45. Over the next two years, the Philippine Government will probably succeed in virtually eliminating organized Huk dissidence, largely through military operations. The task of rounding up remnant groups can then be turned over to the several intelligence and security agencies. At the same time, the government will probably be able to further reduce the effectiveness of Communist infiltration and subversive activity.

46. Magsaysay will continue his efforts to strengthen the national defense establish-

ment through organizational reform and more efficient administration. It is not likely, however, that he will undertake to increase the size of the Philippine armed forces. Because of the need to devote government funds to economic development, there will be pressures to reduce the present level of military strength. In order to retain present force levels, Magsaysay may increasingly use military manpower in public works functions.

Economic Developments

47. Magsaysay has set ambitious goals for his administration in the achievement of economic stability and growth. Magsaysay expects foreign sources to finance much of the necessary capital expenditure envisaged in his program. Even if Japanese reparations contribute in some degree to Philippine economic development, the Philippines will continue to look to the US for financial assistance.

48. Magsaysay is likely to adopt forceful incentive-type measures to obtain private capital for his economic program. Some of these measures are in existing law; others will require new legislation. Nonetheless, a heavy burden will be put on public financing, and it is unlikely that his program can be carried out without resort to deficit financing.

49. Despite opposition from powerful elements, Magsaysay is likely to make significant progress in his program for improving rural welfare. This progress will probably result more from implementing existing laws aimed at eliminating usury, improving agricultural methods, and increasing tenant shares of crops than from the wholesale redistribution of land.

50. Although agriculture will almost certainly receive more emphasis than industrial expansion, Philippine industry is likely to grow because of the impetus provided by protective and incentive legislation. In addition, greater confidence in the government will increase the prospects for private investment.

51. The continued dependence of Philippine foreign trade on economic conditions in the US will make that country especially vulnerable to any fluctuations in the US economy.

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Foreign Policy

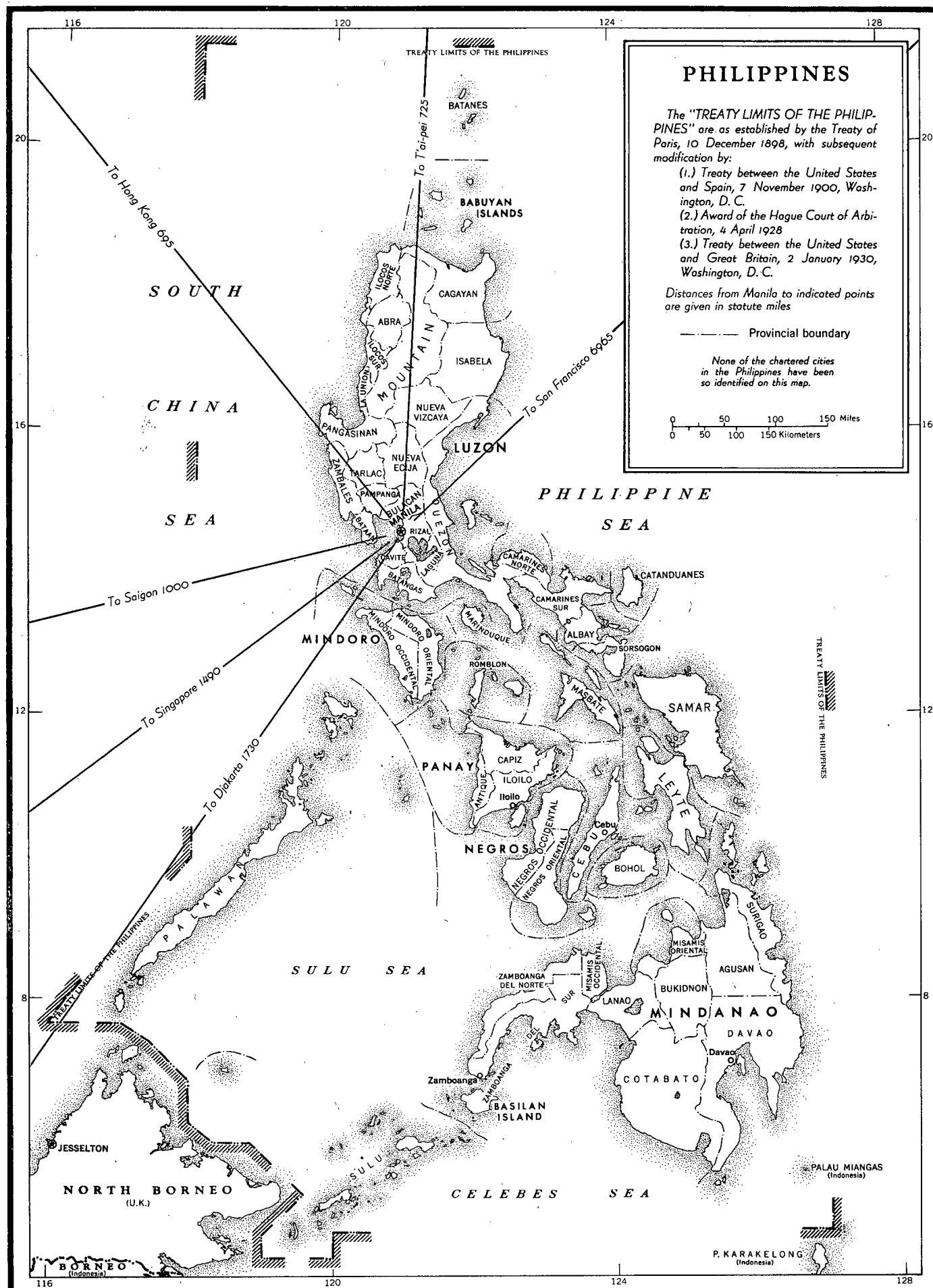
52. In foreign affairs, the Magsaysay administration will almost certainly seek close Philippine alignment with the US and the anti-Communist countries. In dealing with the US, his administration will be confronted with the problem of reconciling the Philippine desire for special US treatment, particularly in the fields of trade and national defense, with the strong Philippine desire for full national independence and freedom. Although frictions will arise between the US and the Philippines in the settlement of trade and defense problems, the resolution of these problems will almost certainly not alter the basic US-Philippine relationship. However, should Magsaysay appear to be compromising Philippine interests in response to US pressure, he would be vulnerable to charges, in and out of his party, of being a US "puppet." A concerted attack based on these charges could damage his prestige and endanger his policies.

53. The administration will probably continue its present policies toward other Asian nations.

The Philippines will continue to oppose Communist expansion in Asia. Closer relations with Japan would result from a settlement of the reparations question and the expansion of trade that would probably follow. Closer relations with Southeast Asian nations are probable.

54. It is not likely, however, that within the next few years the Philippine Republic will of its own volition attempt to assume a position of leadership among Southeast Asian nations or to take a dominant role in any Far Eastern regional security arrangements. The Philippine Republic does not possess the strength or resources to assume such a role. Differences of religion and political philosophy tend to make the other Southeast Asian countries reluctant to accept the Philippines as a leader, and many of them are inclined to suspect that the Philippine Republic is too closely tied to the US to permit freedom of action in a regional alliance. It is probable, however, that the Philippines can contribute to bringing about somewhat closer economic and cultural cooperation among these countries.

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