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## WHAT BUSH SHOULD TELL CORY AQUINO

### INTRODUCTION

**P**hilippine President Corazon Aquino visits Washington from November 8 to 10. With Filipinos facing widespread poverty and a \$28 billion foreign debt, Aquino will want to discuss economic issues. But the most important matter on the agenda with George Bush is the future of the United States military facilities at Subic Bay and Clark Air Base in the Philippines. The current agreement on the bases expires in September 1991. So far, after three years in office, Aquino has not yet said if she supports extending the American presence.

American access to these facilities, which the U.S. has used almost all of this century, is needed through the early part of the 21st century to allow Washington to meet its military commitments to friends and allies from Northeast Asia to the Persian Gulf. A U.S. withdrawal from the bases would destabilize the region by leaving Southeast Asian sea lanes vulnerable to Soviet military forces based in Vietnam and would strengthen the communist rebels fighting to destroy Philippine democracy. Bush should emphasize to Aquino that he wants to help the Philippines strengthen its democracy and continue its economic recovery, and that a new Bases Treaty will help preserve bipartisan support in the U.S. Congress for continued economic and military aid.

**Widespread Problems.** Aquino is halfway through her term, which expires in 1992. She remains popular and deserves credit for restoring Philippine democracy, reviving economic growth, and defending human rights. However, her government faces mounting criticism. Corruption scandals are numerous. Rural poverty is widespread, and an overbearing central

bureaucracy stifles economic development. Some \$4 billion in foreign aid is in the "pipeline" and remains unused. Addressing these problems and promoting further economic growth will lessen the appeal of the insurgent Communist Party of the Philippines (CPP).

The CPP continues its 21-year war, which killed over 3,900 last year and only slightly fewer so far this year. The Philippine military has had increasing success against the CPP, but it lacks supplies. Its victories are often only temporary because the Philippine government does not provide the political and economic support needed to consolidate military gains. The CPP is

now selectively attacking American personnel and facilities and has killed three Americans this year. There are about 36,000 U.S. personnel and dependents in the Philippines. The CPP hopes to erode public support for the U.S.-Philippine alliance in both countries.

Despite increasing CPP terrorism against U.S. personnel, Washington has remained firm in its support for Aquino. Since 1986, Washington has given the Philippines about \$1.7 billion in economic and military aid and has pledged a total of \$962 million over 1990 and 1991. Last year alone, the U.S. military spent \$531 million for supplies and salaries in the Philippines. Following Washington's leadership, Japan and several Western European and other multilateral donors will contribute to a five-year, \$10 billion Philippine Assistance Plan. The Bush Administration hopes to contribute \$1 billion to this plan, but it faces tough opposition in Congress. Responding to congressional insistence that U.S. aid promote reform, however, disbursement of U.S. economic assistance is timed to Manila's achieving specific economic reforms such as privatization of government-owned companies and decentralization of development administration.

**Spurring Economic Development.** When Aquino sees Bush, she is certain to request a large increase in U.S. aid. It will be more than the U.S. is ready to provide. Bush should counter by urging Aquino to proceed with the free market reforms needed to spur Philippine economic development. Bush too should offer Aquino greater trade opportunities with the U.S., which reduce dependence on aid and loans. For example, Bush could offer to encourage an

## The Philippines

**Official Name** — Republic of the Philippines

**Area** — 115,831 square miles

**Capital** — Manila (population 8 million)

**Population** — 63 million

**Workforce** — 23 million: Agriculture, fishing — 49%. Commerce, services — 37.9%. Manufacturing, construction — 13.1%. Government — 10%.

**Natural Resources** — timber, petroleum, nickel, iron, cobalt, silver, gold.

**Agricultural Products** — rice, coconut, sugar cane, corn, bananas, abaca, tobacco, pineapples.

Source: Thomas J. Timmons, ed. *U.S. and Asia Statistical Handbook, 1989 Edition* (Washington, D.C.: The Heritage Foundation, 1989).

increase in Philippine textile exports to the U.S. and urge Aquino to investigate a free trade agreement with the U.S. Bush should offer a new deal on the military bases, which establishes a more equitable relationship between U.S. and Philippine forces and allows Manila to participate gradually in the pro-democratic Asian defense network.

Specifically, Bush should:

- ◆ ◆ Emphasize that continued U.S. military access to bases in the Philippines is needed to deter Soviet forces that threaten the sea lanes and that the regional stability ensured by the U.S. presence benefits Filipinos.

- ◆ ◆ Offer joint use of the U.S. military facilities to the Philippine forces and offer to re-equip Philippine air and naval forces gradually so that they can assume some regional defense roles.

- ◆ ◆ Affirm that the U.S. will not be deterred by terrorism from the Communist Party of the Philippines and offer to increase military aid to \$300 million annually, which will enable Philippine forces to use the small unit tactics needed against the CPP's political support network.

- ◆ ◆ Tell Aquino that large increases in U.S. economic assistance will be very difficult to obtain, but that the U.S. is committed to fulfilling its \$1 billion pledge, over five years, to the Philippine Assistance Plan.

- ◆ ◆ Urge Aquino to complete such structural reforms as bureaucratic decentralization and privatization of government-owned companies.

- ◆ ◆ Urge Aquino to seek free market alternatives to reduce foreign debt, such as significantly increasing the size of Manila's program to swap debt for equity in government-owned companies.

- ◆ ◆ Warn Aquino that she must resist protectionist pressures from the Philippine Congress, especially proposals such as those that would weaken protection of intellectual property rights like patents for pharmaceuticals.

- ◆ ◆ Offer to expand trade opportunities by such measures as increasing Philippine textile exports to the U.S.

## **WILL THE BASES REMAIN?**

The most important and most controversial bilateral issue confronting Aquino and Bush is the future of the U.S. military facilities. The current Military Bases Agreement expires in September 1991. Since 1986, Aquino has refused to state her position on this issue, preferring instead to say, "I am keeping my options open."

U.S. forces in the Philippines contribute to stability in the Pacific. Stationed at Clark Air Base and Subic Naval Base, U.S. air and naval forces fulfill their military commitments from Northeast Asia to the Persian Gulf. U.S. Navy deployments to the Persian Gulf in 1987 and 1988, for example, were made much easier by access to Philippine bases.

### ***The Soviet Military Threat***

This access will be needed as long as the Soviet Pacific Fleet threatens the Pacific sea lanes. Though Soviet officials say that they have cut their Pacific Fleet by 57 ships, such cuts make little difference in military strength. The Soviet Pacific Fleet still contains two *Kiev* class anti-submarine aircraft carriers, one *Kirov* class nuclear-powered cruiser, 140 submarines (including 75 nuclear attack submarines), and about 100 major surface combatants. Soviet naval ships and TU-16 *Badger* strike aircraft continue to prowl out of Vietnam's Cam Ranh Bay.

Clearly, Moscow would like to see U.S. forces leave the Philippines. Soviet propaganda pushes this. In broadcasts to the Philippines, the Soviets seek to appeal to Philippine nationalism.<sup>1</sup> Gorbachev also has offered to give up the base in Vietnam's Cam Ranh Bay – which he calls merely a “material and technical support point” – if U.S. forces leave the Philippines. But Moscow has quietly been building ties with the CPP. In 1987, leaders of CPP front groups GABRIELA and the May First Movement trade union federation visited Moscow, and CPP leaders now openly seek Soviet aid.<sup>2</sup>

### ***What the Filipinos Think***

Preoccupied with fighting poverty and the communist insurgency, Manila does not have the resources to modernize its external defense forces. The Philippine Navy can barely meet inter-island transport needs, and the Philippine Air Force mainly assists Army operations. Defense of the Philippines, thus, is primarily the *de facto* responsibility of the American forces at Clark and Subic pursuant to the 1951 U.S.-Philippine Mutual Defense Treaty.

The vast majority of Filipinos seem to want the U.S. to keep its bases. A nationwide poll taken last year, for example, finds support for the bases as high as 80 percent.<sup>3</sup> Yet, the U.S. bases long have been opposed by Philippine nationalist intellectuals, who view them as a vestige of the former U.S. colonial administration. Philippine Foreign Secretary Raul Manglapus has said that the bases do not defend the Philippines and are linked to America's past “manifest destiny...adopted to the nuclear age.” Last year, Manglapus led an often acrimonious review with the U.S. of the current Military Bases Agreement. This review yielded a U.S. commitment to seek \$481 million per year in economic and military aid for 1990 and 1991, up

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1 Radio Moscow to Philippines, “Need for U.S. Bases in Philippines Questioned,” in *FBIS-Soviet Union*, June 7, 1989, p. 12.

2 Richard D. Fisher, Jr., “Mr. Gorbachev's Philippine Initiative,” *Asian Wall Street Journal*, December 13, 1988.

3 “Most Filipinos Favor U.S. Bases, Poll Says,” *Washington Post*, August 30, 1988, p. A8.



sharply from the \$180 million a year from the previous 1983 review. Manila is expected to want even more aid, and the negotiations are expected to be long and difficult.

**Legislative Opposition.** Philippine Secretary of Defense Fidel Ramos has stated his “personal” opinion that the bases should be phased out by 1998, the centennial of the U.S. liberation of the Philippines from Spain.<sup>4</sup> The chairman of the Philippines Joint Executive Legislative Council for Alternative Uses of the Bases, an official body formed to advise the government, said the most “concrete” proposal they are considering would be to turn Clark Air Base into an international airport.<sup>5</sup> The Philippine Senate, which must approve the next Bases Treaty by a two-thirds vote, is a hotbed of opposition to the bases. In August, twelve Senators sponsored a resolution calling for the removal of the bases by September 1991.

In recent weeks, however, the Philippine House of Representatives has challenged the power of the Senate to approve the Treaty by proposing that the Treaty first be put to a national referendum.<sup>6</sup> The Philippine Constitution says only the Senate can decide to hold a referendum. Most Senators now oppose holding a referendum, while Aquino apparently favors it.

#### **CPP Terrorism against Americans**

In addition to its political campaign against the bases, the CPP this year started a campaign of selective terrorism against American personnel and facilities. On April 9, guerrillas of the CPP’s New People’s Army (NPA) attempted but failed to ambush about 40 Americans just outside Clark Air Base, and on April 19, NPA guerrillas bombed a communications relay station in Benguet Province, causing slight damage. On April 21, NPA assassins killed U.S. Army Colonel James “Nick” Rowe, an advisor with the Joint U.S. Military Advisory Group, which administers U.S. military aid. In mid-June, police in Angeles City, outside Clark Air Base, captured communist documents listing nine U.S. servicemen to be targeted by the NPA.<sup>7</sup> And then on September 26, hours before Vice President Quayle was due to arrive in Manila, two civilian U.S. military employees working at Camp O’Donnell, about ten miles north of Clark, were killed, probably by NPA guerrillas. The CPP has also threatened to attack U.S. diplomatic personnel and Agency for International Development officials.

In May, U.S. Commander in Chief of the Pacific forces Admiral Huntington Hardisty said that American troops in the Philippines would defend themselves if attacked.<sup>8</sup> But at Clark, U.S. personnel remain

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4 “Ramos favors closing of US bases by 1998,” *Philippine Daily Globe*, February 27, 1989, p. 1.

5 *Philippine Daily Globe*, October 12, 1989, p. 1, in *FBIS-East Asia*, October 12, 1989, p. 43.

6 “House Okays Plan for Referendum on U.S. Bases,” Manila Far East Broadcasting Company, October 16, 1989, in *FBIS-East Asia*, October 17, 1989, p. 43.

7 *Manila Bulletin*, June 19, 1989, p. 24.

8 Claro Cortes, “US troops will defend selves against NPAs,” *Philippine Daily Globe*, May 6, 1989, p. 1.

vulnerable; about 70 to 80 armed NPA guerrillas patrol the area and all *barangays* (barrios) around Clark are infiltrated by the CPP. A police captain in Angeles City, just outside Clark, who is responsible for patrolling about five miles of base perimeter has only a motley collection of guns, four vehicles, and 200 liters of gasoline a month.<sup>9</sup> While there are about 2,800 Philippine troops based in the Angeles City area, in theory, the captain would be the first to respond to an NPA attack on the base because he is stationed just outside the main gate.

A Vietnam War era law prohibits U.S. military aid from being used to help the Philippine police, who are often the first line of defense for U.S. personnel against NPA attack. After returning from his recent trip to the Philippines, Vice President Quayle proposed that an exception be made in this law so the U.S. could begin to aid Philippine police forces.<sup>10</sup>

Employing 68,000 Filipinos overall, the U.S. because of its facilities is the second largest employer in the Philippines after the government. In addition to bilateral assistance, the U.S. spent \$507 million in 1987 and \$531 million in 1988 on local purchases and salaries. The Angeles City police captain told The Heritage Foundation that, should U.S. forces leave Clark, "The CPP will strengthen, they will grow, and they might control the province."

## AQUINO'S RECORD AS PRESIDENT

When she became President following the military coup against Philippine strongman Ferdinand Marcos in February 1986, Aquino presided over a coalition government that contained elements from the political left and former Marcos government officials. Her very high popularity and aura of incorruptibility have helped her survive several violent military coup attempts, the last of which failed in September 1987.

Aquino has succeeded in reviving traditional personality-based Philippine democracy, starting with a January 1987 plebiscite for a new constitution, which revived the bicameral Congress eliminated by Marcos. Elections for the Senate and House of Representatives were held in May 1987, followed by elections for provincial and municipal officials in February 1988. The final step was elections in March for the *barangay* officials, the lowest level of government.

**Strong Candidate.** Aquino remains the most powerful politician, and her *Laban ng Demokratikong Philipino Party* (Struggle of Democratic Filipinos or LDP) is the most powerful party. But her leadership is increasingly challenged by an independent Congress, and this will get worse as jockeying

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<sup>9</sup> Interview, Angeles City, September 16, 1989.

<sup>10</sup> Paul Bedard, "Philippine bases lease must be open-ended, Quayle warns," *Washington Times*, October 3, 1989, p. A7.

intensifies for the 1992 presidential elections.<sup>11</sup> No candidate is likely to beat Aquino, yet she has stated repeatedly that she will not run for reelection. She is under pressure from her family to do so, however.

### **Tentative Economic Recovery**

Aquino inherited an economy in which the gross national product (GNP) had declined 9.4 percent for 1984 and 1985 combined. This turned around with growth just under one percent in 1986, 5.7 percent in 1987, and 6.7 percent last year. In the first half of this year, however, GNP growth dipped to 5.3 percent.<sup>12</sup> The good news is that the largely consumption-led growth of 1987 and 1988 is becoming more broadly based on investment. Capital investments amounted to \$423 million for the first half of 1989 compared to \$233 for the first half of 1988. Almost half of this is foreign, largely from Hong Kong, the Republic of China on Taiwan, and Japan.

Along with economic growth, however, inflation has risen to over 10 percent annually. Manila's trade deficit for the first half of this year was \$1.4 billion, more than double the \$639 million trade deficit for the first half of 1988. Manila hopes to cover its foreign exchange shortfalls by securing more

## **The Philippines Economic Profile**

### **Per Capita Gross National Product (in current U.S. dollars):**

1988: \$667  
1987: \$600  
1986: \$549  
1985: \$585

### **By Comparison, 1987 GNP**

U.S.:	\$18,530
Japan:	\$19,500
Malaysia:	\$1,920
Vietnam:	\$200
India:	\$300

### **Exports to U.S. (constant \$ U.S.)**

1988: \$2.7 billion  
1987: \$2.4 billion  
1986: \$2.1 billion  
1985: \$2.3 billion

### **Imports from U.S. (constant \$ U.S.)**

1988: \$1.9 billion  
1987: \$1.5 billion  
1986: \$1.36 billion  
1985: \$1.37 billion

Source: Thomas J. Timmons, ed. *U.S. and Asia Statistical Handbook, 1989 Edition* (Washington, D.C.: The Heritage Foundation, 1989).

11 "Getting Ready for the Big One," *Asiaweek*, September 29, 1989, p. 27.

12 Rigoberto Tiglao, "Treading a narrow path," *Far Eastern Economic Review*, October 12, 1989, p. 78.

foreign loans.<sup>13</sup> But the Philippines' current foreign debt of about \$28 billion requires interest payments that already consume about 44 percent of the national budget.<sup>14</sup>

In mid-September, Manila obtained about \$1 billion in new loans to finance its debt. Manila also secured World Bank and International Monetary Fund financing to buy back over \$1 billion in other debt at a discount.<sup>15</sup> Instead of a straight cash buy back of debt, Manila paid for it by issuing new bonds funded by the IMF and World Bank.

Manila has been less eager to decrease its debt by allowing creditors to swap debt for equity in Philippine enterprises. Manila limits these debt-equity swaps to \$180 million a year. Manila's Central Bank argues that such swaps fuel inflation. But they have been successful and noninflationary in such countries as Chile, which has linked them to privatization of government-owned corporations. Currently, the \$180 million has been entirely used, which effectively puts the debt-equity program on hold for this year.

### ***Fading Free Market Agenda***

In 1986, Aquino advisors like the late Finance Minister Jaime Ongpin advocated free market economic policies designed to decentralize government and promote growth. Ongpin initially opposed massive land reform and worked to reduce government intervention in the market. Aquino did eliminate many monopolies set up by Marcos to benefit his political allies, like those that controlled the sugar and coconut industries. But following Ongpin's departure from her government in September 1987, Aquino's commitment to free market reforms and government decentralization has faded.

This is bad news for the prospects of economic development, especially in the countryside.<sup>16</sup> About half of Philippine households earn less than the official poverty level of \$540 a year, which even Aquino admitted in July, "The lowest 30 percent of our population remains mired in unchanging misery."<sup>17</sup> In the province of Negros Occidental, where the communist insurgency is strong, 80 percent of the residents live below the poverty line.

**Bureaucratic Obstacles.** Another barrier to economic growth is the overcentralized control of economic development funds. The only progress has been some pilot programs in provinces like Negros to decentralize funds into block grants so local officials can quickly meet development needs. But Manila balks at genuine decentralization of the control of these funds,

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13 *Ibid.*

14 "Debt Comes First," *Asiaweek*, August 5, 1988, p. 48.

15 Matt Miller, "Philippine Debt Plan Calls For \$1 Billion in New Loans," *Asian Wall Street Journal Weekly*, September 25, 1989, p. 14.

16 Gustav Ranis, "Manila's tragic triumph," *Far Eastern Economic Review*, September 28, 1989, p. 153.

17 Keith B. Richburg, "Aquino Concedes Many Still Mired in Misery," *Washington Post*, July 25, 1989, p. A-17.



primarily because Manila bureaucrats want to retain the political leverage that these funds give them. The result is that \$4 billion in committed foreign aid remains blocked and unused in the bureaucratic pipeline.

### **Other Factors in Economic Growth**

To raise rural incomes, Manila relies on a land reform program approved in June 1988. This program would redistribute about 25 million acres out of about 49.25 million acres under cultivation. While the agricultural sector only generates 27 percent of GNP, it employs 45 percent of the 23.5 million labor force. The eventual goal is to limit landowners to no more than 12.4 acres, plus 7.4 acres for each child working that land. The program is estimated to cost \$3.1 billion for its first four years, but it is now on hold because of a land sale scandal involving government officials.<sup>18</sup> After a ten-year grace period, the land reform law will be applicable to large export-oriented agribusiness plantations. This might break up the plantations, which could decrease exports and increase rural unemployment. Already, some plantations are delaying capital investments because they are unsure they will be able to use the land after ten years.

Economic growth might increase if Manila accelerated its efforts to privatize some 243 government-owned and controlled corporations (GOCCs) acquired from 1972 to 1984. Last year, Manila allocated \$669.9 million to subsidize the GOCCs and to date has sold only twelve of them. This program has been tarnished by charges that some businessmen and government officials benefited from insider trading of bank shares in the privatization of the Philippine National Bank.<sup>19</sup>

**Threat to Foreign Investment.** Protectionism also inhibits economic growth. Marcos relied on heavy regulation of foreign trade to protect domestic industries as well as his political allies. By the end of 1988, Aquino had lifted nontariff import barriers, like import license requirements, on about 1,200 items. But government officials still seek to protect inefficient import-substituting industries, and last year, the Philippine Senate passed a bill requiring pharmaceutical companies to market generic drugs. This bill forces these companies in the Philippines, many of which are American-owned, to forego the advantage of their investments in brand-name drugs. Another bill pending in the Philippine Senate would eliminate foreign patents on pharmaceuticals, thereby threatening intellectual property rights. This is dangerous because it will discourage

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18 Matt Miller, "Corruption Is Bringing Manila's Land Reform Program to a Near Halt," *Asian Wall Street Journal Weekly*, July 10, 1989, p. 1.

19 Victor Sollorano, "Insider-Trading Allegations Sully Privatization of PNB," *Asian Wall Street Journal Weekly*, July 10, 1989, p. 28.

foreign investment. Manila also limits foreign ownership of Philippine companies to 40 percent. This further deters foreigners interested in buying government-owned companies.<sup>20</sup>

## THE CPP'S CONTINUING WAR

Following its boycott of the February 1986 election and its breaking off of peace negotiations with the Aquino government in February 1987, the Communist Party of the Philippines has lost much public support. The CPP has been weakened by leadership struggles, violent internal purges, and the capture of key leaders. But there has been only a slight decrease in the tempo of the CPP's war. The CPP's New People's Army's strength has fallen from over 25,000 in 1987 to about 23,000 in December 1988.<sup>21</sup> Last year, the CPP's war killed over 3,900 Filipinos, about 10.6 a day. Through this June, the rate had fallen to 8.6. In early 1989, the military said that the CPP controlled or influenced 7,827 *barangays* out of 41,000, while other estimates claim 12,000.<sup>22</sup> A reported 304 CPP members support "sparrow" assassination squads in Metro Manila alone. From January to early July, they killed 65 soldiers and police, and through early October, they killed four of Aquino's Presidential Security Group. On February 26 in Candoni, a village in Negros Occidental Province, NPA guerrillas burned a post-harvest facility and rice mill funded by the Canadian government, causing \$24,000 worth of damage. Partly because of such intimidation, Ottawa has decided not to renew or extend its successful aid program in Negros. The CPP is also trying to intimidate Japan into ceasing its economic assistance.<sup>23</sup>

**Torture and Executions.** The CPP behaves like Cambodia's Khmer Rouge. In April and May, in Laguna and Quezon Provinces on the island of Luzon, mass graves were discovered of victims of a CPP internal purge, code-named by the communists, "Operation Missing Link."<sup>24</sup> Survivors told of intense torture before the executions, in which up to 200 CPP activists may have died.<sup>25</sup> Then, on June 27, NPA guerrillas on Mindanao shot 40 members of a Protestant Church, in part because they did not pay "revolutionary taxes."<sup>26</sup>

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20 Matt Miller, "Struggling Privatization Program Enters Crucial Period in Quest for Momentum," *Asian Wall Street Journal Weekly*, October 16, 1989, p. 20.

21 "Progress, Aims of Counterinsurgency Campaign," *Manila Bulletin*, August 26, 1989, p. 10, in *FBIS-East Asia*, August 30, 1989, p. 53.

22 Lower number supplied by Philippine military; higher estimate in John McBeth, "Long struggle ahead," *Far Eastern Economic Review*, April 27, 1989, p. 20.

23 "Communists Say Japanese Aid Used Against Rebels," Kyodo News Service, September 6, 1989, in *FBIS-East Asia*, September 7, 1989, p. 36.

24 *Mga Mahalangang Punto Hinggil Sa OPML*, CPP document outlining Operation Missing Link, captured by Philippine military.

25 Macario C. Lorenzo, "NPA Kills NPAs," *Philippines Free Press*, June 17, 1989, p. 4.

26 "NPA rebels behead 2, gun down 38 in Davao," *Philippine Daily Inquirer*, June 27, 1989, p. 1; Dr. John Whitehall, "The Digos Massacre," *Christian Anti-Communism Crusade*, November 1, 1989, p. 2.

But in attempting to defend Filipinos against CPP terror, Aquino has come under increasing criticism from human rights groups like Task Force Detainees, Amnesty International, and the New York-based Lawyers' Committee for Human Rights. This criticism is unwarranted because Aquino has sought to institutionalize the defense of human rights through the Commission on Human Rights and by forcing the military to decrease its human rights abuses.

**New Tactics.** Aquino, Secretary of Defense Ramos, and other Philippine officials think that the CPP can be defeated before the presidential election in 1992.<sup>27</sup> Under Ramos, the Armed Forces of the Philippines (AFP) has been streamlined from twelve regional commands to five, and new tactics have been introduced. These tactics stress operations by small units called Special Operations Teams (SOTs), which seek to win rural community support so that local governments can follow up with economic assistance to secure their allegiance. The AFP has also formed over 1,600 Peace and Order Councils, which seek greater civilian support for the AFP. At about \$1 billion, the AFP's budget is the lowest, as a proportion of GNP, in Southeast Asia. There is not enough equipment like radios or medical kits to provision enough SOT units. Peace and Order Councils lack the funding for projects to oppose the CPP.

The AFP also is hard pressed to mount large conventional operations against the CPP. In April and May, "Operation Thunderbolt" deployed large units to attack CPP strongholds in Central Negros. Instead of running from the larger AFP units, the CPP fought back. About 35,000 refugees fled from the fighting, which then strained the government's capability to house and feed them.<sup>28</sup> In addition, the governor of the province lacked the resources to build projects that would help win the allegiance of the *barangays* that had been cleared of the CPP.

## EXTENDING U.S.-PHILIPPINE TIES INTO THE 21st CENTURY

Bush should use Aquino's visit to Washington to strengthen U.S.-Philippine ties into the next century. As America's only former colony, the Philippines has had a special relationship with the U.S., which has seen American and Filipino forces as allies during World War II, the Korean and the Vietnam Wars. U.S. military access to Philippine bases has promoted stability in Southeast Asia since 1945.

So far this year, the leaders of Malaysia, Singapore, Thailand, and the Foreign Minister of Australia publicly have supported the continued U.S. military presence in the Philippines. This will be needed as long as Moscow

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27 "Government sees victory over insurgents by 1992," *Manila Bulletin*, May 16, 1989, p. 14.

28 Steven Erlanger, "In War's Changing Strategy, the Civilians Count," *New York Times*, June 13, 1989, p. A4.

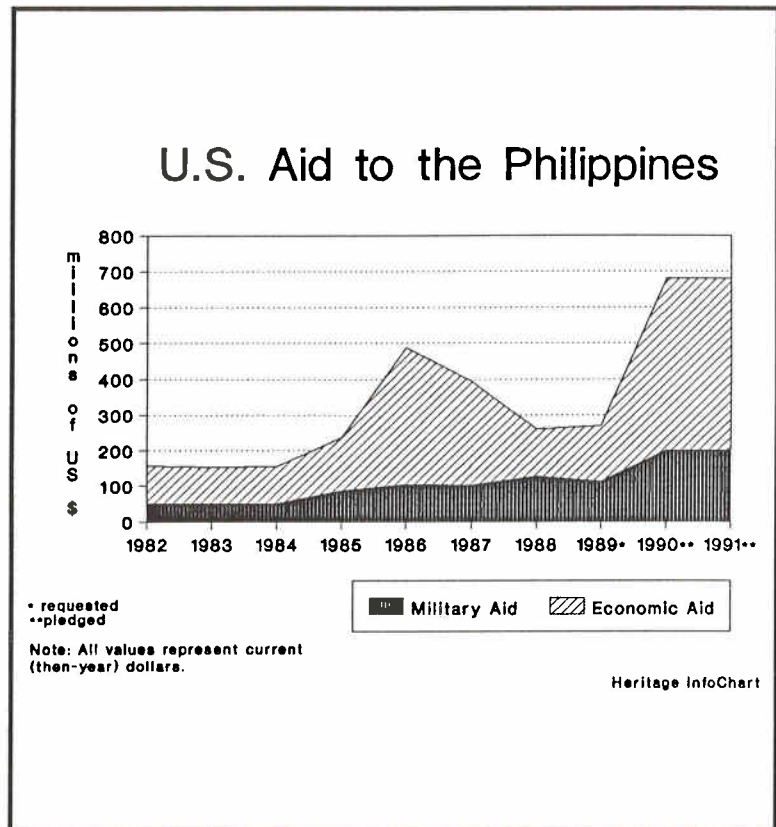
presents a political and military threat in Asia. U.S. forces also help defend the Philippines, as the AFP is preoccupied with the CPP insurgency and cannot spare equipment to defend Philippine territory.

If forced to leave the Philippines, however, U.S. forces have alternatives in the region, including Singapore, Guam, Palau, Japan, and Australia. If a new Bases Treaty provides for a five-to ten-year phase-out of the U.S. forces – as many in the Philippine Senate now appear to favor – U.S. forces may leave much sooner. If the U.S. must leave, there likely will be pressure from Congress and the Pentagon to use the aid now given to the Philippines because of the bases to build the new facilities elsewhere as soon as possible. It is clear that the U.S. Congress will not support large increases in American aid to Manila as part of a new Bases Treaty.

To set the stage for the negotiations on the bases set to begin in December and to move the debate away from the money issue, Bush should suggest to Aquino that Clark and Subic be fully shared with Philippine defense forces, as the U.S. shares bases with its NATO allies and Japan. He also should offer assistance for the gradual reequipping of AFP air and naval forces; eventually the Philippine military should be able to

defend its nation and assume some burden, along with U.S. forces, for regional defense. Manila should be encouraged to become an active partner in the informal Asian democratic defense network instead of relying on U.S. defense forces.

These offers should be tied to Manila's success in defeating the communist insurgency. As the CPP targets more Americans, Washington must be prepared to help the Armed Forces of the Philippines by providing more equipment, like radios and medicine kits, for small unit operations, and to begin to assist Philippine police forces.





Besides providing nearly \$1 billion in official bilateral assistance because of the bases over the next two years, Washington has taken the lead in organizing the Philippine Assistance Program, which brings together Japan, Australia, and several European countries in a multilateral effort to aid Manila. The program envisions \$10 billion dollars over five years. Japan is already the largest aid donor at over \$1 billion a year. Last year, Ronald Reagan committed U.S. support for the Plan, and the Bush Administration accordingly has committed to seek from Congress \$1 billion over five years, in addition to aid related to the bases.

**Linking Aid to Reforms.** This aid, however, is controversial. It is opposed by David Obey, the Wisconsin Democrat who chairs the House Appropriations Subcommittee on Foreign Operations, which cut the Bush Administration's initial \$200 million request to \$160 million.<sup>29</sup> Obey and others want the aid linked to specific progress by Manila on economic reforms.<sup>30</sup> Manila has agreed quietly to this linkage. As a result, disbursement of U.S. economic aid is tied to progress on such reforms as privatization, liberalization of inter-island shipping, and decentralization of aid administration to allow for faster and more efficient use of U.S. aid.

Bush should stress to Aquino that Manila must reduce its dependence on foreign aid and loans. He then should listen sympathetically to her suggestions for increasing trade opportunities. She is sure to want an increase in Manila's quota of textile exports to the U.S. Textile imports to the U.S. are governed by a maze of quotas: 45 specific quotas and 98 other categories under a general quota. In the twelve months ending last August, the value of Philippine textile exports to the U.S. was \$813.5 million. This comprised only 2.8 percent of total U.S. textile imports, but it is the second largest Philippine export category to the U.S. after electrical machinery. Both the Philippine economy and American consumers would benefit from an increase in inexpensive Philippine textile exports. The U.S. is the Philippines' largest export market, totaling \$2.7 billion in 1988. Other major Philippine exports to the U.S. are coconut oil and fruits and vegetables. Bush also should warn Aquino to resist nationalist protectionism that would restrict U.S. access to Philippine markets.

Specifically, Bush should:

◆ ◆ Praise Aquino for restoring Philippine democracy, for promoting a resumption of economic growth, and for defending Philippine human rights. Bush should stress that Americans continue to regard the Philippines as a close ally in Asia and that Washington remains committed to helping Filipinos defend their freedoms.

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29 David R. Obey, "Too Much Aid for the Philippines," *Washington Post*, July 11, 1989, p. A25.

30 See Ramon Myers and Richard D. Fisher, Jr., "What Manila And Washington Can Do To Save The Philippine Economy," Asian Studies Center *Backgrounders* No. 88, March 24, 1989.

◆ ◆ Stress that U.S. military forces will continue to need access to Philippine military bases as long as Moscow threatens Asia. He should stress too that the U.S. forces help stabilize the Philippines by providing economic support that reduces the appeal of the CPP insurgency. He should tell Aquino that a new Bases Treaty allowing U.S. access for more than ten years will be the best way to preserve Manila's high level of bipartisan support in the U.S. Congress. Bush should suggest that Aquino consider a new Bases Treaty that allows for Philippine use of the U.S. facilities. If there is no agreement, Bush should say, candidly, the U.S. will leave.

◆ ◆ Offer to increase military aid from its current \$200 million to \$300 million a year. Bush should offer to begin assisting Philippine police forces so that they are better able to counter the communist terrorism that increasingly targets Americans. Bush should offer greater assistance in interdicting foreign support to the CPP. And finally, Bush should offer U.S. aid to gradually re-equip Philippine external defense forces so Manila can cooperate with the U.S. in defending the sea lanes in the northern part of the South China Sea.

◆ ◆ Tell Aquino that large increases in U.S. economic aid related to the bases will be very difficult to obtain. But he should add that he is prepared to fulfill Ronald Reagan's commitment to contribute to the Philippine Assistance Plan. Bush should stress, however, that the U.S. Congress will be much more willing to follow through with this aid if Manila makes real progress with structural economic reforms. Manila should accelerate decentralization of the bureaucracy that administers economic assistance to allow for faster and more efficient use of foreign aid, and specifically, more rapid use of the \$4 billion aid backlog.

◆ ◆ Urge Aquino to seek free market solutions for reducing Manila's \$28 billion foreign debt. Manila should greatly expand its debt-for-equity swap program. Bush should respond to Manila's concerns about the inflationary impact of these swaps by noting the example of Chile, which has actually beat inflation by exchanging its debt for equity in government-owned corporations. Bush should emphasize that this will also accelerate Manila's slow privatization program.

◆ ◆ Warn Aquino that trade protectionism will only delay Philippine growth. Bush should urge Aquino to resist policies from the Philippine Congress that would threaten the patents, copyrights, and other intellectual property rights of American companies operating in the Philippines. Bush should tell Aquino that revisions in the Philippine investment code to allow foreign ownership above the current 40 percent will increase foreign investment.

◆ ◆ Offer to seek ways to expand U.S.-Philippine trade. Bush should urge Aquino to sign a Trade and Investment Facilitation Arrangement, which will allow for a formal mechanism to discuss trade issues. Bush should offer to seek an increase in the Philippines' textile exports to the U.S. Bush should suggest that Aquino consider the idea of a free trade agreement with the U.S.

## CONCLUSION

The most important issue Corazon Aquino and George Bush will discuss is the future of the U.S. military facilities in the Philippines. These are needed to preserve strategic stability in East Asia, and they are a boon to the struggling Philippine economy. A U.S. withdrawal from the Philippine bases will lead to instability in the region, strengthen the communist rebels in the Philippines, and tempt Moscow to meddle in Philippine affairs. Bush should urge Aquino to support a new Bases Treaty but he should offer a new deal. This deal should allow Filipinos to carry the burden for their own defense and to play an active role in the pro-democratic Asian defense network.

**Serving Both Countries.** Bush also should urge Aquino to proceed with structural economic reforms that will lessen Philippine dependence on foreign aid and loans. Bush should offer increased trade opportunities to Aquino, such as an increase in textile exports, and urge Aquino to consider a free trade agreement with the U.S.

The U.S.-Philippine alliance has helped to preserve political stability that has given impetus to East Asia's phenomenal economic growth since 1945. But this alliance can be shaped to better serve both countries. Corazon Aquino's visit to Washington offers George Bush an opportunity to preserve and strengthen U.S.-Philippine ties through to the 21st century.

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