

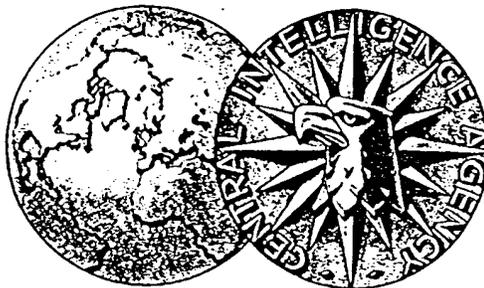
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# THE CURRENT SITUATION IN THE PHILIPPINES

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## THE CURRENT SITUATION IN THE PHILIPPINES

## SUMMARY

The Philippine Republic is strategically important to the US chiefly because it is a link in the offshore island chain which controls Asiatic mainland outlets to the Pacific and which might serve as a forward base for military operations in Asia.

Philippine Armed Forces, in which the Constabulary is the largest and most effective component, total about 31,000 and are incapable of providing external security. However, under the guidance of the US Joint Military Advisory Group, these forces have been able to maintain the stability of the national government despite localized lawlessness and disorder. To the extent that the military establishment could be developed on a US pattern and up to US standards, cooperation with US forces could be facilitated.

Lawless activities of 8 - 10,000 Communist-led armed peasants known as Hukbalahap continue to be one of the most serious problems of the Republic. The Constabulary is able to break up large Huk concentrations, but small rebel bands continue to operate in central Luzon. At the root of the Huk problem is the historically inequitable land tenure system which the Government has done little to improve.

The Philippine Government is relatively stable and is friendly toward US interests. This friendship is based to a considerable extent upon large US postwar expenditures in the Philippines and an agreement providing for free trade until 1954. Nevertheless, nationalist sentiment—which is being exploited by leftists and political opportunists—is growing, and extreme nationalists of the minority coalition are making a determined bid for the presidency and other public offices which will be on ballots in the November 1949 elections. The leader of the minority coalition and its acknowledged candidate for the presidency is Jose P. Laurel who was Jap-occupation President of the Philippines and who is bitterly anti-US. Laurel's prospects have been improved considerably by the current split in the pro-US Liberal Party administration. A victory for the extreme nationalists at the polls in November would signal the long-range weakening of US influence in the Philippines, but during the next five years economic and military dependence upon the US will prevent a shift in the Republic's basic orientation.

The Philippine economy, which has achieved a high degree of postwar recovery, is important to the US chiefly for its relationship to Philippine internal political stability. However, copra, hemp, chrome, and manganese—all products on the US strategic materials list—are available in the Philippines.

Note: This report has been concurred in by the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force. It is based on information available to CIA on 15 March 1949.

## THE CURRENT SITUATION IN THE PHILIPPINES

## 1. PHILIPPINE ASSETS.

The strategic value of the Philippine Republic to the US derives from its geographic location as a component of the east Asian offshore island chain, extending north to include Japan. This chain controls Asiatic mainland outlets to the Pacific, controls east Asian coastwise shipping, protects US shipping routes to Southeast Asia, and could serve as a forward base for operations against the Asiatic mainland. The strategic value of the Philippines to the US is enhanced by treaties which: (1) permit the US to utilize military bases on Philippine soil, and (2) provide for US assistance in training and developing the Philippine military establishment. Successful completion of the program for development of small-scale armed forces on US standards should facilitate any cooperation with US forces that may prove necessary in the defense of US bases in the Philippines. Politically, the Republic has emerged from a dependent wartime status with relative stability. Its government is modeled after the US pattern and is friendly toward US interests. This friendship is based to a considerable extent upon such economic realities as large US postwar expenditures in the Philippines and a treaty guaranteeing free trade which until 1954 permits a profitable business in exports to the US. In return, US citizens hold a specially privileged position in Philippine economic activities. US interests are served also by the resultant availability in the islands of copra, hemp, chrome, and manganese which are on the US strategic list.

## 2. PHILIPPINE LIABILITIES.

a. The internal stability of the Philippine Republic will continue to be threatened because of the possibility that lawlessness and rebellion against government control will increase beyond the present scale. The most important source of lawlessness is the presence of an historical and inequitable land-tenure system which results in a life of poverty for large masses of the peasantry. In central Luzon, the consequent agrarian discontent was exploited during the war by an armed organization led by radical socialists and Communists, calling themselves "Hukbalahap," whose primary mission was extermination of the Japanese conquerors and whose secondary objectives included agrarian reform and uprooting of US influence. In the immediate postwar period, the reconstituted Philippine Government was able to dislodge the Huks from their control of local authority in central Luzon. While government suppression campaigns continue with temporary local success, the Huks, whose armed strength is 8-10,000, are loosely organized and have sufficient allies both among brigands and among the discontented peasantry to be able to melt away and regroup. Attempts to negotiate with the Huks have been unsuccessful and any attack on the basic problem of agrarian discontent is frustrated by the wealthy landlord class' domination of the Government. There is some indication that government policy has now settled on a gradual extermi-

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nation campaign against the Huks. In point of fact, such a policy would stiffen Huk resistance and allow further Communist exploitation of Huk grievances.

Philippine Communists blame both the US and the Philippine Government for injustices in the agrarian economy. Communist slogans, grafted to the Huk movement, decry US "imperialism," attacking both special US economic privileges and US military bases in the Philippines. The spread of hostility toward the US to the general population, a possible outgrowth of unsolved economic problems, and Communist propaganda could genuinely endanger Philippine stability and prevent US utilization of the military bases.

b. The security of the Philippine Republic is threatened externally, in Philippine opinion, by the Communist victories in nearby China. Filipino alarm over this Communist encroachment from the north is reflected in elaborate security precautions regarding the temporary admission of displaced Europeans evacuated from Shanghai. This considerable fear of the possible infiltration of Communist agents may also be used as an excuse for repressive measures against overseas Chinese resident in the Philippines, a group whose predominant control of domestic trade has aroused Filipino resentment for years. With Philippine Communists, the Philippine Government has taken a less determined line. The Philippine Communist Party (PKP) of about 3,000 members has no clearly defined legal status, although its prewar counterpart was outlawed in 1932. Huk leader, Luis Taruc—an avowed Communist—held a seat in the Philippine Congress from June 1948, until his formal unseating in late January 1949, drawing a Representative's pay even for time during which he led armed insurrection against the government. An "Un-Filipino Activities Committee" of the Congress is currently investigating the extent of Communist inroads, but the major outcome is expected to be legislation designed to tighten immigration restrictions, another allegedly anti-Communist measure directed against Chinese. Perhaps one reason why the Philippine Government has not taken stronger measures against its own Communists is the fact that PKP slogans—attacking the US-Philippine Trade Agreement and demanding removal of US troops and bases from Philippine soil—are not altogether unpopular with the more ultra-nationalistic Filipino politicians.

c. A third factor threatens US interests—extreme nationalism, a sentiment natural in its growth. With postwar independence, ambitious politicians of all hues are exploiting the growing nationalistic sentiment, aided considerably by the sensationalist Philippine press. As the foreign country most in contact with the Philippines, the US has received the greatest share of this criticism. US-Philippine treaties, particularly the trade and military bases agreements, are viewed by ardent nationalists as evidence of US "imperialism." The "parity" clause of the Trade Agreement, which necessitated a Philippine constitutional amendment to make it legal, has been a particular target for such vocal nationalists as Jose P. Laurel, ex-Jap puppet and leading figure in the minority party. Laurel and other opportunistic politicians consistently have attacked the present government for its close economic and military cooperation with the US. Every session of the Philippine Congress since independence has passed anti-foreign legislation which both postwar Presidents have in turn vetoed. Such

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ultra-nationalistic actions are, of course, economically unrealistic but the sentiments are real enough. Indeed, the most serious threat to US interests in the Philippines is the possibility that, inspired by growing economic difficulties in the future, leftist and nationalist elements could combine to foster a broadly-based anti-foreign movement which would alter the present pro-US orientation.

d. Another Philippine liability is the Republic's inability to oppose successfully a determined invasion and its complete dependence upon US military assistance.

e. Finally, support of the Philippines is dependent on long lines of ocean communication with the US. In the event of war between the US and the USSR, the security of the shortest routes would depend largely on US ability to deny Japan, the Ryukyus, and Taiwan to the USSR.

### 3. PROBABLE FUTURE DEVELOPMENTS.

The presidential election of November 1949 will be of importance in determining the future orientation of the Philippine Republic. If the existing government is returned to power the present close US-Philippine relationship may be expected to continue. A victory for extreme nationalists would indicate the likelihood of a long-range weakening of the US position despite continued dependence upon US aid. Nevertheless, during the next five years the Philippine Republic's basic pro-US orientation will permit utilization of its strategic assets despite continued Communist agitation, infiltration of subversive elements, and increasing anti-US sentiments.

## APPENDIX A

## POLITICAL SITUATION

The Philippine Government is relatively stable although it is faced with serious economic and social problems which are being exploited by local Communist leaders. The pro-US orientation of the Philippines continues to be the essential part of its foreign policy, which also advocates support of the UN and tends to sympathize with the nationalist movements of the Southeast Asia countries.

## 1. POLITICAL STRUCTURE AND INTERNAL DEVELOPMENTS.

The Philippine Republic, which was granted independence by the US on 4 July 1946, has emerged from its dependent status with a relatively stable government patterned largely upon that of the US. The chief difference from the US model is the greater proportionate responsibility which is vested in the executive branch of the Philippine Government. The government is controlled principally by a small group of wealthy landholders who represent the upper class. A vast majority of the 19,200,000 population, most of whom are small farmers, tenants, or laborers, belong to the lower class which has little formal education and a low standard of living. A small middle class composed of government workers, and minor business and professional men is slowly developing but its influence is negligible. The government administrative machinery is inefficient and corrupt—a situation which appears to be primarily attributable to political inexperience and to the low salaries which government employees receive.

*a. Political Parties and Personalities.*

Political parties in the Philippines have seldom been clearly defined and cohesive groups and tend to have less significance than key political figures. Currently, leading politicians of both the administration and opposition parties are competing for the 1949 presidential nominations in advance of party conventions which are scheduled to be held in April or May.

*The Liberal Party*, an offshoot of the traditionally dominant Nacionalista Party, has been in control of the government since 1946. It was formed to support the presidential candidacy of the late Manuel Roxas against Sergio Osmena, who had succeeded to the presidency and leadership of the Nacionalistas after the death of Manuel Quezon in 1944. The present Chief Executive of the Philippines, former Vice President and Foreign Affairs Secretary Elpidio Quirino, succeeded to the Presidency on 15 April 1948 when Roxas died in office. President Quirino has been considered personally somewhat less pro-US than Roxas, but he has continued the latter's policy of maintaining close ties with the US. Immediately upon taking office, President Quirino declared that his objectives were to restore law and order in central Luzon and to restore the confidence of the Filipino people in their government by eliminating the

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graft and corruption which had evoked widespread criticism of the government toward the end of the Roxas regime. Although he has not achieved outstanding success in his objectives, some gains have been made and Quirino's forthright position has gained him considerable press and public support. Thus, although Quirino lacks Roxas' political strength and ability, he has proved himself to be a more shrewd politician than was first anticipated and has recently completed a cabinet reorganization which will probably assure him of a more loyal administration. President Quirino announced his availability for the Liberal Party presidential nomination on 27 November. An apparent split in the party caused by the ousting of Jose Avelino, party boss and presidential aspirant, as Senate President on 21 February 1949 improves Quirino's prospects but likewise strengthens the position of the minority coalition and its presidential candidate, Jose Laurel. Quirino's present control of the Senate, for example, is dependent upon minority support. Efforts to resolve differences between the two Liberal factions, however, have not been abandoned, and either agreement upon Quirino or the selection of a compromise candidate such as Carlos P. Romulo is a possibility.

*The "Fused Minority Parties,"* are a loose coalition consisting principally of Nacionalistas and members of the Democratic Alliance (political affiliate of the Huks) which joined forces prior to the general elections in 1947, in opposition to the Liberal Party administration. In general, the Nacionalistas represent moderate Minority elements while the Democratic Alliance draws considerable support from leftist elements including the Communists. However, the Alliance controls only three seats in the House of Representatives; a fourth seat was held, until recently, by Huk leader and self-confessed Communist Luis Taruc, who is now leading the Huk revolt in the field.

*The Communist Party of the Philippines (PKP)* is believed to have only three thousand active members. The prewar counterpart was declared illegal by a Supreme Court decision in 1932, but the legal status of the present Communist Party has not yet been clearly defined. In any event, the PKP engages in little overt activity, aside from press statements, and no Communists have been elected to any public office on a Communist Party ticket. Nevertheless, the Communist Party functions quite actively through several Communist "front" or Communist-infiltrated organizations—chiefly the Hukbalahap, the Democratic Alliance (DA, an element of the Fused Minority Parties, above), and the Congress of Labor Organizations. The PKP is publicly pro-Soviet and generally follows the international Communist line, although it denies Soviet direction. It demands abrogation of the Bell Trade Act \* and removal of US troops and bases from Philippine soil. Although party officials deny it, the PKP is believed to maintain liaison with Chinese Communists in the Philippines, who are expected to become more active when a Communist-dominated government emerges in China.

The Philippine Government is becoming increasingly concerned over the possibility that Chinese Communists and other foreign agents are infiltrating the country. A Congressional committee is currently investigating the extent of Communist inroads

\* The Bell Trade Act was passed by the US Congress as the basis for the US-Philippine Trade Agreement and provides that equal rights must be granted US citizens to develop Philippine resources and operate Philippine utilities in exchange for a preferential tariff and war damage compensation.

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in the Philippines in an effort to arrive at effective combative measures. It is anticipated that legislation will be introduced in the current session of the Philippine Congress to protect the Republic against subversive activities and to tighten the immigration laws.

In its present state, the Philippine Communist Party offers no immediate threat either to US interests or to the Philippine Government, but, should its influence be extended unchecked through the front organizations, the ability of the Philippine Government to resist Communist demands will be seriously weakened.

b. *Internal Problems.*

The Philippine Government must deal effectively with the problems of agrarian and social unrest, of economic development (see Appendix B, Economic Situation), of the organized labor movement, and of the nationalist trend, in order to prevent their profitable exploitation by local Communist and political opportunists.

(1) *The Hukbalahap and Internal Lawlessness.*

Lawless activities of the Communist-led armed peasants known as Hukbalahap and lawlessness among other dissident groups constitute one of the most serious problems of the Republic. Total Huk membership is estimated at fifteen to twenty thousand although Huk troops probably do not number more than eight to ten thousand including about five thousand "fanatics." While government forces are able to break up large Huk concentrations, small rebel bands continue to harass the Luzon countryside.

The Hukbalahap organization was formed chiefly by radical socialists and Communists in 1942 with the avowed purpose of exterminating the Japanese, eliminating US influence, and effecting agrarian reforms. In addition to fighting the Japanese, the Huks also fought other guerrilla groups and in some cases resisted, although unsuccessfully, attempts of the reconstituted Philippine Government to dislodge them from local governments which the Huks had seized in central Luzon. The Huks have continued to demand agrarian reforms and have also continued their resistance to government authority, except for brief truce periods used to strengthen their forces. Supplies have been obtained by foraging on the countryside and from adherents, including various pro-Communist organizations, largest of which is the National Peasants Union (PKM). The Huks have expressed themselves politically through the Democratic Alliance although the DA president's disavowal of Huk leader Luis Taruc's strong statements—which sanctioned the use of violence to achieve Huk aims—suggests that the Huks may be unable to retain full party support.

The problem of dealing with the Huks is complicated by the co-existence of disaffected peasants, common outlaws, and Communists within the organization. The Huks have legitimate grievances: the land system has been historically inequitable and the masses of the peasants live in poverty. Partly because the government is dominated by the landlord class, policies designed to aid the peasants' lot are ineffective both in formulation and in execution. Brigandage and armed violence have become increasingly widespread as a result of the war and it is often extremely difficult to distinguish a Huk from an ordinary bandit. Firearms are plentiful as a result of supplies furnished

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Filipino guerrillas to fight the Japanese, as well as thefts from US surplus stocks, commercial imports, and an ineffective Constabulary licensing control. Finally, Huk peasants have been victimized by a Communist leadership which champions their cause in return for promised adherence to Marxist ideology. No clear-cut evidence, aside from Marxist literature, has been presented which would indicate that Russians or Chinese in the Philippines are aiding the Huks. However, some relationship is probable.

To cope with the Huk insurrection, the Philippine Government has adopted a dual program of force and social amelioration which has been largely unsuccessful. In June 1948, shortly after President Quirino had assumed office, an amnesty was granted to Huks who would "register" themselves and their arms. Terms of the amnesty with respect to the final disposition of firearms were ambiguous; the Huks were suspicious of the government's aims, and the amnesty proclamation expired without significant results aside from favorable press and public reaction. Huk leader, Luis Taruc, who had taken his seat in the Philippine House of Representatives, again took the field at the head of Huk forces when the amnesty offer expired August 1948. Taruc had earlier stated that he was a member of the Philippine Communist Party although he denied taking dictation from the Kremlin, and statements issued subsequent to his flight from Manila decry US "imperialism" and call for a "democratic peace." Constabulary operations, which were then begun against the Huks, have reduced the scale of Huk activities and have weakened Huk supply lines, but armed lawlessness has not been eradicated. Moreover, current Constabulary campaigns have caused extensive peasant evacuations from the troubled areas with a consequent serious relief problem.

The government's attempts at agrarian reform have also been unsuccessful: tenancy laws have not been effectively enforced; land resettlement and redistribution has not produced significant results; and little progress has been made to increase land productivity. Although the government is continuing its peasant relief program, there is some indication that a policy of gradual extermination of the Huks, instead, has been decided upon.

While the Huks do not at present constitute a serious threat to the Philippine Government or to US military installations, they are symptomatic of fundamental economic and social conditions which must be improved if the Republic is to insure its future stability and security.

In addition to Huk activities, unrest among many of the half million Moro (Moslem) inhabitants of Mindanao and particularly Sulu, as well as disturbances on the island of Leyte, are further evidence of lawlessness in the Philippines with which the government must cope in order to preserve its stability. While lawlessness on Leyte may be common banditry, unrest among the Moros is based upon genuine social and economic grievances. There has long been an antipathy, based on differences in customs and religions, between Christian Filipinos and the Moros. Moreover, there is continuing friction between Christian Filipino settlers and the Moro inhabitants of Mindanao who resent this "encroachment" on their lands. The Moros possess large quantities of guns which they show no signs of surrendering, partly owing to their traditional love for weapons and partly because of their hatred of the Constabulary.

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The most serious situation appears to exist in Sulu Province where some five hundred armed Moros have clashed with Constabulary forces. Although two hundred Moros are reported to have surrendered recently and the Constabulary is confident of success in its current campaign, some lawlessness is expected to continue in Sulu.

(2) *The Organized Labor Movement.*

The steadily increasing power of the organized labor movement, which has a gradual leftist trend, presents the Philippine Government with the problem of satisfying the legitimate grievances of the workers, in order to prevent their domination and exploitation by Communists and other leftist elements. Although highly publicized strikes and demonstrations tend to overemphasize the influence and achievements of the leftist labor unions, limited gains have been made largely as a result of precedent-setting decisions of the Philippine Court of Industrial Relations (CIR). The Quirino administration has demonstrated a liberal policy in an attempt to win the confidence of labor and to coax the radical movement into channels of cooperation with government and management.

The present labor problem centers on the leftist and extremely nationalistic Congress of Labor Organizations (CLO) because it is: (1) the core of progressive thought regarding labor; (2) the principal champion of the postwar labor movement; (3) the most likely vehicle of labor's future progress; and (4) a potential Communist menace—more because of its leadership than its social and political doctrines. Two CLO directors are known Communists; one of them, Mariano Balgos, is Secretary-General of the Communist Party.

A congress of at least forty member unions, the CLO has been the most active force for the advancement of the postwar labor movement because of its primary responsibility for focusing the attention of the Court of Industrial Relations upon labor disputes. CLO strategy is to refuse conciliation by the Labor Department, forcing each issue into the CIR whose decisions, in the absence of adequate labor legislation, tend to be based upon its own legal precedents. The Court is appointed by the President but is completely independent in its decisions which are subject only to appeal to the Supreme Court.

The avowed political policy of the CLO, expressed through a Political Action Committee formed in 1947, is to maintain the pressure of labor's interests as an independent force. In actual practice, this policy precludes satisfaction with the machine in power and has thrown CLO into qualified cooperation with other elements of the opposition—in spite of divergencies of positive programs. Present indications are that, whatever President Quirino may do for labor, the CLO will support his opponent in the 1949 elections. Although the efficacy of CLO political activity is questionable, its progressive dissatisfaction supports the belief that its ultimate goals are outside the framework of democratic capitalism.

As a reaction to the formation of a government-sponsored conservative labor confederation (see below), the CLO has organized, within the past year, the Philippine United Peasant and Labor Organizations (PUPLO), composed of the progressive Federacion Obreras Filipinas, the National Labor Union, and several small unions. Should the unifying tendencies in PUPLO result in a solid ideological and

tactical unit, this new confederation may acquire a strong political position and attract other independent unions.

The government-sponsored conservative counterpart of PUPLO is the National Confederation of Trade Unions (NACTU) which claims at least 400 member-unions, comprising 75 percent of the country's organized laborers. The formation of NACTU is attributed to former Senate President and Liberal Party leader Jose Avelino who has been preoccupied with the concept of a tractable labor confederation for many years. NACTU appears to be dominated principally by company unions, while independent conservative unions have given it purely nominal support. The incentive to join NACTU is the consolidation of backing for those demands that fit within the orbit acceptable to the government. Membership in NACTU is assumed to be a guaranty of the government's paternalistic support and the understanding consideration of management. Because of the strong desire of progressive labor to maintain its independent influence, governmental efforts to guide the development of the organized labor movement are likely to strengthen the solidarity of the progressive elements.

The great majority of Filipino workers seem to be comparatively orderly and patient. Their educational level is low and their adherence to conservative traditions strong. However, general discontent engendered by a sudden drop in living standards together with the cessation of US rehabilitation and other payments, would probably greatly increase the leftist trend in the Philippine labor movement.

(3) *Nationalism.*

An understandable post-independence trend toward increasing nationalism and xenophobia is providing excellent capital for ambitious politicians, for Communist leaders, and for the sensationalist Manila press. While this trend has not so far seriously injured US interests, it has adverse possibilities. US-Philippine treaties, particularly the Trade and Military Bases Agreements, are suspiciously regarded by ardent Filipino nationalists as evidence of US "imperialism." The so-called "parity" clause of the Trade Agreement proved especially vulnerable to adverse criticism. This clause, which necessitated a Philippine constitutional amendment, provides that US citizens shall have equal rights with Filipinos in developing natural resources and operating public utilities. Jose P. Laurel, who is the most vocal exponent of nationalism, vigorously opposed the parity amendment in 1947 and has consistently criticized the present administration for its close economic and military cooperation with the US.

The nationalistic trend has also been expressed in Congressional legislation aimed primarily at Chinese merchants who control most of the Philippine retail trade. Although anti-Chinese legislation was largely suppressed during the period of US control, in 1947 a law was adopted favoring Filipino over Chinese stall holders in local markets. Other nationalist legislation, affecting all foreign business, has been passed by every session of the Philippine Congress since independence but, to date, these bills have been vetoed by both Roxas and Quirino.

The most serious threat to US interests in the Philippines is the possibility that, in the event of depressed economic conditions, leftist and nationalistic elements could foster a broadly-based nationalist movement which would alter the present Philippine orientation toward the US.

## 2. FOREIGN RELATIONS.

### a. *Orientation.*

The Philippines continues to be oriented toward the US and actively supports the UN. US orientation is based upon a number of factors within the Philippines: (1) traditional friendship built up during the period of US control; (2) common cause against the Japanese in World War II; (3) US postwar legislation providing assistance in the reconstruction and rehabilitation of the Philippine economy; (4) military bases and assistance agreements which Filipinos have interpreted as US-Philippine military alliance; and (5) the existence of friendly administrations since establishment of the Republic in 1946. Despite the close US-Philippine relationship, minor irritations and incidents frequently arise. This situation is attributable in part to the novelty of political independence and to Filipino sensitive pride which is exploited by political opportunists and more often by an irresponsible press.

### b. *Diplomacy.*

In addition to close relations with the US, Philippine foreign policy subscribes to the principle that ultimate security for small nations rests with the United Nations. Consequently the Republic is actively participating in UN affairs under the direction of Carlos P. Romulo who, partly because of his personal popularity abroad, has considerably strengthened Philippine international prestige. Although the Philippines generally supports US policy in the UN, there has been some deviation largely owing to Romulo's championship of the dependent peoples of Asia, for whom he has become a leading spokesman.

In order to further its international prestige—a primary goal of Philippine foreign policy—the Republic is actively seeking to maintain and strengthen diplomatic relations with other countries. The Philippines is now recognized by some fifty nations, including all major powers except the USSR. (Soviet propaganda derides the Republic as a US satellite.) The US maintains an embassy in Manila; China, Italy, the UK, Spain, France, Norway, Sweden, the Netherlands, and Argentina have established legations; and a total of twenty-four nations have consular representation.

Until recently, Philippine policy toward colonial peoples has been limited to expressions of sympathy for their national aspirations, and even this policy has been emphasized more strongly by Romulo in the UN than by the Philippine Government in Manila. The Philippines, however, played a leading role at the New Delhi conference, 20-23 January, where delegate Romulo advocated regional action within the UN in support of Indonesia. In accordance with instructions from President Quirino, however, he contributed his influence both before and during the conference to prevent the development of an anti-western bloc. The Philippine Government has indicated that it will take no unilateral action against the Dutch despite pressure by many Philippine officials and Moro leaders to adopt strong measures.

Popular anti-Japanese sentiment, based upon wartime atrocities and controls in the Philippines, is strong and opposes even trade relations with Japan, but government policy is more realistic. Nevertheless, Philippine relations with Japan are cur-

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rently limited to trade carried on through SCAP on a strictly controlled basis. This arrangement probably will continue until the peace treaty is signed. The Philippines continues to press for its full share of reparations from Japan as approved by SCAP. A Philippine Minister to Tokyo accredited to SCAP was recently appointed to supervise a staff which includes a Trade Mission and a reparations officer. The Philippine Government has generally followed a policy of reluctant approval of SCAP procedure, although the press and individual Philippine officials bitterly oppose any move to liberalize Japanese occupation policy, to permit Japanese industrial resurgence, or to initiate significant trade relationships.

Although Philippine policy toward China has been friendly, the government is under constant pressure from its own nationals to limit the influence of Chinese upon the Philippine economy. An example of this pressure, as well as an apparent desire to prevent the immigration of subversive elements, is the Philippine cabinet's recent resolution regulating admission of refugees from China, prohibiting the entry of Chinese nationals in excess of the annual immigration quota of 500 persons. No such limitation was placed upon nationals of other friendly countries.

In general, Philippine relations with European countries have not been especially significant. Since Quirino's succession to the Presidency, however, a sharp trend toward closer relations with Spain has become apparent. This policy seems to be based largely upon Quirino's personal attachment to Spanish cultural achievements and his desire to perpetuate them in the Philippines. Although this trend may have future significance, it has had to date no appreciable effect upon over-all policy.

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## APPENDIX B

## ECONOMIC SITUATION

The Philippines is a major source of copra and hemp and a significant source of chrome and manganese ore, all of which are on the US strategic materials list. The experience of World War II, however, indicates that Philippine output of these products is not of critical importance to the US. The importance of the Philippine economy to the US, therefore, lies primarily in its relationship to Philippine political stability.

A high degree of economic recovery has been achieved since liberation principally as a result of large US expenditures and the return from heavy copra exports. By terms of the US-Philippine Trade Agreement, however, free trade between the two countries is continued until 1954, thus prolonging an essentially colonial economic pattern. A fair degree of stability is virtually assured so long as exports continue to have a brisk market and US Government payments remain heavy. Under present commitments, these payments will continue at approximately their present rate until mid-1950. It is doubtful that a balance of trade will be attained by that time. Some legislation designed to prepare the economy for the decline in US payments and eventual loss of a preferred market is being implemented, but governmental action in this regard remains largely in the planning stage.

## 1. US ASSISTANCE.

US funds and equipment amounting to approximately \$1,725,000,000 have been authorized, expended, or distributed in the Philippines since liberation. Payments began immediately after US troops landed in Leyte in October of 1944 when the US Army began to distribute civilian supplies on an emergency basis which continued to VJ-day. Moreover, large US Army and Navy expenditures for goods and services commenced simultaneously and continue to contribute heavily to the available dollar supply. The major part of US assistance now being extended to the Philippines, however, is made possible by Congressional legislation and treaties designed to aid in reconstruction and rehabilitation of the Philippine economy, to provide benefits for Filipino veterans who fought with US armed forces, and to assist in providing an adequate military establishment. In addition, a number of special technical missions—including housing, agricultural, and financial missions—have been sent to the Philippines to advise the government on economic problems of reconstruction.

US aid is thus contributing materially to Philippine economic recovery although a large part of the abnormal influx of dollars is being dissipated on luxuries and non-essentials without lasting benefit to the economy. The budgetary loan made by the US in 1947 has enabled the Philippine Republic to provide essential government services. Surplus property transfers have provided the basis for reestablishing vital transportation facilities. Surplus property has also included equipment and supplies

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urgently needed for the rehabilitation of industry and agriculture. Indirectly, US financial aid is providing the dollars required to offset the large Philippine trade deficit.

The net effect of US aid is to strengthen pro-American sentiment among Filipinos. Considerable criticism, is, however, being directed at the US for alleged failure to provide sufficient funds for adequate rehabilitation of the Philippines compared with US expenditures in other parts of the world, particularly in former enemy countries. The US is also being criticized for failure to provide Filipino veterans of World War II with benefits equal to those granted US veterans, and pressure is currently being exerted for the enactment of US legislation to remedy this situation.

## 2. POSTWAR ECONOMY.

### a. *Agriculture.*

The basis of the Philippine economy is tenant and small freeholder farming. Approximately three-quarters of an estimated 19,200,000 population live on farms and most of the remainder are engaged in processing, transporting, and distributing the farm product or in serving the farm population.

#### (1) *Food Production.*

Production of rice, the principal food crop, has recovered very nearly to prewar levels when the domestic food output was 2-3 percent short of requirements, in contrast with 1945 and 1946 when wartime dislocations necessitated heavy imports. The Government's goal of self-sufficiency in rice production is theoretically easily obtainable through the use of better seed, fertilizer, more extensive irrigation, and the opening of new lands, but it will probably be a number of years before this goal is achieved.

In certain areas, particularly the rice lands of Central Luzon, a very serious and long-standing socio-economic problem exists, basically as a result of overpopulation within the area. It is aggravated by a feudal agrarian system that has resulted in tenancy rates of as high as 70 percent. The problem is not susceptible of easy solution and the governmental efforts to solve it have tended to deal with the symptoms rather than with the basic issue. (See Appendix A.)

#### (2) *Export Crop Production.*

Under the prewar pattern, the Philippines obtained the money and credit necessary to cover the cost of imports, to support the government and to provide new capital by exporting sugar, coconut products, abaca (Manila hemp), tobacco, minerals, timber, and certain minor products.

The sugar industry, which provided the largest prewar export, has been slow to recover from wartime devastation, and sugar did not enter the export trade until 1948. During the second quarter of 1948, coconut products accounted for 49 percent of the total value of Philippine exports; abaca was second in importance, and these together with sugar made up 90 percent of the total.

### b. *Mining.*

Gold production, which accounted for over 90 percent by value of all mineral output before the war, is currently at less than one quarter the 1940 rate when 1,119,000

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ounces were produced and gold was second in value only to sugar among export products. Higher costs have prevented complete rehabilitation of the war-damaged gold mines. Refractory grade chrome ore is being produced at the rate of approximately 20,000 tons monthly. Metallurgical grade chrome ore, manganese, and copper have recently re-entered the export trade but in relatively minor quantities. The government in September 1948 agreed to the export of 200,000 tons of iron ore annually to Japan (approximately 1/6 of 1940 shipments) in return for certain allocations of finished products.

*c. Industry and Domestic Commerce.*

The processing of export products constitutes the only significant industrial activity in the Philippines.

Rather elaborate plans for industrialization, embodied in surveys made in 1946 and 1947, appeared less urgent as the economy achieved a fair degree of recovery in accordance with the prewar pattern. The government, however, has negotiated with the International Bank for Reconstruction and Development for a loan of \$88 million to develop hydroelectric resources on Luzon and Mindanao which would provide power for the development of light industry. In connection with these negotiations, the Philippine Secretary of Finance outlined a broad development program for the years 1949-1953 to cost an estimated \$980 million, with the major part to be met by domestic financing. The International Bank has indicated that it may grant an initial loan of \$15 million to finance two power projects on Luzon.

Of more than a score of various government-owned manufacturing, trading and service corporations organized before independence, many are now dormant. In the aggregate these enterprises never bulked large in the economy and, with a few exceptions, they have not been notable for efficient non-political management. It is doubtful that a semi-industrial and commercial economy can be created among the non-commercial, non-industrial Filipino people by government capitalization of a few key enterprises.

*d. Foreign Trade and Finance.*

Philippine foreign trade remains closely tied to the US, which in 1947 supplied 86 percent of imports valued at \$511,350,304 and absorbed 56 percent of exports amounting to \$265,548,352; the remaining 44 percent of exports consisted principally of copra shipments distributed among European countries. Preliminary figures for 1948 indicate that the unfavorable visible balance was somewhat reduced but remained large. This trade deficit is currently being more than offset by US Government payments.

In July 1948 an Import Control Act was passed authorizing the President to establish quotas on imports of "luxuries and non-essentials." The Act was implemented by executive order, effective 1 January 1949. Some 15 percent of imports are affected.

The Philippine peso, stabilized at two pesos to one dollar, is backed one hundred percent by dollar deposits in the US and by silver coins. Following recommendations made in June 1947 by the Joint Philippine-American Finance Commission,

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legislation providing for a Central Bank and a managed currency system was enacted in May 1948 and the Bank opened for business 3 January 1949. When the Bank's procedures are formulated, Philippine currency will be controlled by a Monetary Board and a part of the dollar backing of the peso will be released for other purposes. So long as the net balance of payments remains favorable, the Monetary Board should have no difficulty maintaining a stable currency and the legislation is a logical forerunner to establishment of an independent economy.

The carry-over from a budgetary loan of \$60 million, made by the US Reconstruction Finance Corporation in 1947, financed a deficit in fiscal 1948. Despite inefficient tax collecting machinery and an inadequate tax structure, a high level of business activity enabled the government to plan a balanced budget for fiscal 1949, although at the expense of adequate government services and salaries. Additional Congressional authorizations have since made it somewhat doubtful that the balance will be achieved.

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## APPENDIX C

## MILITARY SITUATION

The Republic has neither a military establishment nor a supporting industry able to do more than maintain security against internal disturbances. The Armed Forces of the Philippines, reorganized by Executive Order of the Philippine President on 4 October 1947, consist of a Regular Force and a Reserve Force (which includes the Constabulary) with a total combined strength of 31,283. Although the Armed Forces are loyal, and the Constabulary is believed capable of maintaining the present level of internal security, the primary stage of development plus a top-heavy command structure, weaknesses in leadership, training, and equipment combined with the insular character of Philippine geography, indicate that the Philippine military establishment is incapable of providing for the external security of the Republic without assistance from a major power. By terms of the US-Philippine Military Assistance Agreement, such assistance may not be obtained from non-US sources without mutual consent of the signatories. The only organization that approximates an effective force is the Philippine Constabulary, which, as long as it is reinforced by loyal, adequately supplied regular Armed Forces troops, can continue to maintain internal security in the face of civil disturbances on the present scale.

## 1. ORGANIZATION.

Organization of the Armed Forces is based on the US model with the President, represented by the Secretary of National Defense, acting as Commander-in-Chief. The Chief of Staff, who is in direct command of all elements of the Armed Forces, is the immediate adviser of the National Defense Secretary and executes the President's command functions in relation to strategy, tactics, and operations.

a. The Regular Force is divided into the Headquarters, National Defense Forces, with a strength of 5,466 including the services, and into three major commands:

(1) *The Ground Force* has a total strength of 4,931. Since effective operational units have been assigned to the Constabulary and to the National Defense headquarters, the Ground Force is incapable of fulfilling its primary mission of providing the land defense of the Republic. All energy is being devoted to accomplishing its secondary mission of training recruits for a citizen army under the universal military training program. Lack of inter-island transportation and communication facilities would, however, seriously hamper any attempt to dispatch troops from the central Luzon training camps and installations to other areas of combat in the event of an emergency.

(2) *The Air Force*, theoretically considered the Republic's first line of defense, has a total strength of 2,480 (of which 115 are trained pilots) and is capable of limited

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operational activity only. Too much emphasis has been placed on operation without proper attention to supply procurement, financial support, and proper maintenance and storage. Approximately 50 percent serviceability of aircraft is maintained in tactical units of the Air Force. Under sustained operations, serviceability would drop to approximately 30 percent.

(3) *The Naval Patrol* has a total strength of 1,780 and has a wartime mission of serving as an auxiliary defense force although it now performs coastal patrol functions. Having only a small number of patrol craft and limited maintenance facilities, the Naval Patrol has not demonstrated effective capabilities to protect the long Philippine coastline.

b. The Reserve Force is not fully organized. The only reserve unit yet constituted is the Constabulary which, by law, is a part of the Reserve Force. It is estimated that at present not more than one regiment of reserves from World War II veterans and ex-guerrillas could be raised and organized within 30 to 60 days. In addition, three thousand universal military trainees, estimated to be the maximum training capability of the Republic, could be utilized.

## 2. THE CONSTABULARY.

The Philippine Constabulary, a reserve component and the largest single element of the Armed Forces, merits special mention. The Constabulary has a total strength of 18,862, including 2,056 troops from the Ground Force, and serves in peacetime as the national police force under the supervision of the Secretary of Interior. It is divided into provincial commands with heaviest concentrations in central Luzon and Mindanao. The current objective of the Constabulary to restore and maintain law and order in the disaffected central Luzon provinces has not been attained. However, Constabulary forces have been able to reduce the scale of Hukbalahap lawlessness thereby preventing it from becoming a serious threat to the stability of the national government.

Aside from the long-standing agrarian discontent, which is the fundamental cause of Huk activities, the Constabulary's failure to achieve its mission is attributed to: (1) lack of aggressiveness on the part of lower echelons; (2) widespread civilian possession of firearms from both Japanese and US sources and from loosely controlled commercial imports of small arms; (3) guerrilla tactics of the Huks; (4) lack of trained and disciplined personnel and equipment as well as inadequate pay; and (5) occasional passive resistance from the local populace which resents alleged Constabulary "abuses" committed during anti-Huk operations.

## 3. REQUIREMENTS.

For fiscal year 1949 the government has appropriated approximately \$27 million for national defense (or about 23 percent of its total budget). In addition, about \$15.7 million was appropriated for the Constabulary. The Armed Forces are equipped with US Army surplus equipment much of which is inoperable because of improper distribution of parts. Partly as a result of climate and terrain, maintenance of the remainder is generally poor.

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Considerable advantage has accrued to the Philippine Armed Forces from the US-Philippine Military Assistance Agreement which was concluded 21 March 1947. Under this agreement, approximately \$100 million worth of supplies and equipment from US Army surplus stocks have been turned over to the Philippine Armed Forces. A joint US Military Advisory Group is currently advising the Philippine Government concerning the development of the Armed Forces. However, development along planned lines and future operational activity will depend upon the extent to which the Philippines can obtain replacements and new equipment from the US. The Republic has made several requests for US assistance under the Agreement. Most comprehensive of those requests was made in July 1948 when the Philippine Government requested a US grant-in-aid of approximately \$20 million to develop the Philippine Armed Forces along planned levels. The US Ambassador to the Philippines, the Chief of the Joint US Military Advisory Group, and the US Military Attaché have recommended support of this request. The Republic has also requested US assistance in absorbing part of the 29,000 Philippine Scouts to be discharged from the US Army.

#### 4. POTENTIAL.

The only factors of military potential in the Philippines are the existence of military bases and manpower. Without US assistance, the Republic is not capable of developing either potential. Of an estimated one million men of military age, probably 40 percent are suitable for military employment. Even if the Philippine economy would permit mobilization of these 400,000 men, the Philippine Government lacks mobilization machinery, training capacity and the logistical means required for their military utilization.

Philippine Armed Forces are currently emphasizing training programs. The Ground Force has trained three thousand ROTC cadets for a two months' period and three thousand trainees are participating in the ten months' Universal Military Training program inaugurated in July 1948. The Philippine Military Academy, with an authorized strength of 350, received its second postwar group of cadets at the end of March 1948. The Philippine Air Force opened its first postwar flying school mid-February 1948 under US-trained instructors; the first class of approximately twenty pilots will graduate in 1949. The US is providing additional training for a selected number of Filipinos both in the Philippines and in the US.

Despite the Republic's limited military potential, some improvement in the Armed Forces can be expected. The recent appointment of former Constabulary Chief Mariano Castaneda as Chief of Staff places command responsibility in the hands of an able, experienced soldier. Moreover, the top-heavy command structure is now being overhauled and a more realistic and effective military establishment is being planned in which Ground Force strength would be increased by reinforced, highly mobile, combat battalions capable of heavy fire power.

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