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Philippines: Challenges Facing the Aquino Government

Special National Intelligence Estimate

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*SNIE 56-2-86
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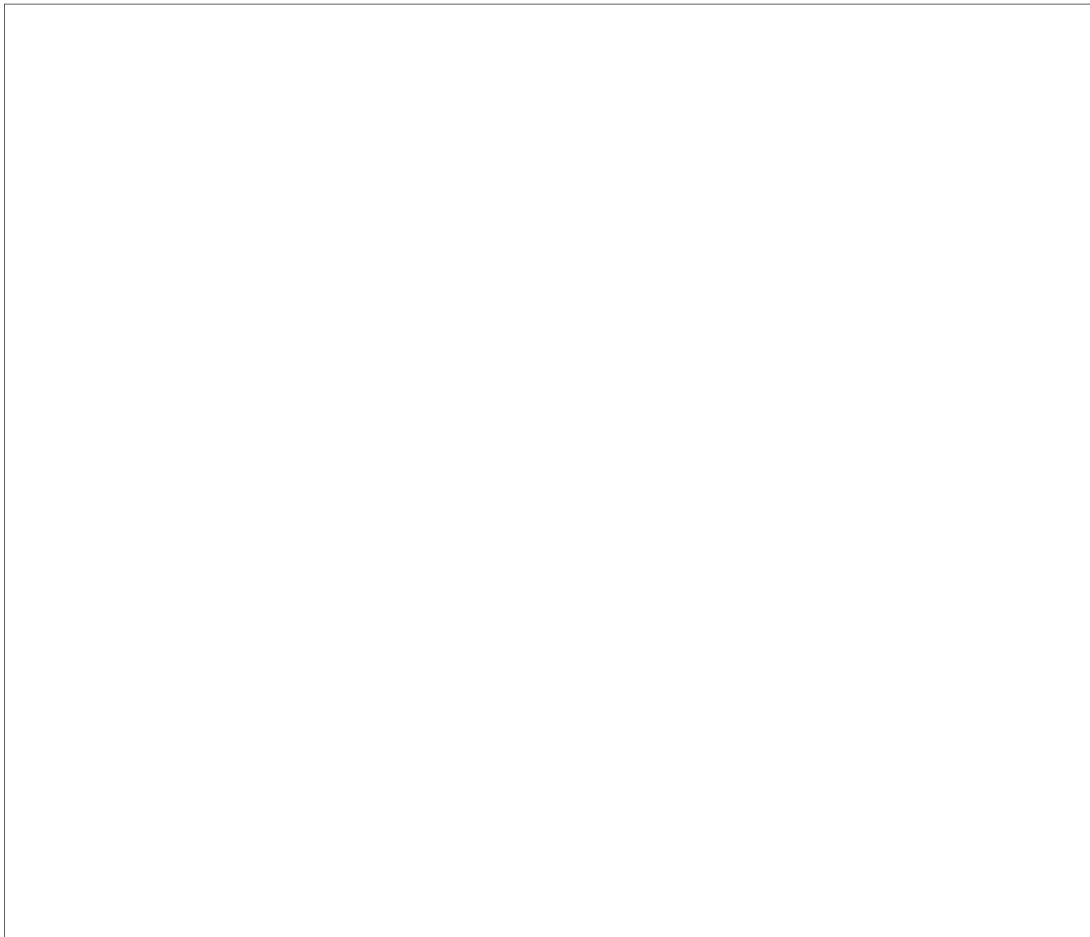
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**PHILIPPINES: CHALLENGES FACING
THE AQUINO GOVERNMENT**

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SCOPE NOTE

The dawn of a new era in the Philippines—the fall of the Marcos regime and the installation of the Aquino government—offers Filipinos an opportunity to address the serious problems confronting the nation. This paper surveys the key questions facing the new Aquino administration and suggests what needs to be done to restore political stability, revitalize the economy, and combat the insurgency. This Estimate does not attempt to evaluate the prospects for success of the new regime at this early stage but establishes a basis for later assessments (the first to be completed in approximately six months). It also considers related issues, such as Soviet attitudes and activities, prospects for the Communist insurgents, and the outlook for US facilities in the Philippines.



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KEY JUDGMENTS

The political situation in the Philippines remains highly fluid and we recognize that the potential for change in the government during the next six months is substantial. Nevertheless, President Corazon Aquino now has the opportunity to address the problems of revitalizing Philippine political institutions, turning around the economy, reforming the armed forces, and taking the initiative against the Communist Party of the Philippines/New People's Army (CPP/NPA) insurgency. Her personal popularity is very high, and she has the support of powerful political forces. Nevertheless, she faces pressures for results, and her mandate could swiftly erode unless she moves rapidly to consolidate her personal authority and to implement reform. Her task will be monumental because many of the steps she must take will contradict her populist image and could alienate some of her supporters:

- Politically, Aquino must continue to dominate the coalition that brought her to power while either creating new political institutions or rehabilitating those of Marcos. At the same time, she must cope with an insurgency and deal effectively with former Marcos supporters.
- Economically, Aquino, if she wants to make good her promise to dismantle Marcos's economic system and arrange for long-term growth, will have to take measures such as allowing the peso to depreciate, which will hurt some of her strongest supporters, at least in the short run.
- In reforming the Armed Forces of the Philippines (AFP), Aquino will have to continue a healthy working relationship with the military leadership and military expenditures will have to increase, something that probably goes against her natural instincts.
- To cope successfully with the insurgency, Aquino will have to employ more effective military force, as well as implement long-range political, economic, and social reform. The country's fundamental problems are not amenable to quick solutions, and a coordinated and effective civil-military strategy is essential.

We believe that we will be able to measure reasonably well the progress of the new Aquino government in meeting the challenges it faces. We have developed key indicators that can be applied in the

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coming months to determine whether it is moving toward success or failure.

- In politics, progress will be measured by Aquino's ability to make appointments to key positions, to design and put in place a new constitution and a revitalized judiciary, to hold local elections, to institutionalize "people power," and to integrate former pro-Marcos elements into the political process.
- In the economy, success will be indicated by progress in depreciating the peso, liberalizing foreign investment rules, reining in liquidity and raising interest rates, renegotiating with the IMF, rescheduling foreign debt, attracting domestic and foreign investment, and deregulating industries and breaking up monopolies.
- Progress in reforming the Armed Forces will be indicated by signs that defense funds, including US aid where appropriate, are directed toward areas where they are needed most, more competent and better trained officers are promoted and assigned to key posts, continued cooperation between Aquino and the military leadership, increased defense expenditures, a more comprehensive and aggressive approach to counterinsurgency by the AFP, and a reduction of human rights abuses.
- In counteracting the insurgency, progress will be indicated by an increasing level of insurgent defections to the government, a greater need for the insurgents for external material support, or signs of factionalism and splitting within the CPP/NPA.

We believe that the Soviets suffered a notable setback by their misjudgment of the trends following the Philippine election and their public congratulations to Marcos. The Aquino government will remain suspicious of Soviet intentions toward the Philippines. Nevertheless, as in the past, the Soviets will seek to embarrass the United States or fan anti-US sentiment whenever an opportunity is presented. The Soviets also may increase funding for leftist elements.

At this early stage, it is too soon to predict precisely what approach the Aquino regime will ultimately take toward the United States. Nevertheless, in the weeks and months ahead, we believe there will be indicators of which way the new government is moving. We believe the relationship toward the United States will be cooperative if:

- Aquino avoids appointments of persons with anti-US tendencies to key positions and otherwise seeks to control leftist influence in her coalition.

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- The new regime shows further signs of recognizing the importance of US aid and other economic and political ties as it begins economic, political, and social reforms.
- There is no significant escalation of anti-US rhetoric in speeches or press releases within the new government.
- Aquino continues to be receptive to US concerns.

Conversely, there will be increasing problems in the relationship if:

- Leftist elements in the Aquino movement gain increasing strength.
- Aquino makes significant compromises with the Communists, which gives them a major role in government.
- Problems over the disposition of Marcos's holdings in the United States become publicly contentious.
- Anti-US rhetoric, particularly concerning the facilities, become more evident among Aquino's ruling coalition.



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DISCUSSION

1. The rapid collapse of the Marcos regime and the ascension of Corazon Aquino to power underscores the strong desire of the Philippine people for participation in the political process. At the same time, it is indicative of the fragility of Philippine political institutions. The new leader has demonstrated her ability to successfully challenge an entrenched political machine through the electoral process and through the application of "people power" in the streets. But this momentary grant of legitimacy is conditional; it will be severely tested in the weeks and months ahead as the new government struggles with the very difficult problems and dilemmas that will confront it. Fundamental to Aquino's success will be:

- Consolidating her power and holding her coalition intact either by restructuring the political system or by reforming existing institutions sufficiently to allow her to govern effectively.
- Revitalizing a Philippine economy weakened by years of mismanagement.
- Reforming and maintaining control over the Armed Forces.
- Devising and implementing a coordinated and effective civil-military strategy to suppress the Communist Party of the Philippines/New People's Army (CPP/NPA) insurgency.

2. Progress toward all of these goals will require long-range policies and sustained efforts that will be in constant risk of compromise by pressures to achieve some immediate results. Over the next few months we should be able to observe specific indications of how well the new government is succeeding in meeting the following challenges.

Changing the Political System

3. Aquino faces three major political tasks. The most important is to hold together the coalition that brought her to power or, at least, to minimize defections that could seriously undermine her support and legitimacy. She rode into office on a wave of support by the church, youth, the business community, elements of the military, and the middle class in general. The "people power" by which she brought down

Marcos is, however, a volatile, episodic, and changing phenomenon. She must now construct a political apparatus that maintains a popular face but at the same time controls the armed forces, manages a political realignment, runs the bureaucracy, and otherwise conducts the business of state. As Aquino actually faces the tasks of governing, she is likely to have to make decisions that will alienate various parts of her coalition. Evidence of infighting between Aquino's LABAN and Laurel's UNIDO have already surfaced indicating that maintaining unity will be a formidable task.

4. A second major political task—that of restructuring the political order—presents Aquino with a choice: replace existing institutions or revamp and reform them. Aquino has indicated that she wants to take the former path. She has canceled local elections scheduled in May, has not called for a session of the National Assembly, and reportedly plans to appoint a committee to write a new constitution. However, her decision to appoint former Marcos officials such as Minister of National Defense Enrile, Armed Forces Assistant Chief of Staff Ramos, and Central Bank Governor Fernandez, suggest that she does not want to break with the past entirely.

5. Aquino's third major task is to cope with former Marcos supporters. She was fortunate in that key segments of the Armed Forces shifted loyalty to her in the waning moments of the Marcos regime and that powerful cronies such as Eduardo Cojuangco and Roberto Benedicto fled into exile. Nonetheless, a residue of opposition will remain that, under some circumstances, could come to constitute a formidable challenge. For example, both Enrile and former Labor Minister Ople have suggested they might attempt to revitalize Marcos's New Society Party (KBL) party; the KBL still dominates the national assembly and most of the local government. A reinvigorated KBL would most likely engage in constructive opposition to the Aquino government. There is a chance, however, that diehard Marcos elements, such as some of the remaining military leaders, cronies, local political bosses, or regional Marcos people (Ilocanos) will try to subvert the new regime. In addition, reopening the Benigno Aquino assassination investigation could cause internal dissension, distract from the business of government, and be a source of friction in US-Philippine relations.

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6. Barring some unforeseeable event such as an assassination,¹ the key indicators of how well Aquino's political consolidation is going are these:

- Aquino ensures her control of the civilian government and the Armed Forces by making her own appointments to key positions, while simultaneously maintaining control of her coalition despite the dismay of some of her supporters who feel left out.
- Progress is made toward designing, putting in place, and implementing a new constitution and a revitalized judicial system.
- The new government begins to make appointments to and changes in local government, including the scheduling of elections.
- The new regime takes concrete steps toward the institutionalization of "people power" through NAMFREL or some similar political movement, and leftist elements of Aquino's coalition do not desert her.
- Former Marcos forces integrate into the political process.

Revitalizing the Economy

7. Progress by Aquino in revitalizing the ravaged Philippine economy would strengthen her mandate, but the economy may be her most difficult problem. She has inherited an economy in which per capita income has fallen by over 15 percent since 1981. Gross national product declined 4 percent last year, after dropping by nearly 6 percent in 1984. Business spending on new plants and equipment has fallen to half its 1981 level, with the steepest decline occurring in the last quarter of 1985. The economic collapse has been concentrated in the modern industrial sector located primarily in Manila. Agricultural production has risen slowly, yet unemployment is a major problem—some estimates range as high as 35 percent unemployment and underemployment in rural areas. The Philippine debt now hovers around \$26 billion.

8. Aquino has pledged to dismantle Marcos's economic system, including the coconut and sugar monopolies. She also pledged during her campaign to pursue extensive land reform and to limit foreign debt

¹ Given the widely diverse political forces which Aquino will face, we cannot rule out an attempt to assassinate her in the next few months either by the Communists or other dissident elements. Should such an attempt be successful, there will be renewed political deterioration.

repayments to a fixed percentage of foreign exchange earnings. There are some initial signs that the business community is responding positively to Aquino's ascension. The Philippine stock market has rallied, the slide in the value of the peso has halted, and business circles have reportedly been pleased with Aquino's Cabinet appointments affecting financial matters.

9. Aquino faces some hard choices in the immediate future. The reforms, which would best provide long-range economic stability, may prove to be politically unpalatable in the short haul. Among the most dramatic reforms would be to devalue the peso and liberalize foreign investment regulations. These measures would rapidly demonstrate Aquino's strong commitment to market forces rather than government manipulation, and reward agricultural production. At the same time, a devaluation would mean greater inflation and a further impoverishment—at least in the short term—of the poor, the group that Aquino claims she most wants to help. Meanwhile, the highly touted reform of the coconut and sugar monopolies has important symbolic political significance but is of secondary significance as far as economic revitalization is concerned.

10. Aquino will be under great political pressure to make economic gains quickly. A major test for her will be to maintain political support even when these gains are not immediately forthcoming. Even recovering the 1981 rates of investment would require an infusion of \$4 billion by early 1988; this could stimulate economic growth rates of 8 to 10 percent annually, but coming up with the capital will be extremely difficult because Manila is running budget deficits of about \$550 million annually and private domestic savings only amount to about \$500 million annually. In short, there are no economic miracles on the horizon, and whatever Aquino does will be painful.

11. Although land reform is a major component of Aquino's economic platform, we believe that it will provide special challenges. The government will have to decide quickly whether its principal goals with land reform are economic or political. A well-planned and well-organized campaign could accomplish both goals, but there are serious pitfalls. Merely distributing land for the sake of popular support could reduce productivity; yet retention of large holdings by family and corporate entities, even if economically sound, could undermine popular support. Nevertheless, steps toward a genuine, well-conceived, and well-organized land reform program early in the Aquino administration would be strong evidence of confidence and determination.

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12. We believe that movement on some of the following areas would be key signs that Aquino is on the right road to revitalizing the economy:

- The peso depreciates.
- The government controls the huge amount of money put into circulation during the election campaign by reining in liquidity and raising interest rates.
- The government successfully deals with the IMF and reschedules its foreign debt.
- Domestic investors—particularly the Chinese—begin reinvesting.
- The government begins to deregulate industries, break up monopolies, and liberalize foreign investment rules.
- The economy begins to acquire infusions of foreign capital.

Reforming the Armed Forces

13. The defection of key segments of the Armed Forces to Aquino was critical to her defeat of Marcos. She must now maintain the support of the military—an institution that she has mistrusted and criticized—while simultaneously presiding over the fundamental rehabilitation of an ineffective force, many of whose leaders were politicized and corrupt.

14. The new government's first objective must be to restore military morale, self-esteem, and professionalism. The implementation of a genuine merit system in promotions, schooling, and assignments is critical. This will also require the eventual retirement of the remaining overstaying officers (those whose terms of service were extended beyond their retirement dates)—some 23 ranking officers have already been retired—and the redeployment of personnel and equipment from Manila to combat areas. Improved morale will also require that soldiers' pay be increased and amenities improved. This will be costly, but is absolutely vital. In comparison with other ASEAN countries' budgets, the Philippine military budget is low and has declined in real terms since 1978, even as the insurgency dramatically expanded. Increasing the military budget, however, will meet with considerable resistance among some of Aquino's supporters.

15. Operational effectiveness must be enhanced by expediting distribution of basic equipment to field units, especially equipment for mobility and commu-

nications. In addition, an effective maintenance management system must be instituted to keep combat essential equipment at a high state of operational readiness. An improved training system and a more coordinated intelligence effort are also vital.

16. Popular confidence in the Armed Forces must also be restored. The new government will have to take serious steps, perhaps even over the objection of local commanders, to punish human rights abuses and reduce corruption. It is also important to expand civil-military operations in areas where the Communist insurgency is gaining ground.

17. We are somewhat concerned that Aquino may not fully comprehend the relationship between a revitalized Armed Forces and progress against the insurgency. She is aware that long-range political, economic, and social reform are necessary in fighting the insurgency, but she may believe that these can by themselves put the CPP/NPA out of business. Her willingness to throw full support behind programs to improve the AFP's combat effectiveness will be a strong indicator of her recognition of what is really required to defeat the insurgency.

18. We believe that the key indicators of progress toward military reform will be:

- Defense funds, including US aid where appropriate, are directed toward areas where they are needed most, particularly pay, training, and acquisition of equipment that provides mobility and communications.
- Government efforts to retire ineffective and corrupt commanders do not wane, but are continued; more competent and better trained officers are promoted and assigned to key posts.
- Aquino continues to maintain a healthy working relationship with the military leadership.
- Military expenditures are increased, and measures to eliminate waste and graft are implemented.
- The military adopts a more comprehensive and aggressive approach to counterinsurgency.
- Military human rights abuses are reduced.

The CPP/NPA Threat

19. We believe that the Aquino victory constitutes a substantial setback for the CPP/NPA. The principal target of their propaganda—Marcos—is now gone. Their efforts to boycott the election were again repu-

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diated by the people, just as they were in the May 1984 National Assembly elections. The party is already experiencing heightened factionalism and could split over how to deal with the new Aquino regime. Some elements of the party may want to accept Aquino's offer of cooperation in hopes of surreptitiously infiltrating the government rather than engaging in long-term armed struggle, while others will want to continue to oppose it more openly. In the short run, even without quick success in some government reforms, we anticipate that peripheral CPP/NPA supporters will accept Aquino's offer and defect back to the government.

20. Nevertheless, the hardcore elements of the CPP/NPA will continue to resort to arms and will constitute a "leaner and meaner" insurgency. Dealing with the long-established base areas will require a strong military response by Aquino, as well as the political and economic reforms we have noted. If the new government fails to make good on its promises, the insurgents could once again seize the initiative, just as they did after the May 1984 elections.

21. We believe that the CPP/NPA will avoid becoming dependent on outside powers for material support, though it may seek additional political and moral support. In fact, we believe the acceptance of financial and other external material support by the insurgents would be a strong indicator that they are in dire straits, that they perceive their previous self-reliant strategy will not work, and are revising it. If the United States becomes more directly involved in supporting the AFP's counterinsurgency effort, there is a danger that the CPP/NPA may begin attacking US personnel and facilities.

22. Indicators that the new government has implemented civil-military counterinsurgency strategy against the CPP/NPA will be:

- Defections by substantial numbers of guerrillas in the rural areas.
- Efforts by the CPP/NPA to obtain external material support or otherwise embark on a new strategy.
- Factionalism and splitting in the CPP/NPA.
- Tactical success by the AFP against the insurgents.

Conversely, signs that the government is not gaining ground against the CPP/NPA will be:

- Increased Communist infiltration of the government.

- Growing tactical success by the CPP/NPA.

- Increased insurgent control in rural areas.

- Failure of the government's amnesty program.

23. The Moro insurgency in Mindanao became an issue in the presidential election as Marcos alleged that the Aquino side was making pledges of autonomy for this Islamic minority. The Aquino government has started talks with Muslim leaders, including the Moro National Liberation Front (MNLFF) factions. We do not anticipate that the MNLFF will revise its strategy in the immediate future, though we do believe the leadership will now engage in a period of reflection, perhaps sending out feelers and possible threats of a return to armed opposition to see what concessions might be obtained from the government.

The Soviet Role

24. The Soviets badly misjudged trends following the Philippine elections by congratulating Marcos on his election victory. Aquino's suspicions of the Soviets are reinforced by her own anti-Communist attitudes and by the image of Soviet dickerings in Philippine politics, particularly through overtures to Imelda Marcos.

25. Nevertheless, as in the past, the Soviets can be expected to look for opportunities to attempt to embarrass the United States or to fan anti-US nationalistic sentiment. The Soviets may increase funding for leftist elements to make sure that their anti-US activities are sustained. They will continue to seek opportunities to gain influence through economic incentives such as seeking ship repair facilities or other gestures. We believe that the Soviets will continue to be cautious and would try to give significant and sustained backing to the CPP/NPA only if they believed the insurgency had increased prospects of success and if the USSR could gain some influence over the movement.

Implications for the United States

26. We stand by our judgment in SNIE 56-86 that over the long run US interests, including the viability of the bases, requires the restoration of political stability. At this early stage, it is too soon to predict how successful the Aquino regime will be in meeting the challenges it faces and precisely what approach it will ultimately take toward the United States.

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27. Nevertheless, in the weeks and months ahead we believe there will be indicators of what way the new government is moving. We believe that indications that the Philippine approach toward the United States will be essentially cooperative would include:

- Aquino avoids appointments of persons with anti-US tendencies to key positions and otherwise seeks to control leftist influence in her coalition.
- The new regime shows further signs of recognizing the importance of US aid and other economic and political ties as it begins economic, political, and social reforms.
- No significant escalation of anti-US rhetoric in speeches or press releases within the new government.
- Aquino continues to be receptive to US concerns.

28. Conversely, indicators that there are likely to be increasing problems in the relationship include:

- Leftist elements in the Aquino regime gain increasing strength.
- Aquino makes significant compromises with the Communists, which gives them a major role in government.
- Problems over the disposition of Marcos's holdings in the United States become publicly contentious.
- Anti-US rhetoric, particularly concerning the facilities, becomes more evident among Aquino's ruling coalition.



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