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NATIONAL SECURITY COUNCIL

OPERATIONS COORDINATING BOARD REPORT
(November 26, 1958)

on

U. S. POLICY TOWARD THE PHILIPPINES
(NSC 5813/1)

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Authority <u>NLE 2004-86</u>
By <u>MMK</u> NLPDÉ Date <u>8/18/11</u>

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

December 3, 1958

MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: OCB Report on the Philippines
(NSC 5813/1)

The attached Operations Coordinating Board "Report on the Philippines (NSC 5813/1)," covering the period from April 2, 1958, through November 5, 1958, was concurred in by the Board on November 26, 1958, for transmittal to the National Security Council.

Roy M. Melbourne
Roy M. Melbourne
Acting Executive Officer

Attachment:

Subject Report, 11/26/58

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

November 26, 1958

REPORT ON THE PHILIPPINES (NSC 5813/1)
(Approved by the President, June 4, 1958)
(Period Covered: From April 2, 1958
Through November 26, 1958)

A. SUMMARY EVALUATION

1. In no country in the Far East has the United States had greater opportunities to demonstrate the validity of the American democratic philosophy and system of government than in the Philippines. This unique historical relationship has extended over the past sixty years. Yet today an unstable economy and an ineffective government cannot support the development needed for the Filipinos to achieve steady improvement in standards of living and necessary social reforms.

2. The Philippine government, in connection with President Garcia's recent trip to Washington, submitted requests for loans for economic purposes which it believed would help solve its economic problems. This program was based on a total of \$380 million in dollar loans from the U. S. over a three-year period, including \$130 million for machinery and equipment and \$250 million for raw material. After studying the Philippine requests, credits of \$125 million for development projects considered economically sound were authorized to help meet initial requirements of the next twelve months. For various reasons, these credits will probably be utilized slowly and will have little effect on the present economic imbalance.

3. The condition of the Philippine economy has also hampered our efforts to assist the Philippine Armed Forces. Today the Philippine government is unable to support adequately either the minimum military establishment we consider necessary, or much less the larger military establishment it believes it needs to meet the threat from the increased Chinese Communist aggressive military capabilities. The Filipinos have requested "soft goods" support in the form of uniforms, gasoline and other expendables. We have informed the Philippine government that our world-wide military aid program is premised on the receiving countries' capabilities to absorb, utilize and support the military equipment delivered by the U. S. The Filipinos reply that they have budgeted all their economy can stand without further assistance. While this may not be entirely accurate, it would be unrealistic to expect substantial increases in their military budget until the whole level of the Philippine economy is raised.

4. The inefficiency and corruption of the Garcia regime, coupled with the unresolved economic situation not only exacerbates the growing social and political unrest, but is also creating frustration within the essentially conservative military establishment whose members are beginning to realize that major reforms are needed to correct their country's unsatisfactory economic and political situation. Unless it alters its policies, the weak Nacionalista administration can be expected to be an object of criticism as long as it is in office. Ill-considered efforts on its part to counter this growing unpopularity may result in a search for new foreign policy approaches.

5. While forces for "good government" do exist in the Philippines, they are dispersed and lack both the effective organization for political action and the dynamic leadership that was once provided by Magsaysay. If the present trends continue, however, and the administration is not able to control them, one or both of the following contingencies might then develop: (a) the growth of neutralist and chauvinist nationalism and (b) the emergence of a form of authoritarian government. Either of these possibilities would be inimical to the national interests of the United States and could have serious implications for our entire strategic position in the Far East.

6. On 12 November we entered into exploratory diplomatic talks with the Philippine government to determine whether or not a basis exists to negotiate on revision of certain provisions of the 1947 Military Bases Agreement. It is too early to judge what the outcome of these talks may be, but indications to date are that they may be long and difficult. While sensitivity on questions of sovereignty and U. S. base rights has been increasing, proponents of elimination of our bases are presently in the minority.

7. The OCB does not recommend a review of the statement of U. S. policy toward the Philippines contained in NSC 5813/1. In view of the need to check present trends a carefully coordinated effort to move forward on several fronts is needed in our relationships with the Philippines. Specific courses of action toward this end are being prepared in accordance with the general guidance provided by the Board following consideration of this Report.

D. MAJOR OPERATING PROBLEMS OR DIFFICULTIES FACING THE UNITED STATES

3. Unsatisfactory Economic Situation and Need for an Economic Stabilization Program

a. Notwithstanding the many elements of strength in the Philippine economy, including sizable natural resources and a continuing increase in production levels, the present economic situation is unsatisfactory. The government budget has been in substantial deficit for several years, primarily as a result of the government's heavy expenditures for economic development programs. Bank credit, again partly for investment purposes, has expanded considerably. Furthermore, the exchange rate over-values the peso. The result has been a weak balance of payments position and a sharp decline in foreign exchange holdings. Current economic difficulties require both corrective action by the Philippine government and a solution of the long-range, continuing problem of how to finance the considerable economic expansion needed to improve economic and social conditions.

b. The Philippine financial situation is still difficult, with foreign exchange levels far below the safe operating minimum. Large-scale unemployment and under-employment, a chronic economic and social problem in the Philippines, has remained at about the same level. Today the government is facing a serious problem in balancing its domestic budget. The Philippine Congress approved last May a FY 1959 expenditure budget of 1,296.2 million pesos with estimated receipts of only 958.2 million pesos. However, the latest official Philippine estimate puts receipts at only 806.4 million pesos, leaving an anticipated deficit of 486.2 million pesos. As a result, the Commissioner of the Budget has asked department and agency heads to reduce their planned expenditures by an average of 38 per cent, but it appears unlikely that so large a cut could be achieved.

c. An economic stabilization program is urgently needed to arrest inflation and increase the present dangerously low foreign exchange reserves. Philippine fiscal leaders have already proposed to President Garcia a comprehensive stabilization program based on no devaluation of the peso. Although the President's initial reaction is said to be favorable, the adoption of any stabilization program will be made difficult by the deep-seated differences between those Philippine economists and politicians who want to impose additional controls on the economy and those who favor the progressive elimination of existing controls, beginning immediately.

d. Status of U. S. Actions: The United States has authorized a new Export-Import Bank line of credit of \$75 million for development projects and is prepared to finance the development of other improvement projects up

to a total of \$50 million from the Development Loan Fund. The United States has also agreed to consider how it might assist in financing the proposed integrated steel mill at Iligan, provided this project was found economically and technically feasible. Early in November, 1958, the Philippine government began negotiations with the International Monetary Fund to send an IMF Mission to study the Philippine economic situation and to make recommendations regarding a program of economic stabilization. The United States considers this a very constructive step, since direct U. S. pressure on the Filipinos to develop such a program would probably be counter-productive.

9. Philippine Request for Increased Military Assistance

a. The Philippine government has requested the U. S. to accelerate deliveries of military equipment already programmed and to consider increasing the level of its military assistance. Foreign Secretary Serrano took this matter up personally during his recent visit to the United States. Since Serrano will be the chief Philippine negotiator in the forthcoming base negotiations it can be expected that our handling of this request for increased military assistance will have an important effect on the successful outcome of the negotiations. In 1954, the U. S. agreed to provide military materiel or "hard goods" to support the build-up of the Philippine Army to four infantry divisions. However, this has never been implemented because the Philippine government has not been able to assume in its military budget the increased expenses for the pay, allowances, clothing and other "soft goods" for the personnel needed for four full divisions. Last year, the U. S. and the Philippines agreed on a reorganization plan for the Philippine Army which provides for a MAP force goal of one regular infantry division and three standby (cadre strength) infantry divisions by FY 1960. This agreement also provided for a Philippine Air Force consisting of one fighter bomber wing of three squadrons, a transport squadron and a composite squadron, with provision for the conversion of the three fighter squadrons from obsolete P-51's to jets. The agreed force goal for the Philippine Navy has been met and the over-all military effectiveness of the Navy continues to improve. The Philippine Constabulary has been expanded to 10,000 men, enabling it to assume a greater responsibility in maintaining internal security.

b. The Military Assistance Program is currently being implemented substantially as was indicated in the Defense Comments included in the Financial Annex to NSC 5813/1. As indicated in those Defense Comments, implementation of an illustrative grant Military Assistance Program would result in estimated deliveries of \$92 million for FY 1958-FY 1961 with an undelivered balance of \$23 million at the end of FY 1961. Several possible developments could, however, seriously jeopardize our ability to achieve MAP objectives within the estimated financial requirements for the FY 1958-FY 1961 period. For example, the Philippines, due to unsatisfactory economic

conditions, might prove unable to finance the "soft" goods and certain other Philippine defense budget expenditures which are required for the proper absorption and use of the "hard" goods scheduled for delivery under the MAP. It is certain that Philippine requests for larger Military Assistance Programs would, if acted upon favorably, generate additional requirements for "soft" goods and require direct U. S. support of Philippine defense budget expenditures. A factor in the situation is the relationship which exists in the minds of many Filipinos between the MAP and the potential negotiations concerning our 1947 Military Bases Agreement with the Philippines. It is significant to note that Philippine Foreign Secretary Serrano, who is expected to be the chief Philippine negotiator in the bases negotiations, personally presented the Philippine requests for additional military assistance and an acceleration of deliveries under present programs during his recent visit to the U. S.

c. Assistance requirements for the period following FY 1961 are, of course, dependent primarily upon developments during the next two years on the problems noted above and elsewhere in this Report. Even proceeding within the strict confines of the force improvement program explained in the Defense Comments in the Financial Annex to NSC 5813/1 would necessitate substantial assistance for such items as recurring maintenance costs, particularly for jet aircraft supplied initially from excess stocks.

d. Status of U. S. Actions: As a result of Serrano's visit and the serious situation in the Taiwan Straits, the U. S. has agreed to speed up deliveries of special military equipment for the active infantry division and to consider equipping the division with seven light tanks and six 155 howitzers in FY 1960. Transition of one fighter bomber squadron to F36F jets has been completed and ten jets have been delivered for the second squadron. We have informed the Philippines that the remaining twenty jets for the second squadron will be delivered in the last quarter of FY 1959 and that we will consider delivering all thirty jets for the third squadron in FY 1960. Plans are being made by the Philippine Navy to acquire a destroyer escort vessel from Japanese reparations. They have requested that the U. S. provide the armament, fire control and electronic equipment for this ship. (It is probable that any actual expenditures for this equipment will be delayed by the necessity for the Philippine government to arrange for procurement of the ship itself.) We agreed to consider providing U. S. dollar assistance to purchase construction equipment necessary to complete Philippine Army and Air Force bases when specific requests are received from the Philippine government. In addition, we have recognized the Philippine Constabulary as distinct from the Philippine Army for MAP support in accordance with its special exclusive mission of internal security. Consideration is being given to a country team proposal that the U. S., for the first time, undertake to provide funds for "soft goods". In addition, the country team proposed that the U. S. would assist the Filipinos in budgetary support for reserve training, increase of training and operations under new divisional structure, support for additional

jet aircraft and increased Air Force manpower, assistance in maintaining new military facilities, and support of increased Philippine participation in SEATO and joint U. S. /Philippine maneuvers.

10. Deficiencies in the Garcia Administration

a. The Garcia administration has been characterized by a lack of decisive leadership in internal affairs which has permitted sharp increases in inefficiency and corruption within the government. This has caused widespread dissatisfaction and cynicism with respect to his administration and there are some indications of popular unrest. The Philippine Armed Forces, while remaining basically non-political, began to show signs of impatience with the inefficiency and graft of the Garcia administration. This led to rumors, probably inspired by Filipino politicians themselves, of a possible military coup. Despite public denials by the Secretary of Defense and the Chief of Staff of the Armed Forces, President Garcia apparently has decided to move promptly to curb military influence in Philippine politics. As things stand today, there appears to be little prospect of any significant improvement in the quality of government operations before the end of Garcia's term in 1961.

b. Status of U. S. Actions: The United States favors a unified effort on the part of the "good government" opposition (presently divided between the younger elements of the Liberal Party and the fledgling-Philippine Progressive Party) to nominate for the November 1959 bi-elections, strong candidates for the eight Senate seats at stake and for key positions in the provincial and city governments. Control of these positions is an indispensable prerequisite to an effective political effort by the opposition.

11. Military Base Negotiations

a. The very nature of Philippine politics --with its bloc of vocal, opportunistic proponents of chauvinistic nationalism - is such that the forthcoming military base negotiations may very well develop into a major problem for the United States. Nevertheless, we have considered it to be in our long-term interests to agree to the recent Philippine proposal to reopen discussions on the re-negotiation of certain provisions of the 1947 Military Bases Agreement which at present constitute sources of misunderstanding. The basic U. S. negotiation position has been formulated on all major points except that of land requirements for U. S. military bases in the Philippines and this is expected to be completed shortly. The principal issues in the exploratory talks and the forthcoming negotiations, if they develop, will probably be:

(1) The Problem of Jurisdiction: Under the provisions of the 1947 Military Bases Agreement, determination of which government tries an offender is largely determined by the geographic location of the offense. Thus, generally speaking, the U. S. has jurisdiction over all offenses committed on

the bases and the Philippines has jurisdiction over all off-base offenses except those involving only U. S. servicemen, or those only against U. S. security. The Philippines, however, waives this off-base jurisdiction if the appropriate Philippine authorities find that the serviceman was in the actual performance of a specific military duty at the time of the offense. In the 1956 military base negotiations, the U. S. offered the Philippines a new formula which would determine jurisdiction on the basis of the duty status of the offender regardless of the locale of the offense. As a part of this proposal, the U. S. requested the Philippines to agree to waive its jurisdiction over all offenses except those which it deemed of particular importance. Such an agreement would be similar to the present confidential arrangement we have with Japan, and, on an unclassified basis, with a number of NATO and other countries. Our inability at the time to reveal our confidential agreement with Japan made resolution of the jurisdiction question impossible. As a result, the talks broke down and were recessed unilaterally by us in December, 1956.

(2) Consultation on Wartime Use of Bases: This issue was underlined late in May when Senator Recto alleged that President Garcia was about to conclude a secret arrangement for the establishment of U. S. guided missile bases in the Philippines. As a result, the Philippine Senate adopted unanimously a resolution calling upon the President to consult with it before he made any such arrangement with the United States. In the forthcoming negotiations, the U. S. intends to offer the Filipinos an arrangement comparable to that as we work out with Japan for consultation on U. S. wartime use of our bases, including the deployment of our forces through these bases.

b. Status of U. S. Actions: Based on the experience gained during the Bendtsen negotiations in 1956, we intend to conduct all future negotiations through normal diplomatic channels. We are convinced that to reopen discussions with a panel consisting of combined Executive-Legislative branch representation similar to that used by the Philippine government in 1956 is to insure another breakdown in the talks. In connection with our agreed position on criminal jurisdiction, we are now attempting to obtain from the Japanese government an unclassified statement of its intentions to waive criminal jurisdiction over U. S. servicemen except in cases it deems to be of particular importance, thus paving the way for a similar arrangement with the Philippines and providing a solution to the impasse we have faced for two years. If this can be achieved, the jurisdictional arrangements we propose to offer in the impending Philippine negotiations will be as favorable as those we have made with Japan and with certain NATO countries. As it can be expected that throughout these negotiations the Filipinos will seek the "most favored nation" treatment, we are closely coordinating our negotiations in the Philippines with those currently underway in Japan on the U. S. -Japanese security agreements.

12. Operation of U. S. Military Bases

a. The traditionally close historical association between the U. S. and the Philippines mitigates, but does not eliminate the problems inherent in the maintenance of any military bases on foreign soil. Despite the general friendly feeling the Filipinos have for the U. S., the operation of our bases has been, and probably will continue to be a source of misunderstanding, and possibly even friction, between our two countries.

b. Status of U. S. Actions: The recently established Philippine-U. S. Mutual Defense Board and the assignment of Philippine liaison officers to each of our major bases has provided a useful "safety valve" mechanism which has contributed materially to the handling of problems relating to the operation of U. S. bases by giving the Filipinos an increased sense of participation in the mutual defense of their own country. In addition, the United States has on its own initiative continued to take steps to remove sources of friction in the operation of our military bases system. Specifically, on July 31, 1958, we turned over to the Philippine government the installations we had retained at the Manila Air Station, a USAF-operated cargo unloading facility in the Port of Manila. We now have no U. S. military installations in Manila. We have continued preparatory work to delimit the Town of Olongapo, presently located inside the U. S. Naval Base at Subic Bay, from the U. S. Navy installation in order that this essentially civilian area can at some early date be placed under Philippine civil control. Our armed services in the Philippines are now making greater use of Filipino drivers for official vehicles in order to reduce the possibility of U. S. servicemen being involved in serious off-base accidents while on duty. To avoid the continuing problem caused by the necessity to guard U. S. property against pilferage, we are examining the feasibility of utilizing the Philippine Constabulary as security guards on U. S. bases. U. S. armed forces have, in the past, often mistakenly followed local employer practices rather than the Philippine labor laws. This is now being corrected. In August, instructions were sent to the U. S. Embassy, Manila, designed to prevent the accumulation of additional claims from Philippine guards for overtime work on our bases. However, claims of this nature, which were already created before the new practices were adopted, still remain to be adjudicated.

ADDITIONAL MAJOR DEVELOPMENTS13. Visit to the U. S. by President Garcia

The warm reception given President Garcia during his visit to the United States in June, 1958, enhanced American good will in the Philippines and gave a boost to his prestige at home. Although exaggerated expectations of U. S. financial assistance were expressed in the Manila press before the President's departure for the U. S., the Philippine public showed little disappointment with the results of his mission and there was general recognition that the United States had responded fairly, given its own financial situation and its numerous commitments for foreign economic assistance. Nevertheless, there remains a feeling on the Philippine side that the U. S. lending agencies are not processing the promised loans as expeditiously as might be the case. This feeling persists despite the fact that the Export-Import Bank already has granted loans of \$25 million out of an authorized total of \$75 million.

14. Philippine Support of U. S. Action in the Near East and in the Taiwan Straits

a. Publicly, the Philippine government first adopted a policy of "watchful waiting" toward the events in the Near East of last summer. It did not comment on U. S. action in landing troops in Lebanon, but subsequently announced that it would work for a solution within the U. N. On the other hand, the Philippine government informed the United States privately that it considered the U. S. action justified by the compelling circumstances in the area and reiterated its hope that a solution could be found with the U. N.

b. Philippine government support for the U. S. position with respect to Taiwan and the Pescadores has not wavered, despite increased tension in the Taiwan Straits. This reflects Philippine realization that a threat to the security of Taiwan is a threat to the Philippines itself. Although President Garcia's early statements indicated that the Philippines would pursue a policy of "non-involvement" in any hostilities which might break out with respect to the defense of Quemoy and Matsu, the Philippine National Security Council on September 4 reaffirmed the March, 1955, resolution of the Philippine Congress, thus clarifying the government's position supporting the United States in the defense of Taiwan and the Pescadores. Since then, no statements have been made committing the Philippines to action on the off-shore islands and the only official comment has been a hopeful opinion by President Garcia that no serious trouble would result from the Quemoy activity. In short, the Philippine position on Quemoy and Matsu is not clear.

c. Philippine reaction to these two critical situations indicate that the country is well aware of the importance of responding to a threat to the Free World's security interests wherever it may occur. Their reaction also indicates that although they will continue to support major U. S. policies and actions, they naturally will have to tailor their support in accordance with their own national interests and geographical position. Furthermore, like many other of the smaller nations, the Philippines is inclined to look to the United Nations for solutions to problems between the great powers which threaten world peace.

15. Nationalist Manifestations

The sudden death of former President Magsaysay brought about a condition of shock among all elements of the populace. This was immediately followed by an over-riding pre-occupation with partisan politics, a fact which resulted in the weakening of a substantial element of the public confidence in their government. Although this was particularly true during the pre-election period of 1957, partisan charges and counter charges have continued almost unabated. This confusion has been compounded by increased evidence of venality at all levels of the government and the inability and lack of action on the part of the administration to cope with the serious economic situation. The heavy governmental spending, a weak balance of payments position, a sharp decline in foreign exchange holdings as well as the domestic effects of the recession in the free world further magnified the problems of the administration during the recent past. The administration has concluded that the underlying problem was to finance the considerable economic expansion needed to improve economic and social conditions in the country and that to achieve this, it would be necessary to seek outside financial assistance. As a result of this situation the President requested substantial financial assistance from the United States during his recent visit. The U. S. response to this request created a favorable impression initially in the Philippines. However, the absence of visible and substantive results to date has greatly weakened the position of the administration and resulted in increased public criticism of the United States. This dissatisfaction stems not only from the Philippine feeling that the loans are not being processed as expeditiously as possible but from the comparisons which are constantly being drawn by them between the level of economic assistance to the Philippines and that provided uncommitted areas. This situation is being increasingly exploited and aggravated by the most vocal nationalist elements in the country who are now publicly advocating reexamination of the historical relationship between the Philippines and the United States and adoption of a more independent foreign policy.

16. Revised Trade Agreement

The Philippines continues to take significant restrictive action on individual commodity imports without prior consultation with the United

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States as required by terms of the Revised Trade Agreement; and protests made by our Embassy have not yet met with any success. Even more disturbing, a "Filipino-First" investment policy recently announced by their National Economic Council may raise additional problems with respect to the national treatment obligations of the Trade Agreement, despite informal assurances by the Council that the obligations will be observed.

17. Application of the U.S. Fair Labor Standards Act

The previous OCB Report noted that the passage of PL 85-231 had eliminated the problem of Filipino workers on Guam being paid at a lower minimum wage rate than Guamanian and American workers. Nevertheless, a system of de facto discriminatory wage treatment of labor on Guam remains alive and active inasmuch as Filipino contract labor is hired usually at the minimum wage level, American labor needed for professional and supervisory positions at mainland rates, and Guamanians at rates in between. However, pressure is beginning to mount to reconcile these three wage levels in the direction of establishing mainland rates throughout the island. In particular, this demand has been pressed by the American Federation of Government Employees (AFL-CIO) which claims that Philippine labor is undercutting U.S. labor standards and taking away jobs from its members.

18. Importation of Philippine Labor for Work on Farms in California

Temporary foreign agricultural labor is admitted to the U.S. upon the petition of specific employers subject to certification by the Department of Labor and the Immigration and Naturalization Service that the conditions prescribed by law have been satisfied. Though last year arrangements were made for the importation of 1,000 agricultural laborers from the Philippines, the program soon became inactive following recruitment complications that developed after the first few arrivals. Since then the U.S. has resisted periodic pressures from Philippine authorities to use such programs as an outlet for unemployed Filipinos. Such recruitment neither alleviates significantly Philippine unemployment nor is it suitable as a source to satisfy requirements in the U.S. for a supplementary farm labor force. Moreover, such recruitment opens the way for (1) malpractices by Philippine employment agencies as regards fees and selection of personnel which the Philippine Government in the past has not controlled adequately and, (2) the infusion of a spate of labor grievances to mar relations between the U.S. and the Philippines. Nevertheless, we may have to keep our position open at least to the extent of possibly permitting token entries

of Philippine farm labor. In the eyes of the Filipinos, the validity of our arguments against the entry of Filipino labor is weakened by the fact that (1) the U.S. does allow the import of several hundred thousand foreign agricultural laborers (Mexican), and (2) we do have a program for the employment of some 1,250 Japanese farm laborers in California. While the latter program has been most advantageous to us politically as a means of promoting American-Japanese understanding and has worked out beneficially to California growers who prefer Japanese to Filipino labor, the Philippine Government characteristically sees this as preference for a former enemy over a steadfast ally.

19. Extension of Philippine Influence in Non-Communist Asia

a. SEATO. Philippine interest and involvement in SEATO affairs remains at a satisfactory level. At the opening public session of the meeting of SEATO military advisers in September, the Philippine delegation requested that in view of the dangerous situation in the Taiwan Straits, SEATO give top priority to its planning for the defense of the Philippines. They did not, however, pursue the matter in the closed sessions.

b. Diplomatic Representation. The Philippines continues, within the stringent budgetary and personnel restrictions imposed by its economic problems, to develop its relations with the free nations of Asia. In August, the first Philippine resident Minister to Burma presented his credentials. Earlier in the year the Philippines and India raised their respective legations to embassies, with the incumbent Ministers of the two countries presenting their credentials as Ambassador shortly thereafter. While the Philippines may not be able, because of budgetary limitations, to carry out its plans to station a resident Charge in Kuala Lumpur by the end of this year, relations between the Philippines and Malaya are developing satisfactorily. The recent decision of New Zealand to send a High Commissioner to New Delhi and to station a Chargé d'Affaires in Bangkok may make it possible to convince the New Zealand Government to accredit one of their High Commissioners concurrently as non-resident Minister to the Philippines, thus completing the representation pattern between the two SEATO partners and recognizing the long-standing, one-sided accreditation of a non-resident Philippine Minister to New Zealand.

c. Regional Counter Subversive School. On September 9 the Philippines entered into a secret agreement with the United States providing for confidential U.S. financial and technical assistance to establish and operate, under Philippine auspices, a counter-subversion school for Southeast Asia. Designated representatives of the two governments will cooperate in making the necessary administrative arrangements.

to open and operate the school. U. S. officials in Manila will communicate with U. S. missions in the Southeast Asian countries regarding the selection of local students and other pertinent matters.

d. Regional Labor Education Center. As an outgrowth of the success of the Labor Education Center at Manila, facilities for a Regional Labor Education Center financed by ICA are now being established for resident labor trainees from third countries in the Asian Economic Development Area.

e. Pacific Defense College. Negotiations on the Pacific Defense College are proceeding. An ad hoc Committee on Funding has completed a study to determine costs and develop a budget for the school. However, there has not yet been any agreement on the question of which country will provide the Commandant nor on the contribution formula.

f. Asian Regional Nuclear Center. Lack of financial support from third country nations has forced the U. S. to conclude that it is not possible to establish an Asian Regional Nuclear Center in Manila at this time. Therefore, the U. S. is proceeding with negotiations with the Philippine government on the establishment of a Philippine National Atomic Research Center. The U. S. is prepared to provide technical assistance plus a \$500,000 grant to help get the Center under way. Later, if interest develops for an Asian Regional Nuclear Center, the Philippine Center could then perhaps be expanded to meet this requirement.

20. Informational and Cultural

a. Film of Garcia's Visit to the U. S. In addition to continuing its already established information and cultural programs, a 30-minute color film of President Garcia's visit to the United States was made by the U. S. Information Agency. The film successfully caught important highlights of the President's tour across the country, his addresses to the Congress and the National Press Club and the warmth of his reception in various American communities. Both 35mm and 16mm copies are being shown commercially throughout the Philippines as well as privately by USIS in the Information Centers and to private groups. A copy of the film was presented to President Garcia.

b. Financial Assistance for the American School in Manila. Under the PL 480 agreement signed with the Philippines on June 3, the sum of \$600,000 was earmarked, pursuant to Section 104(j), for assistance to the American School in Manila in its construction and expansion program. This action was taken in anticipation that in its new capacity

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as a demonstration school it would increase its impact on the Philippine community. The school has since complied with these requirements and the Embassy has approved the school's request for funds. The Department of State has received and is reviewing the detailed documentation required under its criteria to evaluate requests for financial assistance to American schools abroad.

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November 24, 1958

SINO-SOVIET BLOC ACTIVITIES IN THE PHILIPPINES

(Prepared by CIA without inter-agency coordination as an informal document for use by the OCB Working Group and as background for the information of the OCB and the NSC)

21. General Bloc Policy: The Sino-Soviet bloc regards the Philippines as a tightly-bound "raw materials appendage of American monopoly capital" and has thus made almost no effort at all to encourage economic, political or cultural relations. Moscow considers the Philippines to be in one of the lowest stages of political development -- a "formally independent" state that is militarily and economically dependent on the West.
22. Diplomatic Activity: The bloc has not tried to initiate diplomatic relations with the Philippines during the period of the report. A minimal amount of diplomatic business with the Philippines is indirectly conducted through Soviet embassies in other parts of Asia.
23. Economic Activity: Philippine trade with the Sino-Soviet bloc has been negligible. There were no recorded exports to the bloc in 1957 and recorded imports from Communist China through Hong Kong amounted to only \$40,000. Chinese Communist goods, chiefly foodstuffs and light industrial commodities, enter the Philippines extra-legally via Hong Kong and the southern part of the archipelago.
24. Cultural and Propaganda Activity: Moscow radio occasionally uses the example of American "domination" of the Philippines in broadcasts to other parts of the world portraying the dangers of close ties with the United States. A few Filipinos are beginning to travel to the bloc although the number is negligible. A delegation headed by the Vice Mayor of Manila went to Communist China in August, and the nationalist publisher of the Manila Chronicle visited Moscow.
25. Subversive Activity: The Philippine Communist party (PKP), previously banned by Supreme Court decision, was formally outlawed by the Philippine congress in 1957. Its membership is roughly estimated at 1,000 to 1,500 including several hundred armed dissidents, remnants of the post-war Communist-led Huk rebellion, who remain active in rural areas of Luzon. The key leaders are in the hills or in prison.

26. A switch in the past five years from open rebellion to legal penetration has netted the PKP little success in penetrating social groups or in exploiting national elections. Although the Magsaysay administration's program of economic expansion and social reform helped to undercut Communist effectiveness, that program has been vitiated by deterioration in the domestic economic and political situation following Magsaysay's death.

27. Philippine Reaction to Bloc Activity: The administration expresses firm opposition to any form of relations with the bloc and to date has displayed no inclination to look to the bloc for aid in economic development. It is fearful that the entry of bloc representatives would enhance the danger of domestic Communist subversion. President Garcia, however, quietly approved the visits of a few Philippine nationals to Communist China and the USSR within the past year. A vocal group of extreme nationalists continue to advocate trade with Communist China and to urge a more neutralist foreign policy involving a critical re-examination of the Philippine-American relationship. Although there has been recurrent speculation concerning trade with Communist China, official Philippine policy continues to forbid trade with the bloc.

28. Outlook: Formal Philippine-Bloc relations will probably not develop in the near future. However, latent opportunities exist for the expansion of domestic communism, as well as bloc exploitation, in deteriorating economic conditions. This exploitation may be facilitated by rising Philippine nationalism, mounting pressure for greater independence from the United States policies and attitudes, growing popular discontent, and continued government discrimination against the Overseas Chinese and Moslem communities. Further deterioration of domestic conditions could presage eventual trade relationships with the Bloc. Although effective internal security measures have severely reduced the communists' capabilities in the Philippines, they are hopeful that the inefficiency and corruption of the Garcia administration will furnish new opportunities to infiltrate key positions in the government.

Revised 12/9/58

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 FINANCIAL ANNEX TO REPORT ON : Philippines
 (In millions of dollars over \$5 million. Up to \$5 million shown in nearest tenth million.)

EXPENDITURES AND DELIVERIES - CERTAIN U. S. ACTIVITIES

Activity	FY 1957	FY 1958 Total	FY 1959 (Est. as of 9/30/58)
<u>Military Assistance</u> (see footnotes a- & b in Pipeline Analysis)	24.1	21.2	22.9
<u>Economic Assistance</u> (Defense support or Development assistance.)	30.2	30.2	16.4
<u>Technical Assistance</u>	5.4	3.5	3.5
<u>Information Services</u>	1.1	0.9	0.9
<u>Educational Exchange</u>			
Total	60.8	55.8	43.7
MAP Sales of Military Equipment & Services	.1	.1	NA
MAP Offshore Procurement Payments (Defense expenditures entering into int'l balance of payments.)		None	
Other U.S. Govt. Payments (affecting int'l bal. of payments - mil. & civ. pay, construction, procurement of U.S. mil. supplies & equipment.)	62.5	60.0	55.5

LOANS

LOANS BY	During Period 3/31/58 to 9/30/58			As of 9/30/58	
	Disbursements	Repayments	New Loans Authorized	Undisbursed Commitments	Outstanding Debt
IBRD	2.0	-	-	16.1	4.0
EX-IM BANK	5.8	1.5	27.8 1/2	89.0	26.9
DLF			50.0		

PUBLIC LAW 480 AGREEMENTS 1/ Less cancellations and expirations. Gross loans during the period increased by \$75 million.

Date	Title	Amount in Mills.	Est. % Dels.	Major Commodities	Use of Local Currency or Other Comment	
					Econ. Dev.	U.S. Use
1957	I	10.3	100%	Rice, Cotton, Milk	5.2	5.1
1958	I	4.1	10%	Rice	0	4.1
1958 *	III	8.3	100%	Rice, Milk	-	-

All Notes and Comments relating to the above figures are shown on a separate page.

* Rising from small amount in 1954. - 17 -

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FINANCIAL ANNEX TO REPORT ON : Philippines
(In millions of dollars over \$5 million. Up to
\$5 million shown in nearest tenth million.)

EXPENDITURES AND DELIVERIES - CERTAIN U. S. ACTIVITIES

Activity	FY 1957	FY 1958 Total	FY 1959 (Est. as of 9/30/58)
Military Assistance (see footnotes a- & b in Pipeline Analysis)	24.1	21.2	22.9
Economic Assistance (Defense support or Development assistance.)	28.5	15.3	15.0
Technical Assistance	4.4	3.9	3.0
Information Services	1.1	0.9	0.9
Educational Exchange			
Total	58.1	41.3	41.8
MAP Sales of Military Equipment & Services	.1	.1	NA
NA - Not Available			
MAP Offshore Procurement Payments (Defense expenditures entering into int'l balance of payments.)		None	
Other U.S. Govt. Payments (affecting int'l bal. of payments - mil. & civ. pay, construction, procurement of U.S. mil. supplies & equipment.)	52.5	60.0	55.5

LOANS

LOANS BY	During Period 3/31/58 to 9/30/58			As of 9/30/58	
	Disbursements	Repayments	New Loans Authorized	Undisbursed Commitments	Outstanding Debt
IBRD	2.0	-	-	15.1	4.0
EX-IM BANK	2.8	1.5	27.8 1/2	89.0	26.9
DLF			50.0		

PUBLIC LAW 480 AGREEMENTS 1/ Less cancellations and expirations. Gross loans during the period increased by \$75 million.

Date	Title	Amount in Mills.	Est. % Dels.	Major Commodities	Use of Local Currency or Other Comment Econ. Dev.	U.C. Use
1957	I	10.3	100%	Rice, Cotton, Milk	5.2	5.1
1958	I	4.1	10%	Rice	0	4.1
1958 *	III	8.3	100%	Rice, Milk	-	-

All Notes and Comments relating to the above figures are shown on a separate page.

* Rising from small amount in 1954. - 17 -

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PIPELINE ANALYSIS, MUTUAL SECURITY PROGRAM
(In millions of dollars)

PHILIPPINES

Military Assistance a/, b/

	<u>Programs</u>	<u>Deliveries</u>	<u>Carryover at End of Period</u>
Prior to FY 1957	155.7	118.5	37.2
FY 1957	11.7	24.1	24.8
FY 1958	10.8	21.2	14.4
FY 1959 (Est.)	27.8	22.9	19.3

Economic Assistance

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover at End of Period</u>
Prior to FY 1957	122.7	89.5	33.2
FY 1957	28.5	30.2	31.5
FY 1958	15.3	30.2	16.6
FY 1959 (Est.)	15.0	16.4	15.2

Technical Assistance

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover at End of Period</u>
Prior to FY 1957	13.4	6.9	6.5
FY 1957	4.4	5.4	5.5
FY 1958	3.9	3.5	5.9
FY 1959 (Est.)	3.0	3.5	5.4

a/ - Includes value of all grant military assistance whether programmed on a country or non-country basis, with the exception of the value of excess stocks and cost sharing programs. (In the MAP programming process, country programs include such items as materiel and equipment, training and dollar costs of consumables and construction. Non-country programs include items such as packing, crating, handling and transportation; spare parts; cost of rehabilitating excess stocks; and advanced weapons.)

b/ - Excludes \$45.4 million programmed from stocks excess to U. S. Service or other MAP requirements for FY 1950-59; of which \$38.3 million is estimated to be delivered by the end of FY 1959.

PIPELINE ANALYSIS, MUTUAL SECURITY PROGRAM
(In millions of dollars)

PHILIPPINES

Military Assistance a/, b/

	<u>Programs</u>	<u>Deliveries</u>	<u>Carryover at End of Period</u>
Prior to FY 1957	155.7	118.5	37.2
FY 1957	11.7	24.1	24.8
FY 1958	10.8	21.2	14.4
FY 1959 (Est.)	27.8	22.9	19.3

Economic Assistance

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover 6/30/58</u>
Prior to FY 1957	122.1	120.9	1.2
FY 1957	28.9	26.4	2.5
FY 1958	15.4	2.6	12.8
FY 1959 (Est.)	15.0	-	15.0

Technical Assistance

	<u>Obligations</u>	<u>Expenditures</u>	<u>Carryover 6/30/58</u>
Prior to FY 1957	12.7	10.5	2.2
FY 1957	5.0	3.7	1.3
FY 1958	4.0	1.6	2.4
FY 1959 (Est.)	3.0	-	3.0

a/ - Includes value of all grant military assistance whether programmed on a country or non-country basis, with the exception of the value of excess stocks and cost sharing programs. (In the MAP programming process, country programs include such items as materiel and equipment, training and dollar costs of consumables and construction. Non-country programs include items such as packing, crating, handling and transportation; spare parts; cost of rehabilitating excess stocks; and advanced weapons.)

b/ - Excludes \$45.4 million programmed from stocks excess to U.S. Service or other MAP requirements for FY 1950-59; of which \$38.3 million is estimated to be delivered by the end of FY 1959.