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MEMORANDUM FOR THE STATE-WAR-NAVY COORDINATING SUBCOMMITTEE FOR THE FAR EAST

Subject: Country Report on the Philippines, June 23, 1947

1. The enclosed Appendix to the subject paper is circulated for consideration by the Subcommittee. Upon approval by the Subcommittee this Appendix should be attached to subject report on the Philippines.

J. B. CRESAP
Commander, USN
Secretary

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APPENDIX

SUMMARY

1. Relative political stability and generally favorable economic conditions now prevail in the Philippine Islands. The pro-American, liberal democratic Roxas administration has firm control of the internal political situation. The Hukbalahap, a leftist organization of armed peasants on Luzon, are no longer a potential threat to government authority and dissident minorities offer no serious difficulties. While the two major economic problems of the Republic, repair of the extensive war damage and financing government operating costs, still have to be solved, the living conditions of the population, except for housing, approximate pre-war. The most favorable aspect of the present Philippine economic situation, is the country's strong dollar position. From 1947 through 1951 Philippine dollar receipts, largely from US Government outlays, will aggregate roughly \$2.4 billion and on an yearly basis will be approximately two and a half times the 1938-40 annual average.

2. The US has been furnishing substantial direct and indirect assistance to the Philippines since independence. This assistance is based primarily on American prewar and wartime promises "to assist in making the Philippines, as an independent nation, economically secure," and on legal obligations continuing from the period of US sovereignty. Direct aid provided through fiscal year 1947, including the \$70 million budgetary loan of the Reconstruction Finance Corporation, is valued at \$323.3 million. Aid pending or contemplated comprises principally payments of \$532 million which will be made between July 1, 1947 and June 30, 1950 under the terms of the Philippine Rehabilitation Act. In addition, the US will turn over to the Philippines military and naval equipment with a procurement cost of \$66.8 million. Indirect aid consists principally of army and navy expenditures and veterans' benefits which will aggregate approximately \$300 million in 1947 and \$700 million through 1951.

3. US assistance to the Philippines has had important political and economic effects. Budgetary loans have helped the government bridge the

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period of postwar financial disorganization. Surplus property transfers have facilitated the restoration of essential transportation facilities and industry and agriculture. Large US military expenditures have provided the principal means of paying for imports. Politically US aid has increased popular support for the pro-American administration.

4. US policy objectives in the Philippines are directed toward encouraging the creation and maintenance of a strong independent, democratic, and friendly Republic. No additional US financial aid, in addition to that already given or authorized, is necessary to ensure the accomplishment of these objectives. Philippine dollar receipts if effectively employed should be adequate to finance imports of essential consumer goods and equipment and supplies required for economic reconstruction and development purposes. With the adoption of needed fiscal reforms, the Philippine Government can balance its budget using domestic financial resources. However, the US Government should be prepared to assist the Philippines in preparing and administering a program to effectively mobilize the country's financial resources.

Politically it is important that the US pass legislation at an early date granting Philippine army veterans benefits more comparable to those received by American veterans. This action would eliminate an outstanding cause of anti-American sentiment in the Philippines. Also the US should continue to encourage Philippine participation in the United Nations and its specialized agencies.

5. No adverse economic consequences will result from US failure to grant additional aid to the Philippines, provided the Philippine Government institutes needed financial reforms. The granting of additional benefits to Philippine army veterans will probably offset any ill-will which may arise out of US refusal to give further economic aid.

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Appendix

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