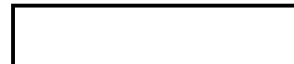




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The Philippines: Middle East Diplomacy and Marcos's Saudi Visit



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An Intelligence Memorandum

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EA 82-10040
March 1982

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The Philippines: Middle East Diplomacy and Marcos's Saudi Visit

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An Intelligence Memorandum

*Information available as of 12 March 1982
has been used in the preparation of this report.*

This report was prepared by [Redacted]
[Redacted] of the Malaysia, Singapore, Islands
Branch, Southeast Asia Division, Office of East
Asian Analysis. Comments and queries are welcome
and may be directed to the Chief, Malaysia,
Singapore, Islands Branch, OEA, [Redacted]

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This report was coordinated with the Offices of Near
East-South Asia Analysis and Central Reference,
with the Directorate of Operations, and with the
National Intelligence Officer for East Asia [Redacted]

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*EA 82-10040
March 1982*

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**The Philippines:
Middle East Diplomacy
and Marcos's Saudi Visit**



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Summary

President Marcos during his visit to Saudi Arabia beginning 19 March will seek Saudi understanding and support for Manila's position in its long-standing dispute with Muslim rebels on the Philippines' southern island of Mindanao. Favorable Philippine-Middle East relations require at least the appearance of progress by Manila in meeting the needs and demands of the Filipino Muslims. A successful Saudi visit would further improve already rapidly growing economic and political ties with the Middle East.



The Philippines' Middle East diplomacy is aimed at reducing the vulnerability that results from the country's dependence on the Persian Gulf for half of its oil imports. With the intensity of the Muslim rebellion abating, Manila is expanding lucrative construction and labor contracts throughout the Middle East. In addition to strengthening ties, the remittances of the workers ease the financial drain of an oil-import bill approaching \$3 billion annually. Marcos and his business associates have personal stakes in these ventures, focusing the potential damage from economic sanctions on the President himself.

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Protection of these financial interests has necessitated compromises in Philippine foreign policy. Although the Philippines is still likely to support the United States when major differences arise between Washington and Arab governments, Manila is now more inclined to vote with Arab states on the Arab-Israeli conflict. It now supports the Saudi peace initiative in the Middle East and recognizes the PLO as the legitimate spokesman of the Palestinian people. The shift is likely to become more pronounced and extend to other issues as Philippine economic and political ties to the region grow.

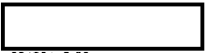


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The Philippines and the Middle East

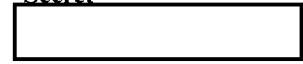


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**The Philippines:
Middle East Diplomacy
and Marcos's Saudi Visit**



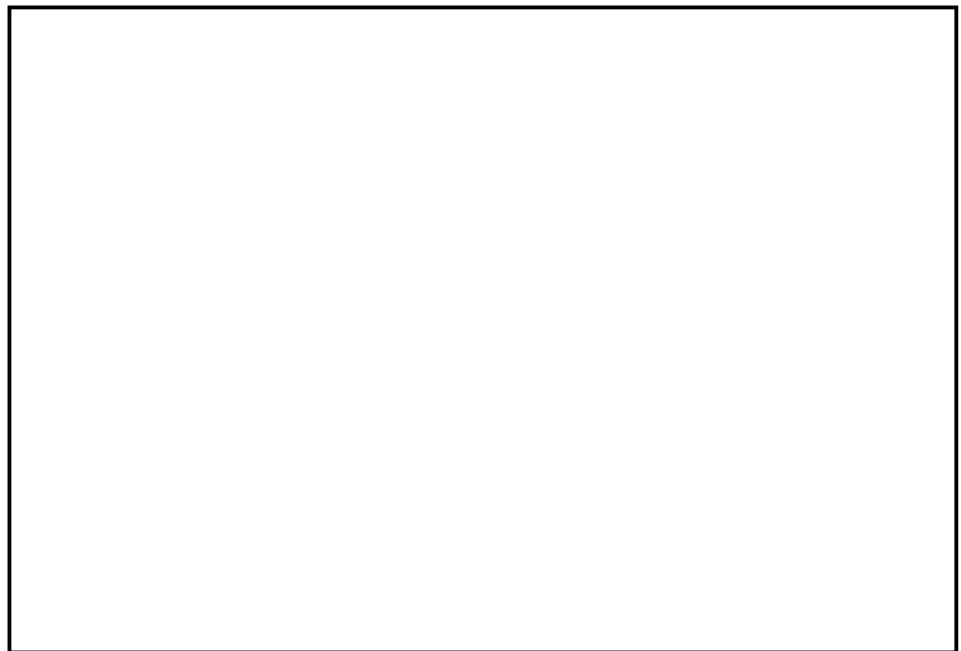
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**The Diplomatic
Offensive**

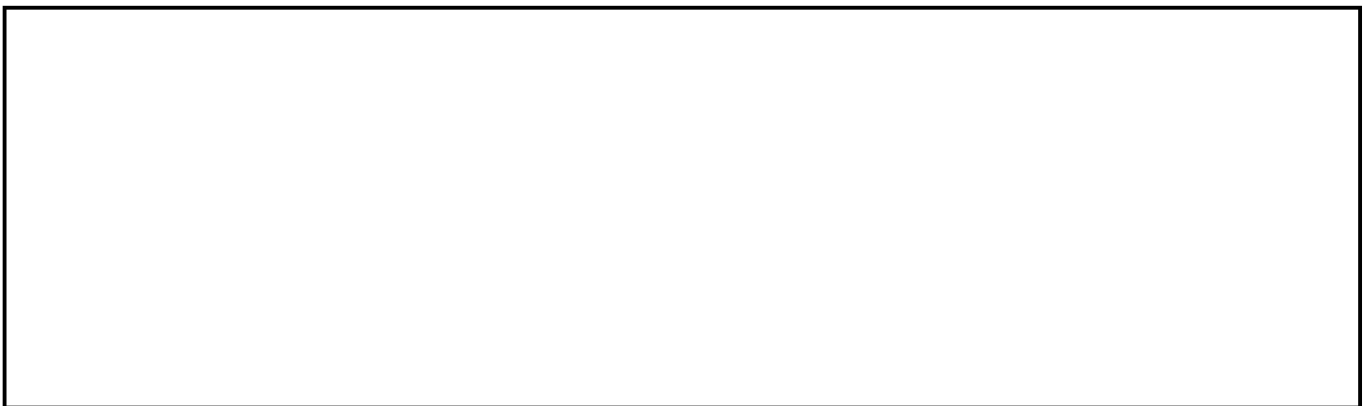
Because of simultaneous Philippine oil dependence on the Persian Gulf and links by Arab governments to the Muslim insurgency on the southern island of Mindanao, sudden policy shifts by Middle Eastern oil states can cause Manila severe financial and political hardship. President Marcos's visit to Saudi Arabia this month is being made in an attempt to bolster the Philippine end of a relationship heavily weighted in the Arab's favor.



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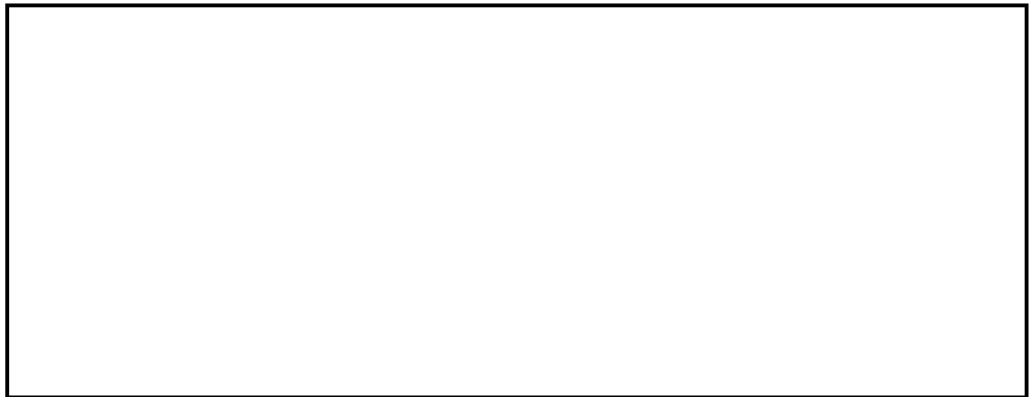
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To reduce the likelihood of sanctions, Manila in 1976 agreed to grant autonomy to the Muslims on Mindanao. The Tripoli Agreement, signed in that year, has become the yardstick by which OIC member states measure Manila's willingness to live up to its pledge. The Agreement called for a ceasefire between the MNLF and the Armed Forces of the Philippines and became the basic framework for continued efforts to end the rebellion. Manila, however, has been reluctant to relinquish complete power to the Muslim regions of the South or reduce its control of the mineral resources in Muslim areas. Because of Manila's only partial adherence to the accords and its limited success at political cooptation of the MNLF, the ceasefire has gradually broken down. Fighting, however, remains at greatly reduced levels from the high point of the early 1970s. 


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When measured in terms of expanded bilateral ties alone, the diplomatic offensive has produced impressive results. Since the mid-1970s Manila has opened embassies in Jiddah, Abu Dhabi, Kuwait, Rabat, Tripoli, and Baghdad, and it now has diplomatic relations with all 22 member countries of the Arab League. While the OIC continues to be an important international supporter of the MNLF, Manila has been able to forestall economic sanctions, even though individual member states from time to time have threatened punitive actions. Furthermore, a divided MNLF leadership combined with competition between the radical and moderate wings of the OIC dims prospects for unified Arab support for the Moros. 

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¹ The Southern Philippine Development Authority is the major government instrument for addressing the economic development needs of its Muslim minority. 

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Table 2

The Philippines: The Economic Connection


Oil Supplies ^a	Barrels Oil Equivalent per Day		
	1979	1980	1981
Middle East	136,700	154,600	139,170
Saudi Arabia	66,000	98,000	110,000
Kuwait	31,000	29,900	18,100
Iraq	33,000	22,700	0
Oman	0	4,000	7,500
Iran	6,700	0	0
Dubayy	0	0	3,570
Other	63,300	65,400	70,830
Total imports	200,000	220,000	210,000
Value (billion US \$)	1,385	2,248	2,800

^a Including crude oil and products. About one-half of oil deliveries from the Middle East are on government-to-government contracts rather than from private firms.




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Economics and Oil Diplomacy

Manila's economic concerns remain the driving force behind its diplomatic efforts in the Middle East. Dependent on Persian Gulf suppliers for over half of its oil supplies and two-thirds of its oil imports, the Philippines, foreign trade gap with the Middle East has grown rapidly in the last three years. The 1979-80 round of OPEC price hikes escalated the country's oil import bill from \$1.3 billion in 1979 to about \$2.8 billion last year, sending Manila scurrying into international capital markets for financing. Including debt repayment obligations on previous loans to finance oil imports, the "oil tribute" now costs the Philippines nearly \$5 billion annually. 

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Manila has adroitly eased the financial drain by encouraging labor exports (over the objections of a local foreign business community deprived of skilled workers) and securing a lucrative portion of the Middle East's enormous construction business. As of December 1981, Philippine firms had obtained nearly \$2 billion in construction commitments, including a highly publicized bid to build a \$300 million trans-Iraq highway linking Baghdad and Kuwait. Approximately 250,000 Filipinos work in the area, including 130,000 in Saudi Arabia, and they remit over \$300 million annually to the Philippines through the Central Bank. Remittances through unofficial channels may be even larger. Eager to capitalize further on these benefits, Manila in 1981 concluded labor contracts committing roughly 80,000 new workers to several countries in the region. 

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Table 3

Philippines: Overseas Service Earnings, 1981

Overseas remitters	Thousand People	Construction Contracts ^a	Million US \$
Total overseas	1,300	Total value ^b	2,000
Seamen	250	New commitments, 1981	782
Expatriates	800	Of which:	
Middle East	250	Middle East	625
Of which:		Iraq	250
Saudi Arabia	130	Saudi Arabia	208
Iraq	15	Libya	143
Libya	15	Kuwait	24
Official remittances ^c	Million US \$		
(1980)	648		
Total remittances			
(1980)	1,300		
Remittances from the Middle East			
(1980)	300		


^a Including equipment purchases and local services.

^b End of year.

^c Cleared through the Central Bank.



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Not surprisingly, Manila regularly cites the Middle East construction and labor export business as its most tangible progress in combating a weak balance of payments and high domestic unemployment. The government also uses these claims to bolster its domestic image as a competent economic manager, although the actual dividends are somewhat more modest. The Philippines' Middle Eastern labor force, for example, equals about one-fourth the number of domestic workers unemployed and represents about half of total overseas employment. Remittances from expatriates working in the United States, moreover, at about \$450 million, are considerably more important for its balance of payments. 

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Table 4

Philippines: Sources of Foreign Financing

Middle East Banks in Syndicated Loans	Official Loans and Grants
Arab Banking Corporation	Saudi Arabia Monetary Authority
National Commercial Bank (Saudi Arabia)	OPEC Special Fund
Kuwait Asian Bank	Kuwait Fund for Arab Economic Development

[Redacted]

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[Redacted]

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A Compromised Foreign Policy

Marcos is well aware of the cost in lost worker remittances and economic disruption that could result from Middle Eastern discontent over his domestic Muslim policies. For example, Iran shut off its oil sales to the Philippines abruptly in 1979 and expelled thousands of Filipino workers after an alleged massacre of Muslim rebels by Philippine troops. The Saudis threatened not to renew government-to-government oil sales in late 1980 after "unhappiness" over Manila's treatment of the "southern question." In both instances, diplomatic efforts succeeded in replacing lost oil, and the Saudis were even persuaded to increase oil shipments to replace supplies lost because of the Iran-Iraq war. Nonetheless, Marcos was pressed to reassure both private foreign bankers financing Philippine economic growth and a domestic commercial audience that economic disaster was not imminent. It is a public relations exercise that he does not relish repeating. [Redacted]

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**Outlook for the
Muslim Question**

Despite its generally effective diplomatic effort to date, Manila is not optimistic about its ability to completely eliminate foreign support for the MNLF. At the very least, Marcos expects radical Muslim states such as Libya to continue giving moral support to the Moros. [redacted]

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Marcos recognizes that substantial increases in external aid for the insurgency could produce an upsurge in fighting that would strain Manila's own financial resources. Although the Moro rebellion is now not much more than an irritant to the government, any significant increase in fighting could severely hamper Philippine efforts to counter the more serious Communist insurgency, because fighting in the South would necessitate redeploying forces currently fighting the Communists back to Mindanao. [redacted]

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Marcos may have another compelling reason for a successful resolution of the Muslim question. Leading opposition politician Benigno Aquino met with MNLF chairman Nur Misuari in 1980 and again in 1981, raising the spectre of a possible coalescence of Marcos's opponents. Aquino is rumored to have set up another meeting with Misuari prior to Marcos's departure for Saudi Arabia. While a Muslim-Christian coalition is unlikely, Marcos would be anxious to prevent even a tactical alliance which could give his domestic political opponents access to foreign military and financial aid. [redacted]

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The Economic Factor

Over the longer term, Manila could reduce the leverage of Middle Eastern states in influencing its foreign policy by diversifying sources of oil imports. The visit by Imelda Marcos to Mexico City in 1980 was a step in this direction. At that time, she obtained Mexican pledges to provide as much as 30,000 b/d of crude petroleum beginning in 1981. More recently, Manila took advantage of its high level of oil stocks to terminate a contract with Kuwait for 15,000 b/d in fuel oil supplies. Nonetheless, Manila is reluctant to turn away any potential suppliers of oil. Marcos's advisors have told him that the glutted international oil market is a temporary phenomenon and that he should not expect the Philippines to reduce its dependence on Middle Eastern oil to any meaningful degree during the next three years.

[REDACTED]

Manila's sense of financial vulnerability will persist well into the 1980s in any case. Even if the Philippines diversifies its oil supplies, Marcos and his business associates will remain victims of their own financial success in dealing with Middle Eastern countries. They will undoubtedly want to avoid any disruption of these benefits, and this will continue to influence Philippine foreign policy as long as Marcos retains power. [REDACTED]

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