

25X1

Approved For Release 2004/09/28 : CIA-RDP85T00875R001500060008-8

Approved For Release 2004/09/28 : CIA-RDP85T00875R001500060008-8

Secret



Weekly Summary

Special Report

The Philippines: New Society, Old Problems

Secret

№ 986

May 3, 1974
No. 0018/74A

25X1

Approved For Release 2004/09/28 : CIA-RDP85T00875R001500060008-8

Approved For Release 2004/09/28 : CIA-RDP85T00875R001500060008-8

The PHILIPPINES



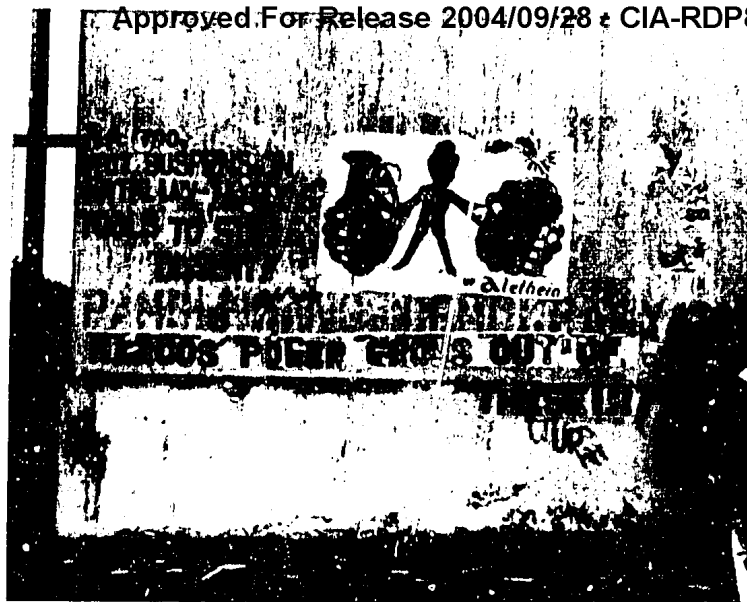
I wish to emphasize these two objectives. We wish to eliminate the threat of a violent overthrow of our republic, but at the same time, we must now reform the social, the economic, and the political institutions in our country. The plans, the orders for reform and removal of the inequities of that society...the general program for a new and better Philippines will be explained to you. But we must start out with the elimination of anarchy and the maintenance of peace and order.

President Ferdinand Marcos
TV Speech to the Nation on
September 23, 1972,
the day after Martial Law was declared.

25X1

New Society Old Problems

SECRET



When President Marcos declared martial law on September 22, 1972 during his second term in office, he justified his action on the grounds of widespread social and economic deterioration and a Communist political conspiracy. He announced that he would found a "New Society" focusing on four main tasks: creating a new political structure; stimulating economic growth; improving internal security; and exploring new directions in foreign policy. Few Filipinos believed the allegations of a serious Communist threat, but nonetheless, after 18 months of martial law, most remain tolerant of one-man rule, hoping that Marcos will use his power to carry out sweeping reforms.

Marcos had long talked about what reforms Philippine society needed and had even set down his blueprint in a book, *Today's Revolution: Democracy*. He asserted, however, that the venality of Philippine politicians allowed local vested interests, the so-called oligarchy, to thwart his attempts at reform. He wanted a new constitution that would strengthen the position of chief executive and eliminate the two-term provision of the existing document that barred him from office after December 1973. By the summer of 1972 it was clear that Marcos could get whatever constitutional changes he desired, but public opinion was turning against him and he feared he could not win another election. He decided that declaring martial law and suspending the constitution was the only way he could remain in office.



SECRET

25X1
25X1

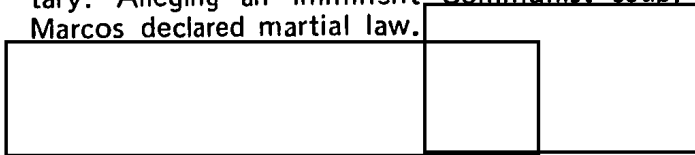
Prelude to Martial Law

A mood of malaise and discontent and a feeling that "things could not continue like this" permeated Philippine society by 1972. A public opinion poll in March showed 60 percent of the electorate favored the platform of a burgeoning political movement—Philippine Statehood USA—that called for rejoining the US as the 51st state. Others blamed the "national mess" on the US-style government willed to the Philippines in 1946. They enthusiastically supported the call for a new "Filipino-style" constitution that would correct the ills of the existing system.

A large number of Filipinos felt that drastic change was needed, despite the fact that Philippine society was in many respects better off in 1972 than in 1970. The economy, buoyed by increasing world market prices for Philippine exports, was experiencing a mild upswing. Although violence remained a fact of life for many, major crime statistics were down. Student radicalism had declined sharply since 1971 and armed dissidents in the countryside were kept in hand by local army and constabulary units.

The popular impression that social and political decay was accelerating was strengthened by a series of events beginning in mid-1972. In June, the President and his wife Imelda became the center of a political scandal stemming from charges that they were bribing constitutional convention delegates. In July and August floods devastated the heavily populated, rice-growing region of central Luzon and opposition politicians and journalists seized on the issue to stir up resentment against government flood control policies and its mismanagement of the relief effort. Soon afterward a series of urban bombings erupted, which the government claimed were part of a Communist plan to destroy Philippine democracy.

On September 22, an unsuccessful attempt was made to assassinate Marcos' defense secretary. Alleging an imminent Communist coup, Marcos declared martial law.



[Redacted] papers and opposition politicians had been openly speculating for weeks that the President had a secret plan to declare martial law in order to perpetuate his rule. But for many Filipinos, the martial law announcement was something of a relief, promising an end to the nervous political situation.

Building a Popular Consensus

For Marcos, a new political equation meant first neutralizing or eliminating potential opponents. In the early hours of martial law, the Philippine Constabulary arrested several hundred alleged troublemakers—students, teachers, journalists, opposition politicians, businessmen, and liberal clergy—and closed all newspapers and broadcast facilities. Marcos argued, with some justification, that his enemies would speak out publicly against him no matter what he tried to do, poisoning public opinion before he had had a chance to change it. He believed that his declining popularity in his second term was the result of a hostile press, and to some extent he was right.

Most Filipinos, even skeptical ones, seem willing to give the President and his new regime the benefit of the doubt, which compounds the difficulties of those trying to oppose his control. Existing constitutional checks, such as the judiciary, have been rendered impotent under martial law. Traditional political groups have turned to clandestine operations but have had little success. Moreover, the mainstays of the old politicians—wealthy patrons who try to protect their own interests by having a "man" in government—have quietly accommodated to the new order and have put some distance between themselves and former anti-Marcos politicians. Marcos has used martial law to intimidate many of these so-called oligarchs—threatening their property and holding their close relatives as hostages to ensure cooperation. Most commercial barons have found, in fact, that martial law is good for business, since labor organizers and radical political activists have been suppressed. Moreover, the disappearance of elected officials has decreased the number of

X1
X1

SECRET

SECRET

25X1

bribes and other business expenses associated with old-style Philippine democracy.

University students and teachers, the most irreconcilable Marcos critics prior to martial law, have also shown little enthusiasm for anti-regime politics in recent months. The activist student movement was already in decline by early 1972, the result both of a reaction to the violent demonstrations of 1970-71 and of arrests of top campus leaders in the fall of 1971. Under martial law, more students and faculty members have been detained, and the police have kept universities under close surveillance. The air of suspicion

and fear that pervades most campus communities makes political action difficult. Some student groups have tried to organize anti-Marcos protests, and some have distributed anti-government literature but, like the politicians, the students have been unable to inspire a broad protest movement.

The one area where the President faces increasingly effective opposition is from the Catholic Left. Although still a minority in the Catholic Church, the liberals have easy entree to all levels of society, a ready-made communications network, and significant organizational skills. They help publish and distribute a wide variety of underground newspapers and pamphlets. Under martial law, several priests and nuns have been arrested and church buildings have been searched. Marcos has tried to balance these repressive acts by opening a dialogue with some of the more moderate clergy, but the priests and the government find few common talking points.

Church opposition is potentially serious for Marcos because many of the liberal clergy are foreigners with access to foreign, particularly American, journalists and officials. The priests have the resources to act as the catalyst in forming a united-front opposition movement. Some militant church liberals already claim they are cooperating with Communist guerrillas and Muslim radicals in planning such a front.

Most politically active clergy are still reformists, not revolutionaries. If, however, moderates continue to be frustrated in their efforts to change the government by "gentle persuasion," their radicalization may be inevitable. In time, Catholic dissent in the Philippines could, as has already happened in some Latin American countries, develop into an "underground church" in league with left-wing insurgents.

The ability of any anti-Marcos group to organize a significant opposition movement will depend on the growth of popular frustration with the new order. Marcos has thus far managed to achieve broad popular acceptance for martial law, for while not everyone sees it as an improvement, most regard it as no worse than the old system.



Former President Macapagal, who chaired the Constitutional Convention, signs draft of new constitution.

SECRET

SECRET

25X1

Rural Filipinos in particular find some improvement in their daily lives. Gun-control measures and government pressure against the goon squads of local landlords and politicians have decreased the amount of petty extortion, harassment, and cattle rustling that formerly plagued poor farmers. Despite delays in the implementation of land reform, most peasants still hope and expect that their turn will come. Recently, there have been signs that constabulary corruption and brutality is increasing, but apparently the level is still tolerable. The government has publicly punished some constabulary men accused of wrongdoing, but critics charge that the worst offenders usually go free because they are officers.

Benefits to urban areas under martial law are less evident. Their plight is of special concern for Marcos' regime because they are also the class that furnishes the Philippine military. Urban residents are long-time enemies of Marcos and probably hard to impress. Their sons and daughters crowd the universities, but graduate to unemployment. They are beleaguered by rising prices for food, fuel, and services. The urban crime rate has not changed appreciably, although random violence as a result of privately owned arsenals has been curbed by the new gun-control measures and life seems a bit more orderly.

A New Political Structure

Appealing to public disenchantment with the old political system, Marcos has tried to increase support for his regime by creating new institutions. He has pushed through the constitutional convention a draft providing for a parliamentary form of government and "transitory provisions" that in effect ratify martial law and give Marcos total discretionary power in implementing the new constitution.

The Marcos constitution climaxes a trend in Philippine administration toward greater concentration of power in the hands of a single national executive. Under the new constitution, the prime minister has sweeping discretionary powers. The National Assembly may not initiate legislation on national affairs, has little power over the purse, and no influence on government appointments.



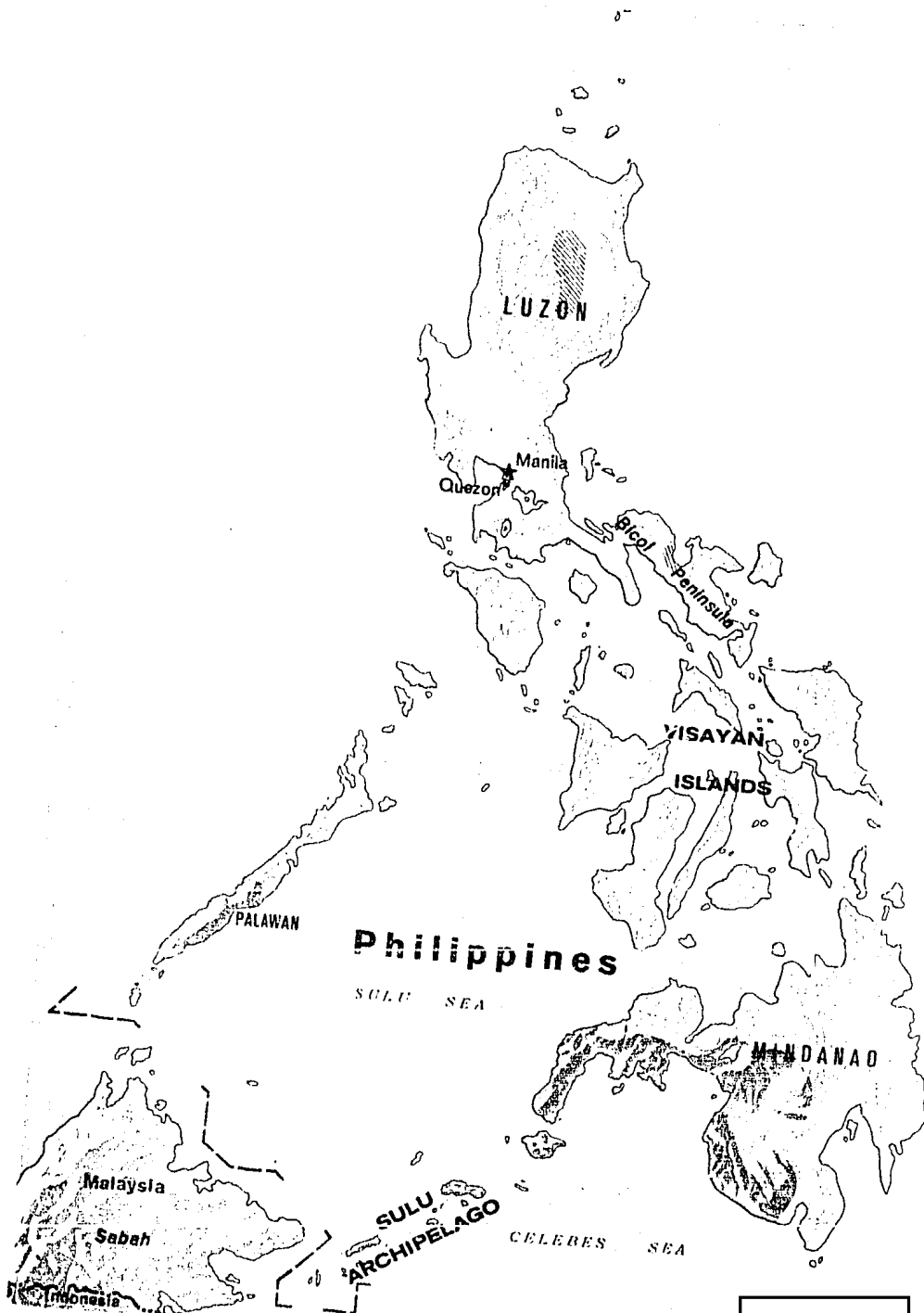
At most, it may delay some executive actions. The Supreme Court has broad new powers over lower courts but, at the same time, the executive has greater power to appoint and dismiss members of the court itself.

The new constitution also brings local governments under much closer control by the central administration. It removes police functions from local jurisdictions, integrating them into a new national police force, and gives the central government the final word on local economic matters. Much of the emasculation of local governments has in fact already been accomplished under martial law. Major decisions—acceptance of the new constitution, continuing martial law,

SECRET

SECRET

25X1



555736 4-74 CIA

[Stippled Area] Area predominantly Muslim
 [Hatched Area] New Peoples' Army base areas



25X

Special Report

May 3, 1974

SECRET

SECRET

25X1

convening a national legislative body—have been referred from existing institutions to newly organized, extra-constitutional bodies called *barangay*. These carefully controlled village-level citizens' assemblies report directly to the President, and Marcos hopes that in the absence of elections, the *barangay* meetings will satisfy the public's desire to participate in government.

Insofar as he cares at all, the Philippine voter probably misses the politicians of the old system more than the elections. For all their faults, the old-style politicians did provide a point of contact with the government to which the Filipino could appeal for redress of grievances, a job, and various minor but comforting services. There is no person or institution in the new system to fill this function.

Marcos is moving to eliminate all intervening bodies between himself and the public. He is not only centralizing administration, he is "personalizing" it as well. Activities of the Marcos family dominate the government-controlled media, and every plan or benefit with any significance is attributed directly to some act of Marcos or his wife. This budding personality cult is potentially a risky business—when difficulties arise, Marcos will have problems placing the blame on others. Moreover, his sudden death or incapacitation could gravely threaten political stability and cause divisive competition among various aspirants for power. The unsolved succession problem has created some difficulties already. Foreign businessmen, for example, have expressed doubts about long-term investment prospects if they cannot be certain of an orderly succession. Marcos claims to have made a secret political testament, but there is little guarantee that it would be honored by those ambitious to fill the power vacuum caused by his sudden departure.

The Role of the Military

The Philippine military, long considered one of the most professional and least political in Southeast Asia, has taken on a new, broader role under martial law, and will be an important factor in any post-Marcos regime. Marcos began subtly changing the military's character and preparing it

for a political role prior to 1972. Politically dependable officers were gradually moved into top command positions, often being promoted over the heads of more capable men not considered personally loyal to Marcos. Many of the top officers now come from Marcos' own ethnic group—the Ilocano of northwest Luzon, a group noted for their strong clan loyalties. Marcos' governing clique is now popularly referred to as the "Ilocano Mafia."

With the suspension of regular government bodies under martial law, much real authority over local affairs passed to the military commanders, who became the most visible link with the central government. In the early days of martial law, the military not only provided the muscle that arrested critics and imposed law and order, but in many instances it ran government bureaus and supervised private corporations. Many officers thoroughly enjoyed their new responsibilities. Today, military men still have watchdog positions on the boards of some corporations and government bodies, but they apparently do not run these organizations.

Marcos is well aware that the military could turn against him, and he has taken steps to assure its loyalty—increasing military pay and fringe benefits, speeding promotions, adding to the number of officer slots, and publicly praising the military's constructive role in the new order. The military has yet to articulate any interests or ambitions different from those of Marcos. Some officers have grumbled about civilian interference with the military's handling of the Muslim insurgency in the south, but thus far Marcos has been able to smooth the ruffled feathers. There has also been some resentment against civilian officials who do not aggressively enforce martial law reforms, but the military shows no inclination to move against alleged ills without Marcos' orders.

Stimulating Economic Growth

In the years immediately preceding the Marcos take-over, the principal limitation on the country's economic growth was poor agricultural performance. This stemmed partly from natural disasters (drought, floods, and crop diseases) but

SECRET

SECRET

25X1

also from tight credit policies, price controls, and the government's failure to fund promised price supports for high-yielding varieties of rice.

Industrial growth was also modest. High growth rates had been achieved in the 1950s under protective policies but this led to high-cost industries oriented toward the domestic market and unable to compete in export markets. As opportunities for import substitution declined in the 1960s, so did foreign investment; there was a net outflow of investment at the end of the decade. Response to incentives introduced in the late 1960s was disappointing, and levels of industrial investment remained stagnant through 1972.

The new capacity to legislate by decree under martial law promised opportunities to deal with economic problems more directly. The result was a flood of new measures, many of which would have been impossible in the previous political climate. Since late 1972, the political power of oligarchic families has been checked, capable government technocrats have received greater economic responsibility, and have responded with far-reaching policy initiatives. A good beginning has been made in agrarian reform, although the

program is likely to run into increasing opposition from landlords as it moves to break up smaller landholdings. Marcos must move carefully at this stage because many of these landlords are from the military or the middle class, whose political support he needs. Changes in industrial incentives have partly removed the built-in bias against production for export. The administrative and financial system has been completely revamped, and tax measures stalled for more than a decade in Congress are now an integral part of the fiscal system. Rules and regulations governing foreign investment have been greatly modified. While many obstacles to economic growth remain untouched, the measures taken under martial law have made a significant start toward correcting some fundamental problems.

The economy experienced a marked upswing in 1973, though the reforms had little to do with it. A weather-induced agricultural recovery and a record balance of payments surplus resulted mainly from sharp price rises in world commodity markets. These factors produced an economic growth rate in 1973 of 8-10 percent (a sharp contrast with the mediocre 5.5 percent average between 1967 and 1972) and gave the Philippine economy a cushion it has lacked for many years and bought time for the reforms to have some impact. Foreign exchange reserves at the end of the year totaled \$876 million compared with only \$282 million a year earlier. This superior performance was marred only by a failure to contain inflation. According to official indices, consumer and wholesale prices were up 27 percent and 51 percent respectively.

The outlook for this year is decidedly less good. With a tighter import situation, a probable decline in exports, and continuing inflation, real growth will probably slow to about 6 percent. The government has been successful in lining up new sources of fertilizer imports, but there is still a question as to whether supplies will arrive in time for the major rice planting that begins in June. Even with favorable weather and timely fertilizer arrivals, agricultural output is not likely to increase by more than 3-4 percent, compared with 11 percent last year. While the government has been taking a more active role, agricultural



The first tenant farmers to qualify under martial law land-reform decrees receive their deeds from President Marcos.

SECRET

SECRET

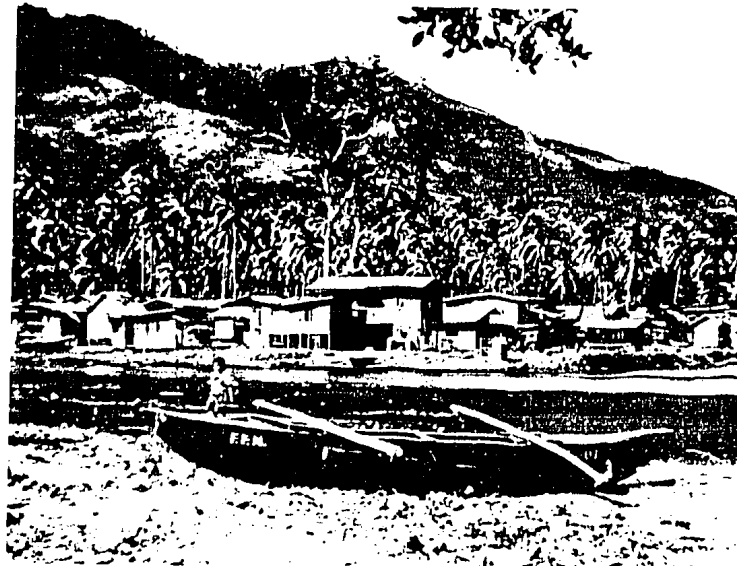
25X1

output is still dependent on the vagaries of weather. Before any real breakthrough is achieved, the government will have to follow through with plans to expand flood control and irrigation facilities. Industrial growth is likely to be slowed by high costs and shortages of essential raw materials abroad. Philippine industry depends heavily on a steady flow of intermediate goods from Japan, and decreased supplies of Japanese steel are already causing some difficulties for a planned expansion of some Philippine industries.

Adequate fuel supplies will be available in 1974, but higher costs of crude oil will adversely affect the Philippines' balance of payments, leading to a deficit of perhaps more than \$600 million. Higher prices for other essential imports could raise the total import bill by 40-50 percent, while export receipts should drop by 5-10 percent. Although prices for most Philippine exports have held up well thus far, they are expected to soften in the second half of the year in response to the economic slowdown in the US and Japan.

With its improved credit rating, the Philippines has encountered little difficulty in recent months in negotiating long-term commercial credits to help stabilize foreign-exchange reserves. A total of \$500 million in five-year revolving credits has already been arranged with bank consortia in the US, Europe, and Japan, and greater amounts are being sought. Inflows of foreign aid and of long-term private capital continue to be substantial and should help limit the use of reserves.

The government's most difficult and politically pressing problem is inflation. The effectiveness of price controls has now generally dissipated, and the stabilizing effect of good harvests has been less than hoped for. The unprecedented price gains of 1973 continued to accelerate into 1974. The government has taken a number of countermeasures including a cutback in spending, an improved tax effort, a more aggressive bond sales program and a more restrictive credit policy. Curtailing monetary expansion, however, will only go so far in holding down prices since much



Typical fishing village

of the inflation derives from world market pressures on internationally traded goods.

Marcos has given only token response to pressures for higher wages, but he may not be able to hold the line much longer. Living standards of low income groups—particularly urban workers—have been eroding for some years, and this trend has quickened since martial law began. Since prospects for containing inflation this year are not good, real wages may erode still further, and Marcos may have to reverse his wage policy or risk civil disturbances.

A number of measures have been taken to restructure the industrial sector by encouraging foreign investment, particularly in those sectors that promise employment and export growth. Much will depend on the response of foreign investors to Marcos' enticements, but investment should accelerate provided world trade does not move into a recessionary phase. In any case, it will be some time before industrial problems inherited from the policies of the 1960s are corrected and the country is able to take full advantage of its export potential. For the next decade at least, the domestic market is likely to remain crucial to growth in industry.

SECRET

SECRET

25X1

Internal Security Problems

The Philippines has for some time had two active armed insurgencies—a Muslim revolt in the south and a Communist guerrilla movement on Luzon. In addition, the country was plagued by widespread violence committed by a citizenry armed to the teeth and accustomed to settling political, commercial, and personal feuds with a bullet. Among Marcos' first acts under martial law was to enact strict gun control, including a round-up of unlicensed firearms, and the arrest of several notorious gun smugglers and gangsters. Although the guns collected were only a fraction of those in circulation—and rarely the high-powered firearms—the tough measures have reduced the open carrying of guns, which in itself has contributed significantly to law and order.

Since the institution of martial law, Marcos has increased pressure on Communist organiza-

organization, the Maoist-style Communist Party/Marxist Leninist, has also suffered under martial law with many of its urban leaders and cadre detained and its access to university campuses diminished. The party's most prominent campus front, the Kabataang Makabayan (Patriotic Youth) student organization, has tried to revive

the spirit of student activism, but its former power and influence are gone.

Martial law has had less success with the Maoist party's guerrilla organization, the New People's Army, which now has an estimated 1,300 members, up 300 since martial law was declared. The guerrilla force is concentrated in the hills of northern Luzon and on the Bicol Peninsula in southern Luzon. The Philippine armed forces have not vigorously sought them out—in part because a Communist threat is useful to the government as clear proof of the danger that justifies martial law.

In contrast to the Communist guerrillas, the Muslim insurgents in the southern islands have posed a significant security threat. Efforts to introduce gun-control provisions in Muslim areas exacerbated long-standing communal tensions between the resident Muslims and Christians who have moved in from islands to the north. The Muslim insurgency has significantly worsened since martial law. Marcos is not convinced—as are some of his military commanders—that an armed solution is practical. He is worried about adverse diplomatic consequences and about drawing down troop strength elsewhere. The armed forces have taken heavy casualties in the south, but have not been allowed to retaliate in full measure. Some officers grumble at this "civilian meddling" in military matters. Although mindful of the dangers of alienating the armed forces commanders, Marcos is not willing to make the all-out commitment of men and material they are advocating. He has tried to negotiate where possible but, like his predecessors, Marcos is committed to the concept of a unitary Philippine state and will not consider Muslim demands for autonomy. Manila governments have always favored assimilation as the solution to the "Muslim problem," but Muslims interpret assimilation as the destruction of Islamic culture and society.

The Muslims themselves are divided into several ethnic groups with competing clans and political factions. Such factionalism aids the government's military operations, but it handicaps negotiation efforts. Where traditional political chiefs still control Muslim communities, as in parts of



International Muslim delegation visits Marcos to investigate the Philippines' "Muslim problem."

Special Report

- 10 -

May 3, 1974

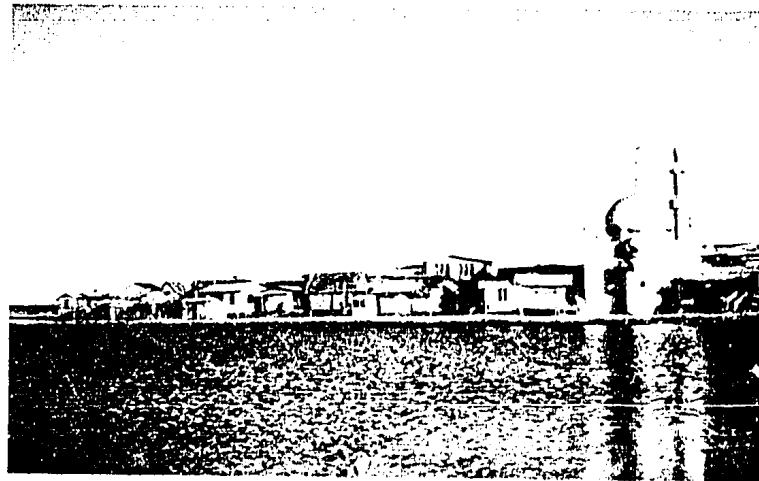
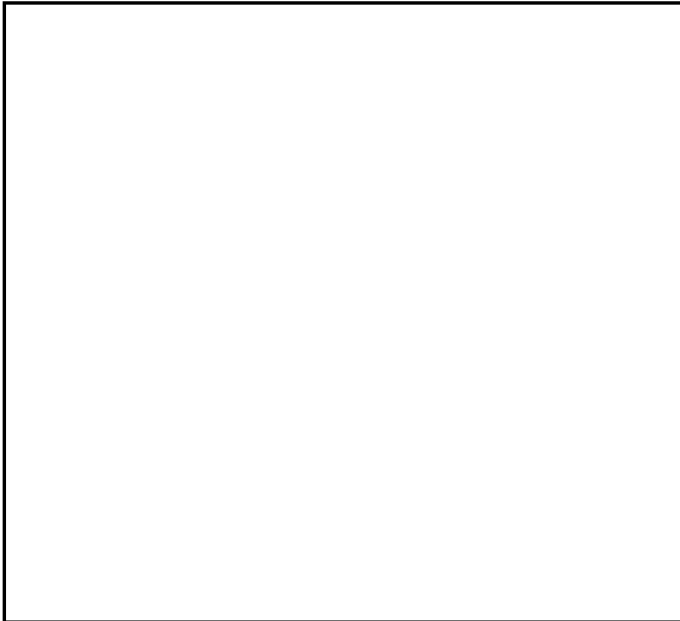
SECRET

SECRET

25X1

Mindanao, there is some sentiment for cooperating with Manila. In other areas, especially in the Sulu archipelago, young militants and fanatic religious leaders control the movement and refuse any compromise short of secession.

X1



Muslim village on Mindanao

well. Marcos has also tried to reassure American businessmen that the favorable investment climate established by martial law decrees will continue. He is putting distance between himself and the expressions of economic nationalism that characterized political rhetoric, both inside the palace and out, in the years prior to martial law. In official relations with the US Government, Marcos often seems to play down areas of difference, although as a Philippine nationalist he will bargain hard over economic and military agreements. Marcos seeks to avoid a public cooling of US-Philippine relations out of concern that this would encourage his enemies at home and create international difficulties as well.

The Search for New Directions in Foreign Policy

Even before martial law, Marcos was calling for an independent Philippine foreign policy that would entail expanded relations with Communist states and reduced dependence on the US. Despite much publicity during the past year about bold new foreign policy initiatives, however, the fundamentals of Philippine international diplomacy have changed very little. Manila still looks to Washington more often than not, and Marcos worries most about the durability of US economic and military support, particularly whether martial law will antagonize US congressmen and jeopardize aid programs.

Marcos is making a massive effort to win support from the large expatriate Filipino community in the US in order to undercut the influence of his opponents abroad. Much money has been spent on literature, inexpensive "homecoming" fares, and "truth teams" designed to influence public opinion among US-based Filipinos—and, by extension, among US citizens as

Contacts with the Soviet Union and China have increased since martial law was instituted, and Manila now has diplomatic relations with all East European states, although providing only for non-resident ambassadors. Both Moscow and Peking have sent trade delegations—received with suitable press fanfare—but no trade agreements have been signed and diplomatic ties seem no closer than two years ago. Neither Peking nor Moscow considers the Philippine a primary foreign policy target, and Marcos is unlikely to achieve relations on his terms. Even should ties be established, neither Communist state promises to become a major trading partner capable of significantly altering the present pattern of Manila's international economic relationships.

SECRET

SECRET

25X1

Perhaps the most important change in Philippine foreign policy in the past year is Manila's new initiative toward the Arab states. The focus on the Middle East was not envisioned by Marcos when speaking of the new directions for Philippine foreign policy under martial law. It arose out of necessity when problems with the Muslim minority in the south and a threatened oil crisis caught Marcos at a disadvantage because he had diplomatic relations only with Egypt. He first began broadening contacts with the Arab states in early 1973 because he was under constant attack in world Islamic circles by Libyan leader Qadhafi, but the oil problem accentuated his need for closer ties with Middle East states. Marcos' willingness to abandon neutrality on the Arab-Israeli conflict in favor of a pro-Arab stand gained the Philippines an exemption from the oil embargo. His dependence on Mid-East oil in turn has made Marcos that much more sensitive to the need to keep the Islamic world from condemning his Muslim policies.

Marcos' Muslim problems have also caused diplomatic difficulties with his Southeast Asian neighbors. Indonesia in particular is unhappy with the continuing tension between Manila and Kuala Lumpur over Marcos' charge that the Malaysian Government is aiding the rebel Malaysian-Philippine relations were strained further in 1973 when the issue of Manila's territorial claims to the Malaysian Borneo state of Sabah was revived.

The Road Ahead

Under martial law, Marcos has had the opportunity and the power to take the drastic measures needed to reverse the deterioration in the Philippines' society and economy. Economic reforms initiated thus far are a very significant step

in the right direction, but they have only begun to have an impact on long-standing and complex problems. Resolution of these problems will require a sustained effort and a willingness to run counter to vested interests.

Most Filipinos—though pleased with the obvious manifestations of "progress" such as clean streets and law and order—are more interested in jobs, improved living standards and a fairer distribution of wealth. Agrarian reform, however, will fall flat unless a way is found to reduce the size of holdings landlords are now permitted to retain. Tax revenues must be increased still further in order to finance the expansion of flood control and irrigation facilities needed to improve agricultural production. A shift in industrial strategy designed to stimulate exports and ultimately expand employment opportunities will require removal of protective barriers favored by local business.

Further reforms will entail a confrontation with important power groups. For all his flamboyant rhetoric, Marcos is basically a very cautious and conservative political animal, hesitant to act if the outcome cannot be 100-percent guaranteed. He has used his expanded power quickly and effectively to institute stop-gap measures, as during the threatened petroleum crisis, but has demurred on decisions that might be politically risky. As a result, the New Society is losing its momentum and with it the broad consensus that supports martial law may begin eroding. Marcos could lose his chance to restructure Philippine society, and he runs the risk that Philippine society could again become little different than it was on the eve of martial law.

25X1

25X1

♦ ♦ ♦

SECRET