

**THE PHILIPPINES: PRESENT POLITICAL STATUS  
AND ITS ROLE IN THE NEW ASIA**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC  
AFFAIRS  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
ONE HUNDRED SEVENTH CONGRESS  
FIRST SESSION

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## THE PHILIPPINES: PRESENT POLITICAL STATUS AND ITS ROLE IN THE NEW ASIA

TUESDAY, MARCH 6, 2001

U.S. SENATE,  
SUBCOMMITTEE ON EAST ASIAN  
AND PACIFIC AFFAIRS,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2 p.m. in room SD-419, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

Present: Senators Thomas, Lugar, and Kerry.

Senator THOMAS. The committee will come to order. Good afternoon. Today, the East Asian and Pacific Affairs Subcommittee meets for the first time in the 107th Congress, and it is a pleasure for me to be serving as chairman once again. I look forward to working with the Senator from Massachusetts, who may be here a little later, as the ranking member. Today, we are going to examine the current status of the Philippines. I will keep this brief so we can get on with the folks who know something about that.

This is the subcommittee's first hearing, as a matter of fact, on the Philippines for a good long time. It is clearly overdue, it seems to me. It is an important part of Asia, an important country, and many changes have taken place there recently, and so we want to see if we cannot bring ourselves up to date on that.

First, the Philippines is a working democracy in an area not known for democratic traditions. We have seen evidence of that in the recent and peaceful, for the most part, transition in Manila. Second, the country plays a role in regional security issues, in U.S. military planning for the region.

Third, the Philippines is poised to play a more high profile position with ASEAN in the economics of the area. Those efforts, however, seem to be slowed, if not stalled, so these are three areas I would like to focus on today. First, the status of the current government and its prospects for the future, second, the status of U.S.-Philippines relations, especially on the security front, where we are about to rebuild our military relationship, and third, the current and future role the Philippines may play in regional affairs, especially ASEAN.

So that is sort of the purpose of our hearing today, and I hope that our witnesses can focus somewhat on those issues.

We have three witnesses today. Our first panel is Hon. Thomas Hubbard, Acting Assistant Secretary of State for East Asian and Pacific Affairs. On panel 2 will be Mr. Richard Fisher, Jr., senior

fellow of the Jamestown Foundation, Washington, DC, Dr. James Clads, professor, Southeast Asian Studies, School of Foreign Service, Georgetown University, in Washington, DC, so Assistant Secretary Hubbard, please. Welcome to the committee.

**STATEMENT OF HON. THOMAS HUBBARD, ACTING ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC**

Ambassador HUBBARD. Thank you very much, Mr. Chairman. I am delighted to be here today. I am, of course, here in my current capacity as the Acting Assistant Secretary of State for East Asian and Pacific Affairs, but I might add that, until about 6 months ago, I was the U.S. Ambassador to the Philippines for 4 years, and that makes me particularly pleased to have the opportunity to talk with you today about the important developments that have taken place in the Philippines since I left.

Mr. Chairman, we have a lot in common with the Philippines, and one of them is that in both countries new administrations took office on January 20, so this is a particularly good time on both sides to talk about the Philippines.

I recall the statement that you made on January 26, together with Senators Helms, Biden, and Kerry, in which you applauded the people of the Philippines for addressing the events of the last few months in a peaceful manner, and welcome the opportunity to work with the new Philippine President, Gloria Macapagal-Arroyo. I very gladly second those remarks.

President Macapagal-Arroyo has underscored her intention to work to bolster U.S.-Philippine relations on all fronts, and we intend to support her efforts in whatever way possible to achieve her goal of bringing long-lasting peace and prosperity to the Philippines. Even by Philippine standards these last 6 months have been remarkably eventful. I was last here at the Senate with President Estrada when he paid an official visit to Washington last July. That visit I think underscored his important contribution to the U.S.-Philippine relationship, that is, his active support for the 1999 U.S.-Philippines Visiting Forces Agreement.

His domestic political difficulties, of course, deepened only a few months later. Allegations of corruption led to his impeachment by the Philippine House of Representatives, which set the stage for an impeachment trial in the Senate, patterned after U.S. Senate impeachment trial proceedings. This unprecedented trial presented a parade of high profile witnesses who testified to a range of corrupt activities that the prosecution sought to link to former President Estrada. However, the trial was abruptly suspended when the prosecution team walked out in the aftermath of a controversial 11 to 10 Senate procedural vote which prevented the introduction of certain banking records.

I think impeachment trials are difficult even in established democracies, and I think in the case of the Philippines this impeachment process simply broke down. This led to and contributed to widespread anti-Estrada demonstrations in Manila and elsewhere.

Now, throughout this turbulent period, the United States made clear that it would not take sides. Unlike President Marcos, who showed little respect for democratic processes in the latter stages

of his regime, to say the least, Mr. Estrada had a democratic mandate, having obtained a larger plurality in the field of six candidates in the May 1998 Presidential election.

As you pointed out in your January 26 statement, Mr. Chairman, the United States and the Philippines share a common commitment to democratic values. Therefore, our primary interest at the time was for the Philippines to work through this crisis with full adherence to a peaceful democratic process and in accordance with its constitutional framework.

Both Mrs. Macapagal-Arroyo and Mr. Estrada assured us they were fully committed to doing just that, but as public demonstrations crested and key government defections multiplied, the Philippine Supreme Court on January 20 unanimously decided, "to take judicial notice of the vacancy in the position of the Philippine president."

The Supreme Court a few hours later swore in Mrs. Macapagal-Arroyo as President, and shortly thereafter the United States, followed by a number of other countries, recognized Mrs. Macapagal-Arroyo's peaceful assumption of the Presidency, and we promised to work with the new President to strengthen U.S.-Philippine ties.

Now, as we know, Mr. Estrada did not sign a formal letter of resignation, although he did vacate the Presidential palace, and it was clear that the defection of much of his administration political support, the military establishment, and the police, had effectively removed his ability to govern. I would add here that while the military and police leadership withdrew their support from President Estrada, at no time was overt force employed to cause his ouster.

Mr. Estrada did appeal his removal to the Supreme Court, but a few days ago, on March 2, the court ruled unanimously that Mr. Estrada had, "effectively resigned by his acts and statement," and a clear majority of justices ruled separately that Mr. Estrada had lost his Presidential immunity from suits.

Now, although Mr. Estrada apparently has a right to appeal the Supreme Court ruling, it is now immutably clear that Mrs. Macapagal-Arroyo is the President of the Philippines, and even before the March 2 Supreme Court ruling, Philippine polls indicated that an overwhelming majority of the Philippine public in all socio-economic classes had fully accepted the fact of the new President.

President Macapagal-Arroyo has already assembled a capable administration prepared to move on her top priorities. Her agenda is an impressive one but a challenging one. That is, to alleviate poverty, accelerate economic reform, combat corruption, enhance transparency and good governance, and promote peaceful national reconciliation. She has promised leadership by example, vowing to work seriously and diligently to develop a resilient nation capable of adapting to the demands of an increasingly globalized world.

One immediate priority for the new Philippine President is achieving a peaceful resolution of the ongoing conflict in Mindanao, and at the same time her administration has announced its intention to accelerate economic development efforts in Mindanao, whose Muslim majority provinces are the poorest in the Philippines. The United States applauds this comprehensive, peaceful approach to resolving the Mindanao insurgency, particularly the emphasis on

addressing the root economic and social causes of this long-running conflict.

Since the early 1990's, Mindanao has been a key focus of U.S. development aid to the Philippines, and I am pleased to note that State and USAID are working together to ensure continued funding for these programs this year and in future years.

I should note here, Mr. Chairman, that another group of insurgents, those affiliated with Abu Sayyaf Group, which the State Department has designated as a terrorist group, continues to operate in the southern and western areas of Mindanao, and still holds a handful of hostages, including a U.S. citizen.

We are cooperating closely with the Philippine Government as the lead on this matter, and we continue to call for the safe and unconditional release of the hostages. Separately, we are providing the Philippines long-term counterterrorism training to upgrade Philippine capabilities to handle hostage-taking and other terrorist incidents such as those generated by the Abu Sayyaf Group in Mindanao.

Mr. Chairman, President Macapagal-Arroyo has underscored her interest in enhancing United States-Philippine ties, which we warmly welcome. Economic trade and investment issues, as you suggested, are increasingly central to our relations. The United States is the Philippines' largest trading partner and top export market, and we are the Philippines' largest foreign investor, with an estimated 25 percent share of the Philippines' foreign direct investment stock, so the United States is following with great interest the new administration's economic reform efforts.

As a Senator, Mrs. Macapagal-Arroyo offered some 55 laws on social and economic reform, many of which helped the Philippines qualify for WTO membership and meet its multilateral trade commitments. Further steps to liberalize the Philippine economy will spur more investment, including from U.S. businesses, which highly value the Philippines' educated and English-speaking work force.

President Macapagal-Arroyo's experienced economic team has been moving quickly to address economic problems that the last several months of political turmoil had exacerbated, and alongside these moves is her effort to fight corruption, an issue which the impeachment trial of President Estrada certainly brought to the public forefront.

The Department of State and USAID are working together to provide assistance to the Philippines in this area, pooling resources to support a USAID program that encourages reforms that reduce corruption and increase transparency and probity in economic governance.

Mr. Chairman, one clear fact has undergirded and sustained the vibrant economic relationship. That is, the United States and the Philippines are treaty allies. Following the 1992 withdrawal of U.S. military bases in the Philippines, our security relations rebounded with the 1999 ratification of the Visiting Forces Agreement, which has allowed us to resume normal military-to-military contacts, including regular ship visits and periodic joint exercises.

I should mention that neither side seeks a return to past levels of military interaction, including permanent bases, but the Visiting Forces Agreement does give us a framework to develop an effective

program of activities that best meet the requirements in the Philippines and, more broadly, in the region.

The Philippines provided 750 troops to the international force in East Timor, and supplied the first military commander to the multinational peacekeeping force of the United Nations transitional administration in East Timor. In this context, accelerating Philippine military modernization is a key.

Philippine funding shortages have hampered past modernization efforts, and this problem is certain to continue in the Philippines' current constrained environment. President Macapagal-Arroyo has nonetheless highlighted her administration's strong desire to rationalize defense spending and implement effective modernization.

During the Estrada administration, we established a defense experts exchange and undertook a joint defense assessment to catalog Philippine Armed Forces' capabilities and requirements. We should continue to build on this. We are particularly interested in enhancing Philippine Armed Forces operation and maintenance capabilities, and the best way to build the right capabilities is through continued funding of the Philippines' FMF and IMET programs. The Philippines' FMF program level funding for 2001 is \$2 million.

Now, Mr. Chairman, in a broader sense, our interest in the Philippines and the prospects for the new administration is based not only on these extensive political and economic security ties, but on the presence of over 2 million Americans of Filipino descent in the United States and over 100,000 American citizens in the Philippines.

In addition to that, Filipinos and Americans continue to mix freely, thanks to a constant flow of tourists, relatives, scholars, veterans, artists, performers, and business people. It is in this vibrant constituency that we owe our best efforts to ensure that the ties between our nations remain strong and mutually supportive.

Thank you very much for having me today.

[The prepared statement of Ambassador Hubbard follows:]

PREPARED STATEMENT OF HON. THOMAS HUBBARD

UNITED STATES-PHILIPPINE RELATIONS: OPPORTUNITIES TO ENHANCE OUR ENDURING PARTNERSHIP

Mr. Chairman, thank you for the opportunity to testify before you this afternoon. As both the United States and the Philippines ushered in new governments on January 20, you have chosen an excellent time to review the state of our relations and discuss opportunities to enhance our historic and enduring partnership.

I recall the statement you made on January 26, together with Senators Helms, Biden and Kerry, in which you applauded the people of the Philippines for addressing the events of the last few months in a peaceful manner and welcomed the opportunity to work with the new Philippine President, Gloria Macapagal-Arroyo. I gladly second those remarks. President Macapagal-Arroyo has underscored her intention to bolster U.S.-Philippine relations on all fronts, and we intend to support her efforts in whatever way possible to achieve her goal of bringing long-lasting peace and prosperity to the Philippines.

*Turbulent Times*

Even by Philippine standards, the last six months have been remarkably eventful. Only last July, then-President Joseph Estrada was here in Washington, conducting a successful official working visit that brought him to the White House as well as to Capitol Hill. As President, Mr. Estrada was a proponent of strong U.S.-Philippine ties, illustrated by his active support for the 1999 U.S.-Philippines Visiting Forces Agreement.

His domestic political difficulties deepened only a few months later. Allegations of corruption led to his impeachment by the Philippine House of Representatives, which set the stage for an impeachment trial in the Senate. Patterned after U.S. Senate impeachment trial proceedings, this unprecedented trial attracted extensive public and media attention in the Philippines and presented a parade of high-profile witnesses who testified to a range of corrupt activities that the prosecution sought to link to Mr. Estrada.

However, the trial was abruptly suspended when the prosecution team, walked out in the aftermath of a controversial 11-10 Senate procedural vote which prevented the introduction of certain banking records. Widespread anti-Estrada demonstrations in Manila and elsewhere in the Philippines ensued, with the nearly instant exchange of hundreds of thousands of anti-Estrada cell phone text messages helping to fuel public indignation—a uniquely Philippine twist. Soon to follow were the dramatic events that culminated in Mrs. Macapagal-Arroyo's installation and Mr. Estrada's departure, which are now popularly known as "EDSA II," drawing from the legacy of the 1986 popular uprising that brought an end to the Marcos dictatorship.

Throughout this turbulent period, the United States made clear that it would not take sides. Unlike Marcos, who showed little respect for democratic processes in the latter years of his regime, Mr. Estrada had a democratic mandate, having obtained a large plurality in a field of six candidates in the May 1998 presidential election. As you pointed out in your January 26 statement, Mr. Chairman, the United States and the Philippines share a common commitment to democratic values. Therefore, our primary interest at the time was for the Philippines to work through this crisis with full adherence to a peaceful, democratic process and in accordance with its constitutional framework. Both Mrs. Macapagal-Arroyo and Mr. Estrada assured us that they were fully committed to doing just that.

#### *Transition of Power*

As public demonstrations crested and key government defections multiplied, the Philippine Supreme Court unanimously decided *en banc* on January 20 "to take judicial notice of the vacancy in the position of the Philippine President." The Supreme Court Chief Justice swore in Mrs. Macapagal-Arroyo as President a few hours later. Shortly thereafter, the United States recognized Mrs. Macapagal-Arroyo's peaceful assumption of the Presidency and promised to work with the new President to strengthen U.S.-Philippine ties.

As we now know, Mr. Estrada did not sign a formal letter of resignation, although he did vacate the presidential palace and it was clear that the defection of much of his administration, political support, the military establishment, and the police had effectively removed his ability to govern. I would add here that while the military and police leadership withdrew their support from President Estrada, at no time was overt force employed to cause his ouster. Mr. Estrada did appeal his removal to the Supreme Court. On March 2, the Court ruled unanimously that Mr. Estrada had "effectively resigned by his acts and statement," and a clear majority of justices ruled separately that Mr. Estrada had lost his Presidential immunity from suits. I would note that the Chief Justice, as well as another Justice closely identified with the Macapagal-Arroyo camp recused themselves from the case to underscore the impartiality of the Court's decision.

#### *The New Administration*

Mr. Chairman, your interest in the legal and constitutional issues surrounding the transfer of power is shared in another quarter—among Filipinos themselves. I notice that the Philippine media and public have been openly discussing these issues, with the vigor and zeal that befit that nation's free press. As in our country, this debate will help shine the spotlight on the democratic process, and we hope that, in the long run, it will strengthen democracy in the Philippines.

In any event, it is now immutably clear that Mrs. Macapagal-Arroyo is the President of the Philippines. Even before the March 2 Supreme Court ruling, Philippine polls indicated that an overwhelming majority of the Philippine public in all socioeconomic classes had fully accepted the fact of the new President. The Philippine body politic had as well. The international community, including the United States, recognized the transfer of power, and most countries did so within a short period following Mrs. Macapagal-Arroyo's January 20 swearing in.

Therefore, it is in our interest to look to the future with President Macapagal-Arroyo, not to the past, as she addresses the multitude of tasks facing her nation. She has already assembled a capable administration prepared to move forward on her top priorities. At her January 20 oath-taking, she launched an ambitious agenda to put the Philippines securely on the reform track. That agenda is impressive but

challenging: alleviating poverty, accelerating economic reform, combating corruption, enhancing transparency and good governance and promoting peaceful national reconciliation. She has promised leadership by example, vowing to work seriously and diligently to develop a resilient nation capable of adapting to the demands of an increasingly globalized world.

#### *Reconciliation in Mindanao*

An immediate priority for President Macapagal-Arroyo is achieving a peaceful resolution of the ongoing conflict in Mindanao. She has taken steps to reestablish the framework that led to the Philippine government's 1996 peace agreement with the Moro National Liberation Front (MNLF). She has declared a suspension of military operations against an MNLF offshoot, the Moro Islamic Liberation Front (MILF), and proposed a resumption of peace talks. Concurrently, her administration announced its intention to accelerate economic development efforts in Mindanao, whose Muslim-majority provinces are the poorest in the Philippines.

The United States applauds this comprehensive, peaceful approach to resolving the Mindanao insurgency, particularly the emphasis on addressing the root economic and social causes of this long-running conflict. Since the early 1990s, Mindanao has been a key focus of U.S. development aid to the Philippines. In support of the 1996 peace agreement, USAID has been implementing several highly effective programs that encourage former combatants to take up peaceful pursuits, such as farming and small business. With the MILF still fighting and the flow of displaced persons continuing, these programs remain equally vital today to safeguard and strengthen hard-won areas of stability. I am pleased to note that State and USAID are working together to ensure continued funding for these programs this year and in future years.

I would note, Mr. Chairman, that insurgents with the Abu Sayyaf Group (ASG), which the State Department has designated as a terrorist group, continue to operate in southern and western areas of Mindanao and still hold a handful of hostages, including a U.S. citizen. We are cooperating closely with the Philippine government, which has the lead on this matter, and we continue to call for the safe and unconditional release of the hostages. Separately, we are providing the Philippines long-term counter-terrorism training to upgrade Philippine capabilities to handle hostage-taking and other terrorist incidents such as those generated by the ASG in Mindanao.

#### *United States-Philippine Ties*

Mr. Chairman, President Macapagal-Arroyo has underscored her interest in enhancing U.S.-Philippine ties, which we warmly welcome. The character of our relationship has become considerably more multifaceted since the United States withdrew from its military bases in the Philippines in 1992. Economic, trade, and investment issues are increasingly central to our relations. The United States is the Philippines' largest trading partner and top export market. We take in approximately one-third of all Philippine exports, and some 20% of all Philippine imports—valued at over \$8 billion—are from the United States. The United States is the Philippines' largest foreign investor, with an estimated 25% share of the Philippines' foreign direct investment stock, worth over \$3 billion.

Because of our burgeoning economic links, the United States is following with great interest the Macapagal-Arroyo administration's economic reform efforts. For more than a decade, the Philippines has been moving forward on this front. As a Senator, Mrs. Macapagal-Arroyo authored some 55 laws on social and economic reform, many of which helped the Philippines qualify for WTO membership and meet its multilateral trade commitments.

We hope that the Philippines will continue to pursue this reform trend. Further steps to liberalize the Philippine economy will spur more investment, including from U.S. businesses, which highly value the Philippines' educated and English-speaking workforce. A more open economy will generate significant new employment and sharpen Philippine competitiveness. Other steps, such as accelerating reform in the power sector, improving intellectual property rights enforcement, implementing trade obligations in full and on time, strengthening the banking sector, and combating money laundering, would also have far-reaching positive benefits.

President Macapagal-Arroyo's experienced economic team has been moving quickly to address economic problems that the last several months of political turmoil had exacerbated. Her well-respected Finance Minister, Alberto Romulo, has announced plans to curb spending and improve tax collection to help lower a large budget deficit. Alongside these moves is her effort to fight corruption. The Department of State and USAID are working together to provide assistance to the Philippines in this

area, pooling resources to support a USAID program that encourages reforms which reduce corruption and increase transparency and probity in economic governance.

*Security Ties*

Mr. Chairman, one clear fact has undergirded and sustained the vibrant economic relationship I have just been describing—the United States and the Philippines are treaty allies, and we have been so for over five decades. Following the 1992 withdrawal of U.S. military bases in the Philippines, our security relations rebounded with the 1999 ratification of the Visiting Forces Agreement (VFA), which allows us to resume normal military-to-military contacts, including regular ship visits and periodic joint exercises. For example, in February 2000, the Philippines hosted the “Balikatan” exercise, which involved over 4,000 U.S. and Philippine troops. The next “Balikatan” exercise takes place this spring.

I would mention that, while neither side seeks a return to past levels of military interaction, the VFA gives us the framework to develop an effective program of activities that best meets the requirements of current tasks in the Philippines and in the region. The Philippines provided 750 troops to the International Force in East Timor (INTERFET) and supplied the first military commander to the multinational peacekeeping force of the United Nations Transitional Administration in East Timor (UNTAET). Philippine interest in participating in such peacekeeping operations is likely to continue, and our cooperation under the VFA will help to build Philippine capabilities to contribute more actively to regional security.

In this context, accelerating Philippine military modernization is key. Philippine funding shortages have hampered past modernization efforts, and this problem is certain to continue in the Philippines’ current constrained budget environment. Nevertheless, President Macapaga-Arroyo has highlighted her administration’s strong desire to rationalize defense spending and implement effective modernization. During the Estrada administration, we established a Defense Experts Exchange and undertook a Joint Defense Assessment to catalogue Philippine Armed Forces’ capabilities and requirements. We should continue to build on this. We are particularly interested in enhancing the Philippine Armed Forces’ operations and maintenance (O&M) capabilities. While we have supplied Excess Defense Articles to the Philippines in the past, the best way to address these vital O&M needs and build the right capabilities is through continued funding of the Philippines’ FMF and IMET programs. The Philippines’ FMF level for FY 2001 is \$2 million.

Mr. Chairman, in a broader sense, our interest in the Philippines and the prospects for the Macapagal-Arroyo administration is based not only on these extensive political and economic ties. There are over two million Americans of Philippine descent in the United States and over 100,000 American citizens living in the Philippines, forming a comprehensive network of informal, people-to-people ties that further enhances our long-standing partnership. Filipinos and Americans continue to mix freely, thanks to a constant flow of tourists, relatives, scholars, veterans, artists, performers, and businesspersons. It is to this vibrant constituency that we owe our best efforts to ensure that the bonds between our nations remain strong and that both of our new administrations work together closely to help our people meet the challenges of the new millennium.

Senator THOMAS. Well, thank you, Ambassador Hubbard. Interesting changes taking place. Just generally, what is your impression of the stability of the Philippine Government at this stage?

Ambassador Hubbard: Well, I think, Mr. Chairman, we had a dramatic political change in the context of ongoing political stability.

I think we should take some heart from the fact that a President of the Philippines or a President of any country in the developing world has been removed from office, basically because of corruption. It is an issue that has been endemic in the Philippines and a lot of other countries in Asia and elsewhere, and I think it was very important that the public has taken note of that.

I think it is important in the Philippines that the designated successor, the Vice President, took over when the President fell. I think it is important that the military, while they played a role, were in no way involved in a military sense. There were no tanks in the streets. There were no shots fired. I think the will of the

Philippine people has spoken, and has brought about probably the best possible outcome in a bad situation. I think this result will, in the long run, strengthen the Philippine democracy.

Senator THOMAS. This is not the first instability, however, in the Philippine Government over the last 10 or 15 years, is it?

Ambassador HUBBARD. No, it is not. I guess I would call what happened in the Philippines, it is more volatility than instability. I think the Philippine constitution remains in place. It has been fulfilled in the sense that the Supreme Court has made the final decisions as to who is the duly chosen leader. Again, I think the Filipinos are committed to a course of democracy, committed to a course of constitutionalism. I think they will continue to develop along that course.

Senator THOMAS. What was the vote in the House on impeachment?

Ambassador HUBBARD. Mr. Chairman, I think I have forgotten the exact numbers.

Senator THOMAS. I do not think there was a vote, was there?

Ambassador HUBBARD. It was done by acclamation, that is correct. I think there is no question that the votes were there. It was simply a decision by the Speaker to do it that way. I think there is some question whether the votes were there in the Senate. Again, I believe impeachment is a very difficult task for a democracy, and proved particularly difficult for the Philippines in this case.

Senator THOMAS. What is the capability of the Philippines to handle this insurrection in Mindanao, do you support, or uneasiness, whatever it is.

Ambassador HUBBARD. It is a terrible drain on their military, on their national resources, and on their national ingenuity. This is a conflict that is based first and foremost on territorial considerations, second, on religion. It is a conflict that has been there for more than a century, and it is not going to be easy to put an end to it, but we are very pleased, as I said earlier, that the new government has reduced military activity.

They have reaffirmed the peace with the largest Muslim group, the Moro National Liberation Front. They have called for a ceasefire with the other group, the Moro Islamic Liberation Front, which was not part of that original agreement. They are putting an emphasis on economic development, on livelihood improvements. These are all courses of action we are very happy to support.

Senator THOMAS. The status of the military security agreements, I presume that those were set back some in terms of U.S. involvement.

Ambassador HUBBARD. Mr. Chairman, it has not really been set back very much. What I said earlier is, what this Visiting Forces Agreement allows first and foremost is joint exercises, and interaction between our military officials, and naval ship visits, and while, during the time of the height of the political turmoil I think we probably had fewer ship visits to the Philippines than we might otherwise have had, some of the small-scale exercises continued, and we plan a full schedule in the coming year.

Senator THOMAS. Any activity in the Spratly Islands, particularly?

Ambassador HUBBARD. The Spratly situation has been quieter over the past year or so than it had been earlier. There have been some problems, some encounters between Philippine maritime forces and Chinese fishermen in the area to the north around Scarborough Shoal, but the situation around Mischief Reef and others in the Spratlys have been largely quiet.

The Philippines have pushed within ASEAN and within the ASEAN regional forum for a code of conduct for activities in the Spratlys. Those talks are ongoing, and in the meantime both the Chinese and the others seem to have shown more restraint.

Senator THOMAS. Some years past, the later shift in ASEAN, much of it came from the Philippines, I believe, which is not now the case. Do you expect that to strengthen again? What is going to be their involvement in the process there?

Ambassador HUBBARD. Well, I think the Philippines remains very committed to ASEAN as a group. ASEAN has experienced a great deal of change in recent years. The character of the organization has been changed by the admission of some less-developed members, beginning with Vietnam, but including Laos, Cambodia, and Burma, which is meant that the group is less like-minded than it used to be, and that the stages of development are less similar.

ASEAN has been changed by the political turmoil and weakness that has occurred in Indonesia. Indonesia has long been the quiet and by far the largest member nation in ASEAN, and a quiet leader, and its capacity has been diminished a bit, so there have been personnel changes.

I do not think the Philippine approach to ASEAN has fully shaken itself out, but our charge just had a meeting with the new Vice President, who is also secretary for foreign affairs. He indicated he is going off to an important ASEAN meeting next week, and indicated an expectation that the Philippines will continue to play an active role.

Senator THOMAS. It sounds like ASEAN is a little discombobulated.

Ambassador HUBBARD. ASEAN has been shaken by a lot of the events in recent years, not the least of which was the general Asian financial crisis, some of the problems of pollution that have occurred in the region, but I think the Philippines and, as nearly as I can tell, most other countries in the world attach great importance to ASEAN cohesion, and we in the U.S. Government do, too. We would like to see a strong ASEAN.

Senator THOMAS. Welcome, Senator Kerry. We are glad you could join us, sir. If you have any comments or questions, please.

Senator KERRY. Mr. Chairman, thank you very much. I am delighted that our subcommittee is looking at the issue of the Philippines as our first sort of official look-see during the course of this Congress. After years of overlooking the Marcos regime's abuses during the course of the cold war, we finally came to the point of supporting the efforts of the Philippine people to instill and improve their democracy, and set them on a sort of real democratic path.

I can remember sitting way down at that end of this dais, and the first amendment that I offered as a United States Senator on this committee was relative to the Philippines, and that amend-

ment changed our policy with respect to aid and the Marcos regime, linking our policy to a set of expectations from that regime.

I subsequently traveled to the Philippines a number of times, many times, as a matter of fact, and met several times with President Marcos and with Mrs. Marcos, and with Cory Aquino, and Cardinal Sin, and many of the other players who have had such an impact over the years, and I was the only Democrat then appointed by President Reagan to serve as a member of the observer group that went there, spending some of my time in Mindanao and some in Manila.

I must say one of my most memorable moments in the Senate—well, not in the Senate, as a Senator, was being called down to the cathedral in Manila by a group of women who were deeply upset by what they were perceiving in the computer count that night, and meeting with them in the sacristy of the cathedral, and learning from them what was happening, and then calling a press conference to make known the information that they were telling me, and summoning people like Bob Livingston, who was a member of the group, and Mort Zuckerman and others, to come and listen.

There we learned of the corruption at the center of the election itself, and that was really the moment that everything turned, and it sort of sounded the death knell for President Marcos, if you will.

I have watched with some dismay the turn of events that saw a change, a transition. We have had years of sort of a growing sense of the democracy in the Philippines, but I think there was a distinction between the people power movement that created an election and brought Cory Aquino to power, and the people power movement that met as a sort of mob in the Philippines recently and removed the President from power, notwithstanding his egregious abuse of power. I regret that.

I know the Supreme Court of the Philippines has ratified this transition, and we move on, much as our own Supreme Court ratified our transition, and we perhaps do not at this moment in time have the cleanest of hands to be talking about some of those issues, but nevertheless, I do think it is absolutely critical that the new government, the Arroyo Government, move in a way that does not embrace some of those who were a part of the problem that brought this about in the first place, and I have some questions about that. I have some concerns about that.

Mr. Secretary, I would ask you, the Far Eastern Economic Review reported that Luis Singson, who was the provincial Governor who collected the illegal gambling pay-offs for President Estrada, and he eventually triggered the impeachment trial, I understand he had been offered a position of gambling consultant to the government, and apparently turned the offer down.

There is some concern that a number of ex-Estrada cronies who caused mischief in the past are being embraced by the current administration, and I wonder if you would address that question, and perhaps any concerns you might have about the manner of this transition itself.

Ambassador HUBBARD. Thank you, Senator. As one who was following Philippine affairs very closely during that time—as a matter of fact, I was Philippine desk officer toward the end of the Marcos administration. I must say how much I admire the work that you

and others did at that time to ensure that Marcos got his due and that democratic government came in.

Perhaps I could go to your second question first and give you a little of my own sense of what happened and what that means for Philippine democracy. Estrada is quite different from Marcos in my view. Marcos in his latter years was a dictator who trampled on democratic rights, stole elections, took political prisoners, and he was extremely corrupt. From the allegations that have been made thus far about President Estrada, whom I knew quite well as Ambassador there, President Estrada was simply—has been accused of being very corrupt, and therefore the manner and implications of his ouster I think are quite different from what happened in the Marcos case.

To my mind, what happened, we had taken a position as the U.S. Government that the changeover in power should be peaceful, democratic, and constitutional, and I think there is no question it was both peaceful and democratic. I think the people wanted Estrada out, as manifested in demonstrations and in almost every means that it could be manifest, except in a vote by the Senate in the impeachment process.

I mentioned earlier that impeachment is difficult in any democracy, and I think it is particularly difficult in a developing democracy. The Philippine Senate is a very unusual body. We speak of it as if it is like our Senate, but in fact it consists of, in full quorum, 24 members, each of whom is elected nation-wide. At the time of Estrada's impeachment trial, I think they were down to 21 Senators, and the system simply broke down, creating a situation in which Estrada had lost his mandate to govern, but the impeachment process was no longer available to make it happen, and so at that point the Supreme Court stepped in.

I know when I saw those events developing on January 19, it reminded me a bit of Florida, also where the U.S. Supreme Court stepped in in a difficult situation in our democracy. Whether they were right or not, I cannot say, but I do believe the people's will has been carried out, and I particularly take heart in the fact that the constitutional successor took office, a successor as Vice President was elected by the Congress in accordance with the constitution, that the military is not in any positions, they are back in the barracks, and in fact during the whole process there was not a shot fired or tanks in the street.

Estrada may not have exactly resigned that evening, although many of us thought he had, but he did voluntarily—or at least, without overt force he left the Presidential palace and indicated that he was no longer acting as President, and finally the court judged. So I wish the constitutional part of this had been neater, and I think all Filipinos would prefer that the impeachment process had worked and brought about a clear-cut conclusion, but unfortunately it broke down, and I think the best outcome in a bad situation was achieved.

I think Philippine democracy will continue. The constitution remains in place. They are about to have fully free elections in May for all of their House of Representatives and for half the Senate. I think that election will help clarify the new President's mandate, and I do feel comfortable with Philippine democracy.

As to the presence of certain cronies, I do not want to say much about Mr. Singson. He played an unusual role in this particular practice, but it looks as if he will not be the government's consultant on gambling, and there are others who were involved in the Estrada administration involved in this government, but they were also involved in the Aquino administration and all of that. I believe the result of all of this will be a more honest government, able to carry out the interest and desires of the Filipino people more than the previous government did.

A final note, I think it is not at all a negative thing. I think it is very positive that the Philippine people were not willing to tolerate the levels of corruption that President Estrada was allegedly involved in. I think this is a sign of democracy, of a free press, of people being able to stand up when they think they are being abused.

Senator KERRY. Well, that is a fair answer, and I appreciate, obviously, the distinctions and the route here. No doubt—I mean, this is one of those situations that obviously brings exigent circumstances to the table, and it may not be as you would like it to be, but in the sense I do not disagree with you. Certainly the democratic intent was expressed here, and that is a distinction.

With respect to the Moro Islamic struggle that has been going on now for ages, and the unilateral cease-fire, what is your sense of the potential for President Arroyo to bring a different mix to that conflict, No. 1, and No. 2, how have we attempted, if we have at all, to help us resolve that?

Ambassador HUBBARD. First, I think President Macapagal-Arroyo's approach is nearer to the approach adopted by President Ramos when he was President. That is, he was able to bring the larger Moro National Liberation Front, or MNLF, into an agreement with government through peaceful negotiations and a promise of some autonomy and a bigger voice in national affairs. I think President Macapagal-Arroyo would like to do the same thing with the remaining large group outside the government framework, the Moro Islamic Liberation Front.

President Estrada had followed a more military approach. We advised against that at the time. We had urged them to work harder on reconciliation, on economic development, and we are pleased to see the new President returning to that approach.

We have helped out in a modest way. Well, I had better say we helped out in a major way in Mindanao generally. Since the Aquino administration, we have concentrated much of our aid effort in Mindanao through a variety of programs. After the Ramos administration concluded the agreement with the MNLF and brought them into the government framework, we were able to go in through our regular aid programs and through the USAID Office of Transition initiatives to go in with some livelihood programs, putting some of the former combatants and their families to work growing corn, raising seaweed, et cetera, rather than fighting, and it has been very, very successful.

As Ambassador, I visited a number of those villages. They were actually getting about, with USAID seeds were getting about three times the normal yield of corn in Mindanao. It was a moving thing

to see these combatants out there working the fields, and we have been widely praised for that.

We had indicated for some years that we would be prepared to consider similar programs for the MILF at that time when they reach an agreement with the government and have laid down their arms, and we remain prepared to do that, but in general, a big thrust of our aid program is in Mindanao. It supports part of the Philippines. It is the part where there is the most violence, and we hope to continue generous levels there.

Senator KERRY. Overall, a last question, if I may, Mr. Chairman. The government faces some pretty tough choices with respect to the budget deficit, the large unemployment, the sluggish growth of the economy, and so forth, and in effect to try to get control of that the President is going to have to make some unpopular and difficult choices, given the base of her support and some of the, just inherent intrinsic difficulties within the structure of Philippine society.

Share with us, would you, your outlook for the economy, for the economic stability for the long term here, for the country. What are the prospects?

Ambassador HUBBARD. Philippine growth overall has been disappointing over the last 3 years or so. The Philippines was not hit as hard by the Asian financial crisis, whereas Thailand, I believe, declined by a substantial percentage, I think as much as 15 percent. The Philippines stayed at zero. They never went under zero, but since then the recovery has been much less dramatic.

In fact, I think they grew by about 3.3 percent in 1999 and maybe 3.8 percent in the past year, in 2000, and they were deeply affected by the political turmoil, so it is going to take a while to get back on track, so they need more economic growth, they need foreign investment to get that, they need economic reform.

I think probably the most difficult task ahead of the new government is the one that has plagued all Philippine Governments is, they need to collect taxes. They need to build a revenue base that will enable them to spend the money on infrastructure and other public needs that is required.

We have been generous through the years with the Philippines. I think we perhaps have done too little for the Philippine in recent years, partly because Indonesia seemed to be much more threatened by political and economic decline and instability. Our aid programs are important. Our aid programs are important not only for the money that they provide, but for the role they give us in advocating good policies, advocating opening the economy, improving their financial management and, very importantly, promoting good governance.

Senator KERRY. Well, I think, Mr. Chairman, I can recall back a few years ago there was a lot more focus on the Philippines, and it has been something that sort of slid from attention to some degree. That may be a reflection, also, of the loss of bases, and I think there has been some discussion in the Philippines retrospectively about whether that was a good thing for the Philippines, but we are where we are today.

I certainly think it bears this committee's continuing involvement, and I look forward to examining that and sharing that with you, Mr. Chairman.

Senator THOMAS. Thank you very much, Senator. We have been joined by Senator Lugar. Do you have any questions or comments, sir?

Senator LUGAR. No. I will listen some more.

Senator THOMAS. Well, Ambassador Hubbard, I thank you so much for your contribution, certainly your time in the Philippines. Your knowledge there certainly is impressive, so thank you very much.

Ambassador HUBBARD. Thank you very much, Mr. Chairman.

Senator THOMAS. Dr. Clad and Mr. Fisher, please would you join us. Your statements will be placed in the record in full, and if you care to summarize them for us, why, we would be grateful.

**STATEMENT OF DR. JAMES C. CLAD, PROFESSOR, SOUTHEAST ASIAN STUDIES, SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY, WASHINGTON, DC**

Dr. CLAD. First of all, Mr. Chairman, thank you for the initiative of having these hearings. You are joined by two gentlemen who have consistently displayed a deep and effective knowledge of the region.

Senator Kerry is involved with the Council on Foreign Relations Working Group on Southeast Asia. I had the pleasure, with Senator Lugar 15 years ago, of flying around in a rather nifty little CODEL jet going down to Negros, and at the time I was with the Far Eastern Economic Review in Manila, and have stayed involved with that country.

We are currently in a more sedate life now, which includes being on the Georgetown faculty and working with Cambridge Energy Research Associates and, indeed Senator, one of the things I would like to talk about today is reform prospects, focus a bit on energy, in addition the prospects for Mrs. Macapagal-Arroyo, and then also a little bit of thinking about where the Philippines fits in Southeast Asia, and I will try to condense that and make it short and useful for you gentlemen.

I think it is useful to look at the prospects for the new President, first of all, if we can, and it is useful to also remember that this is a country that has had no less than, by one count, eight constitutions in the past century. It is a country where, despite the most recent constitution, that of 1987, has a lot of important safeguards, I think the recent events show that the institutional strength of the Philippines remains rather weak.

It is reflective of a lack of State capacity, and I think that the circumstances—I entirely agree with Senator Kerry—of the change in power in this most recent time, in January, are really markedly very different from that of 15 years ago, and it is important to see how narrow the base was that prompted this change, so we are looking at a country which is affirming the habit, and let us hope it is not a compulsive one, of looking to extraconstitutional means to change the leadership.

It is important to remember also that the people this time who were involved were a comparatively narrow segment of the Manila middle classes, professional and business classes, a portion of the Roman Catholic church, and a military leadership that decided at a crucial moment not to side with its constitutional leader.

Now, that said, Mrs. Macapagal-Arroyo—by the way, a distinguished Georgetown alumnus—begins power with a number of advantages. She is a very respected economist. She was the highest-drawing candidate in her country's senatorial elections back in 1992, and most of all, she gives every indication of wishing to do what she said she wanted to do in her inaugural address, which was to transcend the politics of patronage, personality, and patrimonism, and move the country toward a politics that is programmatically focused.

Her early announcements show promise, and I think when I had the chance to see her 2 weeks ago, and also visited the Vice President, they did show a degree of focus that was very encouraging, prioritizing the Country's problems, looking at a few important things that could be done, taking a strategic view about what needs doing immediately and what could be put aside.

But let us not be too encouraged. There are a number of important impediments to her rule, and I would like to go through those now, if I could. Initially, she confronts, albeit on a much smaller scale, many of the same problems that confronted Mrs. Aquino, Senator Lugar, you will remember, 15 years ago, wide, disparate coalition, united really by little more than, frankly, at the end, opportunism, and at the beginning a desire to have the country rid of a particularly poorly performing President.

Moreover, they are focused intently on the coming May congressional elections in the country, which does not really auger well for the kind of programmatic politics that she would like to display. After all, she has got to ensure that a coalition favorable to her agenda comes in, so she is necessarily constrained from taking too many positions which, inevitably in politics, invite a countervailing response.

Luckily, she does not face some of the problems of 1986, Senator Kerry. She does not face the problem of completely restaffing the bureaucracy and then starting the firestorm of indignation that that caused among people who were facing the loss of their jobs. Moreover, I think that the quest for spoils is therefore much more narrow, and she already shows, I think, a pretty good hand at placating people who came aboard rather early and then at a very, very late stage, and that includes the Senate president, Mr. Pimental, who I think already may be making life a little bit difficult for her.

Second, though, she faces a number of external circumstances which may be difficult. The U.S. economic downturn has already resulted in a drop in trade receipts right across the region. If the U.S. economy's appetite for imports declines further, I think we have got to expect, not only in the Philippines, but also in the rest of Southeast Asia, the reliance on two things, an export-led recovery, and public sector spending does not have that much more energy left in that recovery option, and I think there is a chance that she could stare at right across the board decline in trade receipts, which would make any politician's task, no matter how skilled, difficult.

Let us not forget also that the government, just before Mr. Estrada left, had had to go to Chase Bank to borrow at 7 points above LIBOR money to meet the recurrent obligations to the Phil-

ippine State public sector obligations, primarily those of salaries, and many of those remain unpaid. She has an immediate problem with revenue.

Third, she faces tough security problems—I am sure my colleague, Mr. Fisher, will speak about these in a moment—that are both external, with the attitude in the People’s Republic of China, which, despite their convenient—and we are fortunate in the fact that they are internally distracted at the moment with their own domestic agenda, has shown a willingness to divide and rule, to mark the Philippines off for special attention, and to seek divisions with ASEAN, which also has a number of claims to these separate countries in the South China Sea, as does China.

Internally, of course, as has been mentioned by Acting Secretary Hubbard, the Moro Islamic Liberation Front issue. Too often, we forget these are ethnically defined insurgencies which have an Islamic gloss to them, but they remain serious, and they have shown the ineptitude of the Philippine military in the past, and some resolution needs to be required. I will return to that shortly, but in my meetings with both the President and Vice President I found them very focused on the need for economic reform and on dealing with the southern question, as they call it.

And sir, if I can suggest to you, the economic reform agenda remains just as long and formidably intractable as it did 16 years ago. The country’s weaknesses have changed but little, Senator Kerry and Senator Lugar, the issues now highlighted in the recent World Bank report, which shows that control of the largest businesses by the country’s most prominent families has actually increased in the last 15 years, and we have a country of remarkably talented people in which market entry and access internally remains just as closed as always.

The country and we and all people in Southeast Asia should be very grateful for the energies of the emigre Filipino community, 4 to 5 million, Filipinos working abroad, keeping the country’s balance of payments in shape through their remittances, but the problems, agricultural productivity, the very lamentable state of infrastructure, and the decline and spending in social capital and education is very poor.

That said, looking at economics quickly, the Philippines particularly under the administration of President Ramos did manage to capture the full export manufacturing direct foreign investment bus, if I can say that. They did see rates of growth increase but, as I suggested a moment ago, those remain vulnerable to an across-the-board decline in our country’s appetite for imports, and elsewhere we see, of course, Japan failing to ignite on the other side of the airplane. It is a one-engine world economy, and it has been for a number of years.

Closing off on energy, I want to just mention to you the key issue in front of the Philippines now is the state of the reform bill. Senator Thomas, I know you have a particular interest in these issues, and my written testimony go into these at greater length, but essentially, if there is one thing that this administration did do, it would be to close on the energy reform bill, but not attempt to do so many things, liberalizing wholesale-retail generation of power, that they run into the California problem, and that is plain it is

a very big issue, and as you can imagine, in Manila right now, so some prospect for that bill before the end of June remains highly likely.

Closing, on what the U.S. role can be, sir, I would suggest as follows. Our role and our relationship with the Philippines is now probably healthier than it was 10 or 15 years ago. I think we have an opportunity to approach the Philippines in a mature way, which anchors it in its own region. Philippine diplomats have been doing a good job spreading their country's interests and making those problems known in the region.

If we were to focus on two things, sir, I would suggest as follows, that we consider helping the Philippine military maintain its equipment. It is a small item. Second, helping them with their Coast Guard and building up the possibility for interdiction of foreign vessels, which does not always involve a naval response to any incursion in the South China Sea.

In closing, I think we can help them through our vote and weight in the multilateral lending institutions by assisting them when it comes time to look for special resources in dealing with the aid requirements of a comprehensive solution in Mindanao.

I will stop there, gentlemen. Thank you very much for your attention.

[The prepared statement of Dr. Clad follows:]

PREPARED STATEMENT OF DR. JAMES C. CLAD

I have been working in the Philippines and on Philippine affairs since the mid-1980s. My first assignment in that country was as a foreign correspondent covering the collapse of the Marcos dictatorship in early 1986. I remained there for another two and a half years and visit periodically. In my work on the Georgetown faculty and also with Cambridge Energy Research Associates, I follow Philippine foreign policy, domestic political development and the progress of economic reform—particularly energy reform.

My comments today rest on three issues:

- The prospects for the presidency of Mrs. Macapagal-Arroyo;
- The prospects for Philippine reform—especially in energy issues, and
- The prospects for Philippine security within a Southeast Asia that has become far weaker and less cohesive in recent years.

THE NEW PRESIDENT

First, let us examine the prospects for President Macapagal-Arroyo.

While the departure of President Joseph Estrada should cause nothing except relief—for both the Filipinos themselves and for their ASEAN neighbors—the circumstances of this sorry leader's departure do not reflect well on that country's institutional strengths. Nor do they bode well for managing another crisis of governance in the future.

By one count, the Philippines has had no fewer than eight constitutions since the then-Spanish colony's declaration of independence against Madrid in 1898. The impact of the Second World War, the irresponsibility of the ruling elite, and habits of dependency on the U.S. built up over most of the post-independence period—all these left the country with weak state capacity.

The most recent constitution, that of 1987, spells out many noble procedural safeguards. But when President Estrada's impeachment finally reached that country's Senate, the process showed itself as extremely flawed. In the end, this grossly incompetent leader left office only after exasperated and largely middle class sentiment took to the streets, aided by the tacit connivance from the country's military—sworn (lest we forget) to uphold the constitutional leader, which Estrada remained. Since Estrada's late January departure, the country's Supreme Court has approved the legitimacy of his ouster in a 13-0 decision; it also, by a margin of 9-4, removed his presidential immunity.

But this is post facto rationalization, the circumstances of his departure augur another display of impatience on Manila's broad boulevards at some future time. The event has now happened twice in 15 years. And unlike President Marcos' ouster, the stage in the most recent drama has held many fewer players—this time only the business and professional middle classes, a portion of the Roman Catholic Church hierarchy, and a military leadership took a stance. The rest of the country watched passively.

These important caveats aside, President Macapagal-Arroyo begins office with many advantages. This distinguished Georgetown alumnus is a respected economist in her own right. She was the candidate drawing the highest number of votes in the Philippines' 1992 Senate elections. Her admirably brief inaugural address spoke—correctly—of persistent and gross poverty being the country's most severe problem. She noted the country's desperate need to transcend the politics of patronage, personality and patrimony and attain instead a programmatic politics focusing on issues. She counts governance, not stirring rhetoric, as the record for which she hopes to be remembered.

The new president's early announcements—though placating the wide but fragile coalition of interests combining to evict Estrada—still show promise. In my talks to her two weeks ago she seemed determined to take an approach that prioritizes the country's problems, and to take strategic decisions do something concrete about a few pressing matters while leaving longer term struggles for later.

There is a word in Pilipino—*garapal*. It connotes a sense of behavior that is really out of bounds, even in a society far too tolerant of malfeasance in government. In Estrada's case, his involvement in various gambling operations, together with ethnic Chinese business associates, fell into the *garapal* category. Though far less efficient as a money-grabber than the Marcos period, Estrada and his cronies pocketed a slice of the poor man's gambling habit known *asjueteng*. His personal behavior dismayed the middle classes and besmirched the country's reputation in ASEAN.

By contrast, the country has in its new president an exemplar in both a personal and political sense. Early signs of "normal" behaviour by her family—even in such mundane matters as reports of her husband and daughter queuing up with other departing passengers at Manila's airport in their recent trips abroad—are positive and encouraging.

But we should not overlook the impediments to her rule.

For starters, she confronts, albeit on a smaller scale, many of the same problems confronting Mrs. Aquino when she took over the presidency from Marcos fifteen years ago. A loose and quarrelsome coalition of politicians brought her to power, just as the case for Mrs. Aquino fifteen years earlier.

Fortunately, Mrs. Macapagal-Arroyo does *not* face the problem of completing re-staffing the government administration—a battle that promptly swung the Marcos-era bureaucracy against Mrs. Aquino and wasted much valuable time. In 2001, the quest for spoils in the new Administration is less consuming, and the venting of old grudges less obvious. Yet segments of the old establishment that jumped ship in time to be counted among the forces evicting Estrada are already playing a tough game, obstructing the new president's choices for cabinet positions before the ink on her presidential succession is barely dry.

Secondly, external circumstances do not favor an easy period of settling into the presidential chair. The U.S. economic downturn has already resulted in a drop in trade receipts for all Southeast Asian countries whose post-1997 crisis upturn has rested on the U.S. economy's strength and appetite for imports, *and* on an increase in public spending. From Thailand to Malaysia to the Philippines, the public sector deficit as a percentage of GDP has jumped since 1998. It is already unsustainable in the Philippines, where a revenue crunch and capital flight during the last of the Estrada period have resulted in an inability to pay public sector salaries—an important problem in a country where government employment means so much.

Thirdly, she faces tough security problems, both internal and external. Externally, only a set of reform-related issues preoccupying Beijing's leadership has prevented China from looming even larger as a source of concern and territorial conflict to the Philippines. The two countries dispute areas of the South China Sea; China seeks through "sweet and sour" diplomacy and latent use of force to divide Manila from reaching common cause with other ASEAN countries also claiming areas of the same sea along with China. Internally, the Estrada government foundered on the protracted problem of pacifying the Moro Islamic Liberation Front (MILF), which seeks an independent homeland for parts of Mindanao. The MILF's more radical offshoots, such as Abu Sayyaf (which has a penchant for kidnapping tourists in neighboring Malaysia), depress domestic and foreign business sentiment in a resource-rich island otherwise showing economic comeback since the late 1980s.

Despite these challenges, I found the new president as well as Vice President Teofisto Guingona well focused on two issues when I saw them in Manila two weeks ago. These are: (a) economic reform and (b) solving the complex insurgencies afflicting the country's second largest island, Mindanao.

#### ECONOMIC REFORM AND THE KEY ISSUE OF ENERGY REFORM

On economic reform, the country's weaknesses have changed but little since the forced departure of another, far more corrupt president just fifteen years ago. In some ways, they have intensified. A very recent World Bank report focusing on achieving better distribution of the gains of development makes the point that control of the country's largest businesses by the same small set of prominent families has actually increased since the so-called "People's Power Revolution" of 1986 against Marcos. This World Bank report also describes endemic problems afflicting governance—especially corruption, an abysmally slow implementation of government programs and a woeful lack of auditing of government spending—as all still prevalent today.

To be sure, important improvements in national income have occurred during the 1990s. These resulted from dramatic gains in the country's for-export manufacturing sector, plants using local labor and largely capitalized by direct foreign investment. Important gains have occurred via "backroom operation" services in which the country's large English-speaking population (the Philippines is now the world's third largest English-speaking country) helps foreign corporations run payroll, collect debt, and standardize business practice manuals—all via the globalizing advantages that e-mail and the Web enable.

But other sectors—including most lamentably the rural agricultural sector—remain starved of capital and show persistently poor productivity. Without an estimated 4-5 million Filipinos working abroad, the country's national receipts (and its social welfare indices) would be in dire shape. And in the increasingly tough competition for direct foreign investment, the Philippines had the bad luck, just as during the 1980s, to throw up bad political risk at a moment when better governance and better confidence would have netted important gains.

By this I mean the experience of the mid-1980s, when a wash of Japanese and Korean direct investment in manufacturing flowed into Southeast Asia but almost entirely bypassed the Philippines—for reasons of chronic political instability. Similarly, many foreign-owned assembly firms began to relocate corporate headquarters to the Philippines and seek new manufacturing locales there after the 1997 financial crisis. An IMF supervisory program left over from the Marcos era had instilled important discipline and minimal capitalization rules into the Philippine banking system. But, again, the moment was lost—largely because of Mr. Estrada's baleful effect on confidence and the devaluing peso.

In this environment, what should President Macapagal-Arroyo do? In my meetings with her last month, she showed a firm grasp of priorities, of which nothing matters more—to the country's infrastructural base *and* to foreign and domestic investor sentiment—than reforming the electricity sector.

The current electricity restructuring legislation in the Philippines is called the "Electric Power Industry Reform Act of 2001." Though I am grossly simplifying the complexity of this bill, the reform legislation provides for the

- unbundling electricity generation and transmission, as well as for de-linking power distribution and supply;
- dividing government-owned National Power Corporation, or NPC, into generation and transmission operations.
- Privatizing the NPC-owned seven power generation companies (known as "gencos" in the energy business). A "National Transmission Company" will be created but will become privately owned as well.

In addition, the reform legislation contemplates a wholesale electricity spot market and the total unbundling of both wholesale and retail rates. Is this a realistic target? How can President Macapagal-Arroyo preserve reform momentum and not blunder into repeating errors that led—in similar and much-followed legislation in California—to market-prompted power supply crises?

In light of the problems currently being faced in California, the current Philippine legislation does raise significant concerns. The changes in the present bill offer a complex reorganization in which *deregulation of both the wholesale and retail markets would occur simultaneously*. As California's experience shows, quick but complicated reform and reorganization carries huge uncertainties. In the wrong circumstances, they can lead to disastrous consequences.

That said, California's problems must not discourage the new Philippine administration from moving to a competition-based power market. The answer is to begin with deregulation of the wholesale market now, while leaving other elements to a later day. This answers the new president's need to show she is alert to the California consequences and to legitimate concerns raised by the many non-governmental organizations now prominent in Philippine political life.

Indeed, the new administration *can* point to experience in other U.S. states and to other foreign countries that chose to phase-in deregulation in a slower, more measured way. In Manila, the country's legislators and some hopeful investors, often tied to foreign firms, see reorganization of the electricity industry as yielding

- greater foreign investment,
- competition for various sectors of electricity customers, and
- a decrease in rates.

But various U.S. states and foreign countries have opted for electricity reform on the basis of incremental steps. In my view, privatization of the Philippine electricity sector should proceed with privatizing the country's generating assets and with creating a competitive, wholesale generation market. In this process, the utilities and newly-formed gencos will need time to recover their stranded costs and to complete transition to a competitive wholesale marketplace. Foreign investors will enter the market in this controlled way; outright deregulation across-the-board still poses too many risks, of which political risk (i.e., the danger of political forces setting aside or reversing government policy) remains high.

One thing is for sure: the lack of reliable power has become a very serious bottleneck to the country's continued growth. Only after wholesale market stability has been established should the Philippines implement the next steps—transitioning to competitive retail sales of power and the unrestrained marketing of electricity. In this respect, but this respect only, the “cause-oriented groups,” as Philippine NGOs are known, have a valid worry about the electricity reform bill as it now stands.

At present the power reform bill had emerged from a bicameral Philippine congressional committee before the legislators went into recess in February. President Macapaga/Arroyo has asked the two committees on energy in the Philippine Congress to meet environmentalists and consumer groups as well as business firms. She wants them to iron out problems in the current Power Industry Restructuring Bill which attempts—as I've noted, to try too much too soon and which could imperil all reform by colliding with the “California problem.”

- how much cross-ownership should be allowed between the generation and distribution sectors? (Philippine experience amply justifies concern lest existing local power industry players simply broaden their monopoly positions.);
- whether private utilities should be barred from recovering their stranded costs?
- The NPC's existing losses, which approach 200 billion pesos (over \$3.5 billion). Which prospective bidders for the privatized NPC are going to want to absorb these losses?

The cross ownership issue may be addressed in new the anti-trust safeguards, such as the imposition of market caps if certain genco capacity reaches certain limits within a five-year period. With regard to the NPC's losses, the most likely outcome is for the taxpayers, rather than the consumers, to absorb the losses—a politically expedient result, given the looming May congressional elections—which President Macapagal-Arroyo's administration does not want to become a campaign issue.

Once the elections are past, the administration hopes the bill will pass in a special congressional session convened before the writ of the existing (11th) Congress expires on June 30, 2001. Everyone in the investing and financial community is looking at the new president's resolve on this issue: This includes the multilateral lending banks, primarily the World Bank and the Asian Development Bank. The president told me she has also promised a June passage of the reform bill to the IMF. One clear incentive for passage of reform legislation lies in the NPC's desperate need for nearly \$1 billion, primarily from the ADB, to finance the NPC's transmission and preparatory projects for its privatization.

Can she keep her promise? She probably has the numbers to ensure passage of the existing, overly ambitious bill, in the country's House of Representatives. In the Senate, the outlook is far less benign.

#### THE PHILIPPINES IN SOUTHEAST ASIA AND THE ROLE OF THE UNITED STATES

Since the departure of U.S. forces ten years ago after the Philippine Senate rejected an extension of the treaty enabling American bases on Luzon, the country has sought a more assertive place in Southeast Asia. This period of effective regional

diplomacy coincided with the administration of former president Fidel Ramos. Since then, the region-wide economic crisis and president Estrada's problems have distracted Manila from this important task.

The United States now has a much healthier relationship with the Philippines than before. As part of the ASEAN region, the U.S. has new opportunities to engage its former colony in a forward looking and regionally focused way, developing relationships that "fit" into broader American interests in East Asia.

In this regard, American support for the Philippines' efforts to solve the Mindanao insurgencies should count for a lot. U.S. support in multilateral lending institutions for specially targeted programs in the south of the country will strengthen the hands of the new president and vice president (Mr. Guingona also serves as foreign secretary).

The same approach should inform our efforts in re-engaging the Philippine military. Important and low-cost solutions for the country's maintenance of its existing military equipment exist—and should not be obstructed. Similarly, American help in building up the country's coast guard would also be a boon—interdiction of foreign fishing vessels by coast guard ships makes confrontational possibilities with China less likely; at present the encounters in the South China Sea involves elements of the regular Philippine military, army and navy.

#### CONCLUSION

The priorities of the new Philippine administration are clear: peace and poverty alleviation at home, security in the regional environment, and victory in some important reform efforts, most notably in electricity generation and delivery. In a newly mature relationship with the Philippines, the United States can help—from a distance but with understanding that this former colony's success is an important element in shoring up Southeast Asia's coherence in the face of great change and challenge. Thank you.

#### **STATEMENT OF MR. RICHARD D. FISHER, JR., SENIOR FELLOW, JAMESTOWN FOUNDATION, WASHINGTON, DC**

Mr. FISHER. Mr. Chairman, I would also commend your decision today to hold this hearing on a country that is dear to many of us, most of us here, and I thank you for your opportunity to offer testimony today. As anyone in the Philippine policy business knows well, the Senate Foreign Relations Committee has a stellar record of leadership regarding our policy toward the Philippines. I can remember well being in the Philippines in 1986, when you were there, Senator Lugar, and Senator Kerry. We actually shared a day on election day in that very dramatic month.

Mr. Chairman, Philippine democracy I believe has surmounted another great test, having seen through a peaceful, though democratic transition that saw President Joseph Estrada leave his office on January 20 to be succeeded by President Gloria Macapagal-Arroyo. As in 1986, I believe that the most recent transition occurred and was based in a quest for justice and truth, a contest between those wanting, hungering for rule of law and those preferring rule of men.

As I would also note, in contrast in 1986 this most recent transition did not require any active American role or support. Filipinos did this by themselves, and whether one views this as a fully constitutional process, I do agree with Ambassador Hubbard that the transition does reflect the popular will, and that it is a good thing for the Philippines. It speaks well to their democratic progress.

Former President Estrada really has only himself to blame for his political downfall. He was elected in 1998 by the largest margin ever for a Philippine President. He was widely admired. However, the seeds of his self-destruction were sowed early, when it was clear that he was intent on favoring chosen friends and cronies

with special economic privileges that would lead to their enrichment.

By his second anniversary in office, Estrada was surrounded with rumors of corruption. His political ship began to sink last October, when the Governor of Iloco-Sur, fearing he was being cut of illegal proceeds from gambling, turned over actual records of pay-offs to the President from his profits. This began a cascade of further revelations which led to Senate investigation and then impeachment proceedings in the House. The final straw came in mid-January, when the Philippine Senate, by a margin of one vote, refused to reveal further damning evidence against the President.

Amid massive demonstrations in response, the military simply withdrew its support for Estrada, leading to the transition on January 20.

Further, President Estrada has tried to escape, tried to leave the country, and he now faces charges of plunder, graft, and malversation.

President Macapagal-Arroyo is a study in contrasts to her predecessor, sober, efficient, principled. She garnered 3 million more votes than Estrada in 1998. Educated at Georgetown University, she earned her doctorate in economics from the University of the Philippines. The fact that she was the daughter of a former President leads one to conclude easily that she was born to lead her country, and she is a strong leader for this right time in Philippine history.

Mr. Chairman, President Macapagal-Arroyo and her nation face enormous challenges. The Philippine economy, having weathered the recent Asian financial crisis better than others, still requires reform in many sectors to guarantee adequate transparency and greater opportunity for Filipinos, and in addition, as others have pointed out today, the Philippines remains burdened by a revival of old insurgent conflicts.

In the last year, the Estrada Government waged a not-so-small war against the Moro Islamic Liberation Front, which many Filipinos fear, right or wrong, that the MILF is seeking to create a separate State in Mindanao. To this is added the challenge of terrorism that continues from a very old Communist Party that fell to pieces in relative inaction by the early 1990's, but in the last few years has unfortunately shown some signs of revival and is attacking the government again, and to this is added the Islamic group, the Abu Sayyaf, which is thought by many Filipinos to be influenced by far more radical Islamic elements than in the Middle East and Afghanistan.

In addition to all these problems, Mr. Chairman, the Philippines is trying to contend with Chinese military encroachment on Philippine economic zones. In late 1994 and early 1995, Chinese naval forces occupied Mischief Reef, which is only 150 miles from the Philippine island of Palawan, but over 800 miles from the Chinese mainland. China's oft-stated territorial claims to most of the South China Sea would be comparable to the United States claiming most of the Caribbean Basin as its own. Manila feels threatened by this, and by China's ongoing military buildup that is extending its reach into the South China Sea.

The Philippines and other Southeast Asian states have long tried to find a diplomatic solution to the conflicting claims to the region, but it has to be said that to date Beijing is more interested in asserting its claims than in finding a real political solution.

Mr. Chairman, it is with this background that I think it is time for us to consider the past and the future of the Philippine-American alliance. This alliance has seen enormous shared sacrifice and, while a military bases relationship ended in 1991 and 1992 that left anger and bitterness on both sides, I think now that a decade has passed there is very encouraging new willingness on the part of Manila to reach out and try to build a sustainable long-term military relationship.

The passage of the Visiting Forces Agreement, the ongoing dialog between the Pentagon and the Philippine military, the revival of exercises to include a second "Balikatan" multi-service exercise to take place in April are all encouraging signs, to which I would add the Philippines' willingness to participate in peacekeeping operations in Cambodia, Haiti and, most recently, East Timor.

I agree entirely with Dr. Clad that it is time for us to focus on this alliance and to do what is financially possible to help our Philippine ally in terms of offering excess equipment that would help their ability to maintain systems that they have. Helicopter spare parts is a particular need, but the need of the Philippine Armed Forces is enormous. They do not have an air force or a navy that can offer a deterrent effect to China, and if there is some way in the future that we can help them with this, it would be deeply appreciated.

In conclusion, Mr. Chairman, I would simply note that the Philippines is our ally. It is one of the few countries that we can include in the family of democracies. Our history of shared sacrifice is enormous. Today, the Philippines needs our help and, as family, I think we should respond.

Thank you.

[The prepared statement of Mr. Fisher follows:]

PREPARED STATEMENT OF RICHARD D. FISHER, JR.

THE FUTURE OF U.S.-PHILIPPINE RELATIONS

*Summary of Full Statement*

The January 19-20 transition that saw the resignation of President Joseph Estrada, and the succession of President Gloria Macapagal-Arroyo, the many challenges she now faces, growing internal and external threats to the Philippines, and the chance for improving Philippine-American relations all provide ample issues for review by this Subcommittee.

President Macapagal-Arroyo's rise is similar to the Philippine military backed uprising in 1986 that saw the exit of former President Ferdinand Marcos in that both transitions were propelled by a quest for justice and truth. Gloria Macapagal-Arroyo comes to the office of the President with very impressive credentials and political record of proven devotion to her nation. Her record of sober leadership stands in contrast to that of Estrada, who treated politics as a stage, reflecting his long acting career. In the end Estrada can blame only himself for his political downfall, which was caused primarily by his determination to enrich his friends, his family and himself.

Macapagal-Arroyo now faces the daunting challenges of promoting economic growth while quelling Muslim and Communist rebel groups, and trying to modernize the Armed Forces of the Philippines to face a growing threat from China. The Moro Islamic Liberation Front (MILF) may be trying to create an independent state in Mindanao which led to substantial fighting last year. The Communist Party of the Philippines (CPP) has regained strength and has resumed violent attacks on the

government, while the radical Islamic Abu Sayyaf group undertakes kidnapping and terrorist attacks. At the same time, China presses its territorial claims to most of the South China Sea and continues to occupy Philippine claimed areas close to the Philippine island of Palawan.

It is now time for Washington and Manila to fashion a new strategic partnership that obtains the full benefits of our 1951 Mutual Defense Treaty. It is time to put aside the hurt of the failed military bases relationship and recognize our shared interest in defending our democratic way of life. In the context of renewed U.S.-Philippine strategic cooperation, the U.S. should offer to help the Philippines meet some limited defensive needs. Both Filipinos and Americans have a record of a century of shared sacrifice in defense of freedom. It is now time to invest anew in this friendship.

*Full Statement*

Mr. Chairman, distinguished Members of this Subcommittee:

I welcome this opportunity to offer testimony for this hearing on America's relationship with our longstanding allies and friends in Asia, the people and the government of the Republic of the Philippines. This Committee has a distinguished record in both highlighting and deepening America's friendship with the Philippines, and its renewed attention today is both timely and necessary.

On January 19 to 20 of this year, Philippine People Power propelled a governmental transition that began as a quest for justice and truth. On January 20, President Joseph Estrada resigned in disgrace and was succeeded by Vice President Gloria Macapagal-Arroyo. The reasons for this dramatic though democratic transition, the many challenges facing President Macapagal-Arroyo, and the opportunity to help our ally, all provide background for this hearing. But it is also necessary to consider the transcendent aspects of the long Philippine-American friendship.

Mr. Chairman, there are few countries that America can truly regard as "family." The Philippines is one of them. As members of a greater democratic family, the United States and the Philippines have in the last century shared almost the entire range of national experiences, from colonialism, to nation building, struggle for independence, to being allies in wars of aggression, and to meeting successive threats to Philippine democracy. Filipinos have striven for the last century to build a democratic and prosperous society. They have been leaders in developing Asian democracy, with a tradition of elections and a freewheeling press. While their economic and political divisions have prevented the realization of prosperity comparable to many of their neighbors, Filipinos are leaders in democratic development.

American friendship has been constant over this last century. Our history of shared sacrifice is humbling, from World War II, and through the Cold War. Our countries have sustained a Mutual Defense Treaty since 1951. American economic aid, and at times, military assistance, consistently strong commercial ties, plus generations of personal family ties, have all contributed to one of the strongest bi-lateral relationships the United States has in Asia. This relationship has seen both Filipinos and Americans make mistakes, painful mistakes, but both countries have demonstrated the capacity to learn and build anew.

Manila and Washington are now in the midst of another important turn in their relationship. The new administrations in Manila and Washington now have the opportunity to depart from the past decade, characterized largely by mutual indifference in the wake of the failed military bases relationship, and to construct a sustainable defense relationship based on mutual benefit and respect. The Philippines could dearly use America's help, and as we look at a troubling security environment in Asia, America could surely use the Philippines' help. As we seek to rebuild this relationship, Mr. Chairman, I believe that we will have steadfast partner in President Macapagal-Arroyo.

A BORN LEADER: GLORIA MACAPAGAL-ARROYO

Gloria Macapagal-Arroyo did not need the benefit of last January's People Power inspired transition to become President of the Philippines. In 1998 she was elected Vice President—a separate ticket in the Philippines—by 13 million votes, the largest ever mandate for a Philippine Vice President, and three million more than President Joseph Estrada. While born into high politics, her father was former President Diosdado Macapagal, in her political career Macapagal-Arroyo has earned a reputation for principled leadership and devotion to her nation. Educated at Georgetown University, she went on to earn a Ph.D. in Economics from the University of the Philippines. Her career has spanned academia, the Philippine Department of Trade and Industry, and the Philippine Senate from 1992 to 1998.

The January 19-20 transition deserves comparison to the dramatic “EDSA” rebellion early 1986, when a military-assisted popular revolt chased former President Ferdinand Marcos into exile, and installed Corazon Aquino as President. One key difference with “EDSA II” in 2001 is that Filipinos did not wait 20 years to demand better leadership. Since the fear and excesses of the Marcos reign, and the chaos of the Aquino years, Filipinos have learned to demand good government. Good governance under former President Fidel Ramos enabled the Philippines to weather the recent Asian economic crisis. Another key difference is that EDSA II occurred with no help from the United States, which played an active behind-the-scenes role in helping democrats prevail over Marcos.

It is a simple and sad truth that Joseph Estrada has only himself to blame for his downfall. In 1998 Estrada was elected by a margin 10 million votes—the largest for any Philippine president. He benefited from deep public admiration, due in no small part to his long movie acting career in which he reigned as the everyman hero. He campaigned for president championing the cause of the poor, but left office as one who sought to use government to enrich himself, his family and his friends on a massive scale. Two years into his six-year term, Estrada was already beset by a swirl of scandals. Most notably, Estrada protected a crony with connections to Chinese criminal networks, accused of illegal stock manipulations.

Last summer saw a growing din focus on Estrada’s personal behavior, which stressed night carousing with cronies over performing his day job. The beginning of the end came in early October, when former Iloco-Sur Governor Luis Singson revealed his role in giving Estrada \$2.6 million from his state’s illegal gambling proceeds. By mid-October Catholic Church leader Cardinal Jaime Sin was calling for Estrada’s resignation and Vice President Macapagal-Arroyo had resigned her Cabinet position. Estrada’s political ship was then sinking fast as Senators and Congressmen fled his ruling coalition and formal impeachment proceedings began in the House of Representatives on November 13. The late November disappearance of public relations maven “Bobby” Dacer after a meeting with Estrada raised fears that he would use the military crack down on his opponents.

By the fourth quarter of 2000 a fairly clear broad-based movement of Filipinos that united classes, political persuasions and religions, was coalescing to demand the ouster of Estrada. The Philippine military, while subject to the same rising emotions remained at the sidelines until the end. It took the combination of an act of political cowardice by a slight majority of Senators on January 16, in not voting to reveal damning evidence against Estrada, plus resulting mass demonstrations in Manila, and then the January 19 public withdrawal of support by both civilian and uniformed military leaders, to force Estrada to resign the next day.

New President Macapagal-Arroyo now faces daunting challenges. She must seek to restore public trust in government. She must also invigorate confidence in the economy by avoiding the kind of intervention as the behest of favored “cronies” that increasingly characterized the policies of her predecessor. There are early indications that she will avoid such intervention. She will have to reinvigorate an economic reform process started by President Ramos, but which fell by the wayside under Estrada. Thanks to Ramos-led reforms of the Philippine financial sector, the Philippines was able to avoid most of the effects of the Asian financial crisis of the mid-1990s. However, projected economic growth for this year of 3-4 percent GDP is not sufficient to meet national development demands. And while facing new security challenges from the People’s Republic of China, the new President must seek to convince powerful insurgent forces, both Muslim and Communist, that greater economic and social justice is possible, while war against democracy will not be acceptable.

#### CONTINUED INTERNAL THREATS

New President Macapagal-Arroyo is currently experiencing a “honeymoon” of sorts with a lull in the violence as she gathers her administration and determines initial policy directions. But 1999 and 2000 saw a sharp rise in violence, mainly in Mindanao, and terrorist attacks in Manila. The main challengers to the government have been the large Muslim Moro Islamic Liberation Front (MILF) faction in Mindanao, which seeks independence from Manila, and the extreme Islamic fundamentalist Abu Sayyaf group, responsible for numerous kidnappings and acts of terror, and the Communist Party of the Philippines (CCP). While these groups do not pose a dire threat to Philippine democracy, they do threaten the Philippine economy by deterring potential investors.

*Muslim Groups.* After nearly a decade of relative calm, the southern Philippine island of Mindanao again dominates Manila headlines, be it for the renewed fighting between the government and the MILF or the high-profile kidnappings by guerrillas of the Abu Sayyaf terrorist group. According to one Philippine military esti-

mate, in the last year, about 300,000 Filipinos were affected by the violence in Mindanao. This is but the latest chapter in a history of tension and conflict between the government in Manila and Mindanao that extends back to the 1500s. More recently, in the late 1970s, President Marcos fought a costly war against the Moro National Liberation Front (MNLF) led by Nur Misuari. Battlefield victories and dividing the MNLF leadership allowed Marcos to quell their challenge. But in defeat the MNLF split to yield the MILF. Today Misuari has joined the government and is now the governor of an autonomous region in Mindanao. While it is organized, the MNLF does not pose a threat to the government.

However, the desire for separatism remains strong with the Moro Islamic Liberation Front. Assessments of its objectives range from achieving self-governing autonomy, or a federal arrangement, which the government might accept, to that of creating an Islamic state separate from Manila. The MILF has spent the last twenty years building a political and military infrastructure that balances its two major ethnic groups, gathering weapons, and forging ties to the larger fundamentalist Islamic world. Many MILF leaders are said to have had experience either fighting in Afghanistan or have had training in Pakistan. Estimates of its strength range from 15,000 fighters to 40,000, up to MILF claims of 120,000—the majority of which are reservists.

The fighting that started in late 1999 is explained by some as the outcome of a contest for territorial advantage to give leverage in peace negotiations. A 1995 peace agreement with the MILF saw Manila acknowledge MILF “camps” or areas in which they are in control. Since 1995 these negotiations have led to subnegotiations over specific political and economic issues. Assessments of the growing strength of the MILF provide impetus for those in the Estrada Administration who favored a military solution. But these same assessments also prompt many to advise the former government to place primary emphasis on seeking a negotiated settlement. President Macapagal-Arroyo has stated that she prefers end the war policies of her predecessor.

*Economic Impact of the Violence.* The new government has plenty of economic incentives to seek a peaceful solution to the Mindanao violence. There is one estimate that the fighting in Mindanao was costing Filipinos over \$20 million a month. Another report indicated the government would devote \$5 billion to military and economic projects in Mindanao in 2000. This expenditure forced the Estrada government to exceed its budget spending limits, leading to larger budget deficits. There is also a negative impact on economic growth and the investment climate. Mid-2000 saw economic growth estimates decline by a percentage point due to lower confidence.

A long-term solution to Mindanao’s political challenges lies predominantly in promoting successful economic development and social justice. Peace, of course, is necessary for development to succeed, but Mindanao has a long history of grievance that it has been ignored by a central government dominated by interests from Luzon and the central Visayas. That provinces are taxed by Manila but have little say in how taxes are spent has spurred long-standing interest in federalist style political reforms that would devolve more economic-political power to the provinces. The previous Ramos Administration had made great strides in helping Mindanao develop by allowing for freer trade, enabling its provinces to forge better economic ties with Malaysia and Indonesia. This “Southern” focus was in contrast to decades of “Northern” focus imposed by Manila.

*Abu Sayyaf.* The terrorist group that received the most attention in early 2000 was the Abu Sayyaf, which has commanded headlines in the press over its taking of hostages from Malaysia, on April 23 last year. Said to have been inspired by the 1970s visits of Iranian missionaries loyal to the Ayatollah Khomeini, the Abu Sayyaf emerged in 1991 as a radical fundamentalist sect violently opposed to Mindanao’s Christian majority. It is responsible for many brutal attacks on Christians and against the government. Estimates of its strength range from 1,000 followers to only 120 to 200 actual fighters. Their brutality has tended to alienate other Islamic groups in Mindanao and even foreign Muslim leaders. Last April 19, President Estrada’s birthday, the Abu Sayyaf beheaded two of its hostages. They still hold two hostages, including an American.

*Bombings.* For first five months of last year, there were 80 bombings, with 69 deaths in the Philippines. About 66 or 82 percent were in Mindanao, and about 12 blasts in Manila. Nuisance bomb threats create even more confusion. The inability of the authorities to stop the bombings or capture the terrorists has created public exasperation. The police have captured and accused Muslim extremists from Mindanao that it links to the MILF. This has not yet been proven. While the Mindanao bombings are linked to the unrest there, the Manila attacks could come from a number of disaffected groups with an interest in destabilizing the Estrada

government. Such “pile-on” attacks have happened in the past, such as in the late 1980s, when the CPP and military rebels played off each other to destabilize the Aquino government. There are some in the Philippine government who fear that a series of bombs in Manila set off last December 30, killing 18 people, may have been a cooperative effort on the part of Muslim extremists and the Communists.

*Communists.* In the last three years the Communist Party of the Philippines (CPP) has started to increase its activities against the government. Since its founding in 1968 the CPP has been committed to the violent destruction of Philippine democracy. Over the last year they have been accused of leading many attacks against government and military targets. A 1999 AFP estimate noted the CPP may have 6,000 members, and have a presence in 900 out of 40,000 barangays, or government districts—double their estimated 1995 presence. While capable of terrorism and banditry, the CPP does not approach the threat they posed to democratic society in the early to mid 1980s. At that time the CPP could count on 25,000 or more guerrilla fighters in its New People’s Army or other activists in its large structure of political organization nominally led by the National Democratic Front (NDF), which also gathered support from a large network of foreign leftists. By the late 1980s, the weight of their own failings of strategy, brutal purges that was alienating the masses they were seeking to enlist, plus the combination of far more effective AFP counter-insurgency operations and a growing economy, all combined to cut their strength to the low thousands. Their recent growth and increased activity can be attributed to a remaining dogged leadership that refuses to abandon its Communist faith, the effects of the recent Asian economic crisis, and the persistence of inequities in Philippine society that can all be exploited by the CPP to attract new members.

The Communists, for the first time since the mid-1980s, have decided to take advantage of the political opening caused by the broad public opposition to former President Estrada, and try to win elective office in general elections scheduled for this May. Under the Bayan Muna, or “Nation First” party, several veteran Communist activists are running for office. Unlike their last open political effort, this time the Communists are focusing their resources on races they may be able to win. Philippine politics is crowded with university-era radicals who are now accepted democratic leaders. It remains to be seen whether life-long radicals associated with the CPP can grow beyond their anti-democratic goals.

#### CHINA’S LOOMING CHALLENGE

As she seeks to quell internal insurgencies, President Macapagal-Arroyo must also contend with a growing threat to the Philippines from China. The Philippine government in early 1995 was shocked by its almost accidental discovery of four PRC buildings in an atoll called Mischief Reef. At the east-end of the Spratly Island group, Mischief Reef is about 150 miles away from the Philippine Island of Palawan, well within Manila’s 200-mile Economic Exclusion Zone, but over 800 miles away from the Chinese mainland. In 1999 the Philippine Navy on several occasions intercepted, and on occasion, by “accident” sunk PRC fishing boats operating in the Scarborough Shoal area off of the northern Philippine islands of Luzon. There were Philippine-Chinese confrontations in this area in 2000 and in early 2001, and Manila fears Beijing may build facilities in Scarborough Shoal. The PRC claims all of the Spratly Islands and the region of Scarborough Shoal as its territory.

The vigorous Philippine reactions to PRC incursions in Scarborough Shoal are perhaps to compensate for its inability to do anything about the PRC presence in Mischief Reef. Despite repeated protests from the Philippines as well as most other Southeast Asian countries, China has refused to leave Mischief Reef. Instead, in November 1998, the PRC started a new round of construction in Mischief Reef, completing permanent concrete structures there in early 1999.

Mischief Reef can give shelter to several People’s Liberation Army (PLA) Navy ships and is located astride the Palawan Trench, a critical sea-lane for the commerce of Asia. The structures in Mischief Reef have evolved from four temporary shelters on metal stilts to two concrete buildings on concrete platforms that could serve as docks for ships. One of the structures could accommodate a helicopter, potentially giving the facilities an independent combat capability. It appears that these structures will be expanded, as the reef has been dredged to allow several warships to enter and remain. Chinese concrete “fortresses” now exist on Johnston Reef, Chigua, Subi, and Fiery Cross. The latter is almost two acres in area, and has a space that could hold a helicopter. It is the headquarters for China’s activities in the Spratlys.

China’s construction of these facilities in the disputed Spratly Island area serve to highlight a long-simmering conflict over the territory and resource rights to the

South China Sea. Malaysia, the Philippines, and Vietnam claim pieces of the area, while China and Taiwan claim most of the South China Sea. All of these countries maintain one or more outposts in the disputed region. Underlying these claims is a competition for possible petroleum resources. Modest amounts of oil have been found near the Philippines and Vietnam, but expectations of large reserves have yet to be fulfilled as exploration continues. Anticipation of future expanding energy needs, particularly China's, serve to drive continued assertions of claims.

Long-running diplomatic and legal attempts to settle conflicting claims so far have been unsuccessful. The United Nations Law of the Sea Treaty, ratified by all claimants, guarantees each a 200-hundred mile maritime economic exclusion zone. Within the Association of Southeast Asian Nations (ASEAN), Indonesia has long led unofficial and official diplomatic efforts to foster negotiations. Most recent efforts have focused on getting Beijing to agree to an informal "Code of Conduct" that would defuse potential conflicts over the disputed areas. After first refusing in November 1999, in March 2000 Beijing agreed to consider adhering to such a code. While this is a positive development, it should be viewed in the context of the PRC's past conduct.

China's approach toward the disputed South China Sea region has long been described as "grab and talk," referring to periods of territorial expansion followed by diplomatic activity. In 1974, China exploited U.S. and South Vietnamese preoccupation with the war against North Vietnam, to chase South Vietnamese troops off of a few islands in the Paracel Group. Then in March 1988, China established a foothold in the southern Spratly group by fighting pitched battles with Vietnamese troops and evicting them from several islets.<sup>1</sup> Then followed a period of diplomatic conciliation. In 1991, Chinese Premier Li Peng proposed joint development for the area, setting aside the question of sovereignty, and China joined a declaration made in Indonesia that the claimants seek a peaceful settlement of their claims. But in 1992 China passed a law that formalized its claims to territorial and maritime jurisdiction of the Paracel and Spratly Islands and authorized the use of military force.

*China's growing power.* A critical element that will drive China's approach to the South China Sea is its ongoing military modernization, that is now improving China's ability to dominate potential military conflicts, and could spur China's leaders to increasingly assert their claims in the South China Sea. In the early 1990s, on Woody Island in the Paracel group, China built a 7,000-foot airstrip—long enough to accommodate jet fighters and bombers—and recently added fuel storage facilities to this base. This island is essentially a stationary aircraft carrier. It could serve as a base for modern strike fighters like the Chinese Xian JH-7 or the Russian Sukhoi Su-30MKK attack fighter, that are now being delivered to China. These attack fighters could be guided by radar warning and control aircraft like the Chinese Y-8 transports now being outfitted with 200-mile-range British radar purchased in 1996, or the Russian Beriev A-50 AWACS that China is also slated to purchase.

China has relative naval superiority over many of its neighbors and its ships are becoming increasing more capable. The South Seas Fleet, which has responsibility for the Paracel and Spratly areas, received the first *Luhai* class destroyer, the most modern naval ship built in the PRC. This 6,000-ton ship carries 16 modern C-802 cruise missiles, two helicopters and a range of modern electronic systems. China's East Sea Fleet now has two Russian-built *Sovremenniy* class missile destroyers armed with the supersonic *Sunburn* anti-ship missile. In the late 1990s the South Sea Fleet received six new and upgraded *Ming*-class conventional submarines. These are not the most modern submarines in the region, but in combination with the South Sea Fleet's many other missile-armed ships and attack aircraft, they give Beijing a clear superiority over the Philippine Navy and Air Force.

In the future China's missile and space systems will further expand its superiority over the Armed Forces of the Philippines. China still maintains intermediate range nuclear missiles, DF-21s and possibly DF-3s, at its Lianxiwang Launch Complex. Originally these were targeted at U.S. military forces in the Philippines, but China's missiles have remained pointed at Filipinos long after the departure of U.S. forces. China is also developing new long-range land attack cruise missiles that can be launched from sea and air platforms. Both ballistic and cruise missile will soon be targeted by a Chinese satellite network that will include new electro-optical and radar satellites, and new navigation satellites.

*Philippines Outclassed.* The Philippines has no defense against Chinese missiles. Furthermore, the Philippine Air Force and Navy are outclassed by those of China. Current Philippine air defenses consists of only 8 to 12 F-5A fighters, a type that first entered Philippine service in 1965. These fighters lack sophisticated combat

<sup>1</sup>In the battle for Johnston Reef over 70 Vietnamese were killed. These battles led to China's occupation of reefs at Chigua, Fiery Cross, and Subi.

systems and are lacking ground-based radar coverage. The most modern ships in the Philippine Navy are three small British-made gunboats purchased from Hong Kong in 1997. No Philippine Navy ships are equipped with modern anti-ship missiles. A World War II-vintage tank-landing ship that was used in mid-1995 to ferry journalists to Mischief Reef broke down and had to be towed back to Palawan. In late 1996, the Philippine Congress approved a \$3.3 billion military re-equipment program. The 1997 Asian financial crisis, however, has made it difficult for the government to appropriate the funds needed to carry out this program. Nevertheless, the Armed Forces of the Philippines (AFP) have an urgent requirement for capable fighters, maritime patrol aircraft and combat ships. The failure to date of the Philippine government to implement its modernization program indicates a need to become much more serious about their external defense. However, the revival of old internal security threats may only further delay the AFP's modernization.

#### AN OLD ALLIANCE FADES AND REVIVES

China very likely decided to build its Mischief Reef facilities in part to take advantage of the regional power vacuum created by the breakdown in U.S.-Philippine military cooperation and the parlous state of the Philippine Air Force and Navy. While the U.S.-Philippine alliance has begun to improve since 1998, this alliance has also weathered recent strains as it has seen supreme sacrifice. For most of this century, Filipinos and Americans have cooperated to defend freedom in Asia. Filipinos and Americans fought to resist Japan's 1941 invasion of the Philippines, and after defeat, cooperated in guerrilla resistance. Some 300,000 Americans returned to help liberate the islands in October 1944. All told, the war in the Philippines cost the lives of 1 million Filipinos, over 17,000 Americans and about 350,000 Japanese.<sup>2</sup> Philippine Army units fought with U.S., South Korean, and allied forces in the United Nations effort to repel North Korea's 1950 invasion of South Korea. And from 1965 to 1968, Filipino civil action teams worked with U.S. forces in South Vietnam.

For nearly a century from 1898 to 1992, American military forces were based in the Philippines. From the beginning, when U.S. forces suppressed Filipino independence fighters in a bloody 10-year war and made the Philippines a U.S. colony, their presence was resented by many Filipinos. After the Philippines gained independence in 1946, a large U.S. military presence continued, generating great debate among Filipinos. On the positive side, American advice and military material aid was instrumental in helping Philippine President Ramon Magsaysay to defeat the Philippine communist "Huk" guerrilla movement in the 1950s. In the 1980s, large-scale U.S. economic and military material assistance allowed the weak government of President Corazon Aquino to pursue economic development and combat a more powerful indigenous insurgency led by a new Communist Party of the Philippines. And while the Armed Forces of the Philippines (AFP) was occupied fighting communists, U.S. aircraft at Clark Air Base and navy ships in Subic Naval Base helped deter formidable Soviet forces in Northeast Asia and in Vietnam.

*Political estrangement.* The new generation of leaders that came to power with President Corazon Aquino in 1986 did not fully support larger U.S. strategic goals, even though most Filipinos favored the U.S. military presence and close ties with America. The new leaders were more concerned with righting long-ago wrongs, such as U.S. support for the dictatorship of former President Ferdinand Marcos, while ensuring that generous U.S. economic and military aid continued. There was Philippine disappointment when promised aid was not delivered, and American disappointment when Manila was slow to support the U.S., as it was during the Persian Gulf War. Philippine Foreign Minister Raul Manglapus and U.S. Ambassador Richard Armitage completed a new Bases Treaty in August 1991 that provided for \$200 million in aid for 10 years. Only then did Aquino campaign to support the U.S. presence. But it was too late. On September 16, 1991, the treaty failed in Philippine Senate by one vote.

During the 1980s the Philippine Armed Forces also grew increasingly estranged from their U.S. counterparts. In the late 1950s and early 1960s, Philippine air and naval forces exercised with U.S. and other friendly Asian militaries under the old Southeast Asia Treaty Organization (SEATO). By the 1970s such cooperation became infrequent as the AFP air and naval forces fell into obsolescence and disrepair, and as funding priorities shifted to emphasize fighting communist guerrillas. The United States encouraged this shift as there was no alternative, but also to promote political reform in the AFP, which was becoming a tool of repression for Marcos. At

<sup>2</sup>The Manila American Cemetery contains the remains of 17,206 American servicemen, the largest American military cemetery outside the United States.

this time military rebel factions began to grow, and would later try to overthrow Aquino. Unfortunately, the counter-insurgency and counter-rebel focus led to greater unfamiliarity among Philippine military leaders with role of the U.S. military presence in sustaining regional peace. By the end of the 1980s the AFP was not eager to support the U.S. military presence.

By this time Washington was losing patience with Manila due to constant tensions caused by fractious politics and requests for assistance. In 1986 a consensus emerged in Washington to give a large amount of assistance to Aquino to help her fragile government strengthen democracy. Despite generous U.S. aid—over \$3.4 billion during Aquino's term—her government did not stabilize quickly. When the Mt. Pinatubo volcano erupted in June 1991, causing great damage to Clark Air Base and Subic Naval Base, the United States withdrew from Clark, and lost much of its desire to remain at Subic. When attempts to negotiate a shorter-term access agreement failed in the wake of the Philippine Senate vote, the United States accepted a Philippine notice to leave, and the remaining U.S. forces departed Subic in August 1992.

*Cooperation fades.* From 1992 to 1999 officials in both Washington and Manila have repeatedly reaffirmed the 1951 Mutual Defense Treaty, but were not able to fashion a new and mutually acceptable defense relationship. Although Aquino's successor, President Fidel Ramos, was personally popular in Washington, the top priority of his Administration was promoting free-market economic reforms and economic growth. Ramos was not eager to expend political capital on a still controversial military relationship with Washington. Exercises on Philippine territory were suspended after December 1996, when the Philippine Supreme Court rejected the Ramos Administration's extensions of a pre-existing Status of Forces Agreement (SOFA). Such an agreement was needed to establish the legal status of U.S. forces when in the Philippines. For most countries a SOFA is merely an executive agreement, but the Philippine Constitution requires that it be approved by the Senate like a treaty. A new SOFA, since renamed the Visiting Forces Agreement (VFA), was completed in January 1998.

#### REVIVAL OF THE U.S.-PHILIPPINE ALLIANCE

Former President Estrada and his Defense Secretary, Orlando Mercado, both voted against the 1991 bases treaty as Senators. However, after Estrada won the 1998 election, both led the campaign to achieve Senate approval for the Visiting Forces Agreement in the face of considerable political opposition. The Philippine Senate approved the VFA in May 1999. The Estrada Administration pushed for the resumption of alliance cooperation with the U.S. and for greater involvement in the security of Southeast Asia. This change in Philippine attitudes is due in large part to China, and to the realization by Philippine leaders that a strong U.S.-Philippine alliance has in the past kept the peace, and can do so in the future.

To its credit, the Clinton Administration has responded positively to this new Philippine attitude. Following former Secretary of Defense William Cohen's visit to Manila in early October 1999, Washington and Manila have resumed substantive military exercises and have begun to assess the future of U.S.-Philippine military relations. In February last year, over 2,000 U.S. soldiers participated in the series of joint U.S.-Philippine exercises known as *Balikatan* (meaning "shouldering the burden"). This past *Balikatan* featured small exercises on the island of Palawan, which is closest to the PRC occupied Mischief Reef. The next *Balikatan* exercise is scheduled for this April.

Since the passage of the VFA, many U.S. Navy ships have visited Philippine ports. This helped to sustain the U.S. military presence in that region at a time when the PRC denied access to Hong Kong for the U.S. Navy. The Estrada Administration further signaled its interest in assisting regional stability by sending 750 troops to join the International Force In East Timor (INTERFET) and the associated United Nations Transitional Authority for East Timor (UNTEAT). The U.S. gave the Philippines aid in the form of trucks to help it accomplish its East Timor mission. The Philippines has also joined the U.S. in criticism of the recent abuses of political and human rights in Cambodia, Malaysia and Myanmar.

In her initial statements President Macapagal-Arroyo has expressed her willingness to improve all aspects of the Philippines' relationship with the United States. This has been a long-standing view of hers. It can be safely expected that President Macapagal-Arroyo will also seek to continue the ongoing improvement in U.S.-Philippine military cooperation.

After Cohen's 1999 visit the U.S. and the Philippines started a Defense Experts Exchange that has produced a broad assessment of Philippine defense requirements. This process will serve to give the U.S. a better understanding of Philippine defense

needs, should the U.S. decide to better help the Armed Forces of the Philippines meet its pressing needs. This would also be a logical next step in the U.S.-Philippine strategic relationship.

*Strategic importance.* The strategic importance of the Philippines remains constant for the United States. In May 1995, almost four months after PRC structures were discovered on Mischief Reef, the Clinton Administration issued a statement that affirmed U.S. neutrality, but also emphasized that "Maintaining freedom on navigation is a fundamental interest of the United States." This can hardly be exaggerated: Up to 70 percent of Japan's oil transits the sea-lane between Mischief Reef and Palawan. This sea lane is critical to the economies of Japan, South Korea, and Taiwan, which in turn propel Asian economic activity that allows the sales of enough U.S. goods to generate jobs for about 4 million Americans. While the U.S. has had a traditional position of neutrality regarding the conflicting claims to the South China Sea, the relative inaction of the Administration after the 1995 Mischief Reef incident did not seem consistent with U.S. interests. It certainly was cause for disappointment by Filipinos. However, the Clinton Administration started to make up for this by moving to revive military cooperation with Manila during its last two years.

#### A TIME TO HELP OUR FRIEND

In President Macapagal-Arroyo the Philippine people have a leader who understands the burden of her office, the enormous demands on her leadership, and the necessity of defending the freedom of Filipinos. Her victory was a victory for the rule of law and for Philippine democracy. As the Philippines' historic and main ally, Washington should consider how it could help Filipinos.

There is cause for the U.S. to consider how it can better focus existing U.S. economic assistance on developing Mindanao, especially the Muslim areas. This need not necessarily be expensive project assistance, but can also take the form of advice and consultants to help Manila tackle local problems. Any assistance that the U.S. can provide to help Filipinos remove barriers to trade will also be in the interest of both countries. In 1999 the Philippines rose from the 19th to the 16th largest U.S. trading partner, as the U.S. has long been the first or second major trading partner for the Philippines.

As the Clinton Administration started, with the former Estrada Administration, to rebuild the U.S.-Philippine strategic relationship, it behooves the two new governments of Presidents George W. Bush and Gloria Macapagal-Arroyo to continue on this path. However, it is important to be mindful of lessons from the recent past. Both countries should not forget that a strong alliance has and can continue to contribute to security of the other. The Philippines retains its strategic position near critical sea-lanes, and near potential flashpoints that could engage U.S. forces, like the Taiwan Strait. In the past, strong U.S.-Philippine cooperation has deterred potential aggressors. When cooperation has lapsed, as it did in the 1990s, China took advantage and occupied Mischief Reef.

It is also critical, as both Manila and Washington look to the future, to be sure that respective strategic goals do not diverge. There was clear divergence in the 1970s and 1980s that served to undermine political support for the alliance in both countries. Future cooperation must be grounded on a mutual understanding of threats and security needs. For example, the PRC challenge is specific for Manila, but also regional for Washington. Manila clearly needs help sustaining and modernizing its armed forces. The U.S. will require access to Philippine bases in the context of military cooperation that will support Philippine and regional security. Given the increasing political pressures on the U.S. military presence in South Korea and Japan, it is logical for Washington to again seek useful, but not permanent access to Philippine bases. By the same measure, the U.S. should encourage and help facilitate greater Philippine involvement in the region's security.

Finally, it is critical that both avoid unnecessary dependency. Philippine dependency on U.S. economic and military aid in the past, though necessary, also bred resentments. Today the U.S. has a range of used but effective military equipment that it could offer to Manila for bargain prices, but this should be done in the context of an effective modernization program that is largely funded by the Philippines. That said, it does remain in the U.S. interest that the Philippines acquires an effective defense capability that can deter potential aggressors, like the PRC, and enable greater Philippine participation in bi-lateral and regional security cooperation. It is also in the U.S. interest that the Philippines be able to resist terrorism and the illegal drug trade—a real threat today in the Philippines. For this fiscal year, it would be appropriate to consider how the U.S. could make available to the Philippines

spare parts for their helicopter fleet, and other sorely needed items like long-range radar, that the U.S. would have in excess storage.

In closing, Mr. Chairman, I would like to mention some Philippine heroes who have for me personified the Philippine-American alliance. From an older generation I would mention General Luis Villa Real, who served in the American forces in World War II, and Ambassador Alex Melchor, a graduate of the U.S. Naval Academy. Both have led exemplar lives of public service, building their nation and defending its freedom from all internal threats. When I first met them in the mid-1980s they were both leading efforts to oppose Ferdinand Marcos, and both went on to serve the Aquino government. Both Melchor and Villa Real have been constant allies of the United States, and despite their age, remain inspirational crusaders for freedom and honest government.

From this same generation, I would like to mention my uncle, John Brush, who spent over three years as a civilian prisoner of the Japanese Army in the Philippines during World War II. He and his late wife owed their survival to friendship of Filipinos who sustained them. His respect for the Philippines has informed my own.

From my generation, I would like to remember Eddie Federico, who I first met in a Bicolod City jail in 1988. He had just been captured as a key leader in the CPP movement in Negros Island. Over the next two years, Eddie changed his heart, renounced his Communist faith, embraced democracy and worked with the government to bring his colleagues out of the hills. He was effective and fearless in seeking to right his wrongs. But this was to cost him his life in early 1991 when he was assassinated in Manila by the CPP.

To know the Philippine-American alliance is to know many such heroes. To me, these friends symbolize the willingness of the Filipino to defend their freedom, in a democracy like our own, which aspires to a more perfect union. The Philippines is a proud nation, it faces daunting challenges, but it is also our ally. America must invest in this friendship, not just because it is in our interest, but because it affirms our own democratic values, which were long ago embraced by the Philippines.

Senator THOMAS. Thank you, sir.

Senator LUGAR.

Senator LUGAR. Thank you, Mr. Chairman. I appreciate your holding this hearing, and the responses of the witnesses. It seems to me, as I have listened to your testimony, there are certain paradoxes in the situation that I want to discuss with you for a minute.

You have pointed out that the base for the change in government is narrow, that it is the middle class and the upper-middle class. At the same time, the Philippines still is riven with corruption, although clearly the basis for the change in government was a reaction to the corruption that was felt by most of the people in whatever class they were in. As a result, the Presidency there that may be narrowly based, but is probably generally trusted to be well-motivated even by a system that is still corrupt and narrowly based in terms of ownership. Having terminated relations with the United States in terms of the military bases, as you suggested, they are on the threshold of trying to think through new security arrangements which you both advise we should help.

Now, given all of that, I am curious as to what kind of effective economic strategy could be devised by the new President and the government. Given the lack of activity, or rather the lack of prosperity for the moment in Japan or elsewhere, our country really is probably the only source of significant capital and business partnership. Thinking outside the box for a moment, is this a time for a major breakthrough in our thinking? We frequently use the term, Marshall Plan, because it fit another continent or another time.

Should we be trying to think through the infrastructure needs of the country, as well as the institution-building, so you would have less narrow ownership and a broader popular base? Some thinking

that makes certain that the change reaches far into the population, so there are some roots for an economic revolution. Some thinking with the Philippine leadership on the fact that the Philippines, as well as Japan, Singapore, the ASEAN nations, take for granted that should there be aggression against any nation in the area, the United States is a defender.

But the logistic possibilities of that defense are pretty small. As Secretary Perry discussed 3 or 4 years ago when there was the potential for invasion by North Korea of the South, getting 200, 300, 400,000 people to the area, as were contemplated for the rescue, requires bases, some place for people to regroup, for boats to alight, or for supplies to come in. The question is relevant even if the political will in the United States or Asia existed, and people wanted this kind of support.

At some point, people have to think about these. The Japanese, to their credit, resisted attempts to expel American troops from Okinawa, the last vestige, aside from South Korea, of significant troops in the region. These are strategic questions that are important for the future of the Philippines, as well as for the area, if the Philippines were to take off in a partnership combining Philippine ingenuity and American capital.

Otherwise, it seems to me that we are fated to wish the Philippines well, to indicate that we maintain a sentimental relationship, and that we hope they will work it out, but we do not want to interfere or feel they do not want us to interfere. We keep observing that the political culture is corrupt, that it is narrowly based, that there are many, many poor people that are staying poor, and that it is still a dangerous area in which there is no overall American strategy for changing that.

This is almost too much to react to in one question, but do you react to any of these ideas, or is this analysis so far off that we ought to go back to ground zero and think up another one?

Dr. CLAD. No, sir. You raise a lot of things, though, and what I want to do is walk through them quickly but try to touch on each point as I take them down.

The first thing I have written down for your note-taker is the word, In Tagalog, in Filipino called *garapal*. It is a useful word for understanding why the Philippine middle classes found Mr. Estrada so offensive. It is not that the scale of greed exceeded Marcos. Far from it. It was quite small by comparison. It was the way in which it offended sensibilities, and I think it is a very useful way to do it. There is something about it, the brazen nature of it, the involvement of a lot of—it is style, involvement of ethnic Chinese business characters from Macao, those sort of things hit hard. That is one thing.

I think it is a country of contradictions. I think, for example, it is a mistake to give it—and I would never use the word myself, as a, “basket case.” There are areas, for example, back-room operations of American and other foreign corporations where the Philippines, which has now the world’s third largest number of English speakers in any country, is taking a very interesting role in servicing large, multinational, whether it is payroll, whether it is production of business manuals, a number of things. This is a very exciting area in the Philippines and plays to its strength.

Third, the professionalization of the business middle classes in Manila is a fact, and it was enhanced rather than hampered by the administration of President Ramos, and we are hoping to see a resumption of this. There are many things that are on track.

As far as direct foreign investment is concerned, sadly, the Philippines, just as, sir, we out there for the first time in the mid-eighties, missed out, then, on the wave of direct foreign investment coming out of Japan and Korea because of their chronic political instability, and now, after the financial crisis of 1997, medium-sized foreign firms are looking to relocate their offices or corporate headquarters, and then you get this political risk overhang again, so it has not been all that neatly done.

As far as a kind of Marshall Plan idea, sir, you will recall there was something of a multilateral aid initiative, the MAI, which, given our constrained circumstances, but also the cold war environment, we could contribute to, I think it would be hard to fashion a constituency that would be hard to go in now considerably, given, I think, especially the way in which the Philippines was no longer on the screen the way it was when we were in the bases in the cold war and the World War II generation was correspondingly younger.

As far as what we can do to help logistically, Senator Lugar and Senator Thomas, you will remember the approach of the time Carl Ford, when he was in the Reagan administration, looking at places, not bases, and I think that approach has been a success.

I am hopeful, and I think the tenor of my remarks and that of Mr. Fisher, that we can get back to a normal, quote-unquote, relationship with the Philippines as a country anchored in Southeast Asia so that we can do things with them multilaterally, and it is not just in this bilateral and sometimes rather touchy relationship in which the military establishments of both sides remember the events of 1991 and our eviction from Subic and so on, and so I think the healthy relationship is there.

And I would return to my final remarks that if we are focused and look at things in the maintaining the military equipment, we aim to work with the Philippines in an ASEAN multilateral way and then assist, perhaps, with encouraging the type of energy reform we have seen, I think the focus will help as much as large numbers of dollars.

Senator LUGAR. Already I know a lot of work is done, and you touched upon this with regard to software and electronic aids and what-have-you. Is the Philippines a country in which something such as what has occurred in India might occur?

Dr. CLAD. Yes, sir. I believe it is already happening. That kind of infotech dynamism is there. The creative side of it needs to be fashioned, but already there are very encouraging signs. If you look at personnel hired by firms outside of the Philippines there are some intersecting signs, but some of the office software now is being written in Manila, so I think things are part of a complicated picture.

Senator LUGAR. Because we heard testimony, when the Irish Foreign Minister was here last week, that a revolution has occurred in Ireland with young people, and he claimed more software is being exported from Ireland than any other country, maybe, other than the United States. That sounds like a bit of blarney.

Well, you know, 4 million people in a small country, that is a lot of software, but it occurs to me this is clearly a market where the United States firms have relations, because a huge amount of software work and electronic work occurs there. And now in India, quite apart from Indians who come to the United States. The ebb and flow back and forth with these nationals is interesting.

Dr. CLAD. Senator, if you and I are both right, we now have in Macagalong Palace a President who is completely alert to those possibilities, so I hope we are right.

Senator THOMAS. What we are really interested in is kind of your views of where we go from here. Would you respond to Senator Lugar?

Mr. FISHER. I would simply add that, apropos of the comments of the Philippine information technology dynamism, the transition that we saw was just enabled by the widespread use of digital cell phones and the ability to send small mobilizing messages. It has had an impact on their democracy as well.

Dr. CLAD. The parity of the volume of text messages in metro Manila exceeds the whole rest of the world in combination.

Mr. FISHER. But Mr. Chairman, in terms of where we go, I agree with Dr. Clad, I do not think that a Marshall Plan approach is really suitable or necessary at this time. Usual American honest, friendly advice is, indeed, something that we should offer where we think appropriate, and any encouragement that we can give to the new government to proceed with resuming the path of reform that was started by President Ramos was suspended under Estrada's administration, but reforms that strengthen the financial sector, improve transparency, increase opportunity, lower subsidies, improve access to capital by all classes, especially the lower classes, all of this will contribute to the Philippines' economic strengthening and economic growth.

As regards to our alliance relations, Senator Lugar, I am one of those who believes that there is a place for the Philippine-American alliance in the larger American construct of alliance relationships in Asia. I think that if we value our alliance with the Philippines, we should talk to our allies about the future, about a part that they may play in a larger role, and also how they benefit from the wider strategic investment that we make in peace in Asia.

I agree with Dr. Clad that our relationship will probably never approach that where it was in the 1980's, 1970's, but I would also add that there were several disparities in that relationship that helped contribute to basically the suspension of military cooperation in the early to mid-1990's. We did not share a common set of defense goals. We did not share an understanding, a mutual understanding on regional security, and the Filipinos focused on their internal insurgencies, did not—or felt that they were being short-sighted, in the American view, on our focus on external defense issues, whereas our main concern were the insurgencies and such.

All of this has now passed. Enough water has gone under the bridge, and I think that it is time for us to begin a new and long-term and far-reaching and far-looking conversation with our Philippine allies about roles that they may play, ways in which they may assist us, as you suggest, in terms of logistic support, how we might include them in a higher level of involvement and peace-

keeping activities, or try to find ways to enable their participation, even at the level of observers, in our bilateral or multilateral alliance exercises in Asia.

I think there is a lot we can do to contribute to help promote a greater awareness of our strategic investment in Asia and why we do that, and I also think that over time we can convince them to play a larger role, and that we will all benefit from that.

Senator THOMAS. If you came into this conversation and just had read a little of the background, you would assume that we have not had a relationship with the Philippines, is that the case?

Dr. CLAD. If the question is, it would sound as if you are talking about just another country—

Senator THOMAS. Well, we have to renew, we have to change, we have to strengthen. Have we not changed substantially from what our relationship has been in the past?

Dr. CLAD. My view is, we have.

Mr. FISHER. This process is underway, but I point out that for most of the 1990's we were more or less indifferent of each other, and I would also submit that it was this indifference to our alliance relationship, which I believe emboldened the Chinese to move into Mischief Reef in late 1994, early 1995.

I think that should serve as a lesson to us, when we do not pay attention to our alliances we invite trouble. This estrangement has as much to do with the Philippines and the choices that they made, and their indifference toward us, but I also believe that our indifference in the early to mid-nineties toward Manila helped to invite that trouble.

Senator THOMAS. Do you think their indifference toward us has changed? What do you predict to be the position of the new administration there?

Dr. CLAD. Sir, just, if I can, to underscore something Rick just said a moment ago, when I teach international relations at Georgetown and East Asia, one thing I tell the students is, remember, of all the countries in Southeast Asia, only the Philippines was stuck, quote-unquote, with a rising ascending power, and all the rest of them saw the Western powers disappear.

The American-Filipino relationship is extraordinarily complicated, and characterized by a great deal of dependency, which is reinforced during the cold war by expectations, the way Marcos played us for extra money, and I think it became very unhealthy.

When I said it is a healthy relationship, I did not mean to suggest that we were better positioned, for the reasons that Senator Lugar partly alluded to, but I believe that we are beginning to deal with one another as a major Asian country and the greatest of great powers, and I think that is healthy, particularly if it is anchored, as Mr. Fisher and others suggested, within a regional focus.

As far as the new administration there, I believe we really do have the kind of people who see the world as it really is. We have an attitude that wants to include Filipinos into market dynamism, wants to be programmatic about politics, wants to focus the new foreign secretaries, also the Vice President. He realizes he had a southern issue to deal with. He wants to do that regionally, and

the way the Indonesians were so helpful with assisting before the fall of Suharto and their own distractions.

So I think we have in place a competent and realistic government in Manila, and I also believe that the new administration here sees that devoid of these old colonial relationships in a way that I think is very healthy for the future.

Mr. FISHER. I would agree. Congressman Rohrabacher just led a delegation to Manila. He focused a great deal on security issues, bilateral and specific to the Philippines.

My review of what he was able to learn, and from my conversations with friends who were with him, leads me to concur with Jim that a new administration is effused of straight-seeing and clear-headed people who do want to build a better alliance relationship. They want to continue what was started by the Clinton administration and President Ramos, the dialog, the resumption of exercises, and they do want to talk about the future.

Dr. CLAD. And if I may say, sir, I believe they also want to see us helping them in a regional context as well. They are no longer anxious to play the old bilateral game, which I think led us into so many traps and sensitivities. I think they hope that we will best help them in a way that is also assisting a regional cohesion, so I think it is a win-win there.

Senator THOMAS. Any further comments, sir?

Senator LUGAR. Well, I am encouraged by the council you have given us, because you are long-time students of the country. I echo the chairman's thought that it still is a very special relationship. In other words, this is not a situation of just taking antiseptically a view of another country in Southeast Asia.

I remember a celebration here in Washington—time goes by rapidly—it was the 100th anniversary of Philippine independence. It was being celebrated by Filipinos. One of the extraordinary things about this was that the Filipino-Americans came from all over the country, with talent, professions, and some idea really of the Philippine presence in this country.

You mentioned remittances back to the Philippines. Even more than that, it appears to me that there is probably a reservoir not only of goodwill, but ultimately of some money, of some catalyst for capital development.

I appreciate your mentioning the multilateral assistance initiative, because that really did come out of the election of 1986, and the feeling about 4 years later that we are not doing very much about helping the new democracy. So there was a resurgence, and some of that assistance went to Mindanao, as you remember. That sort of disappeared from the scene. Perhaps there is not the same feeling today but, on the other hand, I am inclined to think there may be more there than meets the eye.

The new Presidency, how it came about, and the ties that the President has with the United States are considerable. This remains to be seen. Perhaps we should move, as you suggested, with the work and the military equipment and begin to talk about the strategic importance place of the country. It appears to me that for the breakthrough to occur, the economic growth has to be there. There has to be some production, and it has to be more broadly based. How these institutional changes occur is up to the Filipinos.

It could be influenced, it seems to me, by our institutions, by the way we do things. We have failed altogether in similar instances in Russia, for example, but done much better in Poland, so there are some wins and losses in this, but the Philippine relationship is such that it seems to me that there is more of a chance for a win there.

Thank you again, Mr. Chairman.

Senator THOMAS. Thank you, gentlemen. I think it is appropriate for us to talk about this issue. I think it is one that is out there, and it is very important to us in terms of Asia, and so I thank you, and we will keep the record open for any questions we might have.

Thank you all for your participation. The subcommittee is adjourned.

[Whereupon, at 3:25 p.m., the subcommittee adjourned.]

