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UNITED STATES POLICY TOWARDS THE PHILIPPINES (S)

General

The United States has vital interests in the Philippines that are threatened by internal political and economic developments. Politically, the Philippines must be a stable, democratically-oriented ally as a radicalized Philippines could destabilize the entire region. Strategically, continued and unhampered access to our military facilities is of prime importance in helping to offset the expanded Soviet threat to one region. Moreover, alternatives to the existing bases are much more expensive and less satisfactory. Regionally, a strong ASEAN that includes a healthy Philippines allied to the United States is a buffer to Communist pressure in Southeast Asia and a model of what economic freedom and democratic progress can accomplish. Economically, we benefit from a strong investment and trade position. (S)

Throughout the ongoing crisis unleashed by the Aquino assassination, the bedrock of our policy has been to reform and revitalize Philippine political, economic and military institutions. We have used quiet diplomacy and judicious use of leverage to achieve many positive developments over the past 18 months. (S)

Our Overall Approach

We are not promoting the dismantling of institutions that support stability -- as occurred in Nicaragua during the collapse of the Somoza regime. Our goal is orderly succession that leads to a stable transition. Accordingly, we are actively, albeit discreetly, supporting the efforts of diverse Filipino leaders to promote revitalized institutions. These include the responsible members of Marcos' party, the businessmen and professionals, the Catholic hierarchy, the military professionals, and responsible members of the democratic opposition. (S)

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Our goal is not to replace the current leadership of the Philippines, but to preserve the stability of a key ally by working with the Philippine Government and moderate elements of Philippine society to realize the following objectives:

- revitalization of democratic institutions in order to assure both a smooth transition when President Marcos does pass from the scene and longer-term stability;
- exposing the economy -- in particular the agricultural sector -- to the interplay of free market forces; and
- restoring professional, apolitical leadership to the Philippine military to permit it to deal effectively with the growing Communist insurgency. (S)

Strategy and Resources

Bases-related assistance, while not explicitly conditioned upon reform, should be managed in a manner which reinforces our policy goals. The military component should concentrate on practical programs, such as logistics, maintenance, training, equipment for mobility and communications, and civic action. (S)

Economic assistance beyond the bases-related package, including support for international financial institutions, will be explicitly conditioned upon the Philippines successful implementation of, and compliance with, the International Monetary Fund (IMF) program and a comprehensive program of structural economic reform, promoted and monitored by active bilateral and multilateral policy dialogue. It is essential that we coordinate closely with international financial institutions such as the International Bank of Reconstruction and Development (IBRD) and Asian Development Bank (ADB). The prospect of national Philippine Government performance in the economic sphere is enhanced by our agreement with these institutions on objectives in the Philippines. We should use our decisions on new loans or disbursement against existing loans to ensure that specific policy targets are established and met. (S)

As separately decided in the budget process, non-bases-related bilateral measures will include:

- Development Assistance (DA) at \$35-40 million annually;
- strong effort to implement a new PL 480, Title I/III program of \$40 million in FY '85 and \$35 million in FY '86, with \$15 million fenced in the FY '86 reserve;

- increased Economic Support Funds (ESF);
- review of the scheduled phase-out of PL 480 Title II;
and
- reduced sugar duty on a Most Favored Nation (MFN)
basis. (S)

An enhanced security assistance program of \$195 million for FY '86 should be offered, with \$100 million in military aid, including the maximum possible MAP component and ESF maintained at \$95 million, contingent upon available resources. This enhancement over the assistance called for by the bases-related best efforts commitment will be used to promote reform. Should reform not be forthcoming, our assistance level would revert back to the original bases-related mix and levels. (S)

Political objectives will be pursued through active diplomacy, to include Presidential and other letters and visits by Administration officials as needed. In order to ensure that we are reaching the new generation of future leaders, existing exchange programs will be increased. (S)

As it becomes clear that the Philippine Government is truly committed to implementing a broad array of political and economic reforms, including compliance with the IMF program, we should move quickly on significantly enhanced bilateral and multilateral economic assistance. Based on currently anticipated requirements, and contingent upon available resources, recent bilateral donor support levels averaging \$450 million per year might be increased by three-quarters with the total United States portion in the \$300-350 million range. We would also support properly conditioned Philippine Government requests for additional World Bank and ADB loans which are consistent with their lending policies and practices and resource availabilities. Based on donor estimates of needs, such lending might rise from present levels of about \$650 million per year to about \$1 billion. Assistance would be tranched and linked to performance on the needed political and economic reforms. (S)

Close consultation with the Congress should be effected to sensitize key members of the threat to our vital interests in the Philippines, ensure bipartisan support of our policy and unencumbered resource levels needed for its implementation. (S)

Ronald Reagan