The Republic of the Philippines and U.S. Interests

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Summary

The United States and the Republic of the Philippines maintain close ties stemming from the U.S. colonial period (1898-1946), the bilateral security alliance, extensive military cooperation, and common strategic and economic interests. Although the United States closed its military bases in the Philippines in 1992, the two treaty allies have continued joint military activities related to counterterrorism and maritime security. The bilateral security relationship has gained prominence as a key link in the evolving U.S. foreign policy “pivot” or “rebalancing” toward Asia, and the two sides are discussing bolstering U.S. access to Philippine military facilities. On November 16, 2011, U.S. Secretary of State Hillary Clinton and Philippine Secretary of Foreign Affairs Albert F. del Rosario signed the “Manila Declaration,” which reaffirmed the bilateral security relationship and called for multilateral talks to resolve maritime disputes in the region.

Broad U.S. policy objectives include the following: maintaining the U.S.-Philippine alliance; enhancing security and stability in the South China Sea; assisting the Armed Forces of the Philippines (AFP) in counterterrorism, maritime, modernization, and administrative reform efforts; supporting the peace process in Muslim areas of Mindanao; promoting broad-based economic growth; and helping the Philippines to develop more stable and responsive democratic institutions. The U.S. Congress has placed conditions upon a portion of U.S. military assistance to the Philippines in order to pressure the Philippine government and judicial institutions to hold the perpetrators of extrajudicial killings and violence against journalists accountable.

Since 2002, the United States has provided non-combat assistance to the AFP through the Joint Special Operations Task Force-Philippines—rotating units of approximately 600 U.S. military personnel. Philippine-U.S. counterterrorism efforts, along with development aid, have helped to significantly reduce the size and strength of the Abu Sayyaf Group, a violent, Philippines-based Islamist organization that has acted as a bridge between Southeast Asian terrorist networks and Muslim separatist insurgencies such as the Moro Islamic Liberation Front.

In the past decade, the Philippines has been one of the largest recipients of U.S. foreign assistance in Southeast Asia. About 60% of the aid supported development programs in Muslim areas of Mindanao and the Sulu Archipelago, with the aim of mitigating the economic and political conditions that make extremist ideologies and activities attractive. In 2010, the U.S. Millennium Challenge Corporation approved a five-year, $434 million compact with the Philippine government. Through the Partnership for Growth, the United States supports economic expansion and investment in the Philippines and Manila’s goal of joining the Trans-Pacific Partnership, a multilateral free trade agreement.

In 2011, Chinese naval forces reportedly harassed Philippine fishing and oil exploration vessels and erected structures in disputed waters of the South China Sea near the Philippine island of Palawan. Philippine President Benigno Aquino responded in part by announcing increases in the country’s military budget and welcoming increased security cooperation with the United States. The Philippine government has demanded that Beijing negotiate a code of conduct and settlement of claims with the principal regional body, the Association of Southeast Asian Nations (ASEAN). The U.S. government does not take a position on the territorial disputes, but supports a peaceful resolution that is based upon international law and involves a multilateral process. Washington also has promised greater military cooperation with, and assistance to, the Philippines, although no permanent U.S. bases are planned.
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Overview

The United States and the Republic of the Philippines maintain close ties stemming from the U.S. colonial period (1898-1946), a history of extensive military cooperation, the bilateral security alliance bound by the Mutual Defense Treaty of 1951, and common strategic and economic interests. Although the United States closed its military bases in the Philippines in 1992 (Subic Naval Base and Clark Air Base), cooperating on counterterrorism efforts and hedging against China’s rise in Southeast Asia have further invigorated the security relationship. Other pillars of the bilateral bond include shared democratic values and people-to-people contacts. Filipino-Americans number approximately four million, making them one of the largest Asian-American groups, and comprise the largest foreign-born group in the U.S. armed forces. An estimated 150,000 Americans live in the Philippines.¹ Despite general agreement on the importance of U.S.-Philippine relations, the potential for bilateral friction remains as interests and perceptions occasionally diverge regarding obligations under the alliance, the U.S. role in maintaining Philippine internal and external security, responding to China’s regional influence, human rights, and other issues.

The U.S.-Philippines relationship has gained prominence as a key link in the evolving U.S. foreign policy “pivot” or “rebalancing” toward Asia, particularly Southeast Asia. In 2011, the Obama Administration announced that it would reorient its diplomatic, economic, and military resources toward the region.² Some analysts argue that China gained relative influence in Southeast Asia during the 2000s through diplomatic efforts and offers of economic cooperation and development assistance, as Washington was perceived as focused narrowly on counterterrorism efforts in the region. Although the Bush Administration took steps during its second term to reverse this trend, the Obama Administration has more explicitly sought to reengage Southeast Asia and to work with its multilateral bodies. These moves have been broadly welcomed in the region. In November 2011, President Obama presided over the Asia-Pacific Economic Cooperation (APEC) forum in Honolulu (hosted by the United States for the first time in 18 years), and then flew to Canberra, where he signed a new military basing agreement with the Australian government. In Bali, Indonesia, Obama participated in the third Association of Southeast Asian Nations (ASEAN)-U.S. Summit and attended the East Asia Summit (EAS), the first U.S. President to do so, where he raised the issue of territorial disputes in the South China Sea. The President also met individually with Philippine President Benigno Aquino, Chinese Premier Wen Jiabao, and other Asian leaders on the sidelines of the meetings.

² For further information, see CRS Report R42448, Pivot to the Pacific? The Obama Administration’s “Rebalancing” Toward Asia, coordinated by Mark E. Manyin.
Although the Obama Administration has publicly insisted that the renewed U.S. security focus on Asia is not aimed specifically at China, many analysts view the policy as directly related to the rising tensions between China and neighboring countries in the South China Sea (also known as the West Philippine Sea). Conflicts between China and the Philippines have been perhaps the most worrisome, given the presence of significant oil reserves under some of the disputed territories, their proximity to Palawan, a main Philippine island, and U.S. obligations under the Mutual Defense Treaty to help defend Philippine sovereignty. The Philippine government has been the most consistently outspoken among Southeast Asian countries in demanding that Beijing negotiate a code of conduct and settlement of claims with ASEAN. By contrast, the Chinese government has preferred to deal with maritime disputes bilaterally rather than multilaterally, and has offered to pursue joint economic activities in contested areas before territorial issues are resolved. In 2011, the Aquino administration responded to assertive actions by China in the South China Sea by announcing increases in the military budget and welcoming enhanced security cooperation with the United States.

In 2011, President Obama, Secretary of State Hillary Clinton, and other U.S. officials pledged greater security assistance to the Philippines. The two sides continue to engage in joint military activities, some of which have been carried out for over two decades, but with a greater eye toward maritime security. In addition to equipment and training, U.S. officials envision establishing a greater military presence in the country, although no permanent U.S. bases or large-scale troop realignments are planned. U.S. officials have asserted that the U.S. government does not take a position on the territorial disputes in the South China Sea, but advocates a peaceful resolution that involves ASEAN. Washington also supports a code of conduct for the South China Sea and the United Nations Convention on the Law of the Sea (UNCLOS) as the legal foundation for settling disputes. In January 2012, the United States and the Philippines held the second Bilateral Strategic Dialogue, in which the two sides reaffirmed their “commitment to fulfill the vision of the Manila Declaration (November 2011) through an invigorated and expanded alliance capable of addressing 21st century challenges.” U.S. and Philippine foreign affairs and defense officials

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discussed the Mutual Defense Treaty and cooperation on various issues related to security, defense, commerce, law enforcement, development assistance, human rights, and other areas.4

Policy Issues for Congress

Broad U.S. policy objectives include the following: maintaining the U.S.-Philippines alliance; enhancing security and stability in the South China Sea; assisting the Armed Forces of the Philippines (AFP) in counterterrorism, maritime capabilities, modernization, and administrative reform efforts; supporting the peace process in Muslim areas of Mindanao; promoting broad-based economic growth; and helping the Philippines to develop more stable and responsive democratic institutions. Joint counterterrorism efforts, in which U.S. forces play a non-combat role, have helped to reduce terrorist threats while minimizing local and national opposition to U.S. involvement. However, the Philippines continues to struggle with corruption, poverty, localized political violence, and a “culture of impunity,” all of which hinder development, feed political instability, and breed or harbor pockets of ideological extremism. Key U.S. policy concerns regarding the U.S. relationship with the Philippines include the following issue areas:

- **Internal Security**: Sporadic and small-scale bombings, kidnappings, and armed attacks by Islamist and communist groups have continued. Although security in southern Mindanao has improved and local links to international terrorist networks have weakened, it is still possible for Islamist terrorist groups to find safe harbor in the region. President Aquino’s approach to domestic insurgencies has placed more emphasis upon economic and political solutions than military ones as compared to his predecessor, Gloria Macapagal-Arroyo. On-again off-again peace talks with the Moro Islamic Liberation Front (MILF) and the Communist Party of the Philippines resumed in 2012.

- **External Security**: In 2011, Chinese naval forces reportedly harassed Philippine fishing and oil exploration vessels and erected structures within the Philippine 200-mile Exclusive Economic Zone. Although in July 2011, China and ASEAN agreed to a preliminary set of guidelines for negotiating a binding Code of Conduct in the South China Sea, the Philippines and China remain far apart on the legal nature of the territorial disputes and the appropriate means for resolving them. Beijing has questioned the intentions of the renewed U.S. focus on Southeast Asia and recent U.S.-Philippine joint military activities.

- **Economic Growth**: Although many of the country’s economic foundations are fairly well developed, the Philippines continues to struggle to attract foreign investment, generate greater government revenue, improve infrastructure, and expand the economy fast enough to keep up with population growth. The country also has difficulty stanching the emigration of educated professionals. U.S. foreign assistance programs, the Millennium Challenge Account, and the U.S.-Philippines Partnership for Growth support programs related to private sector growth, tax collection, infrastructure development, and other areas.

- **Governance**: Although President Aquino has made some bold and in some cases successful efforts at fighting corruption and establishing public trust in

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government, poor governance remains a problem. The lack of governmental effectiveness, transparency, and accountability have adversely affected economic development and have fueled political instability. U.S. assistance programs have aimed to combat corruption, promote the rule of law and judicial reform, enhance political competition and participation, improve fiscal management and the delivery of services, and promote the role of civil society.

- **Human Rights**: Although Filipinos enjoy many political and civil freedoms, they often lack human rights protections. A weak judicial system and lack of governmental control or security, particularly in large, militarized areas in the southern region of the country, has led to ongoing human rights abuses by the military, private militias, and powerful political families or local clans. The U.S. Congress has placed conditions upon a portion of U.S. military assistance to the Philippines in order to pressure the Philippine government to hold the perpetrators of extrajudicial killings and political violence accountable.

### Political Developments

Many aspects of institutional democracy are practiced to the fullest in the Philippines. Citizens generally can exercise political and civil rights with few restrictions, openly criticize national leaders, and enjoy academic freedom and religious liberties. The country has a robust civil society and a lively press. However, the state often has been unable to stand above or control competing interests. Patterns of patronage and cronyism; entrenched socio-economic elites; the influence of local clans and power holders; the lack of civilian control over the security forces; Muslim and communist insurgencies; and a weak judicial system have allowed corruption to thrive, undermined governmental effectiveness, and led to human rights abuses.

The ability of the Philippine government to effectively carry out policies is often further frustrated by the fragmented nature of the country’s politics. The legislature acts as a “watchdog” against the executive branch, but historically has had difficulty articulating and carrying out broad policy objectives and programs. Political parties and groupings tend to be tenuous and shifting, driven more by individual personalities and interests than by unifying ideologies, policy platforms, and goals.5

In 2012, the Economist Intelligence Unit (EIU) ranked the Philippines 75th out of 167 countries in terms of democracy. The EIU placed the country in the “flawed democracy” category, along with other Asian countries such as Thailand, Indonesia, and Malaysia. Although the EIU ranked the Philippines high on the electoral process and civil liberties, the country received a relatively low score on political culture due to the “lack of faith of Filipinos in the democratic process”—a reflection of the country’s problems with corruption and the threat of military coups. The 2011 Corruption Perceptions Index compiled by Transparency International ranked the Philippines 129th out of 183 countries surveyed, an improvement of 10 places since 2009.6

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2010 Presidential Elections: Benigno Aquino III

In May 2010, Senator Benigno Aquino III, son of former president Corazon Aquino and democratic leader Benigno Aquino Jr., was elected President. With 45% of the vote, he won the election by a large margin against his nearest opponents, former President Joseph Estrada (25%) and Senator Manuel Villar (14%). However, Aquino’s Liberal Party lacks a legislative majority in either house of the country’s bicameral legislature. Traditionally in Philippine politics, the presidential candidate’s personal or charismatic appeal, rather than his or her ideology or party affiliation, plays a key role in garnering electoral support. Benigno “Noynoy” Aquino’s personal attraction was based in large part upon popular affection for his mother, who died in 2009, and in part upon a longing for cleaner government. Noynoy Aquino, with what many considered an undistinguished track record in the Senate, did not forcefully articulate his views on ideology and policy during his campaign for president. However, he ran on a promise of fighting political corruption and benefitted from his parents’ legacy of integrity, thereby attracting political support that was largely seen as broad but not deep.

The 2010 national elections, which used automated counting machines, “far exceeded expectations” in terms of how smoothly they were carried out. There were some allegations of vote-buying, intimidation and harassment of voters, and duplicate voting. In addition, there were reports of roughly one dozen election-related deaths on election day, mostly in the southern region of the country. Nonetheless, international monitors deemed the elections process to be largely free and fair and without significant irregularities. As of late 2011, President Aquino’s “net satisfaction rating” was +58 (71% satisfied, 13% dissatisfied) or “very good,” down from +64 a year earlier. He is popular despite being called “rudderless and indecisive” by some detractors. The President has counted good governance and the restoration of trust in government as among his main accomplishments, while the economy has weathered the global recession better than many other countries. In January 2012, the Aquino administration approved a plan to fight corruption and graft through such aims and measures as greater disclosure of budget information, expanding the electronic procurement system, and accelerating the adjudication process for resolving corruption cases.

To many observers, Benigno Aquino’s presidency has represented a political and cultural shift in the Philippines—a move toward cleaner government, greater sensitivity to political and economic grievances, and less emphasis upon eradicating Muslim and communist insurgencies through military means. To other observers, Aquino’s methods for investigating former President Arroyo and her political allies as part of his anti-corruption efforts have been excessive and his motives have been political. For many analysts, it is too soon to tell whether Aquino’s clean political

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7 In 1983, opposition leader Benigno Aquino Jr. was assassinated upon returning home to Manila after three years living in exile in the United States. In 1986, his wife, Corazon, led the overthrow of authoritarian president Ferdinand Marcos, who had ruled the Philippines for over two decades.


12 “Pnoy Aquino’s First Year,” Asia Sentinel, July 7, 2011.
reputation and commitment toward restoring public trust will help to reduce systemic problems such as corruption, political violence, and the culture of impunity.

The Arroyo Presidency and Subsequent Arrest

Aquino’s predecessor, Gloria Macapagal-Arroyo, faced low approval ratings during nearly her entire tenure. Although the country’s economy made gains under her government, incidents of political corruption and violence festered. Arroyo was elected as vice-president in 1999, and assumed the top position after President Joseph Estrada was removed from office in 2001 following charges of corruption. She won the presidential election of 2004 but was accused of attempting to rig the election. President Arroyo faced popular protests calling for her resignation, four unsuccessful impeachment bids, and at least three mutinies against her government led by mid-ranking military officers. However, Arroyo maintained support from the top ranks of the military. Some observers argue that in return for the military elite’s support, she protected the security forces from charges of corruption and human rights abuses. In 2010, Arroyo was elected to the House of Representatives where she led the largest political party, the center-right Lakas Kampi-CMD. In November 2011, the former President was arrested as she lay in the hospital (she is being treated for a spinal condition), on charges of fraud in the 2007 congressional elections and on several charges of plunder. She remains under police custody in the hospital.

In related moves reportedly pushed by Aquino, in March 2011, the House of Representatives voted to impeach Ombudsman Merceditas Gutierrez, who was in charge of investigating government officials accused of crimes, for failing to fulfill the duties of her office. Gutierrez later resigned. In December 2011, the House impeached Chief Justice Renato Corona for engaging in electoral fraud and violating the Constitution, among other violations of the law. Both officials, as well as the other justices on the Supreme Court, were appointed by Arroyo and believed to be protecting her and her political allies from investigation and prosecution. Many analysts disagree over whether these developments represent a new age of accountability in Philippine politics or reflect ongoing feuds between rival political dynasties.

Extrajudicial Killings and Politically Motivated Violence

Extrajudicial killings of individuals linked to leftist groups and politically motivated acts of violence against journalists and other media figures rose during the Arroyo presidency. Human rights groups accused Philippine security forces—the AFP and Philippine National Police

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13 The basis of the accusation was a recorded telephone conversation of Arroyo with a member of the Commission of Elections prior to the voting. In the call, she reportedly told the commissioner that she wanted to secure a “one million vote margin,” and he responded by expressing support for her wish. In June 2005, President Arroyo publicly apologized for a “lapse in judgment” but vowed to remain in office. Paul Alexander, “Support for Philippine President Crumbles,” Washington Post, July 8, 2005.


15 Both Arroyo and her husband, Mike, have been charged with plunder in connection with the deal that the Arroyo administration signed with China’s Zhong Xing Telecommunications Corporation (ZTE) in 2007 and then canceled.

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(PNP)—and their proxies of carrying out extrajudicial killings of civilians, often as part of broad or indiscriminate military campaigns against alleged communists, leftists, and Muslim insurgents. Hundreds of left-leaning political, trade union, church, rural, and human rights activists reportedly were killed during the past decade. These incidents exposed the lawlessness of some areas of the country, the unchecked power of military units and local clans, and the government’s ties to these entities.

According to some analysts, President Arroyo was reluctant to discipline the military, since its top ranks provided her with much needed political support. In addition to the AFP, the government long has allowed the existence of and relied upon paramilitary forces and private militias to help enforce security in rural areas. Many of these armed groups have operated with little governmental control and committed human rights abuses.

Extrajudicial killings and political violence also have been difficult to control due to the “culture of impunity,” or the expectation that the perpetrators of crimes and human rights violations can escape justice. This problem is enabled in part by a justice system that is underfunded, understaffed, and backlogged, and in part by a lack of political will, according to some experts. The police and courts have been accused of failing to conduct proper investigations and prosecute those responsible for the violence, while higher levels of government have been blamed for their political ties to corrupt local power holders.17

In 2006, partially in response to outcries from Filipino and international human rights groups, the Catholic Church of the Philippines, and European governments, President Arroyo created a special task force to investigate the rise in extrajudicial killings and invited the United Nations Special Rapporteur on Extrajudicial, Summary, or Arbitrary Executions, Philip Alston, to conduct a fact-finding mission. The task force (the Melo Commission) and the Special Rapporteur released their findings in early 2007.18 Both studies implicated the Philippine armed forces but not the government. The commission implicated a few top military officials, particularly General Jovito Palparan; however, according to some observers, the military has shielded Palparan from arrest.19 In response to recommendations of the Melo Commission and Special Rapporteur, the Arroyo government took major steps to reverse the trend, promising to bolster the investigation and prosecution of cases involving extrajudicial killings and establish procedures to ensure greater accountability in the military and police forces. The AFP established a human rights office and became more selective in its targets, which resulted in a drop in the number of cases.

Political violence at the local level, particularly the targeting of journalists, is another related problem. The Committee to Protect Journalists has called the Philippines, where it reports 72 journalists have been murdered since 1992, as one of the most dangerous places in the world for journalists, and a country with one of the lowest rates of conviction in such cases. With the exception of 2009, in which 30 journalists were killed in a single massacre (see Textbox below), about two journalists have been murdered annually between 2007 and 2011, compared to an average of over four per year during 2002-2006.20 Reporters Without Borders ranks the

20 Committee to Protect Journalists, http://cpj.org/asia/philippines/.
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Philippines 140th out of 179 countries for press freedom, due to local violence against reporters.\(^{21}\) In many instances, local power holders targeted journalists, broadcasters, or political commentators who had rented “block time” on the radio, during which they openly criticized local elites, exposed corruption and crime, or raised human rights issues.

### The Maguindanao Massacre

In November 2009, 57 members of a convoy that included family members and media workers on their way to file for the candidacy of Ismail Mangudadatu for the governorship of Maguindanao province (western Mindanao) were murdered. The powerful Ampatuan clan was implicated in the massacre. Clan leader Andal Ampatuan, Sr., the incumbent governor, possessed a private army and enjoyed close ties to President Arroyo, reportedly helping her to win the province in 2004. Ampatuan, Sr. has been charged with vote tampering for President Arroyo in 2007. Andal Ampatuan, Jr., the chief suspect in the massacre, had hoped to succeed his father as governor. Ismail Mangudadatu later won the election. The trial for Ampatuan’s alleged role in the killings commenced in January 2011, but has proceeded slowly reportedly due to procedural delays and a lack of judicial resources.\(^{22}\) In August 2011, a bomb was set off near a convoy of governor Mangudadatu, killing one person. In November 2011, a bomb exploded near a memorial for the victims of the 2009 attack, hours before a rally to commemorate the incident was to take place.

According to some experts, a chief factor contributing to the cycle of corruption, poverty, instability, and violence in Mindanao is clan conflict and vendettas, also known as *rido*, of which the Mangudadatu-Ampatuan rivalry is an example. The Philippine government, the AFP, local police, and factions of Muslim separatist organizations have backed various clans and enlisted their support and that of their private militias. Some analysts argue that clan interests and conflict pose an obstacle to the peace process in Mindanao.

Human rights groups argue that while incidences of extrajudicial killings and political violence are down, the Aquino administration has made little progress in tackling the culture of impunity, despite the formation of a task force to review unresolved cases and speed up their resolution. Of more than 1,000 extrajudicial killings and murders of journalists recorded since 2001, according to one report, there only have been seven successfully prosecuted cases, and none of them has resulted in the conviction of a member of the military or police. In 2011, the Aquino administration reportedly recorded 37 “cumulative violations” during the year—extrajudicial killings, violence involving journalists, and “enforced disappearances”—compared to 57 on average per year when Arroyo was president.\(^{23}\) In November 2011, U.S. Ambassador Harry Thomas praised President Aquino for his commitment to improving human rights conditions, but stated, “The U.S. government will continue to press for progress on addressing past cases and the ongoing problem of extrajudicial killings in the Philippines,” and noted that the U.S. Congress still withholds a portion of U.S. assistance until the Philippines meets conditions related to extrajudicial killings.\(^{24}\)

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Economic Conditions

The Philippines experienced steady economic growth during the past decade (about 4.5% annually). Many analysts credited the Arroyo administration for putting the economy back onto a strong footing after several years of stagnation. Under Arroyo’s leadership, the government budget deficit declined; agriculture and mining, manufacturing, and business process outsourcing (BPO) performed well; and remittances from abroad surged. The Philippines is now the world’s second largest location for business process outsourcing, after India, employing an estimated 600,000 workers. The BPO sector earned an estimated $11 billion in 2011, constituting 5% of gross domestic product. In 2010, the Philippines overtook India to have the world’s largest call center industry.25

The Philippines weathered the global recession of 2008-2010 relatively well due in part to the continued inflow of remittances from abroad. The Philippines is the world’s fourth largest in terms of remittances, after India, China, and Mexico. Remittances from Overseas Filipino Workers (OFW) totaled an estimated $19 billion and $23 billion in 2010 and 2011, respectively, or about 12% of GDP. While this source of income is a boon to the economy, some observers argue that it promotes consumption over long-term investment. Furthermore, the flight of educated professionals represents a brain drain as well as the depletion of the middle class, which has long been considered the bulwark of democracy in the Philippines. In 2010, the economy expanded by 7.6% as it rebounded from weak growth of 1.1% in 2009. Economic growth was estimated to be 4.3% in 2011. According to economic reports, growth is expected to slow somewhat in 2012, to 4%, and then to rise to an average of 5.4% in 2013-2016.26

Despite some strong economic foundations, the Philippines continues to struggle to attract foreign direct investment (FDI), provide enough jobs for the country’s expanding population, and compete with its economically vibrant neighbors in the region. In 2010, the Philippines reportedly attracted 2.3% of all FDI that flowed into the 10 members of ASEAN, despite having about 16% of the group’s population.27 The country has one of the highest population growth rates in East Asia (1.9%), which has hindered poverty reduction. In 2011, the United Nations Development Program ranked the Philippines as 11228 (out of 187 countries) on the Human Development Index, compared to its status as 97th in 2010 and 70th in 2001.28

Among the major obstacles to stronger economic performance and greater FDI are large public debt, a low savings rate, poor tax collection, inadequate spending on social services and infrastructure, and government corruption and instability. Legal hurdles and an opaque business environment dominated by familial oligarchs also have discouraged foreign investment. Among President Aquino’s chief economic aims are to further reduce the budget deficit, in part through cracking down on tax evasion, improve public services, and upgrade the country’s infrastructure through public-private financing.

In 2011, the Philippines’ trade with China, including Hong Kong ($17.3 billion) exceeded that of Japan ($15.3 billion) and the United States ($13.5 billion). (See Table 1.) The Philippines enjoys small surpluses with all three major trading partners. Its largest export items include wood and wood products, electrical machinery, and other items to Japan; electrical machinery, apparel, and other items to the United States; and machinery, electronics, minerals, and other items to China. The United States has long been the largest source of foreign investment in the Philippines, with nearly $6 billion in cumulative FDI at the end of 2009. Other large investors in the country are Japan, South Korea, the United Kingdom, the Netherlands, and Taiwan.

### Table 1. Bilateral Trade between the Philippines and the United States, Japan, and China, 2011

<table>
<thead>
<tr>
<th>Trading Partner</th>
<th>Imports ($U.S. Billions)</th>
<th>Exports ($U.S. Billions)</th>
<th>Total Trade ($U.S. Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6.5</td>
<td>8.8</td>
<td>15.3</td>
</tr>
<tr>
<td>U.S.</td>
<td>6.5</td>
<td>7.0</td>
<td>13.5</td>
</tr>
<tr>
<td>China</td>
<td>6.0</td>
<td>6.1</td>
<td>12.1</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>1.5</td>
<td>3.7</td>
<td>5.2</td>
</tr>
</tbody>
</table>

**Source:** Global Trade Atlas using Philippine statistics.

**Notes:** Hong Kong is a special administrative region of China but a separate economic entity and customs territory.

### U.S. Foreign Assistance

In the past decade, the Philippines, regarded by Washington as a front-line state in the war on terrorism, was one of the largest recipients of U.S. foreign assistance in Southeast Asia, including both military and development aid. About 60% of U.S. assistance to the country supported development programs in Muslim areas of Mindanao and the Sulu Archipelago, with the aim of reducing the economic and political conditions that make radical or extremist ideologies and activities attractive. In September 2007, the Bush Administration and the Arroyo government signed an agreement for a $190 million, five-year peace and development program in Mindanao, to be implemented by the U.S. Agency for International Development (USAID) and the Mindanao Economic Development Council. In 2010, the Millennium Challenge Corporation (MCC) approved a five-year, $434 million compact with the Philippine government.

According to the U.S. Department of State, “U.S. assistance helps promote peace and security in the Philippines; strengthen governance, the rule of law, and the fight against corruption; invest in people to reduce poverty; and accelerate growth through improved competitiveness.” In addition, the Department of State, USAID, and the Department of Defense “will continue to implement

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29 Global Trade Atlas using Philippines data.
30 U.S. Department of State, Background Note: Philippines, January 17, 2012.
programs in the conflict-affected areas of Mindanao to strengthen the foundations for peace and development in the region and promote investor confidence.” (See Table 2.) For FY2012, the major aid accounts include the following program areas:

- **Development Assistance**: human rights, good governance, rule of law, anticorruption, judicial reform, elections, and civil society; trafficking in persons; local water and sanitation; basic education; vocational training; private sector growth, financial services, and infrastructure; clean and renewable energy and climate change adaptation; education, economic opportunity, infrastructure, and conflict resolution in Mindanao.

- **Global Health and Child Survival**: family planning, maternal and child health and nutrition; tuberculosis diagnosis and treatment; HIV/AIDS prevention; access to health care in Mindanao.

- **Foreign Military Financing**: Philippine Defense Reform and Defense Transformation programs; territorial defense; strategic planning; respect for human rights.

- **Non-proliferation, Antiterrorism, Demining, and Related Programs**: customs and border control; security in Mindanao.

- **International Narcotics Control and Law Enforcement**: community policing; criminal investigation techniques; transnational crime; maritime police and police development in Mindanao.

- **International Military Education and Training**: counterterrorism; defense reform.

The U.S. government has attempted to address the problem of extrajudicial killings in the Philippines through its foreign assistance activities. Related aid programs have included providing funding to the Philippine Commission on Human Rights, training Philippine investigators and prosecutors, supporting judicial system improvements, educating military and law enforcement personnel in the areas of human rights and civil liberties, and aiding civil society groups. Since 2008, the U.S. government has placed human rights conditions upon a portion of Foreign Military Financing (FMF), one of the largest U.S. assistance programs provided to the Philippines.

Some observers argue that although extrajudicial killings have decreased, the government needs to more actively investigate and prosecute past cases. In fiscal years 2008 and 2009, $2 million out of roughly $30 million in FMF authorized for the Philippines was withheld because conditions were not satisfied. In 2010, the penalty was raised to $3 million. The conference report (H.Rept. 112-331, Section 7044(g)) that accompanied H.R. 2055, the Consolidated Appropriations Act, 2012 (signed into law as P.L. 112-74), extended the conditions for another year, stating, “Of the funds appropriated by this Act under the heading ‘Foreign Military Financing Program’ that are available for assistance for the Philippines, $3,000,000 may not be obligated until the Secretary of State submits to the Committees on Appropriations the report on the Philippines required under such heading in S.Rept. 112-85.”

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33 U.S. Department of State, Congressional Budget Justification for Foreign Operations, FY2012.
34 The Secretary of State is required to report that: The Government of the Philippines is taking effective steps to prosecute those responsible for extrajudicial executions [EJEs], sustain the decline in the number of EJEs, and (continued...)
Table 2. U.S. Assistance to Philippines, FY2008-2013
($U.S. thousands)

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<tr>
<th>Account</th>
<th>2008</th>
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Source: U.S. Department of State; USAID


Other U.S. Assistance, Development, and Trade Programs

Millennium Challenge Account

The Millennium Challenge Account, established in 2004, rewards countries that have demonstrated good governance, investment in health and education, and sound economic policies. In 2010, the MCC approved a five-year, $434 million compact with the Philippine government. The agreement aims to help modernize the Bureau of Internal Revenue; expand a community-driven, poverty-reduction program; and promote economic growth through investment in infrastructure. Principal projects include the following.35

- The Revenue Administration Reform project ($54.4 million) addresses the need to raise tax revenues and reduce tax evasion and corruption.
- The Kalahi-CIDSS project ($120 million) aims to reduce poverty through the building of infrastructure, community participation in development projects, and improved government responsiveness.

(...continued)

The Republic of the Philippines and U.S. Interests

- The Secondary National Roads Development project ($214 million) rehabilitates an existing 22 kilometer road segment, thereby reducing transportation costs and promoting commerce between the provinces of Samar and Eastern Samar.

Tropical Storm Sendong

In December 16-18, 2011, tropical storm Washi (known locally as Sendong) struck northern Mindanao island with heavy rains, causing flash floods and mudslides and the deaths of over 1,250 people. In addition, over 50,000 houses were damaged or destroyed and over 25,000 people were displaced. USAID and the Office of U.S. Foreign Disaster Assistance (OFDA) provided $2.7 million in humanitarian aid to the region as of January 2012. Such assistance and activities included providing shelters, water and sanitation, emergency education and the rehabilitation of schools, small-scale infrastructure, needs assessments, and logistics support.36

United States-Philippines Partnership for Growth

On November 16, 2011, Secretary of State Hillary Clinton and Secretary of Foreign Affairs Albert del Rosario signed a Statement of Principles on the U.S.-Philippines Partnership for Growth (PFG). The Philippines is one of four countries selected to participate in the PFG program, and the only one in Asia, based upon its performance on MCC selection criteria, record of partnering with the United States, policy performance, and potential for continued economic growth. The PFG, a U.S. interagency effort, aims to remove obstacles to, accelerate, and sustain broad-based economic growth in the Philippines, identify areas to promote investment, and solicit the involvement of both the public and private sectors and civil society. It also aims to help the Philippines prepare for the goal of joining the Trans-Pacific Partnership, a multilateral free trade agreement. The two countries have assented to a five-year Joint Country Action Plan which focuses on creating a more transparent, predictable, and consistent legal and regulatory regime; fostering a more open and competitive business environment; strengthening the rule of law and increasing efficiency in the court system; and supporting fiscal stability through better revenue and expenditure management.37

TIFA and GSP

Under the Trade and Investment Framework Agreement (TIFA), signed in 1989, U.S. and Philippine officials meet regularly to discuss bilateral and regional trade issues and ways to promote economic relations. The Philippines is one of four ASEAN countries that enjoys preferential duty treatment for some export items to the United States through the U.S. Generalized System of Preferences (GSP) program. The Obama Administration renewed the Philippines’ participation in the program in October 2011.


The Republic of the Philippines and U.S. Interests

U.S.-Philippines Security Ties, Military Relations, and Counterterrorism Cooperation

The Philippines is a treaty ally of the United States under the 1951 Mutual Defense Treaty. The two nations have common strategic interests, and the Philippines relies heavily upon the United States for its external security. The two countries have long conducted joint military activities to bolster the combat readiness of the Armed Forces of the Philippines and their ability to respond to security threats and to maintain the interoperability of the AFP and U.S. military forces. Following the terrorist attacks in the United States in September 2001, the Bush Administration proclaimed the Philippines, with its Islamist terrorist networks, as a front-line state in the global war on terrorism. The United States designated the Philippines as a Major Non-NATO Ally on October 6, 2003, after President Arroyo announced Manila’s support for the U.S.-led invasion of Iraq.

Visiting Forces Agreement

In 1991, the Philippine Senate voted 12-11 to revoke the Military Bases Agreement between the Philippines and the United States, forcing the closure of Subic Naval Base and Clark Air Force Base. However, joint military activities continued. In 1995, Philippine President Fidel Ramos invited U.S. forces back on a limited basis, partially in response to China’s construction of buildings on Mischief Reef in the disputed Spratly Islands chain in the South China Sea. A Visiting Forces Agreement (VFA), allowing joint Philippine-U.S. military operations, was signed by the two countries in 1998 and ratified by the Philippine Senate in 1999, despite protests by the Catholic Church of the Philippines, leftist politicians and academics, and others. Among other provisions, the VFA requires that U.S. military forces assume a non-combat role and do not establish a permanent base of operations on Philippine soil. The Aquino government is reviewing the VFA, but is not expected to propose fundamental changes to the accord. Issues for review include provisions related to the custody of U.S. soldiers who have committed crimes in the Philippines, U.S. troop levels, and financial compensation for U.S. forces’ use of Philippine territory.38

Joint Military Activities

The American military presence continued on a limited basis after the closure of U.S. military bases in the Philippines. In 2002, the Philippines became an important base in the U.S. War on Terror in Southeast Asia. The Arroyo administration signed a Military Logistics and Support Agreement (MLSA), allowing the United States to use the Philippines as a supply base for military operations throughout the region, while U.S. Special Forces were deployed to the Sulu Archipelago, which extends from Mindanao island in the southern Philippines, in order to provide support to the AFP in counter-terrorism efforts. For nearly a decade, joint exercises aimed primarily at Islamist terrorist groups in Sulu and western Mindanao significantly reduced their potency. In 2011, military cooperation began to shift focus toward potential external security threats in the South China Sea.

**Balikatan**

“Balikatan” (*Shoulder-to-Shoulder*) is the most comprehensive among several annual U.S.-Philippines joint military exercises. First held in 1991, Balikatan was suspended in 1995-1999 as the VFA was being negotiated. As with most U.S. military involvement in the Philippines, Balikatan contains a large humanitarian component. The 2010 and 2011 exercises, each of which involved approximately 2,000 AFP soldiers and 6,000 U.S. military personnel, included the following activities: training for combat, rescue, and the evacuation and care of casualties; defusing and disposing of bombs; maritime security exercises; disaster relief; and joint force management. Soldiers also provided medical and veterinary care; constructed, refurbished, and supplied schools and clinics; and built a floodwall.

In 2012, Balikatan exercises are to include joint combat drills off the coast of Palawan island, which is the Philippine land mass closest to the disputed Spratly Islands chain and near the country’s largest offshore oil field. U.S. soldiers and marines reportedly are to train AFP forces in defending and retaking oil and gas rigs. Some of the joint exercises will include about 20 participants from other Southeast Asian countries. Although Philippine and U.S. officials have denied that the activities are aimed specifically at China, the Chinese government has raised concerns about their “real purposes” and suggested that they may encourage provocative moves by the Philippines which could destabilize the region.\(^{39}\)

Other annual joint exercises include Cooperation Afloat Readiness and Training (CARAT) and the Amphibious Landing Exercise (PHIBLEX). CARAT exercises are conducted bilaterally and multilaterally between the U.S. Navy and several Southeast Asian countries. In June 2011, U.S.-Philippine naval exercises involving 800 U.S. and 400 AFP sailors were held in the Sulu Sea. Two U.S. guided-missile destroyers, a U.S. diving and salvage boat, and two Philippine patrol ships took part. In October 2011, 2,000 U.S. and 1,000 AFP marines and sailors participated in the annual PHIBLEX event, which included a mock hostile beach assault. U.S. and Philippine officials stated that the CARAT exercises and PHIBLEX drills were not related to recent Spratly Islands incidents.\(^{40}\)

**The Joint Special Operations Task Force–Philippines**

The 2001 terrorist attacks in the United States prompted concern over Al Qaeda’s links around the world, including its ties to the Abu Sayyaf Group (ASG), an Islamist militant organization based on Basilan and Jolo islands in the Sulu archipelago. In 2002, Presidents Arroyo and Bush agreed on the deployment of U.S. military personnel to train and assist the Philippine armed forces against the ASG and Jemaah Islamiyah (JI), a Southeast Asian terrorist organization with ties to Al Qaeda. In addition to joint training exercises and counterterrorism support, U.S. forces have participated in humanitarian and development efforts in Sulu and western Mindanao.

In 2002, the Joint Special Operations Task Force–Philippines (JSOTF-P) was established as part of Operation Enduring Freedom to support “the comprehensive approach of the Armed Forces of


the Philippines in their fight against terrorism.” JSOTF-P consists of rotating units of special forces of the U.S. Army and Air Force, Navy SEALs, Psychological Operations, and other U.S. military personnel. Since the middle of the last decade, on average, 500-600 JSOTF-P personnel (down from nearly 2,000 in 2003) have advised and assisted two Philippine Regional Combatant Commands in Sulu and Mindanao. In keeping with the Philippine Constitution’s ban on foreign combat troops operating inside the country and Filipino sensitivities about sovereignty, Washington and Manila negotiated special rules of engagement. U.S. troops, which arrived on Basilan in 2002 and Jolo in 2005, play a subordinate role. They take direction from AFP commanders, operate “by, through and with” their Filipino counterparts, and use force only to defend themselves or when fired upon. They are based in “temporary” facilities on Jolo and in western Mindanao. The U.S. government reportedly spends about $50 million annually to support the Task Force. Since the operations began, 17 JSOTF-P troops have died—three in bombings and the remainder in a helicopter crash and non-combat incidents.

The joint operations have resulted in a significant diminishing of Abu Sayyaf’s strength and presence, reducing its size from approximately 1,000 members to less than 400. Nearly all key ASG leaders have been killed or captured, and the group’s religious mission and appeal have waned. However, while the ASG may no longer possess the organizational and ideological strength to constitute a key terrorist threat or link in the Philippines and Southeast Asia, its continued existence and criminal activities complicate and exacerbate the unstable security and political situation in Mindanao and elsewhere.

JSOTF-P advises and assists the AFP in the execution of four major counter insurgency/counterterrorism objectives: deny insurgent/terrorist sanctuary; deny insurgent/terrorist mobility; deny insurgent/terrorist access to resources; and separate the population from the insurgent/terrorist. In order to achieve the above aims, JSOTF-P carries out “four primary lines of operation”: capacity building of Philippine Security Forces; targeted civil military operations; intelligence operations; and information operations. With U.S. funding, JSOTF-P advisory, training, aid activities, and other forms of support include the following:

- **Military**: training of the AFP Light Reaction Company; light infantry leadership and training; small unit tactics; small boat maneuvers; marksmanship; night aviation and ground operations; logistical and planning support; managing hostage situations.
- **Related Military**: casualty evacuation and care; explosive ordnance disposal.
- **Equipment**: weapons; ammunition; communications and intelligence-gathering items; night vision goggles.
- **Intelligence and Information**: infiltration and surveillance tactics; intelligence gathering; aerial reconnaissance.

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Humanitarian and Development Assistance

As part of its comprehensive approach, Philippine-U.S. counterterrorism and counter-insurgency efforts include a strong non-military component which has helped to reduce the possibility of driving civilians and insurgents into the ranks of separatist and terrorist groups. This component includes public information campaigns and civil affairs or civic action projects. According to a U.S. military official, 80% of the effort has been “civil-military operations to change the conditions that allow those high-value targets to have a safe haven…. We do that through helping give a better life to the citizens.”\(^4^6\) By 2010, JSOTF-P reportedly had implemented over 150 construction projects worth $20 million, created livelihoods for former militants, and directly supported related USAID efforts.\(^4^7\) The strategy of combining force and development assistance and employing a low-key U.S. presence has met with what some observers have deemed an “impressive success” since the middle of the last decade.\(^4^8\) This accomplishment includes substantially weakening Al Qaeda’s tenuous links in the southern Philippines through reducing the strength of Abu Sayyaf and Jemaah Islamiyah, bolstering security in the region, winning the hearts, minds, and cooperation of local people, and creating positive impressions of U.S. troops. Humanitarian and development assistance also has enhanced the legitimacy of the AFP and Philippine government, and provided opportunities for Philippine security forces to engage positively with local populations. Some observers argue, however, that Philippine governmental bodies and institutions still lack the capacity to sustain U.S.-backed development projects on their own.\(^4^9\)

Armed Forces of the Philippines

The Philippines has one of the weakest military forces among the large, relatively developed countries in the region. The AFP lacks fighter aircraft and its navy is made up of a small, aged fleet of ships, some of which date from World War II.\(^5^0\) Military analysts say that the capacity of the AFP to address security threats has been weakened by its long-running wars against communist and Muslim insurgencies, outdated equipment, politicization, institutional corruption, low pay, and low morale, especially among mid-ranking officers. Many serving and retired officers reportedly have been accused of graft. In February 2011, former Secretary of Defense Angelo Reyes, who faced charges that he had received illegal payoffs, committed suicide.

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\(^{48}\) Max Boot and Richard Bennett, op. cit.


\(^{50}\) Ian Storey, “China and the Philippines: Implications of the Reed Bank Incident,” *China Brief*, May 6, 2011.
President Aquino has promised defense administrative reforms, greater oversight of defense procurement, and additional funding for the AFP, increasing its budget by over 80%, to $2.4 billion, in 2011. The Aquino Administration plans to build up the country’s military arsenal, including advanced weapons systems, with help from the United States. The AFP Long-Term Capability Development Plan aims for the development of a modest deterrent capability to protect the country’s vast maritime borders and its territorial claims in the South China Sea.51

Internal Security Threats

Counterterrorism efforts have significantly reduced the possibility of the Philippines becoming a key breeding or training ground for international Islamist jihadists. Nonetheless, many of the historical, political, and economic grievances that have contributed to the decades-old separatist and communist insurgencies remain. The Muslim separatist movement, though it has disavowed terrorism, reportedly has provided refuge to local and pan-Islamic terrorist groups and has been linked to some terrorist attacks. Memberships among these organizations are often shifting or overlapping.

The Abu Sayyaf Group

The Abu Sayyaf Group is a small, violent Islamist group operating mostly in the Sulu island chain. It has a record of hostage-taking for ransom, killings, and bombings. The ASG has provided sanctuary to members of Jemaah Islamiyah (JI), the Indonesia-based, regional terrorist organization, and has had tenuous or sporadic ties with Al Qaeda, which have weakened in recent years.52 After a period during the mid-2000s when its terrorist activities and links grew, the group’s membership and potency have been reduced, largely through Philippine-U.S. joint counterterrorism efforts.

In the early 2000s, under the leadership of Khadafi Janjalani, Abu Sayyaf gained greater effectiveness as a terrorist organization. Janjalani developed the capabilities for urban bombing, improved ties with factions of the separatist insurgency, the Moro Islamic Liberation Front (MILF), and established cooperation with JI. Janjalani also re-emphasized the Islamic or religious orientation of the ASG. The February 2004 bombing of a ferry in Manila Bay, which killed over 100 people, was found to be the work of Abu Sayyaf and the Rajah Solaiman Movement (RSM) consisting of Filipino Muslim converts from the Manila area.53 In February 2005, the ASG and RSM carried out simultaneous bombings in three cities, which killed 16 people, while the Philippine government uncovered plots to carry out additional attacks in Manila, including one targeting the United States Embassy.

51 Dr. Renato Cruz De Castro and Walter Lohman, Ú.S.-Philippines Partnership in the Cause of Maritime Defense,” Heritage Foundation Backgrounder, no. 2593, August 8, 2011; Jane’s Sentinel Country Assessments (Philippines), op. cit.
52 Preeti Bhattacharji, “Terrorist Havens: Philippines,” Council on Foreign Relations Backgrounder, June 1, 2009. The ASG reportedly provided support to Ramzi Yousef, a Pakistani Al Qaeda agent convicted of planning the 1993 bombing of the World Trade Center. In 1994, Yousef rented an apartment in Manila where he made plans and explosives in an attempt to blow up 11 U.S. passenger jets simultaneously over the Pacific Ocean.
Although its effectiveness in carrying out attacks peaked in the mid-2000s, and Janjalani was killed in a skirmish with government troops in 2006, ASG terrorist activities have continued on a reduced scale. The group committed over three dozen kidnappings and murders in 2009-2010, and was responsible for over 10 relatively small-scale bombings on Basilan and Jolo islands and in western Mindanao. In 2011, successful terrorist attacks attributable or possibly linked to the ASG or rogue elements of the MILF include a bombing at a hotel in Zamboanga City (Mindanao) in November, killing three people; an explosion in Zamboanga City in October, which injured 11 people; and a blast in Cotabato City in August, in which two people died. The people or group responsible for a bus bomb in Manila in January 2011, in which four people died, has not been determined. In March 2012, Philippine police announced that a bomb that exploded in a commercial district in Jolo, killing two Filipinos, was likely the work of Abu Sayyaf.

The Philippine military, with U.S. assistance, has decisively struck terrorist targets in recent years. In November 2011, the Philippine police arrested Abu Sayyaf member Hussein A. Ahaddin in Zamboanga City. Ahaddin was linked to six bombings since 2002, including one that killed an American Green Beret commando. In February 2012, the AFP claimed to have killed or seriously wounded a key JI regional leader on Jolo island, Malaysia-born Zulkifli bin Hir, who allegedly was involved in terrorist attacks and the training of new fighters. In addition, two other senior Islamist militants, a Filipino ASG leader and a Singaporean JI leader, and 12 combatants reportedly were killed in the strike.

**MNLF and MILF**

Abu Sayyaf has maintained a symbiotic relationship with two Muslim separatist movements, the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF). These organizations represent Bangsamoro (Moro) or Muslim ethnic and religious groups living in the southern Philippines. Their ancestors waged a 10-year war against the U.S. military (the Moro Rebellion of 1903-1913) after the United States imposed direct control and replaced the authority of local sultans. Although Muslims constitute 5% of the total population of the Philippines and about one-third of the population of Mindanao, they form a majority in several provinces on Mindanao island and the Sulu Archipelago. The Moros have accused the central government of long neglecting the Mindanao region economically, encouraging Christian settlement and supporting Christian political allies in order to weaken Muslim influence, and not honoring its agreements with the MNLF and MILF.

An estimated 120,000-150,000 people have been killed in fighting related to the Muslim separatist insurgencies since the late 1960s. The MNLF signed a peace treaty with Manila in 1996, which created the Autonomous Region of Muslim Mindanao (ARMM), consisting of four provinces with limited autonomy. However, MNLF leaders claim that many provisions of the ARMM have not been fully implemented. The MILF, which includes an estimated 11,000 guerilla fighters, was established in 1980 as a more religious and less compromising splinter group of the MNLF. Although the MILF has sought to distance itself from the ASG and negotiate a peace

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57 Jim Gomez, “Philippine Muslim Rebels Continue Combat Training, Seek Arms Despite Planned Talks,” *Associated (continued...)
agreement with the Philippine government, it has not formally renounced its long term goal of an independent Islamic state in Mindanao.

**Relations Between the MILF, Abu Sayyaf, and Jemaah Islamiyah**

The MILF has denied links with terrorist organizations Abu Sayyaf and Jemaah Islamiyah. Nonetheless, analysts have linked some MILF units to these groups. Some MILF factions have sheltered Islamist militants from surrounding countries. The MILF reportedly also has collaborated with the ASG in bombing efforts, giving them a degree of “plausible deniability.”

Furthermore, some MILF commanders who do not support the peace process may seek to strengthen contacts with the ASG and JI. However, links between these three groups have weakened in recent years due to AFP-U.S. joint counterterrorism activities as well as Indonesian and Malaysian counterterrorism efforts.

**2008 Peace Agreement and Its Collapse**

Manila and the MILF have engaged in on-again off-again negotiations on a political arrangement that would provide substantial autonomy to the Moros and an end to the prolonged military conflict. Key issues of concern include the level of autonomy, the size of the proposed autonomous region, relations between the MILF and the MNLF, and the resistance of other, existing local power holders. In August 2008, the Arroyo administration and the MILF signed a Memorandum of Agreement on Ancestral Domain (MOA-AD) in Kuala Lumpur, Malaysia, laying out a framework for recognizing Moro land claims and ending the insurgency. The MOA-AD framework would establish a “Bangsamoro Juridical Entity” (BJE), comprised of, or supplanting, the ARMM as well as additional Muslim majority villages (barangays) outside the ARMM as determined through plebiscites. The BJE would have an “associative relationship” with the Philippine government—providing greater autonomy than the ARMM arrangement. The Entity would be empowered to create its own government, election and judicial systems, police force, financial institutions, and schools (all but foreign policy, external defense, currency, and postal service). The BJE could enter into trade and economic relations with foreign countries and would control the resources of waters extending 15 kilometers from its coast. The economic resources of the region would be allocated among the Philippine government and the BJE on a 25/75 percent basis favoring the BJE.

Immediately after the conclusion of the Memorandum of Agreement, however, Christian politicians in Mindanao, from areas that would likely be incorporated into the BJE, filed a suit with the Philippine Supreme Court, asking the Court to block the MOA-AD. Other sources of resistance to an agreement have included splinter groups of the MILF, such as the Bangsamoro

(...continued)

Press, August 11, 2010.


60 Interview with Zachary Abuza, U.S. Army War College.

Islamic Freedom Movement, who continue to fight for independence; MNLF leaders who fear the loss of political influence under a new entity; powerful local families or clans; and members of the government and army who want to see the MILF further weakened. In October 2008, the Court ruled that the MOA-AD was unconstitutional. Renewed fighting between the AFP and some MILF units broke out following the collapse of the accord, reportedly resulting in the displacement of over 130,000 villagers and dozens of deaths.62

A new truce was negotiated in the summer of 2009. Planned talks stalled as sporadic skirmishes continued and the MILF accused the government of backpedaling on the 2008 agreement. In November 2011, Kurt Campbell, U.S. Assistant Secretary for East Asian and Pacific Affairs, expressed full support for the ongoing peace process.63 Formal negotiations resumed in January 2012 in Kuala Lumpur, Malaysia.

**Communist Party of the Philippines (CPP)**

The Communist Party of the Philippines (CPP), long viewed by the government as its principal security threat, has waged an insurgency since the late 1960s. It is widely reported that over 40,000 people have died in fighting related to the insurgency since 1969. The strength of the CPP’s military arm, the New People’s Army (NPA), reached over 25,000 in the early 1980s, but declined after President Ferdinand Marcos fell from power and democracy was restored in 1986. In 2011, about 4,000-4,500 NPA guerillas, operating in Mindanao and throughout the country, remained, compared to roughly 7,000 in 2007.64 The CPP has posed a declining security threat in other aspects as well. In 2011, 56 AFP soldiers were killed in armed clashes with the NPA, compared to 91 in 2010. The number of NPA attacks decreased from 501 incidents in 2010 to 447 in 2011. Such incidents have included the harassment of AFP detachments, criminal activities such as kidnappings, bombings, and arson, and attacks on private mining operations in Mindanao.65 The U.S. government placed the CPP and the NPA on its list of terrorist organizations in 2002. However, the United States does not provide direct military support to the AFP in its war against the NPA. A government spokesperson stated that rather than try to eliminate the NPA by military means, as the Arroyo Administration had emphasized, President Aquino favors crafting a political settlement with the communists, who continue to recruit fighters from among the poor in the southern region of the country. Formal peace negotiations commenced in February 2011 in Oslo, Norway, the first since 2004.

**Philippines-China Relations and the United States**

The Philippines and the People’s Republic of China (PRC) established diplomatic relations in 1975, although the two countries had maintained ties through trade and migration for centuries. During the past decade, as China’s diplomatic engagement and economic influence throughout

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Southeast Asia expanded, Beijing significantly deepened economic relations and to a lesser degree political ties with the Philippines. As it had throughout the region, China became a major trading partner and an important source of financing for infrastructure projects in the Philippines, with the support of Filipino political and business interests.

As President, Gloria Macapagal-Arroyo made several high-profile trips to the PRC. During her tenure, China became one of the Philippines’ biggest trading partners and an important financier and investor in the infrastructure, energy, agriculture, and mining sectors. The two countries reportedly signed over 100 “cooperation agreements” during this period. The Arroyo government’s withdrawal of military personnel from Iraq in 2004 created a temporary chill in U.S.-Philippine relations, while Manila’s ties with Beijing became warmer. Both countries had managed to subdue maritime territorial disputes while Arroyo was president.

Filipinos’ affinity for the United States has been consistently high over many years, while their feelings toward China have been ambivalent. However, the Philippines, like most other Southeast Asian countries, has tried to avoid choosing one relationship over the other. Beijing, while becoming more assertive regarding disputed areas of the South China Sea, also has been careful not to rupture its bonds with Manila. Both sides have kept diplomatic channels open even during the territorial disputes of the past year. Although Chinese officials have complained about enhanced U.S.-Philippine military exercises and expressed an interest in PRC-Philippine military cooperation, they have publicly acknowledged the importance and strength of the U.S.-Philippine alliance.

Initially, Benigno Aquino’s stance towards Beijing was cautious and accommodating. The Philippines pointedly voiced concern at the July 2010 meeting of the ASEAN Regional Forum (ARF) about China’s growing assertiveness in the South China Sea. However, the Philippines was notably absent at the ceremony in Oslo, Norway, honoring Liu Xiaobo, the imprisoned Chinese dissident who was awarded the 2010 Nobel Peace Prize.

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69 In December 2010, as noted, the Philippines was one of 19 countries that did not send a representative to the Nobel Peace Prize ceremony for Chinese dissident Liu Xiaobo. Philippine officials stated that it was due to “scheduling conflicts” of the Philippine ambassador to Norway. However, some observers surmised that the Aquino government may have wanted to avoid additional discord with Beijing by attending the ceremony, and offered the following motivations: Manila was trying to repair ties following the August 2010 bus hijacking incident in Manila, in which (continued...)
In August 2011, following a period of bilateral tensions over territorial disputes in the South China Sea, President Aquino traveled to Beijing. The two sides signed agreements pledging several billion dollars in Chinese investments in the Philippines, $60 billion in two-way trade by 2016, and a peaceful resolution to the maritime disputes. President Hu Jintao of China and President Aquino issued a Joint Statement, which included the following text:

Both leaders exchanged views on the maritime disputes and agreed not to let the maritime disputes affect the broader picture of friendship and cooperation between the two countries. The two leaders reiterated their commitment to addressing the disputes through peaceful dialogue. Both leaders reaffirmed their commitments to respect and abide by the Declaration on the Conduct of Parties in the South China Sea signed by China and the ASEAN member countries in 2002.

PRC Trade, Investment, and Aid

The Aquino administration has attempted to maintain diplomatic and economic relations with China while actively opposing aggressive PRC actions in the South China Sea. Philippines-PRC trade and investment ties and Chinese loans to the Philippines expanded markedly in the past decade. (See Table 1.) In 2011, the growth in trade between the Philippines and China (not including Hong Kong) was 17.9%, faster than the growth in trade with both Japan (5.5%) and the United States (1.7%). China reportedly is the Philippines’ seventh largest foreign investor. Chinese firms have expressed “keen interest” in the country’s infrastructure, agriculture, power, mining, and tourism sectors, but reportedly are awaiting a more favorable investment climate before making greater commitments.

China reportedly is the fourth largest provider of development assistance to the Philippines and the second largest provider of concessional loans. In 2009, Chinese officials announced the availability of a $1.8 billion PRC Exim Bank loan for Philippine infrastructure and development, including rail, telecommunications, and irrigation projects. About one third of the loan was allocated for the Northrail line, which would link Manila with Diosdado Macapagal International Airport and the former Clark Air Base, now a major industrial zone. The project was launched in 2004 employing Chinese contractors, but ran into technical and legal problems and currently is under renegotiation.

(...continued)

eight Hong Kong tourists were killed in a botched police rescue attempt; the Philippine government did not want to jeopardize the lives of six Filipinos sentenced to death in China on drug-related charges; and the government did not want to disrupt a pending agreement with Beijing to buy military hardware. “Philippines Denies Back Flip On Nobel Ceremony,” Agence France Presse, October 12, 2010.


71 Global Trade Atlas using Philippine data. Philippines-Hong Kong trade decreased by 10% during the same period.

72 “Sino-Philippine Trade to Double,” Industry Updates, September 1, 2011.


Chinese investments in the Philippines created a few well-publicized controversies during President Arroyo’s tenure and have soured many Filipinos on the benefits of Chinese capital. However, much of the concern has focused upon corrupt Filipino politicians rather than on China. In one case, in 2007, the Philippine government signed a $329 million contract with China’s Zhong Xing Telecommunications (ZTE) Corporation of China to build a national broadband network linking government agencies. The Commissions of Elections chairman, Benjamin Abalos, was later accused of bribing Philippine and Chinese officials and a rival Philippine telecom company in exchange for their support of the ZTE deal. Abalos resigned from his position in October 2007, and President Arroyo later canceled the project. In 2011, the charge of plunder was filed against both the former President and her husband in connection with the ZTE deal.

The Philippines has accepted a relatively small amount of military aid from China for internal security purposes. According to one report, bilateral military cooperation “remains insignificant, but is improving” while “the level of trust is not currently great enough to lead to joint exercises.” In November 2004, Philippine and PRC military officials signed a Memorandum of Understanding on Defense Cooperation, and in May 2005, the two countries signed agreements on defense dialogues and PRC military assistance, including “non-lethal” equipment and training. In 2009, the PRC reportedly provided 33 items, or $4 million worth of military supplies, to the AFP, mostly for disaster relief and reconstruction. In 2010, AFP Chief of Staff Lt. General Ricardo David went to China to discuss mil-to-mil relations, the purchase of military equipment, and joint military exercises. In May 2011, during a time of tensions in the South China Sea, Chinese Defense Minister Liang Guanglie met with Philippine officials in Manila. AFP chief General Eduardo Oban stated that the two countries have had regular exchanges by officers for training purposes and that the Philippines has been receiving engineering equipment from China.

South China Sea Territorial Disputes

In 2011, confrontations between Philippine and Chinese vessels in the South China Sea gave rise to heated and nationalistic verbal exchanges, which helped to propel greater Philippine-U.S. military cooperation and lent urgency to AFP naval upgrades. Among ASEAN states, the Philippines has been the most forceful advocate for a comprehensive resolution to the disputes via formal, multilateral negotiations based upon the U.N. Convention of the Law of the Sea (UNCLOS). Meanwhile, the PRC government has objected to enhanced Philippine-U.S. military cooperation, which it views as aimed at China, and to Philippine oil exploration in contested waters.

Background

The South China Sea (also referred to by Filipinos as the West Philippine Sea) is ringed by China and Taiwan to the north, Vietnam to the west, Malaysia, Brunei, and Indonesia to the south, and

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76 Jane’s Sentinel Country Assessments (Philippines), op. cit.
the Philippines to the east. The People’s Republic of China and the Republic of China (Taiwan) have laid claim to a large portion of the South China Sea, which includes the Spratly Islands chain (Kalayaan in Tagalog), a resource-rich archipelago. China, Taiwan, and Vietnam all assert possession over the entire group of islands, while the Philippines, Malaysia, and Brunei each claims some islands. China, Vietnam, the Philippines, and Malaysia each occupy several to a dozen islands or geographical features (islands, shoals, coral outcrops, and sand bars). Some of the contested region contains oil and natural gas reserves that lie within the Philippines’ 200-mile Exclusive Economic Zone (EEZ). Beijing contends that China has historic rights to disputed territories, pointing to conventions that existed prior to 18th century international law and to the Law of the Sea.80

Recent Incidents and Disputes

The Aquino government complained of several incidents in 2011 involving PRC harassment of Philippine vessels or encroachment upon the country’s EEZ. Manila maintains that China’s intrusions were illegal under UNCLOS. The PRC government considers Philippine unilateral oil exploration activities in what it considers to be “Chinese waters” to be illegal.

- In March 2011, Manila accused PRC boats of harassing a Philippines-commissioned oil exploration vessel near Reed (Recto) Bank. Reed Bank, part of Palawan Province and not part of the Spratlys, reportedly has natural gas reserves totaling an estimated 3.9 trillion cubic feet.81 Two AFP planes were deployed during the incident, but the Chinese boats left by the time Philippine forces arrived.

- In February 2011, a PRC navy frigate fired three shots at Filipino fishing vessels at Jackson (Quirino) Atoll which lies within the Philippines’ claimed EEZ.

- In May 2011, PRC entities were sighted unloading building materials and placing posts and buoys around Amy Douglas (Iroquois) Bank, which lies within the Philippines’s claimed EEZ. The Philippine navy later removed the posts.

- In July 2011, Beijing protested when the Philippine government invited foreign companies to bid for rights to explore for oil and gas in an area northwest of Palawan.

- In July 2011, a group of Filipino congressmen, soldiers, journalists, and officials landed on Thitu (Pagasa) Island, the largest of the Philippine-occupied Spratly Islands and home to 60 Filipinos, and raised two national flags above a government building, provoking public complaints from China.

- In October 2011, an AFP navy ship collided with a Chinese fishing boat while challenging its presence in disputed waters near Reed Bank. Philippine officials stated that the collision was an accident and apologized to PRC officials.

- In February 2012, the Philippine government issued new invitations to foreign oil companies to invest in oil and gas fields in the South China Sea. The Chinese

government and press threatened to punish the Philippines with economic sanctions.82

**Negotiation Stances**

In his state of the nation address in July 2011, President Aquino stated that the Philippines is prepared to use military force to protect its territory in the South China Sea, stating, “We are ready to defend what is ours.”83 He has vowed to increase the defense budget, upgrade the nation’s armed forces and acquire new ships and weapons. The Aquino administration wants to take the territorial disputes to the United Nations International Tribunal on the Law of the Sea and to press China through a united ASEAN front. The Philippine government decided to shelve the attempt following President Aquino’s visit to China in August-September 2011, but renewed its effort in November 2011 during the ASEAN Summit. ASEAN, which on the whole has not been as proactive as the Philippines on the matter, did not back Manila's proposal to identify non-disputed areas and demilitarize others in order to create a Zone of Peace, Freedom, Friendship, and Cooperation (ZoPFF/C). Such an area could host joint economic activities and serve as a basis for future negotiations.84 Manila has rejected Beijing’s offer to engage in joint economic activities in areas within its EEZ.

Chinese leaders favor resolving territorial disputes bilaterally, and object to U.S. involvement. Beijing expressed disagreement toward including the issue at the East Asia Summit, of which the United States is a new member, in November 2011. Beijing has called for joint (PRC-Philippines) exploration and development of oil, gas, and other resources in contested areas, before territorial issues are formally resolved. Chinese officials have expressed a desire to “resolve disputes peacefully,” but so far offered no flexibility on claims.85

In 2002, Beijing and ASEAN signed the non-binding Declaration on the Conduct of Parties in the South China Sea, and in 2003, China acceded to the Treaty of Amity and Cooperation with ASEAN. Both agreements promote regional cooperation and the peaceful resolution of conflict. In July 2011, China and ASEAN agreed on a preliminary set of guidelines for cooperation in the South China Sea and the formation of a binding code of conduct: “Guidelines on the Implementation of the Declaration on the Conduct of Parties in the South China Sea.” Although China and members of ASEAN praised the step as significant, the guidelines ultimately dropped a phrase providing that ASEAN members would meet China as a united bloc on matters concerning the territorial disputes. Philippine Foreign Secretary del Rosario expressed reservations, stating, “The necessary elements to make guidelines succeed are still incomplete.” A legally binding Code of Conduct is said to be a long way off.86 In August 2011 at the ASEAN Regional Forum (ARF), Secretary of State Hillary Clinton commended the agreement as “an important first step.”

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83 Ernie Bower and Ian Saccomanno, “Philippine President Benigno Aquino’s State of the Nation Address,” *CSIS Southeast Asia*, July 26, 2011.
84 Aileen San Pablo-Baviera, “The South China Sea Disputes: Is the Aquino Way the ‘ASEAN Way’?” *Rajaratnam School of International Studies (Singapore)*, no. 4/2012 (January 5, 2012).
U.S. Positions and Pledges of Assistance

U.S. officials asserts that the United States does not take positions on territorial disputes in the region, but has a national interest in freedom of navigation, the maintenance of peace and stability in the South China Sea, regional multilateralism, and respect for international law, “including as reflected in the 1982 Law of the Sea Convention.” At the East Asia Summit held in November 2011, the United States raised the issue of maritime security:

President Obama enunciated the principles-based U.S. approach to maritime security, including freedom of navigation and overflight and other internationally lawful uses of the seas, as well as use of collaborative diplomatic processes to address disputes. The President expressed strong opposition to the threat or use of force by any party to advance its territorial or maritime claims or interfere in legitimate economic activity. Reiterating his support for the 2002 ASEAN-China Declaration of the Conduct of Parties in the South China Sea as a responsible approach to disputed areas, he encouraged all parties to accelerate efforts to reach a full Code of Conduct.

On November 16, 2011, Secretary Clinton, standing on board the USS Fitzgerald in Manila Bay with Philippine Secretary of Foreign Affairs Albert del Rosario, signed the Manila Declaration, which reaffirmed the alliance between the two countries and commemorated the 60th year of the Mutual Defense Treaty. Secretary of Clinton stated:

We share a common interest in maintaining freedom of navigation, unimpeded lawful commerce, and transit of people across the seas and subscribe to a rules-based approach in resolving competing claims in maritime areas through peaceful, collaborative, multilateral, and diplomatic processes within the framework of international law…. The United States will always be in the corner of the Philippines and we will stand and fight with you.

U.S. military assistance to the Philippines aims to assist the AFP to transition from an inward focus on domestic threats to an outward one, and to help the country to establish a “credible security presence and awareness in the maritime domain.” In January 2011, at the first Philippine-U.S. Bilateral Strategic Dialogue, Assistant Secretary of State Kurt Campbell stated that the Obama Administration was committed to boosting the AFP’s capacities “to patrol its waters as part of a larger goal of keeping Asian sea lanes open.”

The United States has promised to provide assistance to the AFP, particularly the navy, in acquiring more modern equipment, which Philippine officials hope to obtain at lower cost or through leasing arrangements. In May 2011, the Aquino administration purchased a decommissioned U.S. Coast Guard vessel, a Hamilton-class cutter, with plans to acquire another

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87 The United States government has long opposed becoming a signatory to UNCLOS, although the Obama Administration supports becoming a party to the convention. See Testimony of Kurt M. Campbell, Assistant Secretary of State, before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trade,” February 7, 2012.
90 See Testimony by Dr. Peter Lavy, Acting Assistant Secretary of Defense, before the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trade, February 7, 2012.
91 “U.S. Pledges Help for Philippine Navy,” Agence France Presse, January 27, 2011.
three. Renamed the BRP Gregorio del Pilar, the new flagship of the Philippine navy will be used for maritime security and sovereignty patrols and to secure energy projects in the South China Sea.\(^{92}\) The Aquino administration reportedly is in negotiations to acquire a squadron of second-hand F-16 fighter jets from the United States. Washington also has promised to boost Philippine intelligence capabilities in the South China Sea.\(^{93}\)

In addition to equipment and training, U.S. officials envision establishing a greater military presence in the country. Given Philippine constitutional prohibitions and nationalistic sensitivities, the U.S. desire to maintain a “light footprint,” and U.S. budget constraints, no permanent U.S. bases or large-scale troop realignments are proposed. Options under discussion for enhanced security cooperation and U.S. assistance include:

- Greater U.S. access to Philippine ports and airfields for re-fueling and service of warships and planes.
- Stationing of U.S. warships and reconnaissance and other aircraft, on a rotational basis.
- Increasing the number and frequency of joint military exercises, training, ship and aircraft visits, and related activities.
- Increasing the number of U.S. troops serving on a temporary basis.
- The Philippine purchase and leasing of U.S. military ships and aircraft.\(^{94}\)

### U.S. Obligations Under the Mutual Defense Treaty

According to many analysts, the Mutual Defense Treaty may leave room for different interpretations. Some Philippine officials have suggested or sought assurances that the treaty obliges the United States to come to the defense of the Philippines if China were to take disputed territories in the South China Sea by force, while some U.S. interpretations limit U.S. intervention to a foreign military attack on the main Philippine islands or upon Philippine military forces. Although some U.S. foreign policy analysts have expressed support for a stronger understanding, the Obama Administration has not further specified the circumstances under which the U.S. armed forces would intervene on behalf of the Philippines. Some foreign policy analysts in the region fear that an explicit U.S. promise to invoke the MDT over the South China Sea would raise rather than lower tensions. Other sources of concern, particularly in the Philippines, are provisions in the MDT that refer to “constitutional processes” and “consultation,” which some Filipinos fear would allow for lengthy debate in the U.S. Congress and bilateral discussions in time of a security crisis.\(^{95}\) The Manila Declaration of November 16, 2011, did not lay out

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\(^{95}\) Renato Cruz De Castro, “The US-Philippine Alliance: An Evolving Hedge against an Emerging China Challenge,” Contemporary Southeast Asia, Vol. 31, no. 3 (2009); Al Labita, “U.S. Hesitates on Philippines Arms,” Asia Times (continued...)
specifically the circumstances in which the United States would defend Philippine claims in the South China Sea.

Related Congressional Actions

- In July 2011, Senator Jim Webb, Chairman of the Senate Subcommittee on East Asian and the Pacific Affairs, in a letter, urged the U.S. State Department to clarify U.S. commitments under the MDT, in light of recent incidents involving the PRC harassment of Philippine vessels in the South China Sea.96

- In November 2011, Representative Ed Royce, in a letter to Secretary of the Navy Ray Mabus, expressed support for greater U.S.-Philippine maritime security cooperation, particularly the transfer of U.S. decommissioned ships, such as the Hamilton-class cutter that the Philippine Navy purchased in January 2012.97

- In January 2012, Senators McCain, Lieberman, Whitehouse, and Ayotte visited the Philippines, where they met with President Aquino, Foreign Secretary del Rosario, and other leaders. They expressed support for freedom of navigation, the peaceful resolution of territorial disputes, and greater U.S. assistance to the AFP.

- In February 2012, the House Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation and Trade, held a hearing, “The U.S.-Philippines Alliance: Deepening the Security and Trade Partnership.” Assistant Secretary of State Kurt Campbell and Acting Assistant Secretary of Defense Peter Lavoy were witnesses.
Selected Legislation on the Philippines in the 112th Congress

H.Res. 505 (Austria, introduced December 20, 2011). Expressing the sense of sympathy of the House of Representatives to those who perished or were displaced in the Philippines as a result of the December 16, 2011 flooding.

H.R. 3712 (Heinrich, introduced December 16, 2011). To grant the Congressional Gold Medal to the troops who defended Bataan during World War II.

S. 2004 (Udall, introduced December 15, 2011). A bill to grant the Congressional Gold Medal to the troops who defended Bataan during World War II.


H.R. 2387 (McDermott, introduced June 24, 2011). Save Our Industries (SAVE) Act – To provide preferential duty treatment to certain apparel articles of the Philippines.

S. 1244 (Inouye, introduced June 22, 2011). Save Our Industries (SAVE) Act – To provide preferential duty treatment to certain apparel articles of the Philippines.


H.Res. 275 (Richardson, introduced May 24, 2011). Honoring the 113th anniversary of the independence of the Philippines.

H.Con.Res. 18 (Filner, introduced February 15, 2011). Urging the President to authorize the return to the people of the Philippines of two church bells that were taken by the United States Army in 1901 from the town of Balangiga on the island of Samar, Philippines, and are currently displayed at F.E. Warren Air Force Base, Wyoming.

S. 105 (Ensign, introduced January 25, 2011). Save Our Industries (SAVE) Act – To provide preferential duty treatment to certain apparel articles of the Philippines.

S. 63 (Inouye, introduced January 25, 2011). A bill to require the Secretary of the Army to determine the validity of the claims of certain Filipinos that they performed military service on behalf of the United States during World War II.


Figure 1. Map of the Philippines

Source: Congressional Research Service
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