

**Bankers Trust  
Company**  **Country  
Assessment**

**International Economics**

280 Park Avenue, New York, N.Y. 10017 U.S.A.

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**PHILIPPINE DEVELOPMENTS**


**William H. Overholt  
Vice President  
Political Assessment Group**

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**DRAFT**

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T. Miller/T. Wallace/D. Sias Bill Overholt 20 June 1983  
SUBJECT  
Philippine Developments

Some of what follows is undocumented allegation. Some comes from extremely sensitive sources. Unwarranted disclosure of this memo would be extremely prejudicial to bank interests. Therefore, please do not further distribute the memo except as absolutely necessary.

The quickening pace of financial developments in the Philippines has been accompanied by a quickening pace of political developments. I will be in the Philippines in August to make a full assessment of these developments. In the interim, I want you to be aware of the following events. These events, I hasten to add are purely negative and provide a distorted picture unless interpreted in the broader framework of regime strengths and weaknesses provided elsewhere.

1. The New People's Army continues to grow in strength, with armed guerrillas now up to at least 6,000 and with units as large as 200 men appearing in a single attack. The unarmed civilian base is growing much more rapidly than the armed component. The Philippine Army and Constabulary mistreat civilians far worse than the guerrillas, so civilian sympathy shifts toward the guerrillas. The NPA cannot challenge the 200,000+ military of the government, but constitutes an increasing drain: 1 guerrilla now ties down 20 soldiers.
2. Tensions between the government and the Catholic Church continue to rise.
3. Prime Minister Virata, the technocrat most interested in sound economic and financial policy, has reportedly been very upset with the terms demanded of the Philippines by the IMF recently. This would seem to imply some rough negotiations when the time comes for much more severe measures.
4. Virata in turn has been severely and publicly criticized by people close to Imelda Marcos for excessive responsiveness to IMF demands. Particularly humiliating to him was a publicized session in which Ople and Rono lambasted him. He offered the President his resignation, which was refused.
5. A major Filipino political figure tells me that Imelda Marcos has greatly accelerated her purchase of overseas assets. According to this figure, she has arranged the indirect purchase of all or part of the Crown and Seagrams buildings in Manhattan, of a joint oil venture with Libya, and of 49% of a joint oil venture with China, and has contracted to build five 5-star hotels in China. I would appreciate any information you hear that would verify or disprove these allegations.
6. The recent struggle for control of San Miguel has turned that firm into a political football, controlled by the Marcos regime. The Marcos people may also have gained control of the Japanese holdings in Ayala Corporation as a prelude to an attempt to split the three segments of the Ayala family which currently hold a majority of the firm's stock. Such moves have two consequences. First, they introduce major political considerations into the future of key current and potential customers and, therefore, raise

questions of strategy. Second, they raise questions about the future support of Marcos from large parts of the middle and upper classes who will fear loss of their own assets.

7. Allegations may surface soon that Marcos, with the help of former Central Bank Governor Licaros, financed his election campaigns from 1969 through the present by recycling mutilated money that was supposed to have been destroyed. According to this allegation, the principal *raison d'etre* of the Marcos-controlled casino is to recycle the mutilated money. I have no way of verifying or disproving this allegation, which comes from a source hostile to Marcos but with a creditable track record in the past.
8. The planned return of Benigno Aquino to Manila in late July or early August will raise the political temperature and create some risk of an explosion. A leading business figure close to Aquino reports that Imelda Marcos offered Aquino \$10 million to stay outside the Philippines, but Aquino refused. Aquino has accepted the risk that he might be assassinated. He believes that such an assassination would have consequences similar to those following the assassination of Pedro Chamorro in Nicaragua, an outcome which would assure a prominent place for him in Philippine history. More importantly, he thinks Marcos understands this risk and will be deterred by it. As a result of his having faced and accepted his personal risk, Aquino's personality has visibly changed and he is a more formidable figure than in the previous several years. His presence in Manila, alive or dead, free or in jail, will create a serious dilemma for Marcos.

#### Implications for Bankers Trust.

First, key customers may be affected by some of these developments.

Second, if a rescheduling should occur in the Philippines, it will come at a moment of unusual political fragility, both because of the long-term trends identified in earlier papers and because of developments mentioned here. As a result, rescheduling could possibly trigger a political upheaval.

Third, political fears will enhance any flight of capital that may occur.

Fourth, any rescheduling will occur in a particularly messy political situation, making it hard for the regime to impose further austerity and rendering dubious the value of any austerity moves that are agreed.