

CONFIDENTIAL

ADVANCE COPY

034254
MDADAN 2326

See by M copy

CONFIDENTIAL

FM EAST BERLIN

TO DESKBY 190900Z FCO

TELNO 63

OF 181850Z JANUARY 90

INFO PRIORITY BONN, BMG BERLIN, PARIS

INFO ROUTINE MOSCOW, WASHINGTON, UKDEL NATO, UKREP BRUSSELS, ACTOR

INFO SAVING CSCE POSTS, CICC(G)

AMENDED DISTRIBUTION 19/1

GDR INTERNAL SITUATION

SUMMARY

1. A REPORT ON THE GDR BEFORE THE PRIME MINISTER'S TALKS WITH M MITTERRAND AND YOUR VISIT TO EAST BERLIN.

2. THE SITUATION IS FRAGILE AND VOLATILE. THE GOVERNABILITY OF THIS COUNTRY IS IN QUESTION.

DETAIL

3. DEVELOPMENTS IN THE FIRST HALF OF JANUARY HAVE BEEN CHARACTERISED BY A DETIORATION IN BOTH THE POLITICAL AND ECONOMIC STABILITY OF THE GDR.

4. THE CAUSE HAS BEEN A BACKLASH AGAINST AN ATTEMPT BY THE OLD GUARD IN THE SED-PDS TO SLOW DOWN OR REVERSE THE REFORM PROCESS. THE CENTRAL ISSUE IN THIS POLITICAL STRUGGLE WAS MODROW'S PROPOSAL TO RE-ESTABLISH AN INTERNAL SECURITY SERVICE BEFORE THE ELECTIONS IN MAY, ALLEGEDLY TO PROTECT THE COUNTRY AGAINST NEO-FASCISM (DAUBINGS ON SOVIET WAR MEMORIALS, ENTRY BY FRG REPUBLIKANER, ETC).

5. MODROW HAS HAD TO CONFIRM THAT NO NEW SECURITY SERVICE WILL BE SET UP BEFORE THE ELECIIONS. THE SED-PDS HAS BEEN FORCED TO GIVE UP A NUMBER OF ITS PARTY BUILDINGS AND PRINTING PRESSES. A RANGE OF OTHER IMPROVEMENTS FOR THE OPPOSITION GROUPS AND PARTIES HAS BEEN INSTITUTED (BUT STILL DOES NOT GO FAR ENOUGH). ECONOMIC REFORM PLANS HAVE BEEN GIVEN A SHARP SHOVE FORWARD.

6. BUT THE COST TO THE STABILITY OF THE GDR HAS BEEN CONSIDERABLE.

-MODROW'S STANDING HAS BEEN DIMINISHED (AND IT IS ON HIS CREDIBILITY THAT TO A GREAT EXTENT THE GDR'S SURVIVAL RESTS, EVEN THOUGH AFTER THE ELECTIONS HE AD HIS PARTY WILL BE VOTED OUT OF POWER) SEMI CLN

-DISILLUSION HAS BOOSTED EMIGRATION. ABOUT 1500 A DAY, MOSTLY QUALIFIED WORKERS WHO HAVE NO DIFFICULTY IN FINDING JOBS IN WEST GERMANY.

-STRIKES ARE BEGINNING TO BE USED AS A POLITICAL WEAPON.

- DEMONSTRATIONS HAVE BECOME MORE AGGRESSIVE.

-MORE PEOPLE ARE CALLING MORE STRIDENTLY FOR UNITY WITH THE FRG.

- MORE PARTIES ARE RULING OUT A COALITION WITH THE SED-PDS AFTER THE ELECTION (THUS ENSURING A POLITICALLY AND ECONOMICALLY INEXPERIENCED SUCCESSOR GOVERNMENT.)

AS A LEADING CHURCH FIGURE PUT IT TO ME RECENTLY EITHER PEOPLE WILL RESOLVE THE QUESTION INDIVIDUALLY BY GOING THERE (FRG) OR THEY WILL RESOLVE IT COLLECTIVELY BY BRINGING THEM HERE (UNIFICATION).

7. THE FUTURE OF THE PRESENT COALITION GOVERNMENT LOOKS UNCERTAIN. THE CDU (EAST) WILL DECIDE ON 19 JANUARY WHETHER TO REMAIN IN THE COALITION. IF THEY DECIDE TO LEAVE OTHERS MAY FOLLOW (EVEN THOUGH MOST SAY THAT THE HIGHEST PRIORITY IS TO MAINTAIN GOVERNMENT AND ORDER UNTIL ELECTIONS ON 6 MAY). WHETHER THE UNRAVELLING OF THE PRESENT COALITION STARTS ON 19 JANUARY, OR R AFTER THE NEW ELECTORAL LAW IS PASSED IN ABOUT A MONTH, THE GENERAL DIRECTION LOOKS FAIRLY CLEAR.

8. THE BROAD COALITION (EXCLUDING THE SED-PDS) WHICH IS LIKELY TO BE FORMED AFTER THE ELECTION ON 6 MAY, (OR EARLIER IF THE COALITION BREAKS UP) WILL CONTAIN MAINLY PARTIES (CDU, LDPD, SPD) WHO ARE IN FAVOUR OF A FREE MARKET ECONOMY AND EVENTUAL UNITY (UNDEFINED) WITH THE FRG. THE ISSUES ON WHICH SUCH A GOVERNMENT WOULD BE LIKELY TO MOVE MOST RAPIDLY ARE, IN MY VIEW, CURRENCY UNION AND ECONOMIC INTEGRATION WITH THE FRG. I BELIEVE THAT A REVISED CONSTITUTION WILL FORM THE BASIS OF A NATIONAL PLEBISCITE LATER THIS YEAR ON WHAT WILL IN EFFECT BE THE QUESTION OF GERMAN UNITY.

9. THE MOST STRIKING FEATURE OF RECENT POLITICAL DEVELOPMENTS HERE HAS BEEN THE CLOSE INTER-ACTION BETWEEN WEST AND EAST GERMAN POLITICAL PARTIES. THE SPD(WEST) IS GIVING FULL

POLITICAL AND PRACTICAL SUPPORT TO THE SPD(EAST). GIVEN THE SPD'S HISTORICAL POPULARITY IN THIS PART OF GERMANY AND THE POSSIBLE TRANSFER TO THEM FROM THE SED OF BERGHOF, THE POPULAR MAYOR OF DRESDEN, THEY SHOULD GET CONSIDERABLE SUPPORT AT THE POLLS. ONCE THE CDU(EAST) BREAKS ITS COALITION WITH THE 'COMMUNISTS'(SED) I WOULD EXPECT IT TO RECEIVE SIMILAR BACKING FROM THE CDU(WEST). (THE HEAD OF DEMOCRATIC AWAKENING SAID ON 17 JANUARY HE WAS CONFIDENT THE CDU WOULD LEAVE THE COALITION SOON AND THAT A RIGHT OF CENTRE COALITION OF THE CDU(EAST), DEMOCRATIC AWAKENING AND CSDP (BACKED BY THE CSU) WITH SUPPORT FROM THE CDU(WEST). COULD GET 50% OF THE VOTE.) COMMENT: THE TAKEOVER OF POLITICAL PARTIES IS HAPPENING FASTER THAN THE TAKEOVER OF THE ECONOMY, (PARTICULARLY IF, AS IS LIKLY THE FDP BACKS THE LDPD).

10. IN GENERAL BOTH THE NEW POLITICAL LEADERS AND THE PEOPLE ARE COMING TO REALISE THAT FOR ALL ITS IMPERFECTIONS THE FRG ALREADY OFFERS 'A THIRD WAY' BETWEEN STATE SOCIALISM AND 'UNRESTRAINED CAPITALISM'. THEY ARE BEGINNING TO SEE THROUGH THE SED'S PROPAGANDA ABOUT 'CAPITALISM' AND UNEMPLOYMENT AND TO UNDERSTAND INSTEAD THE GENEROUS SOCIAL SECURITY TERMS AVAILABLE IN WEST GERMANY.

#46n
11. THE OVERRIDING PRIORITY NOW IS TO GET PEOPLE TO STAY IN THE GDR AND WORK. THE FRG GOVERNMENT IS DOING ALL IT CAN TO HELP ECONOMIC REGENERATION (KOHL OFFERED SOME DM 12 BILLION IN DRESDEN). THERE ARE ALSO INCREASING SIGNS THAT THE GDR GOVERNMENT IS NOW PREPARED TO MOVE MORE RAPIDLY TOWARDS A MARKET ECONOMY AND CONDITIONS ATTRACTIVE TO WESTERN INVESTORS. BUT THE SYSTEM CAN NOT CHANGE OVERNIGHT. AND, AS GDR FINANCE MINISTER NICKEL TOLD FRG FINANCE MINISTER WAIGEL LAST WEEK, APART FROM ANY QUESTION OF PRINCIPLE, THE GDR SIMPLY DOES NOT HAVE THE BUREAUCRATIC SKILLS, EXPERIENCE OR PEOPLE TO MAKE A RAPID REVISION OF TAX, CURRENCY AND OTHER FISCAL LAWS. WAIGEL OFFERED FULL FRG 'KNOW-HOW' SUPPORT.

12. YOU WILL FIND THIS AN INTROSPECTIVE COUNTRY. THE INTENSITY OF EXCHANGES AT ALL LEVELS AND IN ALL FIELDS WITH WEST GERMANY AND WEST BERLIN COUPLED WITH THE DRAMA OF INTERNAL POLITICAL DEVELOPMENTS, ALMOST WHOLLY OCCUPIES INTEREST HERE. ALTHOUGH CLOSE ATTENTION IS PAID TO THE POSITION OF THE 4 POWERS IN GERMAN UNITY, FOREIGNERS, (INCLUDING MITTERRAND OR BAKER) HAVE NOT MADE A DEEP

CONFIDENTIAL

034254
MDADAN 2326

IMPRESSION. THERE HAVE BEEN RUMOURS OF AN IMPENDING VISIT BY GORBACHEV BUT OTHERWISE THE RUSSIANS ARE KEEPING A LOW PROFILE.

13. FROM THE PERSPECTIVE OF EAST BERLIN I RECOMMEND THAT THE MAIN OBJECTIVES FOR YOUR VISIT SHOULD BE TO:

A) PRESS MODROW AND OTHERS TO CONTINUE THE POLITICAL AND ECONOMIC REFORM PROCESS WHICH ARE ESSENTIAL IF PEOPLE ARE TO BE PERSUADED TO STAY IN THE GDR,

B) STRESSES THE NEED FOR FAIR ELECTIONS IN WHICH ALL THE PARTICIPANTS WILL HAVE AN EQUAL CHANCE,

C) MAKE CLEAR OUR INTEREST IN PEACE AND STABILITY IN THE GDR AND OUR WILLINGNESS TO ASSIST IN VARIOUS WAYS (KNOW-HOW, ENGLISH LANGUAGE TEACHING, PARLIAMENTARY EXCHANGES, ETC).

14. PLEASE ADVANCE TO HEAD OF WED.

BROOMFIELD

YYYY

DISTRIBUTION

3

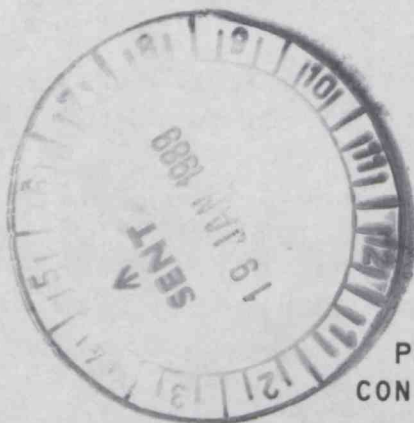
ADVANCE

3

.BERLIN/INNER-GERMAN RELATIONS
. (WIDE)

PRESS SECRETARY NO 10

NNNN



PAGE 4
CONFIDENTIAL