LIBERIA: Economy Grinding to a Halt

As the belligerents consolidate their positions in anticipation of renewed fighting, acute shortages of food and consumer goods are developing in Monrovia. foreign exchange shortages and concerns about port security have helped reduce imports by about 85 percent. Many small retail firms have closed as their Indian, Korean, and Lebanese owners fled the country. export revenues have dropped more than 50 percent since last year. Shipments of iron ore—the leading export—have virtually stopped, and rubber production and exports have fallen sharply because of rebel activity on the larger plantations. The government has drained the treasury and is strapped for cash, last week army troops staged a protest over underpayment of salaries.

Comment: The economic slide will get worse as the insurgency drags on, and Liberians may begin to press President Doe to resign to avert further hardship. After the insurgency ends, it will take time for foreign businessmen to restore production, and prohibitive restart costs might jeopardize some projects. The government will look to the US and other donors for economic help, particularly in providing food and other basics for returning refugees and those displaced by the conflict.

Special Analysis

CHILE: **Aylwin Feeling Heat on Human Rights**

New evidence of human rights violations during the Pinochet era is complicating President Aylwin's moderate approach to the issue and straining civil-military relations.

Recent discovery in Pisagua of a mass grave for leftists executed by the military after the 1973 coup has led to public outrage and debate among political parties about human rights. The far left is pressing for the removal of Pinochet as Army Commander and the repeal of his Amnesty Law, which protects human rights violators. Leftist extremists are assassinating military officers accused of atrocities. Center-left politicians in the ruling coalition reportedly feel compelled to pay lipservice to extreme positions to retain the moral high ground. The moderate right is stressing the need for reconciliation, arguing that digging up the past will jeopardize political stability.

The military is on the defensive, showing its discomfort with Aylwin's human rights policy. Pinochet has publicly criticized the Aylwin government's handling of past human rights violations, claiming the "civil war" after the 1973 coup justified repression; the previously moderate Navy Chief recently echoed that position. The Air Force Chief has publicly admitted his service committed abuses under Pinochet.

Aylwin has moved quickly to limit damage caused by Pisagua. the administration's initial reaction to a Supreme Court decision to investigate the atrocity was uncoordinated and that one minister criticized the Court's failure to investigate other military abuses. Aylwin has since consulted with church, military, and opposition party representatives and has emphasized that the military is willing to cooperate in the investigations.

Political fallout, nevertheless, is likely to narrow Aylwin's maneuvering room on issues related to human rights and the military, such as judicial reform. Although the outcry over Pisagua has justified his creation last month of a commission to investigate human rights abuses, it also shows the trouble he probably will have in trying to satisfy Chileans with the pace and scope of investigations. Further revelations of atrocities are likely, raising the risk the far left will increase terrorist activity to show its frustration with Aylwin's approach.

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EC: Current Structure and Decisionmaking Process

European Council
The 12 heads of state or government meet semiannually to review proposals and establish broad policy.

Council of Ministers
Cabinet ministers from EC states meet nearly 80 times a year to set specific policy. Ministers with appropriate portfolios attend the specialized Council meetings.

EC Commission
Seventeen commissioners appointed by the member states are charged with implementing EC policies.

European Parliament
Parliament's role is largely advisory, but it can amend or veto single-market legislation if not overruled by a unanimous vote of Council of Ministers.

Decisionmaking
The Treaty of Rome stipulates that most decisions require 71 percent of the votes cast in the Council of Ministers. Treaty amendments; the admission of new members; and tax, environmental, and some aspects of social policy votes, however, require unanimous decisions. Foreign policy decisions also require consensus but are made by a different process. Most foreign policy initiatives flow upward from expert working groups to a Political Committee—composed of a senior diplomatic official from each member government—and then to the Council of Foreign Ministers. Particularly important initiatives are referred to the European Council.

Special Analysis

USSR: **Economic Concerns About German Unification**

Bonn is encouraging Moscow's expectation of long-term economic gains from German unification, but in the short term economic uncertainties threaten troublesome trade disruptions for the USSR.

Moscow insists it must not suffer economically as a result of German unification and is looking to Bonn for guarantees that Soviet imports from eastern Germany will not fall because of enterprise closings and diversion of trade to the West. Such demands, however, probably are meant just as much to influence the pace of unification and perhaps to gain additional concessions from Bonn. West Germany is promising to cover basic East German economic commitments and pointing out that unification could offer the USSR long-term advantages, such as access to EC and other Western markets, prospects of cheaper and better quality imports, and West German support for Soviet integration into the world economy.

Easier Said Than Done

The West Germans may be promising more than they can deliver:

— Bonn may have difficulty ensuring that contracts will be honored because it is committed to privatization of industries in eastern Germany and cannot coerce private firms into taking over the contracts. West German business and banking circles exhibit growing skepticism about economic prospects in the USSR.

— The two sides are likely to differ on which existing contracts for East German products should be extended. Moscow probably will want more imports of top-quality products while Bonn will see the Soviet market as an aid in protecting East German enterprises that are uncompetitive in world markets. There are already indications that Bonn wants the most productive East German firms to adapt to Western competition sooner.

— Determining the hard currency value and settlement of joint investments, ruble trade debts, and matters such as the cost of stationing Soviet troops will be difficult and contentious.

Bonn and Moscow have incentives to find solutions, but the overall impact of German unification on the Soviet economy is unclear. In

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EC: Members' Views of European Political Union

The **UK** is lukewarm about EPU, but Prime Minister Thatcher has tried to soft-pedal her reservations to soften her anti-EC image. Her proposals would increase the scope of European political cooperation, strengthen the European Council, and increase the accountability of the Commission to the Parliament. Thatcher opposes an EC security role and insists on limiting the Commission's role in foreign and security policy.

France favors strengthening EC institutions and foreign policy coordination, but its ideas on the substance of European political union are vague. Paris probably will suggest expanding majority voting in the Council of Ministers and linking national legislatures to the European Parliament's decisionmaking process. The French oppose as premature any detailed discussion of EC defense cooperation.

Italy will hold the EC presidency from July through December and wants to see progress toward EPU during its stewardship. Rome welcomes institutional reforms that would reduce French and West German domination of EC policy. It supports increasing the use of majority voting in the Council, expanding the powers of the Parliament, and making the Commission accountable to the Parliament. Although Italy supports upgrading the EC's role in formulating European security policy, it does not see the EC as a substitute for NATO.

West Germany wants to allay concerns that a united Germany will be less committed to the EC. The West Germans have enthusiastically supported the process of political union; they have not offered concrete proposals, but they clearly favor strengthening foreign policy coordination and the Parliament. West Germany favors closer coordination on security policies but would balk at surrendering decisionmaking powers to EC institutions.

the short term, the USSR is likely to suffer trade disruptions even though Bonn will try to shield it somewhat by subsidizing some of its East German suppliers or by offering incentives to West German firms to provide substitutes. Although the West Germans may extend hard currency assistance to help cover Soviet troop costs, the USSR is unlikely to gain a hard currency windfall; trade disruptions are likely, and Bonn intends to hold down explicit aid and outright grants. Moscow may agree to a transitional clearing account arrangement rather than the outright exchange of hard currency.

In the longer run, reforms and industrial restructuring in the USSR may put the Soviets in a better position to absorb Western machinery and technology and free them from dependence on lower-quality East German goods. The Soviets should continue to find a ready market in a united Germany for their fuels and raw materials, but they will increasingly exchange them for top-quality machinery and equipment rather than the inferior products that characterized CEMA trade. The apparent willingness of Bonn to help bring the USSR into the world economy could provide major dividends in coming years.

Although successful establishment of a market-oriented economy in eastern Germany could serve as a model for the USSR, unification will have little direct influence on the eventual success or failure of economic *perestroyka*. Moscow's ability to capitalize on German unification ultimately depends on economic reforms that help restructured Soviet industries produce higher-quality goods for export, give Germans better incentives to invest in the USSR, and facilitate trade between enterprises by establishing realistic prices and exchange rates.

Strengthening EC Institutions

EC states also want to make Community decisionmaking more efficient and democratic. Proposals include expanding the number of issues that can be settled by qualified majority vote—rather than unanimity—in the Council of Ministers, creating a permanent group of deputy prime ministers to exercise authority between summit meetings, and increasing the autonomy of the EC Commission. To ease what they see as a growing EC "democratic deficit," because more decisions are being made by unelected EC institutions, most members favor strengthening the limited powers of the Community's only elected body, the European Parliament. Members are split, however, over the Italian and West German proposal that the Parliament be given policymaking powers equal to those of the Council of Ministers and the European Commission.

Change Likely To Be Modest

The EC intergovernmental conference probably will move toward enhanced cooperation among members rather than creation of an EC federal structure. The UK would oppose any substantial cession of sovereignty to the EC, and several smaller states are wary of domination by larger members. The EC probably will ease the requirement for unanimity on many economic, environmental, and social issues as well as some foreign policy questions, such as Third World policy. Members will be more cautious about taking on a security role but will at least agree to increased discussion of East-West and defense-related issues in EC forums. The Council of Ministers is likely to gain the most new authority, but the EC Commission and Parliament also are likely to get more power.

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USSR: **Gorbachev Defends Compromise Party Platform**

President Gorbachev is using the Russian Republic party conference to defend the CPSU's compromise platform in the hope of isolating those who support the alternative programs of the left and right wings.

In his keynote address yesterday, Gorbachev formally called for the creation of the Communist Party of the Russian Republic. He proposed that the delegates discuss the draft CPSU platform, the alternative Marxist and Democratic platforms, and the traditionalist program of the Leningrad party in anticipation of the July party congress. He extolled the draft platform as an effective compromise that includes ideas from the competing platforms and promised that it would lead to significant changes such as dropping the *nomenklatura* system, under which high-level state jobs go only to party members in good standing. Despite these accommodations, representatives of the three alternative platforms spoke in favor of their own programs.

During the current four-day session of the conference, delegates are to elect a party first secretary and an organizing committee to lay the administrative groundwork for the new Russian party. The conference will resume after the CPSU congress next month to discuss a political platform and elect the party's ruling bodies.

Comment: Fearing the CPSU will break up into a band of independent parties, Gorbachev is attempting to orchestrate the creation of a Russian party that will remain subordinate to the national leadership. His remarks on the draft CPSU platform suggest he plans to hold to a centrist course at the national congress, despite traditionalist party secretary Ligachev's threat of a showdown over Gorbachev's policies and the growing possibility that large numbers of Democratic Platform supporters will quit the party after the congress. Gorbachev may have sanctioned debate over alternative platforms at this conference with an eye to revising the CPSU position further before the national congress.

SRI LANKA: Fighting Widespread

Heavy fighting continued in the northeast yesterday; the Army retook two main eastern towns, and the Tigers continued their siege of several Army camps, according to press accounts. Some Tamils fled as Army soldiers burned their homes; others sought refuge in temples and churches. No violence has been reported in Colombo, but security forces are patrolling roads and occupying major intersections.

Comment: The Army is moving units to the northeast and probably will retake most Tiger-held positions over the next several days. Some besieged Army camps may fall before government forces reach them. The Tigers probably will soon head for rural areas and resume guerrilla warfare. Despite government efforts to contain communal violence, prospects remain high that both sides will massacre civilians.

PHILIPPINES: Economy Compounds Political Problems

A brief bus and rail strike that paralyzed transportation in the Manila area this week may be the harbinger of further unrest in the next few months. Manila reportedly is bracing for student demonstrations against scheduled tuition hikes and for labor strikes protesting sharp increases in fuel prices. The government's fund for subsidizing oil prices is exhausted, and the IMF is pressing Manila for a long-promised deregulation of oil prices. Recent opinion polls show Filipinos are increasingly pessimistic about their economic future, and their satisfaction with President Aquino's performance has dropped from 76 percent early in 1988 to an alltime low of 48 percent.

Comment: Manila fears unrest will give military dissidents a pretext to move against the government; the two most recent attempts were preceded by protests against higher oil prices. The poll results suggest that a public increasingly disenchanted with mismanagement, lack of foresight, and weak leadership in the government will have little patience for the belt-tightening measures Aquino and her advisers need to take in the months ahead.

IRAN: Attempting Monetary Reform

Iran is moving cautiously toward reforming its monetary system. The Central Bank has announced it will crack down on black-market currency trading and will restrict access to foreign exchange at the former, subsidized, rate of 800 rials per dollar. The new rate, 1,250 rials per dollar, is close to current black-market rates and will mean higher prices for at least 400 imports. Food and medicine will continue to be imported at the official exchange rate of 70 rials to the dollar.

Comment: Tehran probably hopes to increase its control over the money supply and to alert potential foreign lenders that Iran is getting its monetary house in order. The decision to raise the rate also is meant in part to absorb excess rials printed in recent years to finance budget deficits. Prospects for success are dim because of Iran's extensive networks of black-market moneychangers and because it has limited reserves of hard currency to support the new exchange rate.

ROMANIA: Inauguration Under a Cloud

EC states have decided not to support the US call to boycott today's thrice-postponed inauguration of President-elect Iliescu, although most will not attend the reception afterward. Police yesterday rounded up another group of dissidents in Bucharest but have not intervened to stop isolated clashes between pro- and anti-regime groups. Iliescu has kept a low profile since publicly praising proregime miners who brutally suppressed last week's demonstrations and reportedly has refused a new offer from them to help break up the protests.

Comment: International pressure evidently is having only a limited effect on the regime's actions. Yesterday's arrests of student and opposition leaders appear meant to deprive protesters of leadership during the inauguration, which is likely to be a lightning rod for antiregime demonstrations. Another postponement of the inauguration might signal a behind-the-scenes struggle to replace Iliescu.

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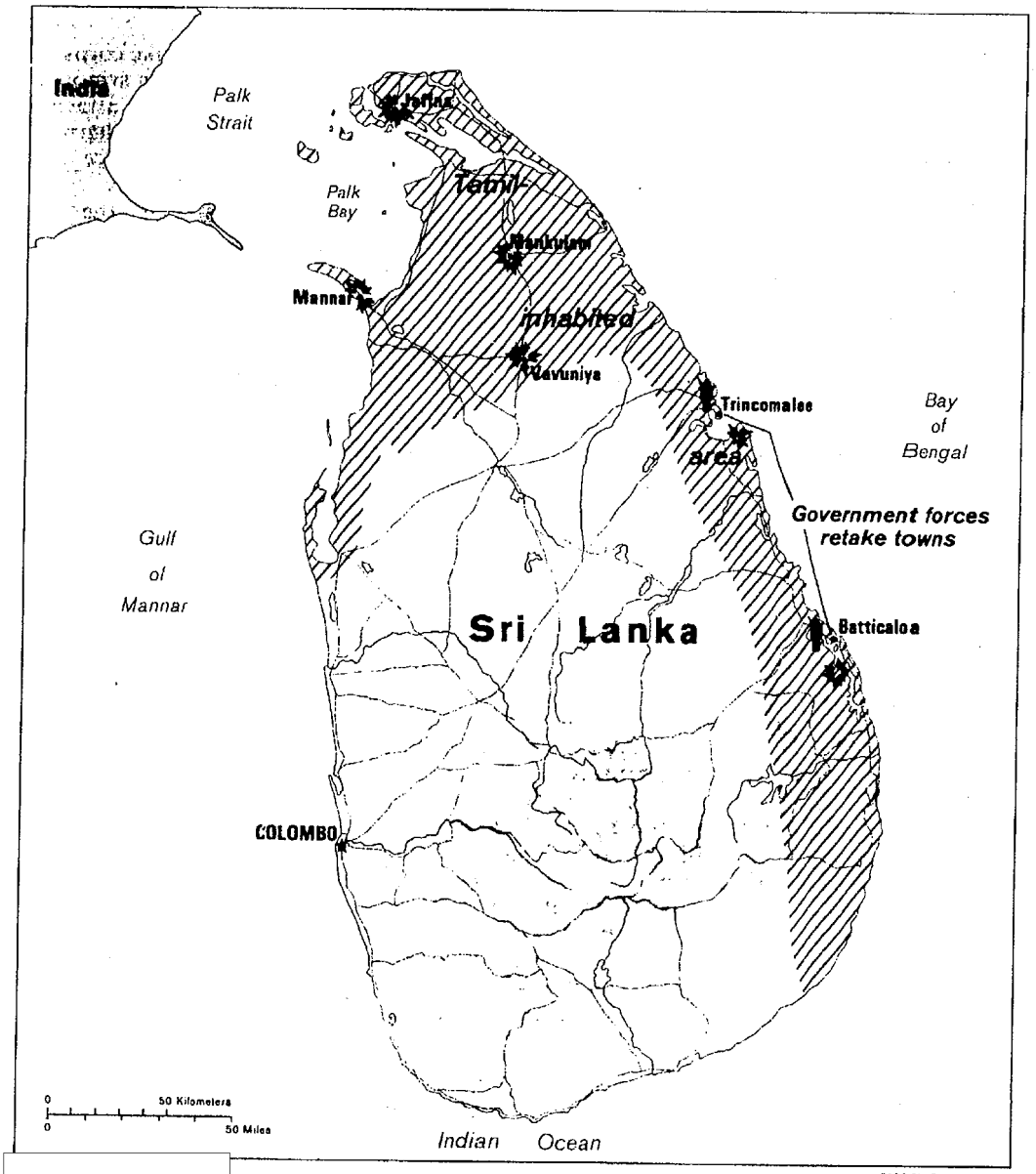
Heavy Fighting Continues, 19 June 1990



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20 June 1990

Special Analysis

EC: **Pursuing Political Reform, Not Union**

EC leaders meeting on 25 and 26 June in Dublin almost certainly will authorize an intergovernmental conference on European political union for late this year. The outlook is for modest growth in foreign policy coordination, more EC involvement in security issues, more relaxed decisionmaking rules, and some new powers for Community institutions.

EC member states applauded the proposal in April by President Mitterrand and Chancellor Kohl to move more rapidly toward political unity in order to help ensure a united Germany's commitment to European integration.

Common Foreign and Security Policies

A controversial issue for EC states is whether to cede to the Community greater sovereignty for foreign and security policy. EC members already coordinate foreign policies through the mechanism of European Political Cooperation; but this is formally outside routine EC decisionmaking channels, and decisions require unanimity. Some members, such as France and Italy, believe the EC should shift foreign policy deliberations to the Council of Ministers, where they could be decided by the EC's weighted majority voting system, in which larger states have more say than smaller ones.

Advocates of this approach stop short of suggesting the EC assume responsibility for defense planning and command. They propose instead that the EC broadly discuss the political and economic aspects of security, which existing treaties already authorize the Community to do. the Community could involve itself in controlling arms exports, supporting European defense industries, and crafting common EC positions within CSCE.

continued

In Brief

USSR

— Officials in **Soviet** Kirghiziya report 186 dead, 1,054 injured in ethnic violence . . . forces still separating Kirghiz, Uzbeks in worst hotspot . . . authorities blaming extremists, may exploit unrest to crack down on opposition.

— **French** President Mitterrand urging West to consider major economic aid for **USSR** . . . will raise proposal at 25-26 June EC summit, 9-11 July Houston summit . . . likely to argue substantial help needed to improve Gorbachev's prospects.

— **USSR, Libya** have reached debt payment accord, Soviet press reports . . . Moscow now likely to increase pace of arms deliveries, reduced to press for payment of $2.7 billion military debt.

East Asia

— Appearance in **Chinese** press of new Beijing Military Region commander, political commissar indicates command shuffle over . . . largest turnover since 1985 took unprecedented two months . . . President Yang Shangkun apparently made gains.

— **Thai** Prime Minister Chatchai, facing no-confidence vote tomorrow, has met with former Defense chief Chawalit to resolve differences . . . Chawalit has some military backing . . . hopes to improve prospects for prime-ministership.

Middle East

— New **Israeli** Cabinet's Defense Committee includes architects of 1982 **Lebanon** invasion Ariel Sharon, Rafael Eitan . . . will press Prime Minister Shamir, Defense Minister Arens to keep hard line . . . Shamir, Arens will still dominate policy.

Americas

— UN officials say 15,000 **Nicaraguan** rebels had demobilized by Monday . . . some 3,000 still to disarm . . . Commander Franklin reportedly to do so Tuesday.

— **Surinamese** black rebel leader Brunswijk forced out by hardline subordinates angry over his accommodationist stance, slow pace of peace talks, rebels reportedly damaged US-owned mine, which Army now claims to control.