

WRE 014/2

*General Distribution*GERMAN DEMOCRATIC REPUBLIC
30 December, 1980

GERMAN DEMOCRATIC REPUBLIC: ANNUAL REVIEW FOR 1980

*Her Majesty's Ambassador at East Berlin to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

In a year dominated by external developments, it was Poland rather than Afghanistan which mainly affected the GDR's relations with the West, particularly the Federal Republic (paragraphs 1-4).

2. The gathering tension induced Schmidt to call off his meeting with Honecker in August. The latter replied with measures restricting human and political contacts between the two Germanys, accompanied by a campaign of recrimination and abuse (paragraphs 5 and 6).

3. Ordinary East Germans were politically unmoved by events in Poland, even though worried about possible economic effects. So the régime's defensive reactions probably reflected anxiety over the longer-term implications rather than immediate concern for internal security (paragraphs 7 and 8).

4. No abatement in the GDR's Third World activities. The neutrals, particularly Austria, and peripheral European countries also received attention (paragraph 9).

5. Without accepting at face value the bullish official picture, the economy is not doing badly and is certainly not going the way of Poland's. But prospects for major industrial contracts look less rosy (paragraphs 10-12).

6. GKN picked up one in the spring and have a good chance of another. With two Ministerial visits in each direction and the development of cultural exchanges, Anglo-GDR relations improved at least superficially. But our current exports and trade balance remain disappointing and our political relationship is thin. Could events in Poland ultimately give Western diplomacy new opportunities? (paragraphs 13-15).

My Lord,

*East Berlin,
30 December, 1980.*

A review of the past year in the GDR is bound to intrude on other people's territory. For most of what happened here was a reflection of what happened elsewhere, particularly in Afghanistan and Poland.

2. In the opening months the dominant question was whether détente in Central Europe would survive unscathed Soviet aggression in South-West Asia. After some hesitation the West reassured the Russians' anxious allies—not without

misgivings over ultra-loyalists like the GDR— [REDACTED] Hardly had we settled down to a business as usual relationship than the workers of Poland threatened the basis of theatre détente by behaving as if they had nothing to lose but their chains.

3. It was not so much that détente was all along a meaningless—albeit misleading—concept; rather that (like most political terminology) it had different meanings for East and West which overlapped but did not coincide. 1980 finally exposed its asymmetry to Western opinion. It must also have been for the East a shocking exposure of the vulnerability of its internal power base: for the GDR régime doubly disconcerting as a direct threat to the country's supply lines and an ideological time bomb.

4. The East German régime, while faithfully reciting Soviet mythology about Afghanistan, sought to brush the issue aside as a geographically remote distraction, largely irrelevant to the future conduct of its European, in particular inner-German, relationships. So, without Lech Walesa, it might have been. In the first half of the year the French, British, West Germans and others pursued political and economic exchanges with the GDR at a gathering pace. Even the Federal Republic's boycott of the Moscow Olympics evoked in the end no more than mumblings in East Berlin. But by the autumn Poland had provided the catalyst which created in German-German relations an acidity on the part of East Berlin and angry bewilderment on the part of Bonn unknown for over 10 years.

5. The broad brush of an annual review is hardly a suitable tool with which to dissect the finer details of motivation: why precisely Schmidt called off his meeting with Honecker planned for the end of August; what he might have secured if he had persevered, whether its cancellation was crucial to Honecker's spiteful reaction delayed (until a few days after the Federal election); or whether, as I am inclined to believe, Honecker had little to offer or gain (except prestige) at the Werbellinsee and used the Chancellor's withdrawal from this personal tryst as part of his excuse for a hardening of policy dictated in reality by pressures external to both Germanys.

6. On 9 October, the GDR Government announced a measure which drastically reduced the flow of Western visitors: the doubling of the minimum hard currency exchange requirement (MER) on entering East German territory, accompanied by the withdrawal of the concessionary half-rate within Greater Berlin and of exemptions for pensioners and school children. Four days later, in a speech at Gera, Honecker put his personal seal on a savage anti-FRG campaign, reviving and accentuating old resentments. Petty restrictions on cultural exchanges and Church contacts reinforced the meaning of the régime's dramatic reassertion of *Abgrenzung*, the political delimitation between the two Germanys.

7. The East German public had throughout the Polish crisis remained a passive bystander. While some intellectuals and political sophisticates speculated privately on the wider ideological implications of Walesa's peaceful challenge to the Polish party's monopoly of power, the ordinary GDR citizen (for all his dislike of Communism and the Soviet presence) saw a potential threat both to his living standards and to his limited stock of civil liberties. [REDACTED]

[REDACTED] rather than to sympathise with, still less to emulate, a dissident movement with, in his view, little chance of achieving long-term benefits for itself and every chance of damaging [REDACTED]

the interests of its neighbours. When on 28 October measures were announced to restrict travel between the GDR and Poland, the popular East German reaction, in sharp contrast to the general dismay over the deterrence of Western visitors through the raising of the MER, was one of satisfaction that their consumer economy would be less exposed to the depredations of hordes of Polish tourists.

8. Honecker thus had little immediate reason to fear for his own internal security. His reassertion of *Abgrenzung*, the growing stridency of the attacks on the West and particularly on the Federal Republic, the leading part played by GDR media in bloc agitation about alleged subversion and counter-revolution in Poland: all these aggressive manifestations of insecurity and alarm must spring from more broadly-based and longer-term fears for the Communist system as a whole and for the future impact on the GDR of whatever may be the eventual outcome of the Polish crisis. The régime here faces the unpleasant options of a zero-sum game, between the certain economic dislocations and unpredictable political side-effects of intervention and the less immediate but perhaps more insidious danger of co-existing with a chronically sick and infectious neighbour sitting astride their communications with the ultimate source of their power.

9. But neither the sharp international reaction to Afghanistan nor anxieties over Poland diverted the GDR régime from its relentless effort in the Third World. Honecker himself did less travelling than last year, his only excursion outside Europe being to Cuba in May. But his lieutenants maintained the pace with emphasis on Africa and the Caribbean. The only serious set-back was in Zimbabwe. After backing the wrong horse in the shape of Nkomo and being excluded from the Independence celebrations, the GDR eventually got agreement in November to exchange Ambassadors, but Mugabe seems still to be playing it cool. The East Germans played host to the IPU in September with a display of slick organisation, persistent propaganda and lavish hospitality; and in the following month to a so-called scientific, in fact anti-Western, conference of 116 liberation movements and national Communist parties. In Europe attention focused on the neutral or peripheral countries: Spain, Iceland, Switzerland, Finland, Yugoslavia and above all Austria, which after preparatory visits by Fischer and Axen received Honecker in November for his first state visit to a Western capitalist country.

10. The East German economy remains a bit of a puzzle. Official statistics, even when available, seldom agree with the calculations of Western pundits or with the perceptions of ordinary GDR citizens. It is claimed that industrial production and labour productivity both improved by 5 per cent in 1980. But we have no figure for "produced national income" (nearest equivalent to GDP), although it is forecast to rise in 1981 by 5 per cent, with net personal incomes growing by 4 per cent and defence expenditure by another 8.4 per cent. No ordinary citizen would accept this as an authentic picture of current prosperity. He would maintain that, while there is no shortage of cash in circulation, the availability of goods in the shops, aside from basic essentials, has if anything been deteriorating; though his complaints have recently been giving way to finger-crossing as he observes the chaotic situation in neighbouring Poland.

11. Meanwhile the Government has pursued the reorganisation of production into some 130 larger units (Kombinate) which are to have more direct contact with their export markets through a more integrated relationship with the appropriate Foreign Trade Enterprise. Small beer compared with Hungary

But if the GDR economy still wears a doctrinal strait-jacket, it is run by highly intelligent people who have no intention of repeating the follies which have brought Poland to the brink of bankruptcy. High as is their debt-service ratio by conventional standards, great as are the pressures of mounting costs of imported energy and raw materials, the difficulty of earning sufficient hard currency in a world-wide recession, compounded now by the need to help bail out Poland, there is no sign that the managers of the economy are losing their grip.

12. Just because of the régime's prudence, however, prospects for Western exports of industrial plant are now less rosy than they were six or nine months ago: even for those, like the French, who have invested so much political capital in this market. During his recent visit to Austria Honecker presented Kreisky with the plum in the next (so far unpublished) Five-Year Plan—the DM2000 million Eisenhüttenstadt steel complex. But there are doubts about how profitable it will turn out to be.

13. For Anglo-GDR bilateral relations 1980 was, in a strictly relative sense, quite a good year.

The same firm has a good chance of netting another £70 million contract in the coming month or two. Both should be profitable, not just labour-retentive. Inter-governmental exchange continued. After visits to Britain by the State Secretary for Foreign Trade and the Minister for Machine Tools, Mr. Blaker came to East Berlin for political talks in November. Hermann Axen, foreign affairs overlord in the Politburo, whose visit to London has hung fire for two years is still anxious to go, given a specific invitation and the assurance of appropriate access. Meanwhile cultural activities have developed, including an exchange of opera companies and a touring British art exhibition, in a manner impressive if only by contrast with their previous insignificance.

14. What does it add up to? The GDR Government has decided to classify our relations as "normal". We are thus "in" with the rest of the West European pack, whereas a year or 18 months ago we lagged behind the field. At least our diplomatic effort may have saved some jobs in British industry and improved the profitability of at least one British firm badly in need of it. But our exports to the GDR have, neglecting speculative silver transactions, shown no improvement and the trade balance remains adverse. Prospects for 1981 and beyond are not bright either for us or our Western competitors. The better atmospherics are real in one sense, artificial and potentially ephemeral in another. As for any genuine meeting of minds, we are still poles apart (pun or no pun) from the GDR régime.

15. But diplomatic relations still make sense as a safety valve for pent-up tensions between antagonistic systems and as a chink through which to spread a little encouraging light among a people most of whom are basically on our side. Moreover if, to take the optimistic scenario, the storm clouds over Poland disperse without breaking and her economy somehow muddles through, there must surely be important long-term implications for the future of the rest of Eastern Europe and corresponding opportunities for Western diplomacy.

16. I am sending copies of this despatch to Her Majesty's Representatives at Bonn, Warsaw Pact Posts, Belgrade, Washington and Paris, to the United Kingdom Permanent Representative to NATO, the GOC Berlin (British Sector) and the Commanders-in-Chief BAOR and RAF Germany.

I am Sir

Yours faithfully

PETER FOSTER.