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GERMAN DEMOCRATIC REPUBLIC

6 January, 1983

GERMAN DEMOCRATIC REPUBLIC: ANNUAL REVIEW FOR 1982

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

SUMMARY

The GDR managed to avoid a hard-currency payments crisis by increasing exports and radically curtailing imports. But the debt problem remains acute. The ordinary East German had to tighten his belt; and investment was sacrificed (paragraphs 1-5).

2. Political stability has not been affected by economic difficulties or domestic developments. The peace movement was generally handled with restraint and the régime's measures aimed at inhibiting and restricting it have worked fairly well (paragraphs 6 and 7).

3. The GDR played its full part in Warsaw Pact efforts to halt NATO's planned deployment of new intermediate range nuclear weapons. The extent to which the deterioration in East/West relations prevented an improvement in inner-German relations is unclear. The change of government in Bonn appears to have made no difference. The GDR continued to work hard to develop its contacts with all states willing to co-operate (paragraphs 8-10).

4. Anglo-GDR relations were not given the fillip of a Secretary of State visit to East Berlin but other visits took place and are planned. Trade declined but engineering exports held up quite well. Cultural relations seem likely to develop (paragraphs 11-13).

(Confidential)

Sir,

East Berlin,

6 January, 1983.

In 1982 the GDR, poor in natural resources, heavily dependent on foreign trade and deep in debt, felt the full impact of the world recession. Hard work and careful management prevented a crisis. But the problem of the GDR's hard currency debt remains acute and effort and sacrifice will be demanded of its people again this year in the continuing struggle to stave off bankruptcy.

2. The GDR leaders were increasingly reassured about the situation in Poland as the year progressed. In foreign affairs their dominant concern was that they should make their full contribution to the efforts of the Warsaw Pact to bring about the abandonment by NATO of its plans for the development of new intermediate range nuclear weapons in Europe. For the GDR the principal target for propaganda and diplomacy to this end was the Federal Republic. Again, there will be no change in 1983.

3. The GDR has in recent years relied heavily for the fuelling of its rapid economic growth on imports of Western technology and on Western credits. By the end of 1981 the GDR's gross hard currency debt (excluding inter-German trade) was in the region of \$12.5 billion. Most of this debt was short-term and the GDR was faced with the need to repay in 1982 a total of close to \$5.3 billion of capital and interest. This represented over half of its annual hard currency export earnings at the 1981 rate. In normal circumstances this would have been a heavy but sustainable burden for a country with an economy as strong and a reputation as a borrower as good as the GDR's. But mounting nervousness among Western bankers about the levels of indebtedness of East European countries had its effect on lending to the GDR. The decline in the flow of credit which had begun in 1981 continued and there was speculation among Western observers about the possibility of a GDR application for a rescheduling of its debt.

4. So far at least the GDR has avoided this extremity by dint of a vigorous expansion of exports to the West and a radical curtailment of imports. Herr Honecker's claim in a speech delivered a month ago that the GDR had in the first 10 months of 1982 achieved a trade surplus with the non-Socialist world of DM3.8 billion compared with a surplus of only DM197 million in the whole of 1981 and a deficit of DM5.5 billion in 1980 can be taken as an indication of the success the Government's strategy has so far had. With part of the resulting surplus, some of its reserves and new short-term credits the GDR has apparently succeeded in meeting its 1982 commitments on schedule, in the process reducing its gross debt to the West to \$11.2 billion. The fact that a growth in national income during the same period of about 3 per cent, a rise in productivity of 3.5 per cent and savings in the consumption of energy and raw materials of 6 per cent could plausibly be claimed is remarkable.

5. The ordinary GDR citizen has had to tighten his belt. His standard of living, which was supposed to rise significantly in 1982, at best remained stationary, as in 1981. The policy of cutting imports and pushing up exports resulted in shortages in the shops here not only of luxuries and some household goods but even by early autumn of basic foods such as butter, sugar and cooking oil. Fuel economies caused failures in the distribution system which compounded the problem. There was grumbling and reportedly even an occasional disturbance in shops and workplaces. The constant propaganda in the GDR media throughout the year about the economic problems, particularly the levels of unemployment, in Western countries and the frequent allegations that the NATO countries were pursuing policies of economic boycott against the Socialist states were intended to help reconcile the East Germans to their own situation and to shift the blame for it. But by October the GDR leaders were concerned enough about the state of public morale (and perhaps sufficiently reassured for the time being about the country's hard currency situation) to order a change of course. There was a sudden flow to the shops in all parts of the country of food and other goods newly imported and drawn from strategic reserves. The GDR consumer was relieved; but his confidence in the ability of the Socialist system to deliver a continuing improvement of living standards has suffered a heavy blow. And the sacrifice of investment in new and more advanced equipment throughout industry which has been and continues to be made will have an effect on the GDR's economic growth and technological progress in future years which is incalculable but must be severe.

6. Tough as the past year has been for the people of this country, its political stability has not been affected. The East Germans are used to scanty supplies of many consumer goods, poor services and unsatisfactory housing. In

1982 they just had more to grumble about. There were other signs of social stress: there seems little doubt for example that there has been a rise in vandalism and other crime. The leadership appears uneasy about declining interest in the official ideology and unhealthy tendencies in literature and the arts. But these are not—at least as yet—serious problems: the GDR continues to enjoy a high level of public order and social discipline. Nor has the independent peace movement in this country posed a significant challenge to the authority of the régime. But it has been a cause for concern and an embarrassment. The authorities have however generally shown restraint in their attitude to the peace movement and their handling of its few public manifestations—largely no doubt because of the extensive involvement of the Evangelical Church. The harsh attitude adopted in the spring towards many young wearers of the “Swords into Ploughshares” badge was in striking contrast to this basic policy and is probably to be explained by a fear on the part of the leadership that they might be witnessing the beginnings of a dissident movement reminiscent of Solidarność in Poland, whose supporters had also flaunted badges. (Developments in Poland, although causing much less current concern to the GDR leaders than in 1981, have profoundly affected their attitudes.) At much the same time the state authorities were showing readiness to discuss with Church representatives some of the ideas being pressed by participants in the peace movement, for example that of allowing young men to undertake some form of “social service for peace” as an alternative to military service. But such ideas got nowhere and the efforts of the authorities have been increasingly directed towards stifling the activities of the peace movement by all means short of full-scale repression: by denunciation of pacifist ideas (“we need swords *and* ploughshares”), by exploitation of doubts and divisions within the Church and by drowning smaller voices with the incessant din of official peace propaganda. Vast demonstrations for peace staged by the authorities were partly designed to demonstrate the futility of action by small groups. These tactics seem to have worked pretty well: while the independent peace movement has not been stifled, participation in it has been kept to a minimum; and the Church, although determined to give expression to its members’ concerns, has been keeping peace activities under its auspices behind closed doors.

7. No foreign visitor to the GDR in 1982, great or small, could come without being harangued on the subject of peace. No joint communiqué could be issued here which did not proclaim the signatories’ devotion to peace. No assembly could be held without some reference to the subject. East Germans were exhorted to demonstrate for peace and to work and study for peace. Otherwise they were given little idea what was expected of them. Their Government for its part gave effect to its commitment to defend peace by pledging itself to maintain a high level of military preparedness by supporting unreservedly whatever arms control proposals the Soviet Union might put forward and by denouncing as aggressive the policies pursued by NATO. The danger of conflict in Europe, GDR spokesman and media continued to insist, was as a consequence of NATO’s efforts to establish military superiority, greater than ever before in the post-war period. The GDR was thus unstinting in its support for the Soviet propaganda campaign aimed at stimulating the peace movement in the West, particularly in the Federal Republic (to the activities of which the fullest coverage was given daily in the GDR media) and at hindering NATO’s plans for the modernisation of its intermediate range nuclear forces. But GDR propaganda also had to serve the purpose of justifying the high degree of militarisation of GDR society, which was further intensified as a result of the new Law on Military Service adopted by the Volkskammer in March. The need to demonstrate that the strengthening of the Warsaw Pact was good and that of NATO

bad ("Make Peace against NATO Weapons" as the slogan put it) presented GDR propagandists with an awkward problem.

8. In the eyes of ordinary East German people the most obvious victim of the deterioration in the East/West situation was the improvement in the GDR's relations with the Federal Republic which the meeting at Werbellinsee in December 1981 between Honecker and Chancellor Schmidt had appeared to foreshadow. To what extent any genuine improvement in relations would have come about even in more favourable international circumstances is however debatable. For the East German leaders the risk of a weakening of internal control associated with a significant expansion of contacts between the citizens of the two German states is the same whatever the international climate. For them the task is to manage the relationship with the Federal Republic so that the opportunities it provides to strengthen the GDR economically and politically are exploited at the lowest possible price in terms of popular contact. It is also required of the East Germans that they should conduct the relationship in such a way that it promotes Soviet aims in the East/West context. If these two sets of interests conflict, the latter prevail.

9. At the Werbellinsee meeting the East Germans appear to have recognised that they would need to make a move, however small, in response to West German demands for some reduction in the Minimum Exchange Requirement (MER) imposed on visitors to the GDR, if they were to ensure further generous injections of West German capital for infrastructure projects and a renewal of the Swing Credit for financing inner-German trade. But by March East Berlin was making clear to Bonn that there would be no move over MER and was blaming the international situation. This could have been a convenient excuse for a decision taken by the East Germans with Soviet concurrence for reasons nearer home and in the expectation that they could achieve their immediate aims without this concession. Or the Russians may in fact have decided that it would not suit their tactics in East/West relations for this move to be made then. In any case the West Germans' own compulsions and threats from the East Germans of a grave setback to inner-German relations if the Swing Credit was allowed to lapse (together with some minor GDR relaxations in the area of human contacts) led to a renewal of the Credit in June. The readiness of the Schmidt Government in principle to provide the GDR with funds for infrastructure and environmental projects also seemed unaffected. Nor did the change of Government in Bonn appear by the end of the year to have brought any significant change in the Federal Republic's attitude or its ability to persuade the East German leaders to permit an expansion of contacts. Despite the CDU's criticism in opposition of the SPD's softness in dealing with the GDR the Kohl Government was quick to assure the GDR that there would be continuity in West German policy and that concessions on MER were not a precondition for progress on other matters.

10. In its foreign relations generally the GDR continued to maintain intense activity on the surface. Such activity continues to be a good thing in itself in GDR eyes as a means of raising the country's international standing. And it creates the maximum number of opportunities to lobby others in support of GDR and Soviet interests. There were numerous visits to and from the Middle East where the GDR clearly did everything possible to support Soviet policy during a difficult period: Honecker's only visit abroad outside the Soviet Bloc took him to Cyprus, Syria and Kuwait. Africa remains an area of particular GDR interest. There was a clear wish to develop relations with China. There was interest in Japan as a source of technology and in Greece as an opening for

wedge-driving. But generally speaking GDR foreign relations reflect less policy aims than opportunities: contacts are established or expanded, Ministerial visits paid and received, agreements on every conceivable subject signed with all countries willing to co-operate.

11. Anglo-GDR relations were unfortunately not given the expected fillip of a visit here by Lord Carrington. The East Germans were disappointed but not surprised that you, Sir, were unable to carry out the visit he had planned. In view of the importance the East Germans attach to high-level political contacts, it is fortunate that the year nevertheless saw visits to Britain by Herr Sindermann, President of the Volkskammer and member of the Politburo, as guest of the British Group of the Inter-Parliamentary Union, and of Herr Nier, Deputy Foreign Minister. The East German Government expect visits this year by Mr. Rifkind and, probably, Mr. Rees, Minister for Trade. I am hopeful that these occasions will prevent our dropping too low in the East Germans' estimation compared with our major trade competitors.

12. Our trade suffered as did that of most of our European partners from the reduction of some 30 per cent in East German purchases from Western sources. By the end of October our exports were running at only £62 million a year, as compared with £83 million in 1981. The outlook for 1983 is no better. But the number of British firms which exhibited at the Leipzig Fairs indicates that commerce judges it worth waiting for better times. And the detailed trade figures for last year show that British exports of machinery and transport equipment held up quite well in comparison with recent years. If the East Germans mean what they have said in persuading us to draw up a formal programme for increased trade, we could be reasonably well placed to take advantage of its signature in the spring.

13. One area in which bilateral relations seem likely to develop is that of culture. We now have for the first time a Cultural Attaché in East Berlin and one of his first tasks was to help negotiate in December an extension until 1985 of our Programme of Cultural, Educational and Scientific Exchanges. This provides a generally satisfactory basis for an increase in academic exchanges and co-operation in the arts.

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

I am Sir

Yours faithfully

P. M. MAXEY.