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GERMAN DEMOCRATIC REPUBLIC
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GERMAN DEMOCRATIC REPUBLIC: ANNUAL REVIEW FOR 1989

HER MAJESTY'S AMBASSADOR AT EAST BERLIN TO THE SECRETARY
OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

SUMMARY

1. Last two months have seen astonishing changes. Major economic problems remain and definition of relationship with FRG (paras 1-6).
2. West German assistance essential. Massive economic help promised (paras 7-8).
3. Soviet, French and US views (paras 9-10).
4. Outlook for 1990 uncertain. May elections may be indecisive. Economy a race against time. What belongs together is growing together fast (paras 11-15).
5. Delighted you intend to visit in January. GDR's stability affects strategic UK interests. Many areas in which we can further our interests (paras 16-20).
6. Hope human and financial resources will be made available in 1990 to exploit the new opportunities (paras 21-22).

British Embassy
EAST BERLIN

4 January 1990

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
London SW1

Sir,

GERMAN DEMOCRATIC REPUBLIC : ANNUAL REVIEW 1989

1. I ended my last year's Review^(I) with the remark that "Accidents apart, I expect no substantive change of course in 1989". Two major "accidents" occurred which have changed this country more in the last two months than in its previous 40 years. They were the Hungarian dismantling of their border defences with Austria and the collapse of Honecker's health at a vital period in the summer during a succession of GDR refugee crises in Budapest, Prague and Warsaw.

2. The rapid unravelling of Honecker's regime, its replacement by an interim regime under Krenz and the final collapse of the old ruling Socialist Unity Party (now temporarily renamed SED-Party of Democratic Socialism (PDS)) under the weight of economic failure and corruption have been reported in detail. I attempted in my despatch of 6 December^(II) to draw the appropriate conclusions for our interests.

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3. The position at the end of the year is that Modrow's coalition Government continues uneasily in office but without great authority. It is attempting to introduce economic reforms to cope with the legacy of a mismanaged economy based on false statistics and further weakened by large-scale emigration to the FRG and West Berlin.

4. Economic problems are compounded by the fact that there remains uncertainty among top decision makers about how far to introduce market-based reforms, and how far to maintain a State plan for larger concerns (Kombinate). The search for a "third way" between "administrative socialism and capitalism" (as the SED-PDS puts it) has eluded better politicians than are to be found currently here.

5. The other key question which confronts the leaders and the numerous new opposition groups, is to find an acceptable definition of relations with the FRG. In the first few weeks after the opening of the borders on 9 November, little was heard about German unity, to which all the official parties and the intellectuals in Berlin leading the new groups were opposed. They said they were for a reformed socialist GDR. But first-hand experience of the West and outrage at corruption and misuse of power by the old leadership has brought this question into the open. "Deutschland, einig Vaterland" (Germany, united Fatherland) and the waving of the black, red and gold flags which symbolise a united, free, democratic Germany has become commonplace in demonstrations especially in the southern towns, together with a much more aggressive attitude to those who wielded authority in the old regime. The left's growing emphasis, as the year ended, on resurgent right-wing extremism - in the GDR as well as the FRG and Berlin - is unlikely to frighten the majority away from unity.

6. In the search for legitimacy Modrow has increasingly been using the weekly Round Table meetings, at which all parties and unofficial groups are represented, to endorse or take important decisions like setting the date for the first free elections on 6 May 1990. Whether this inherently unstable arrangement can stand the strains of an election campaign is open to doubt. The survival of the GDR as a functioning state will continue to rest on thin ice until a legitimate source of authority can be put in place following the elections, and until the economy shows some sign of picking up.

7. Against this background relations with the FRG and West Berlin take on enormous importance. If the GDR is to get through this winter it will only be on the basis of economic help from Chancellor Kohl's Government supported by regional cooperation all along the inner-German border and exemplified in Berlin where a regional committee, consisting of representatives of the whole of Berlin and the surrounding areas, has been set up and is already functioning.

8. Chancellor Kohl's visit to Dresden on 19/20 December demonstrated clearly the FRG's determination not to allow an economic collapse in the GDR and to do whatever may be necessary to try to ensure free elections in May 1990. In practice the distinction between initial and substantial assistance in Kohl's 10 point plan has been abandoned. In Dresden Kohl committed (by our reckoning) approximately DM 12 billion to helping the GDR and the FRG Mission here agree that if assistance from Länder and industry is included, then the figure is more like DM 17.5 billion. Major concerns like Volkswagen are moving (or have already moved) rapidly to conclude joint ventures even before the necessary GDR legislation is in place. The political effect of this increasingly close cooperation will, in my view, become more and more marked. The opening of the Brandenburg Gate on 22 / December

December was another symbolic milestone underlined by over half a million people who gathered there to see in the New Year.

9. Alarmed by developments here, the Russians have issued a series of increasingly clear warnings about the maintenance of two independent German states as an essential contribution to security in Europe. But they lack the means, other than military, to back their words. And the Soviet Embassy in East Berlin at least, admit fairly openly that they have no great confidence in an independent future for the GDR.

10. President Mitterrand, the first representative of the Allied Powers in Berlin to visit East Berlin and the GDR as Head of State, followed hot on the heels of Chancellor Kohl, to make clear French interest in stable inner-German relations and in playing a major role in Central Europe. At the same time Mitterrand said that France would not stand in the way of German unity if it was clear after the elections in May 1990 that this was the wish of the majority. Secretary Baker also stressed the need for calm and stability when he met Modrow in Potsdam on 12 December. Both visits have been presented here as support for the continued existence of the GDR.

The Outlook For 1990

11. Uncertain is the only safe word to describe the GDR's prospects. With some luck and a mild winter it should be possible to reach the May elections without a major breakdown in the economy or in law and order. I would not, however, rule out the elections being brought forward if the situation deteriorates further.

12. The results of the elections also look uncertain. At the moment the most likely outcome looks to be a fairly equal division among a number of parties, with the problems this will entail for forming a decisive reforming government thereafter. Already two parties, the purged CDU and the new Democratic Awakening, have stated their preference for a market-based economy and in the foreseeable future unity with the FRG. Any party which is weak on eventual unification is likely to do badly. The call for a plebiscite on German unity may well grow after the elections and two recent (Western) opinion polls have shown a clear GDR majority in favour.

13. The economy is in a race against time. Assistance is flowing strongly from the FRG. But it will inevitably take some time to have a major effect. And it will take years and billions of Deutschemarks to clean and rebuild the cities of the industrial south. As against this, the flow westward of qualified workers continues. More than 340,000 people left in 1989, and the rate is still between one and two thousand a day.

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14. I see no way in which West German influence, particularly after the introduction just in time for Christmas of free travel from West to East, will not increase in every sphere of life here in 1990. Already at the political level all-German parties are being formed. The SPD (West) has chosen the SDP (East) (soon to be renamed the SPD), as its partner.

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The CDU (West) is showing greater interest in the CDU (East) and so on. The interreaction of the two political systems, particularly in an election year in both countries, will be an important development to watch. Those who organise the weekly demonstrations in Leipzig are clearly apprehensive about an influx of violent extremists from the West.

15. "What belongs together will grow together" has become a favourite West German euphemism for the process of developing relations between the FRG and the GDR, and both parts of Berlin. The events of 9 November and the subsequent mass travel in both directions have convinced me that the two countries "belong together". They are "growing together" very rapidly and are likely to continue to do so in 1990.

UK/GDR Relations

16. I await a GDR response to your proposal to visit East Berlin and the GDR from 22 to 24 January and expect it to be positive. I hope your visit will mark a new stage in our relations with this country whose stability affects strategic UK interests. Now that the GDR has formally committed itself to base both its internal and external policies on the full application of all its CSCE commitments, the foundation for more normal and productive relations exists (even though the present coalition government can only be considered transitional until May). [REDACTED]

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17. I hope that parliamentary contacts will also increase. Mr Marshall MP and Mr Cox MP, both from the British IPU group, visited East Berlin in December and intend to invite to the UK in March a group of young candidates and Volkskammer members with a future. I hope this visit takes place, as ignorance about real party politics and parliamentary democracy is almost total here.

18. On trade, even though the overall balance remains in the GDR's favour, our exports increased again in 1989. But the profile is unsatisfactory. A decline in exports of manufactured goods was evident throughout the year. Foreign Economic Relations Minister Beil told Mr Bryant (DTI) and me on 5 December that in 1990 the GDR would only be able to complete bilateral agreements covering investment protection, etc, with three major trading partners. These were the FRG, France and the UK. He realised we were not satisfied with the level of our trade but he hoped this would be a new beginning.

19. In February Beil's Deputy, Meyer, will visit Britain with a delegation of senior GDR industrialists dealing with sectors where there are business possibilities for UK firms. I hope the DTI, CBI and others concerned in the UK can prepare the visit carefully. It offers opportunities to exploit the GDR's new openness to cooperation with Western firms up to and including joint ventures in the GDR. And whatever we think about the final outcome of the FRG/GDR relationship this country is effectively already within the Deutschemark area. Exports to the FRG are tariff and VAT free. The GDR is also still a major industrial country in Central Europe with a well-trained workforce and a large share of the Soviet Union's (they are each other's largest trading partners) and other CMEA countries', imports.

20. The area where there is probably the greatest potential for furthering our interests here lies in English language and management training. The removal of Margot Honecker as Education Minister has opened up enormous possibilities for influencing the younger generation of GDR managers and potential leaders. We are already engaged in management training and have had good reports from the first two groups to return from the UK. Another group is due to go in March, and with increased funds we could do much more. The same applies to English language teaching. English should soon become the first foreign language here (replacing Russian) and to judge by the torrent of enquiries and visitors to this Embassy in December, demand will far outstrip our resources. I hope in 1990 we will be able to build on these promising beginnings.

Conclusion

21. 1989 has seen a dramatic change in the GDR. 9 November will go down in post-war German history as the day the Berlin Wall was breached. In 1990 the "German question" looks likely to continue to affect the key political, economic and security issues in Europe. The pace and direction of developments in relations between the FRG and the GDR will, in my view, largely be determined by the decisions of ordinary East Germans. This Embassy will have an important role to play in monitoring, and to the extent possible, influencing those decisions and views.

22. At a less strategic level there looks to be an opportunity, for the first time since the establishment of relations in 1973, for this Embassy to start to build a more normal and useful relationship with the GDR in a number of specific areas of value to British interests.

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This will make a refreshing change. I hope the resources, both human and financial, will be made available to enable the job to be done.

23. I am sending copies of this Review to Her Majesty's Representatives at Bonn, Warsaw Pact posts, Belgrade, Washington and Paris, to the Permanent Representatives at NATO and to the European Communities, the Commandant of the British Sector in Berlin and the Commanders in Chief BAOR and RAF Germany.

I am Sir
Yours faithfully

N H R A Broomfield

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