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East German Trade with the Industrial West

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EAST GERMAN TRADE WITH THE INDUSTRIAL WEST

SUMMARY

The mounting economic dependence of the German Democratic Republic (GDR) on the industrial West (IW) poses major policy questions for the regime. The GDR has turned increasingly to the IW since the late 1960s to offset a slowdown in Soviet and East European deliveries of most industrial materials and agricultural products. The IW has also filled growing GDR needs for particular kinds of machinery, chemicals, and metals not available in the Communist world. As a result, GDR imports from the IW since 1968 have outstripped exports, and medium- and long-term indebtedness is now US $900 million, nearly three-fourths of the value of exports to the IW.

GDR dependence on the IW will go on rising even though growth of trade with the IW will be slower. GDR imports of raw materials and semimanufactures from the IW, now about one-third of total imports of such products, will probably be half the total by 1980. The GDR will also need more Western investment goods, although they are likely to drop as a share of total imports of such goods.

The GDR must soon begin speeding up the growth of exports to the IW if the regime is to avoid serious payments problems in the late 1970s or a slowdown in economic growth. Most of the increase in exports will have to consist of finished goods. The GDR has the manufacturing capacity, but not the right products, for a rapid expansion of machinery exports. The GDR has some salable consumer goods, but it does not have enough capacity to push exports to the IW while trying to catch up with domestic demand and meet export commitments to the USSR and Eastern Europe.

While the regime is trying to improve the design, quality, and marketing of machinery and to expand the supply of consumer goods, it can buy time by stretching out its indebtedness—as yet mainly medium term. By the late 1970s, however, the GDR must get a real export boom going or find concessionary refinancing—a more likely alternative—to sustain economic growth.

The GDR's dependence on trade with the IW puts a premium on smooth political relations. Yet more contact with the West also appears as a threat to the regime. The leadership has tightened internal controls and will continue to restrict contacts with Western businessmen, even though it is costly to do so. In the near future, while the United States is "normalizing" relations with the GDR, this conflict between the regime's domestic and foreign policy needs may intensify.

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Note: Comments and queries regarding this publication are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 5804.

DISCUSSION

Introduction

1. In its trade with the industrial West the GDR is in a special bind. Materials are in short supply in the USSR and Eastern Europe, and the GDR is often forced to barter materials for materials an exchange for which the GDR is in a weak economic position. The regime has been forced to turn to the West for an ever larger share of its materials. At the same time the GDR relies increasingly on exports of highly processed manufactures, and these are especially hard to sell in the West. The regime needs to make GDR products and business practices competitive if it is to get out of this bind. Yet, lacking the support of a national tradition and forced to struggle against the attractions of life in the Federal Republic of Germany (FRG), the regime is terrified of uncontrolled contacts with the West and of the ideological fallout from economic "reform." Moreover, Soviet surveillance and pressure, along with hard-nosed Soviet trade policy, leave the GDR small room for maneuver in dealing with these contradictory economic and political requirements.

2. This publication traces the developments in the GDR's trade with the industrial West from 1968 to 1972 against the background of the GDR's special circumstances. It also presents some preliminary forecasts of the volume of this trade for the benchmark years 1976 and 1980. Underlying the analysis is a fairly extensive review of GDR trade statistics, which are meager at best; among the East European countries, only Romania is less forthcoming. In this publication, the regime's official statistics have been corrected and amplified to describe fully the GDR's trade with the industrial West. The estimates given are explained briefly in notes to tables and in the Appendix.

The Rise in Imports, 1968-72

3. Since 1968, GDR imports from the industrial West have gone up faster than in any period since the mid-1950s. Imports from the IW in 1972 were nearly two and one-half times those of 1968, and the share of the IW in total GDR imports rose in these four years from 21% to 31% (see Table 1 and the map).

4. The growing share of the IW in imports is accounted for mainly by increased purchases of raw materials and semimanufactures. Imports of foodstuffs, agricultural products, and forestry products (including semimanufactures) rose from 23% to 35% of GDR imports of these commodities. Imports of fuels, ores, metals, nonmetallic minerals, chemicals, and building materials rose from 20% to 34% of total imports of basic industrial materials. In contrast, machinery and equipment imports rose only from 17% to 21%, and imports of industrial consumer goods from 42% to 47% of the respective totals.

5. A substantial increase in GDR imports from the IW was to be expected in any case, to fill needs for machinery, special chemicals and alloy steels, and other commodities not available at all in the USSR and Eastern Europe. But the shift toward the IW also reflected an economic push in 1969-70 for which no provision had been made in trade agreements with the countries of the Council for Mutual Economic Assistance (CEMA) and a leveling off in Soviet deliveries of most materials in 1971-72.

Table 1

Share of the Industrial West in GDR Imports

Categories [2]	GDR Imports 1968 Million US $ [1] Total [3]	GDR Imports 1968 Million US $ [1] From IW [4]	1968 Share of IW (Percent)	GDR Imports 1972 Million US $ [1] Total [3]	GDR Imports 1972 Million US $ [1] From IW [4]	1972 Share of IW (Percent)	Growth from 1968 to 1972 (1968=100) Total GDR Imports	Growth from 1968 to 1972 (1968=100) Total from IW
Total	**3,430**	**720**	**21**	**5,530**	**1,720**	**31**	**161**	**239**
Fuels, ores, metals, nonmetallic minerals, chemicals, and building materials	1,265	255	20	2,040	700	34	161	274
Machinery and equipment (including military end items)[5]	1,065	180	17	1,770	380	21	166	211
Agricultural and forestry products, foodstuffs	910	205	23	1,400	490	35	154	239
Industrial consumer goods	190	80	42	320	150	47	168	188

[1] Current dollars, but at 1970 exchange rates.

[2] The trade classification adopted by CEMA: the category of chemicals, building materials, and miscellaneous has been combined with that of fuels, minerals, and metals.

[3] Imports are based on GDR statistics adjusted to reflect 1970 exchange rates (where necessary) and to compensate for the understatement of the value of imports from the FRG. The understatement arises through entering these imports on the basis of 1 GDR mark equal to 1 FRG mark (i.e., "accounting unit") in intra-German trade.

[4] Imports from the IW are obtained as follows. The totals are obtained from GDR statistics by adjusting to 1970 exchange rates and compensating for understatement of imports from the FRG (see note 3, above). Entries for commodity groups, except for agricultural and forestry products, foodstuffs, and one or two other single commodities, reflect approximately the same coverage as do Western trade statistics. The value of agricultural and forestry products and foodstuffs is a residual, of which about two-thirds can be accounted for in 1968 and somewhat more than one-half in 1972 from official Western trade statistics. The balance represents Western reexports, chiefly through London, Antwerp, Rotterdam, and Hamburg, of commodities from overseas countries largely unaccounted for even in "general" exports to the GDR. Grain, animal feed, cocoa beans, coffee, oilseeds, and wool are some of the products involved.

[5] The inclusion of military end items in this category is inferred by residualizing. The category also includes scientific devices, medical and professional instruments, and optical equipment, not included in SITC category 7.

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6. The USSR and Eastern Europe still supply most of the fuels, ores, and metals imported by the GDR, as has been true since World War II. In 1971, the USSR provided the following share of key GDR imports (percent of total):[1]

Crude oil	82	Pig iron	99	Primary aluminum	92
Hard coal	53	Rolled steel products	82	Tin	60
Coke	42	Copper	43	Zinc	91
Iron ore	96				

Eastern Europe supplies most of the remaining coal, coke, and rolled steel and some nonferrous metals. In 1971, Czechoslovakia and Poland alone delivered 40% of the hard coal, 50% of the coke, and 11% of the rolled steel products. Hungary provided most of the bauxite (78%) and some alumina (23%).

7. The growth of Soviet deliveries of materials to the GDR, however, had already been slowing down in the late 1960s. Deliveries of petroleum products fell to only a fraction of the 1965 level, and coal deliveries had dropped by almost one-half. Deliveries of copper, cotton, and wool had also dropped substantially until 1970, when they went up sharply. There had been no significant increases for some other important materials, including coke, iron ore, pyrites, pig iron, and wood. And a slight decline was provided for in the trade agreement for 1971-75 for materials as a whole, except fuels. This leveling off in Soviet deliveries of materials was accentuated in 1972 by Soviet economic difficulties, as a result of which not only the GDR but also other East European countries received smaller Soviet deliveries and made larger deliveries to the USSR than provided for in the agreements for 1971-75.

8. The slowdown in deliveries reflects the Soviet conviction, widely shared in Eastern Europe, that at the "corrected world market prices" prevailing in CEMA, it is a losing proposition to exchange materials for machinery, a conviction especially affecting trade with the GDR. In the late 1950s, much Soviet-GDR trade still consisted of such exchanges. In the 1960s the USSR, along with the GDR's East European trading partners, began to force a shift in the composition of trade toward the limit – which probably will not be reached—of machinery for machinery, materials for materials. The USSR has moved gradually, in order to give the GDR time to adjust. The Soviet government will continue to follow this policy toward the GDR as fast and as far as it believes to be consistent with the regime's economic, and political, stability.

9. Imports from the industrial West, however, provided more than one-half of the total increase in GDR imports of basic materials between 1968 and 1972 (see Map and Table 2). The IW supplied in 1969-71, for example, the entire increment in imports of clay and refactory materials, pyrites, and cooper,[2] as well as 38% of the growth in crude oil imports, 56% of the additional coke imports, and 17% of the growth in imports of rolled steel products. Imports of these products from the industrial West are shown in Table 3. Moreover, more than one-half of GDR chemical imports now comes from the industrial West, with synthetic fibers and plastics leading the recent increases as a result of a large rise in 1972.

[1] The year 1971 is the last for which such estimates can be made for some of these commodities. If imports from the FRG for processing on subcontract are excluded, the Soviet shares for crude oil and copper are 89% and 49%, respectively.

[2] Imports of these three commodities from other sources in fact went down.

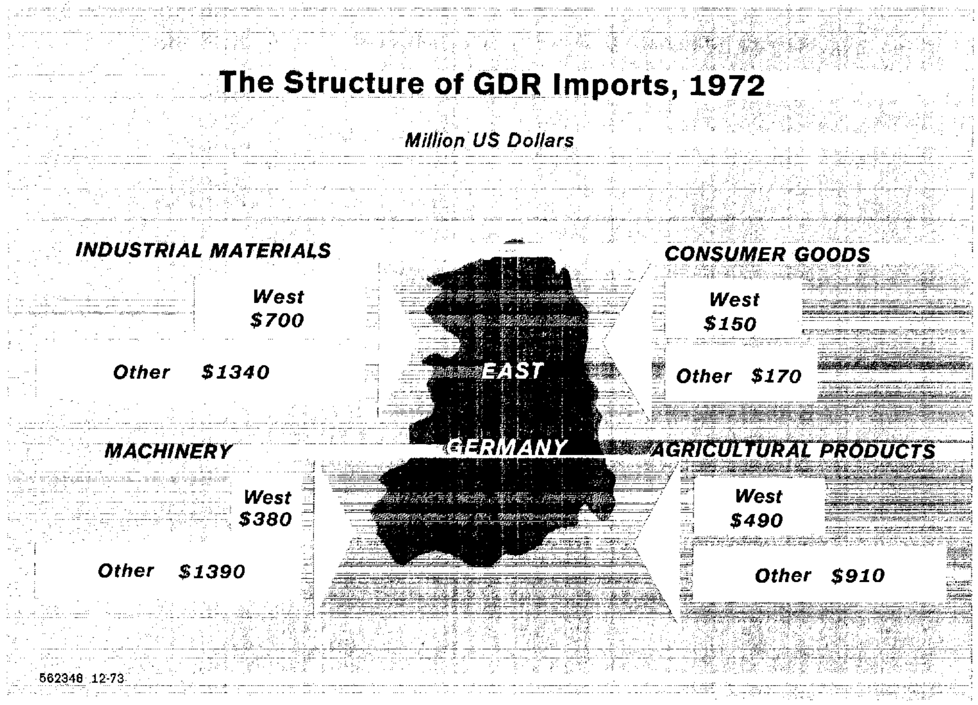

Table 2

GDR Imports of Basic Materials,[1] by Major Group of Trading Partners

	Total[2]		USSR and Eastern Europe[3]		Industrial West[4]			Other[5]	
	Million US $[6]	Average Annual Rate of Growth (Percent)	Million US $[6]	Average Annual Rate of Growth (Percent)	Million US $[6]	Share (Percent)	Average Annual Rate of Growth (Percent)	Million US $[6]	Average Annual Rate of Growth (Percent)
1968	1,265	....	855	....	255	20	....	155	....
1970	1,630	13½	1,040	10½	420	26	28	170	4½
1972	2,040	12	1,170	6	700	34	29	170	0
1976[7]	2,885	9	1,455	5½	1,215	42	15	215	6
1980[7]	3,910	8	1,780	5	1,860	47½	11	270	6

[1] Fuels, ores, metals, nonmetallic minerals, chemicals (apart from consumer goods), and building materials.

[2] Totals for 1968, 1970, and 1972 are based on GDR and CEMA data adjusted to reflect 1970 exchange rates and to correct for underevaluation of trade with the FRG. Projections for 1976 and 1980 are based on projected total consumption and the estimated leveling off in domestic extraction of raw materials.

[3] Data for 1968, 1970, and 1972 for imports from the USSR and Eastern Europe represent totals of available partner country data with estimates for the remaining countries. Projection to 1976 is based mainly on analysis of the 1971–75 trade plans. The projection for 1980 reflects the expected slow decline in growth of Soviet deliveries, as explained in the text.

[4] Imports from the industrial West in 1968 and 1970 represent Western exports, but exclude some steel in Western data and include substantial West European reexports, as explained in the Appendix. The figure for 1972 is a residual based on the estimate that LDC deliveries did not change. Projections for 1976 and 1980 are residuals.

[5] Totals for other Communist countries and LDCs are residuals for 1968 and 1970. Since overall imports from the group do not rise in 1972 over 1970, the same is assumed for basic materials. Projections were made for 1976 and 1980 at double the rate of increase in the 1960s, a reflection of the new urgency of getting materials from the LDCs.

[6] Current dollars, but at 1970 exchange rates.

[7] Projected.

Table 3

Selected Materials Exported by the Industrial West to the GDR [1]

	1968	1971	Share of Total Imports, 1971
	Metric Tons		(Percent)
Synthetic rubber	4,623	6,437	99
Synthetic fibers	2,939	6,456	100
Clay and refractory materials	17,247	27,534	81
Pyrites	10,502	17,689	9
Copper and copper scrap	8,084	40,857	31
Hard coal	166,802	206,625	3
Hard coal coke	48,887	162,771	5
Crude oil [2]	0	1,609,000	14
Titanium oxides	6,975	7,808	100
Alumina	34,626	48,684	77
Synthetic dyestuffs	2,057	2,279	33
Nitrogen fertilizers	453,079	186,678	32
Phosphate fertilizers	109,565	22,399	100
Rolled steel products	161,266	228,659	7
	Thousand US $		
Plastics	17,447	30,662	67

[1] Some amounts are estimated. Percentage figures shown are necessarily approximate in view of incomplete GDR statistics and discrepancies between them and Western statistics.

[2] Crude oil is Middle Eastern (Iraq) oil provided to the GDR on the account of the Netherlands and the FRG. The FRG provides oil for processing; the products are then returned. For this reason, this oil is not included in the total tonnage of imports reported by the GDR.

10. In shifting purchases to the West, the GDR first turned to the FRG. In 1969-70, FRG deliveries of materials increased by $141 million (at 1970 exchange rates), six-sevenths of the entire net increment in all such deliveries from the IW. Since then, other IW countries—especially Belgium-Luxembourg, the Netherlands, Japan, Switzerland, and the United Kingdom—have contributed most of the growth in GDR imports of materials, making substantial medium-term credits available for such purchases.[3]

11. Although the industrial West will continue to provide a growing share of the GDR's total imports of basic materials, the rate of growth of these imports from the IW should decline. First of all, the rate of growth of total consumption of domestic and imported raw materials and imported semimanufactures is likely to drop from 5% to about 4% per year in the late 1970s. The leadership hopes to maintain an average annual rate of growth of about 5% in net material product (NMP), but (1) the GDR probably cannot afford the necessary investment, in view of its commitment to immediate increases in personal consumption, and (2) the labor supply is tight, as the labor force is not expected to increase appreciably before 1975 and its growth will average only 0.5% per year in 1976-80.

[3] The main recent increase in imports from the FRG has been in urgently needed foodstuffs, feed supplements, and consumer goods, for which favorable credit terms have been made available.

Moreover, a planned increase in services may force a reduction in industrial employment.

12. At the same time, the regime may be able to cut the ratio of material consumption to NMP. A plan for keeping the rate of growth of material consumption almost 2 percentage points below the rate of growth of NMP in 1971–75 proved to be unrealistic. Nevertheless, the recent investment boom should permit some long overdue material savings by introducing more modern equipment.

13. About 40% of the GDR's basic industrial materials come from imports. With total material consumption growing at about 5% per year through 1975 and dropping gradually to 4% per year by 1980 and with domestic production of materials increasing very slowly (the growth rate dropping from somewhat over to below 2% per year),[4] imports of materials should grow at 9% per year in 1973–76, slowing to an average of nearly 8% per year in 1977–80.

14. The USSR, the GDR's main supplier, is likely to continue the slowdown in the growth of deliveries of materials. Given the provisions of the trade agreement for 1971–75, Soviet exports of basic materials will grow at about 5 1/2% per year through 1976, compared with 6% in 1971–72.[5] There is no hard information available on GDR expectations for 1976–80, but the disappointment indicated by East European leaders after the CEMA meeting held in August 1973 suggests that the USSR is not likely to reverse the long slowdown in the growth of material deliveries to Eastern Europe, including the GDR. Moreover, the strong interest shown by the GDR in expanding oil imports from the Middle East indicates that it is expecting to look there for a larger share of its imports after 1975. The current rise in world market prices for oil should redouble the Soviet determination to slow down deliveries to Eastern Europe, so as to maintain or increase the flow of oil for cash to the West. A further slowdown to a rate of 5% is projected through 1980, on the assumption of a slower growth of Soviet oil and gas deliveries. This may be on the high side since no Soviet commitments have been made past 1975 for crude oil and natural gas.

15. An increase is assumed in deliveries from other Communist countries and the LDCs. Imports from these countries have risen very little in recent years, but the GDR hopes to expand direct imports of crude oil from the LDCs, as indicated by large forward orders for tankers. Accordingly, imports are projected, perhaps optimistically, as increasing 6% per year, double the rate in the 1960s.

16. The projections of GDR imports shown in Table 2 imply a drop in the rate of increase of deliveries of materials from the industrial West from 29% in 1971–72 to 15% in 1973–76 and 11% in 1977–80. Even so, by 1980, imports of basic materials from the industrial West are shown as exceeding those from the USSR and Eastern Europe.

[4] Natural gas production increased rapidly in recent years, but is likely to level off in another year or two, as Soviet deliveries rise. Output of lime and gypsum should rise substantially, while output of salt, potash, and sand and gravel grows moderately. Extraction of zinc, lead, and copper ore is holding steady, and output of coal, iron ore, and pyrites is declining.

[5] Soviet crude oil deliveries are to rise from 11.2 million metric tons in 1972 to above 16 million tons in 1975; natural gas deliveries from none to 4.5 billion cubic meters. It is assumed that increases in 1976 will be somewhat smaller.

Purchases of Machinery from the Industrial West

17. A decision taken in late 1967 to accelera e the modernization of the GDR's economy led to a jump in investment in 196) 70, accompanied by a rise of 38% per year in machinery imports from the industrial West. In the wake of the regime's decision in late 1970 to cut back on new investment starts, Western machinery deliveries grew more slowly in 1971 and have since leveled off.

18. The lag between changes in investmen, activity and imports of machinery from the West is reflected mainly in deliveries on contracts of $5 million or more, as shown in Table 4. Deliveries on these contracts peaked in 1971, the second year after the acceleration of investment in 1969. The percentage increase in machinery imports was much greater thar the increase in total investment in machinery and equipment. Similarly a decl ne set in only in 1972, the year after the leveling off of investment, and an even sharper decline is to be expected in these deliveries in 1973, judging from outstanding orders and incomplete import data for the first half year.

19. Major contracts for machinery and equipment reflect wide fluctuations in new investment projects undertaken to "modernize" the economy. In many of them the equipment incorporates "new technology," especially in the chemical industry. In 1968 72 the GDR bought, among other things, equipment for seven petrochemical installations worth some $90 million, two plants for producing radial tires ($12 million), a plant to produce milk cartons ($5 million), two electro-steel plants ($19 million), a paper plant ($5 million), and a polycondensation and spinning plant ($16 million).

20. Some of the large orders, however, represent state of the art technology within the capability of Communist producers as in the case of purchases of more than $120 million worth of railroad freight cars and $25 million worth of merchant shipping to modernize transportation. Such equipment is bought in the West because East German and other Communist suppliers of such equipment are booked up far in advance and also because they are not interested in changing specifications to meet GDR requirements.

Table 4

Machinery Deliveries to the GDR by the Industrial West and Machinery Components of GDR Investment

Million US $[1]

	1968	1969	1970	1971	1972
Total machinery deliveries[2]	169	215	320	348	358
Large contracts[3]	20	30	63	136	108
Other[4]	149	185	257	212	250
Machinery component of GDR investment[5]	2,730	3,160	3,450	3,380	3,460

[1] Current dollars, but at 1970 exchange rates.

[2] Commodities in SITC category 7. These figures correspond roughly with GDR data for imports of machinery from the industrial West. The coverage differs from that in Table 1.

[3] Estimated deliveries on contracts of $5 million or more, plus one at $4 million.

[4] Residual.

[5] At 1967 prices converted at estimated parity.

21. Unlike deliveries on large orders, deliveries on small orders responded promptly to shifts in investment, shooting up with investment in 1969–70 and leveling off with investment in 1971–72. Even these deliveries change faster than total investment in machinery and equipment. Although they include components and spare parts, purchases of which presumably do not move with investment, the greater part are direct inputs into investment projects. Many of these small orders undoubtedly involve "new technology" not available in the Communist world. In any case, the wide mix and high elasticity of supply in the Western market give these orders an essential and quite stable role in GDR investment.

22. Investment has begun to rise again in 1973, and it is reasonable to expect a new upswing in machinery imports in 1974–75. But imports are not likely to rise to any such extent as in 1969–71, because Erich Honecker is committed to avoiding Walter Ulbricht's "campaigns" in investment and production. At the Leipzig Fair in March 1973, Gerhard Beil, the deputy foreign trade minister responsible for trade with the West, indicated that GDR purchases of machinery in the West in 1973–75 would run at about $1.25 billion. Given a leveling off or drop in Western machinery deliveries to the GDR in 1973, this total implies an overall increase of 20% more or less during the two years 1974–75.

23. There is no good basis for projecting machinery imports beyond 1975. The smaller orders are likely to grow in about the same relation to direct machinery inputs in investment as in 1969–72, but the GDR's investment intentions are not known beyond 1975. Larger orders will depend on various contingencies. They will be affected, for example, by decisions on CEMA integration embodied in the five-year plans and trade agreements for 1976–80. The availability of Middle East oil on clearing agreements is likely to determine whether the GDR goes ahead with the long-discussed expansion of refinery capacity, which would involve major orders from the West.

24. In view of such uncertainties, the growth of machinery imports from the IW is projected at 10% per year, the implied rate for 1974–75 given above. This would be at least double the probable rate of growth of investment in 1976–80. In the absence of any indication to the contrary, it seems likely that the Honecker regime will remain cautious about investment, allowing it to grow at only about the same rate as NMP—4%–5%.

25. A rate of growth of machinery imports from the IW at least twice the rate of growth of investment is roughly in line with longer term trends. From 1960 to 1972, machinery imports from the IW rose 14% per year; investment in machinery, 6%. The ratio is not likely to be much lower than 2 to 1 after 1975; a good part of machinery imports from the West—including all the small orders—is complementary to imports from the USSR and Eastern Europe, which will probably grow at 15% per year or more in 1976–80.[6] For some larger purchases, however, the GDR has options. Purchases of transport, metallurgical, and a good deal of chemical equipment can be obtained in the USSR or Eastern Europe at a cost—by waiting longer, by accepting less satisfactory specifications, by paying more (in nominal terms), and by offering concessions on other transactions.

[6] Poland, for example, expects its trade with CEMA to accelerate, with the annual growth rate rising from $9^1/_2$% expected in 1971–75 to 15% in 1976–80. Machinery trade will continue to lead the way.

Such costs must be weighed against the cost of further increasing indebtedness to the West. The tone of speeches and journal articles, for what that is worth, suggests that the Honecker regime presently leans toward paying the costs of obtaining Soviet or East European equipment in order to slow down the rise of indebtedness to the West. But the regime will be influenced by the example of other East European countries. If several of them go on drawing heavily on Western credits, particularly if they find it easy to refinance as necessary and to get extended terms and subsidized interest rates, the GDR is likely to follow suit. In that case, the growth of machinery imports from the West will certainly exceed 10% per year in the late 1970s, although they are still likely to grow more slowly than imports from CEMA.[7]

Imports of Agricultural and Forestry Products

26. About one-third of GDR imports from the industrial West consist of agricultural and forestry products. The IW's share of GDR imports of such products is as large as its share of basic material imports. Indeed, growth of GDR consumption has depended as much on IW supplies of farm products as the growth of heavy industry has relied on imports of basic materials from the IW.

27. Imports of agricultural and forestry products from the industrial West rose at about 24% per year from 1968 to 1972, reaching $490 million in 1972. In 1971-72 the regime continued trying to catch up with popular expectations even in the face of a decline in Soviet deliveries of cotton, wool, grain, oilseeds, fish, and sugar and little or no increase in deliveries from Eastern Europe and the LDCs. Western trade statistics show sharply rising exports to the GDR of such products, reaching about $240 million in 197 but slowing down in 1972. GDR figures, on the other hand, imply imports from the IW of $420 million in 1971. Data are shown in Table 5 for Western exports of grain, feed supplements, vegetable oil, wood, wool, and cotton yarn and thread in 1968 and 1971. In addition, as shown in Table 6, West European reexports provided the GDR with grain (including US corn), tropical fruit, raw coffee, cocoa beans, oilseed cake and meal, tobacco, oilseeds, and wool. These reexports are not covered in the statistics of the IW on exports to the GDR, although they are included in GDR imports from the IW. These selected reexports in 1971 are estimated very roughly at $150 million, considerably less than required to account for the difference between the $420 million shown in GDR import statistics and the $240 million indicated by Western statistics.[8]

28. Growth of imports of agricultural and forestry products is likely to be slower through 1980. The main reasons for expecting the growth of these imports to slow down are that (1) a further decline of Soviet deliveries of agricultural and forestry products seems unlikely, and small increases are likely in imports of processed foods from Eastern Europe and in deliveries of tropical fruits, nuts, coffee, and cocoa from the LDCs, (2) expanding output of synthetics should lead to less reliance on natural textile fibers while plastics and light metals will prob-

[7] In 1975, GDR machinery deliveries to CEMA will still be about one-third more than combined Soviet-East European deliveries to the GDR. But GDR deliveries continue to lag, and by 1980 the difference will be substantially less. After 1980 the rates of growth of machinery the GDR exports to and imports from CEMA will also come closer together, probably in the range of 10% to 12% per year.

[8] For further discussion see the Appendix, which presents a reconciliation of GDR import data with Western export statistics.

Table 5

Selected Exports of Agricultural and Forestry Products and Related Semimanufactures from the Industrial West to the GDR

	Thousand Metric Tons		Index 1971 (1968=100)
	1968	1971	
Grain	503	601	119
Oilseed cake and meal	257	367	143
Round wood	30	13	43
Wood simply shaped	5	4	80
Sawn wood	2	24	1,200
Plywood and veneer	1.7	5.5	324
Wool	3	7	233
Vegetable oil	24	39	162
Cotton yarn and thread	9	22	244

Table 6

Apparent Reexports of Selected Agricultural and Forestry Products from the Industrial West to the GDR [1]

Thousand Metric Tons

	1968	1971
Rice	25	32
Barley	0	60
Corn	0	380
Tropical fruit	63	101
Raw coffee	5	21
Cocoa beans	14	16
Oilseed cake and meal	25	92
Tobacco	9	6
Oilseeds	39	96
Wool	0	5

[1] These estimates are derived by subtracting partner country exports from total GDR imports. Since partner country statistics are not quite complete, there may be some overestimation. On the other hand, some commodity groups probably include reexports for which the GDR does not list total imports. The main problem, however, is the use of Western export data along with Soviet and East European export data and along with GDR data on imports from partner countries; to add these together may involve double counting. For example, Australian wheat delivered to the GDR in 1971, shown by Australia as an export to the GDR, was paid for by the USSR and therefore (1) shown as part of Soviet exports to the GDR and (2) included by the GDR in imports from the USSR, not in imports from Australia. For discussion of differences in Western and Soviet concepts and practices in recording foreign trade, see the Appendix.

ably replace wood increasingly, and (3) the intensity of the regime's efforts to catch up with popular expectations, frantic in 1970–71, has already begun to ease as the Party and the people adjust to "detente." The average annual rates of growth are projected at 14% in 1973–76 and 12% in 1977–80, much lower than the rate in 1969–72. This projection still allows the absolute increment to grow substantially, rising in 1977–80 to $480 million, compared with only about $285 million in 1969–72. Moreover, the projected level of imports from the IW could equal Soviet plus East European deliveries by 1980.

Small Role of Imports of Industrial Consumer Goods

29. The GDR does not buy much in the way of industrial consumer goods; they account for less than 6% of total imports and less than 9% of imports from the IW. Clothing and furniture are the two principal imports. A considerable part of all types of imports of finished consumer goods probably goes to special high-price stores for East Germans (Exquisitlaeden), hard currency shops for foreigners (Intershops), and other special markets.

30. Imports of finished consumer goods are expected to grow rapidly in 1973–75 by an average of 13½% per year because of the regime's drive to put more consumer goods on the market. Thereafter, imports of industrial consumer goods are projected to rise at 5% per year in 1976–80 as the GDR begins to reap the benefits from the recent acceleration in investment in consumer goods industries.

31. The regime's main interest will then turn to importing raw materials and semimanufactures for producing consumer goods—agricultural and forestry products, as above, as well as some imports treated in this publication as basic materials (particularly clay, synthetic fibers, and plastics).

Projected Total Imports

32. The projections for imports of the various commodity groups imply a pronounced decline in the overall rate of growth of imports from the IW (see Table 7). The rate drops from an average of 24% in 1969–72 to 12½% in 1973–76 and to 11% in 1977–80. The projections for 1973–76 are undoubtedly

Table 7

Projected Increase in GDR Imports from the Industrial West

	1972 (Million US $[1])	Average Annual Rate of Growth 1973–76 (Percent)	[illegible]976 (Million US $[1])	Average Annual Rate of Growth 1977–80 (Percent)	1980 (Million US $[1])
Total	1,720	12½	[illegible],755	11	4,150
Basic materials	700	15	[illegible],215	11	1,860
Machinery and equipment	380	5	460	10	675
Agricultural and forestry products	490	14	830	12	1,310
Industrial consumer goods	150	13½	250	5	305

[1] Current dollars, but at 1970 exchange rates.

better than those for 1977–80. They rest on import decisions already taken for the 1971–75 Plan, and GDR concern over mounting indebtedness is not likely to constrain imports in these years. Nevertheless, very good or very poor Soviet and East European harvests or an abrupt shift in the trend of world supplies and prices could undermine even these medium-term projections.

33. The projections for 1976–80 are much more speculative. For example, developments may overturn the basic assumptions made about the GDR's growth rate (that it will drop a percentage point), Soviet trade policy (as reflected in assumptions on deliveries), and world prices (assumed to follow the trends of the last several years).

Indebtedness and the Trade Balance

34. In 1970–72 the GDR's trade deficits with the IW averaged close to \$350 million a year. In 1971, when a big effort was made to push exports and do without imports, the trade deficit still ran to \$280 million. Even with high and rising earnings on invisibles and transfers from the FRG, the balance-of-payments deficit averaged more than \$200 million a year in the past few years. After some allowance for an increase in short-term indebtedness, it appears that medium- and long-term indebtedness rose from roughly \$300 million in 1969 to perhaps \$900 million at the end of 1972.[9]

35. The GDR can live a while with payments deficits even larger than those in recent years, because existing indebtedness—still predominantly medium term—can be replaced by long-term indebtedness. Such a shift in indebtedness, dollar for dollar, reduces current debt servicing. Of course, there are limits to the use of such a procedure, given the structure of imports and Western banking and business practices. And, once the process is completed, there will be little chance for further shifts, except as Western governments become willing to underwrite still longer term loans and perhaps even to refinance debts on a subsidized basis.

36. If the GDR could increase exports to the IW at 16%–17% per year through 1976, the debt service ratio would not rise seriously even if the GDR did not try to hasten the current shift toward long-term indebtedness. On any likely assumption about earnings on invisibles (even excluding new large transfers from the FRG), exports would then increase by 81% to 87% in the four years and indebtedness would at most double.[10] If, on the other hand, the GDR is able to raise exports at no more than 10% to 14% per year—which appears to cover the probable range—then more or less serious payments problems could emerge by the mid-1970s.

Capabilities to Expand Exports

37. A determined effort, and strong Western demand, will be needed in 1973–76 if the GDR is to approach even the 1969–72 average annual rate of

[9] Without any allowance for the depreciation of the dollar since 1970. An adjustment to 1972 exchange rates would produce an estimate perhaps 10% higher.

[10] These calculations assume 1970 exchange rates; both would change at current exchange rates, but with little effect on the relationship between the growth of exports and the growth of indebtedness.

growth of 14% per year in exports to the industrial West. A big push to raise exports was made in 1969, after several years of slow growth, and exports to the area rose 29%. Since then, however, the rate has dropped, ranging between 7% and 12% per year. To increase exports by 14% per year, the GDR would have to exceed recent average rates of increase for the more salable machinery items, divert some consumer goods and chemicals desired by the USSR, disappoint part of the expectations of domestic consumers (especially for selected clothing items and furniture), find other markets for the steel products that West Germany has put under quota, and perhaps shift textile exports among markets to avoid quotas.

38. Consumer goods and machinery accounted for more than one-half of the 52% increase in exports to the industrial West from 1968 to 1971, as shown in Table 8. The same commodities are likely to remain in the lead through the mid-1970s. Increases in capacity in the late 1960s and a high priority for exports explain how the GDR was able to reach the rates of increase attained for sales of textiles (15%), apparel (about 16%), leather goods (36%), glassware and ceramics (20%), and furniture (24%) to the industrial West. Modernization of existing capacity, on the other hand, was sufficient to permit higher rates of increase in sales of metalworking equipment (20½%), textile and leather industry machinery (34%), electrical equipment (34%), miscellaneous machinery and appliances (23%),[11] and shipping (18½%).

39. The availability of machinery for sale abroad reflects increased specialization in machinery production within CEMA. Other CEMA countries have expanded their exports to the GDR of machinery that the GDR produces itself. At the same time, Soviet purchases of some of these types of machinery from the GDR have dropped, leaving excess domestic capacity in many cases.[12] As a result, the GDR has been trying hard to develop other export markets, although with mixed success—exports of office equipment and agricultural machinery to the West have actually dropped.

40. As one might expect, exports of most materials lagged because of resource constraints and, in part, bottlenecks, in processing capacity. The main exception was nonferrous metals, which grew 20% per year in 1969-71 to satisfy a processing contract with the FRG. The rates of growth were low for sales of food and live animals (8.9%), crude materials (7.4%), fuels (5.4%), iron and steel (4.5%), and chemicals (7.1%). These commodities, which amounted to one-half of sales to the industrial West in 1968, accounted for more than one-fourth of the increment in sales to the West in 1969-71. A high priority given to chemical exports to the USSR helps to account for the slow growth of the sales of materials to the industrial West. FRG imposition of a ratio of 2.5 to 1 for steel exports to the GDR over steel imports from the GDR explains the low growth of the GDR's steel exports.

41. Switch sales, and perhaps some reexports, of materials did show a very rapid increase. The commodities involved are bought mainly from less developed countries but also from overseas Communist countries and occasionally from other sources. Food products probably made up more than one-half the total,

[11] SITC category 719.

[12] One GDR author indeed claims that output of machinery and equipment is now only half of capacity, or less, in several branches.

Table 8

GDR Exports to the Industrial West [1]

	Million US $ [2]		Average Annual Rate of Growth (Percent)
	1968	1971	
Total	742	1,127	15
Machinery and equipment [3]	116	194	18 1/2
Industrial consumer goods	199	338	19 1/2
Other exports [4]	389	495	8 1/2
Switch sales [5]	38	100	38

1 Based on analysis of GDR and all partner country data.
2 Current dollars, but at 1970 exchange rates.
3 Including scientific, medical, optical, and professional instruments.
4 Domestically produced agricultural and forestry products, foodstuffs, fuels, ores, metals, nonmetallic minerals, chemicals, and building materials.
5 This category, which may include some reexports, covers goods presumed to be of foreign origin—agricultural and forestry products, fuels, ores, metals and minerals, and chemicals.

although industrial raw materials and some chemicals are also included. These products were presumably obtained in clearing agreements and were resold, mainly while en route, to buy more urgently needed foods and industrial materials.

42. The GDR does not expect to increase the rate of growth of exports to the industrial West in 1973—indeed, it will drop a little from the 12% achieved in 1972. Beginning in 1974, however, a new export drive can be expected, based chiefly on increased availability of consumer goods and textiles. Exports to the West should regain a high priority, although deliveries to domestic consumption and exports to CEMA will continue to rise. Special emphasis will doubtless be put on expanding sales to the FRG, which can most readily absorb a large increase in sales from the GDR. Exports to the industrial West of clothing, furniture, glass and ceramics, paper and wood products, musical instruments and toys, and textiles could rise at rates of up to 20% per year for at least two or three years.

43. The average annual rate of growth of machinery sales, on the other hand, probably will drop from the 18 1/2% achieved in 1969–71. That record reflected a strong export drive in 1969 and in 1971. Machinery exports probably leveled off in 1972 and have not increased again so far in 1973. Another push might be expected in the mid-1970s.

44. Among the other industrial commodities, chemicals offer the best possibility for expanding exports substantially. Exports of fertilizers, salt, and potash could increase considerably, and sales of synthetic fibers and plastics—now bearing a significant weight in total chemicals exports—should continue to rise rapidly. Ferrous metals exports could do better if the GDR finds alternative markets for steel not accepted by the FRG. Nonferrous metals deliveries to the FRG, on the other hand, seem to be leveling off, and semimanufactures and raw

materials as a whole, including foodstuffs, are likely to make an even smaller contribution to the growth of exports to the West than in recent years.

45. The GDR thus will push hard to increase the availability of exportable goods—the main present limitation on the growth of exports to the West—and to exploit established markets, except in the machinery field, where new products and new markets are greatly needed. The growth of exports should therefore hold up well enough to avoid a threat to continued economic growth through the mid-1970s. During the longer term, through 1980, the outlook is rather less cheerful. The maximum rate of growth probably attainable for exports to the industrial West in the longer run—12% per year (the highest rate attained for any period of five or more years since the mid-1950s—is scarcely high enough to support a growth of imports of 11% per year, while keeping the growth of indebtedness manageable.

Some Implications of Trade for Foreign and Domestic Policy

46. Heavy and growing GDR economic dependence on the industrial West obviously implies a GDR need for stable East West political relations. For both economic and political reasons, the regime will do what it can to improve cooperation within CEMA and may do more to stimulate trade with other Communist countries and with the LDCs. Nevertheless, there is still no alternative to dealing with the IW. The same thing could be said, with varying emphasis, of most other East European countries. "Detente" serves their urgent economic needs, although this is of course just one factor in the overall strategic aims of the USSR in pursuing "detente."

47. The need for "detente" conflicts, in one degree or another, with domestic political needs. The GDR is an extreme case. The regime intends to maintain a high level of tension with the West—especially, but by no means exclusively with the FRG—so as to keep the population politically and culturally isolated and passive.

48. This conflict between economic and political needs complicates not only domestic policy but also relations with the West, requiring that all outside access be restricted as far as possible. To restrict access involves limiting the authority of and information available to the officials designated to maintain regular contacts with the West. This approach to economic relations is costly to the GDR, if only because of the radically imperfect information available to all participants in trade. The outside buyers and sellers most likely to go on doing business with the GDR are those who, having accepted the situation, set their expectations—and prices—accordingly. Similarly, GDR officials are likely to continue to do business with them because it involves less risk.

49. West European officials, businessmen, and bankers have adapted to this environment for doing business. They have long been "realistic," which is to say ambivalent, about the East-West conflict that began after World War II. The current US adaptation to the same realities should certainly facilitate US trade with the GDR, as with Eastern Europe generally. And, although Western Europe still has the advantages of location and cultural affinity—and of being entrenched in the market—the GDR's steadily rising dependence on trade with the West should favor the long-term expansion of US trade with the regime.

APPENDIX

Reconciling GDR and IW Trade Statistics

Significant discrepancies exist between the trade statistics of the GDR and those of its trading partners in the industrial West. To reconcile these discrepancies is hard, even though they reflect well understood differences in practice, because of the deficiencies of GDR trade statistics.

These deficiencies include the following:

a. Statistics on total exports to and imports from "capitalist countries" do not include entries for several countries.[1] What is more, after estimates have been made for all missing countries, there are substantial unallocated residuals in imports and exports.

b. The commodity breakdown is even less complete. Only a four-way percentage breakdown of total exports and imports is shown by the GDR, although a more useful five-way breakdown is shown in CEMA statistics, superior especially in that it is accompanied by a precise statement of what commodities are included in each category.[2] A breakdown of exports and imports by major commodity group is not given for the major trading areas, much less by country. Statistics for exports and imports of selected commodites, usually representing less than one-half the total by value, are given for major trading partners in each area, partly in physical units and partly by value—and that is all.

c. The value of trade with the FRG (divided into trade with the FRG and "Westberlin") is understated because the GDR—without saying so—converts FRG marks (or the conventional "accounting units" used in "intra-German trade") into GDR "valuta marks" at parity. Beginning in 1961, that has been in fact inappropriate. The usual conversion rate for the GDR "valuta mark" through 1971 was 1 mark equals $0.238. But the official rate for the FRG Deutschemark from 1961 until late 1968 was 1 DM equals $0.25; from then until the spring of 1971, 1 DM equals $0.273. The conversion rate for the GDR "valuta mark" in 1972 trade data was $0.259, but by then the appropriate rate for the Deutschemark was $0.31 or higher. Thus, GDR statistics understated the value of trade with the FRG by almost 5% in 1961–68; by 13% in 1969–70 and early 1971, and more thereafter; and by 16% or more in 1972.[3] Corrections for total exports and imports

[1] Australia, Iceland, Ireland, New Zealand, South Africa, and three OECD countries here considered as LDCs: Greece, Portugal, and Spain.

[2] Except in the case of military end items, which evidently are included under machinery.

[3] In addition to the resulting differences, the usual data for "intra-German trade" in terms of dollars include transactions that are excluded from GDR statistics for the conceptual reasons discussed below.

in "intra-German trade" are made readily, of course, but numerous troublesome problems are created in dealing with commodity breakdowns.

The obvious discrepancies between GDR and Western statistics, once the above corrections are made for "intra-German trade," are that the GDR totals for trade with the "capitalist countries" (or the more restricted "industrial West") are higher than those obtained from Western statistics. The problem is essentially to explain the discrepancies, accounting for them by commodity group and country. A solution is highly desirable because it permits use of Western statistics (along with CEMA partner country statistics) to fill the gaps in GDR data while maintaining the broader GDR coverage.

The coverage is broader because GDR statistics, like those of other East European countries (except very recently Hungary), include all transactions involving payments, and exports and imports are imputed to the partner country of contract (or payment). GDR statistics thus include on the import side West European reexports of overseas products (including US corn). In Western statistics, these are normally not attributed to the GDR but rather to the West European country of destination. The West European country either ignores them entirely or treats them as "imports for reexports" and as "reexports," which are excluded from standard ("special trade") statistics.

The GDR also includes those imports from the West (largely from Western Europe) bought with the proceeds of switch sales. These purchases appear to account for the imports from the "capitalist countries," mentioned above, that are not attributed to any partner countries.

The commodities sold in switch sales, again largely to Western Europe, are similarly treated as exports to the area, accounting for the unallocated residual in exports to "capitalist countries." Practically all these commodities are presumed to originate in the Communist world and the LDCs and to be treated by the GDR as imports from the appropriate area although for the most part they do not cross the GDR border.

A final significant discrepancy is between GDR data on "intra-German trade" and parallel FRG figures. FRG figures for recent years include exports nominally for "consignment"; the GDR includes these only when paid for.[4] Certain FRG figures (those of the Federal Statistical Office) also include transactions on foreign account, that is to say, FRG goods contracted for with a firm from another country; the GDR attributes them of course to the country in question. The same FRG statistics likewise count deliveries and receipts for processing and return on a "gross basis"—the full value is reported—whereas the GDR reports on a "net basis"—only the resulting value added. Finally these FRG statistics include official transfers in kind on various accounts, and these too are omitted by definition from GDR statistics. The FRG statistics most nearly comparable to GDR figures are those of the Federal Economics Ministry, which differ only in respect of including "consignment" deliveries. For the years before these deliveries started (in 1969), there is as close agreement as can be expected between the statistics of two trading partners.[5]

[4] The GDR says they are counted when imported, but that is a euphemism, for they are imported and used immediately when received.

[5] On the basis of 1 GDR valuta mark equal to 1 Deutschemark.

An attempt at a simple reconciliation of the discrepancies between GDR imports and Western exports is shown in Table 9. GDR imports from the IW in 1971 are first adjusted by dividing imports from the FRG by 0.87 to compensate for the understatement discussed above under c. They then amount to \$1,409 million at 1970 exchange rates.[6] Parallel Western statistics for exports to the GDR total \$1,142 million, or \$267 million less than the GDR import total. Table 9 accounts for this difference by commodity group and by group of countries—not in matrix form, however—with each entry by commodity group associated with an entry by country group.

In interpreting Table 9, one should bear in mind the following:

a. A small part of the excess in GDR import statistics over the exports shown by most Western countries is accounted for by FRG deliveries on foreign account, attributed by the GDR to the country of contract and payment.

Table 9

Tentative Reconciliation of GDR Imports Statistics with Export Statistics from the Industrial West, 1971

Million US \$ [1]

Discrepancies,[2] by commodity group	+267
Agricultural and forestry products	+180
Basic materials	+74
Gross	+120
Steel delivered by FRG on "consignment"	(−46)
Other categories (net)	+13
Discrepancies,[2] by country group	+267
Countries for which GDR statistics show excess of 20% or more over partner exports [3]	+261
FRG [4]	−94
Scandinavian countries [5]	−13
Unallocated (presumed purchases in switch trade)	+119
Discrepancy between total Western country and commodity statistics	−6

1 Current dollars, but at 1970 exchange rates.

2 A plus sign (+) indicates that GDR imports are greater than Western partner exports to the GDR; a minus sign (−) indicates that GDR imports are less than Western partner exports to the GDR.

3 Imports from Belgium-Luxembourg, Canada, Switzerland, the United Kingdom, and the United States are more than double reported exports by Western partners to the GDR. Imports from the Netherlands and Japan in GDR statistics are roughly one and one-half times Western partner exports. Imports from Austria, France, and Italy are 20% or more above Western partner exports.

4 Explained in the Appendix discussion.

5 GDR imports from Denmark, Finland, Norway, and Sweden all show deficits, compared with partners country exports.

6 The total represents imports from "capitalist countries" (less those for Turkey) and estimated imports from Greece, Portugal, and Spain.

b. The part of the deficit in GDR statistics that results from a comparison with FRG export statistics and most of the deficit resulting from a comparison with Scandinavian export statistics probably reflect purchases in switch trade, which apparently is not attributed by the GDR to any country.

c. A considerable part of the GDR unallocated imports in switch trade probably represents transactions reported by Western countries as exports to the GDR.

Finally, it may be observed that the whole analysis in the text tables rests on treating exports by the USSR and Eastern Europe as identical with GDR imports. They are not, of course. In 1971, total GDR imports from these countries were in fact $15.7 million less than Soviet plus East European exports (at 1970 exchange rates). The differences in individual commodity groups are presumably smaller, but undoubtedly give rise to some discrepancies between estimated GDR imports and Western exports.

The reconciliation of GDR export statistics with Western import statistics is simpler. In 1971, total GDR exports come out as $114 million greater than Western imports, after the latter are reduced by 2% to convert from a c.i.f. to an f.o.b. basis.[7] This difference is largely accounted for by switch sales of agricultural products and some industrial materials, valued at $100 million. The difference between GDR and FRG figures is substantial ($48 million), although smaller than in the case of GDR imports and FRG exports. About $14 million represents the discrepancy in treating deliveries for processing (discussed above). Most of the remaining difference probably represents transactions in which the GDR delivered goods to the FRG (tariff-free) on account with firms in other countries, chiefly Switzerland and the Netherlands, whose imports from the GDR are, all told, nearly $30 million less than GDR exports to them. Discrepancies between GDR statistics and those of other countries are in each case less than 15% of the GDR export figure. All discrepancies except those involving exports to the FRG and Switzerland are nonsystematic, fluctuating in size and sign from year to year.

[7] The adjustment is small because none is required for FRG imports and a very small one for Austrian and Danish imports. The largest adjustments are of course for the imports of overseas countries, which are very small.

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