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FRG and GDR

The State of the Nation's External Economy

by Manfred Holthus, Hamburg

With its "Report on the State of the Nation 1971" the Government of the Federal Republic of Germany (FRG) simultaneously presented an extensive volume of collected studies. Drawn up by 50 experts, the report on the development in the two German states should contribute to facilitating political judgement and to sobering political discussion, according to Willy Brandt. The author participated in the composition of the chapter dealing with the economic integration of the two German states with their specific allies. This paper is a summary of his report.

The organisation of differing political and socio-economic systems after 1945 caused both parts of Germany from the beginning to go separate ways also in foreign trade and payments. But one thing they have in common must not be ignored: The FRG as well as the GDR are concentrating their external activities mainly on the countries belonging to their specific systems of alliances.

The FRG's economic commitments to the countries of the Western alliance (NATO) are based on a great number of organisations. Thereby in no instance do the different forms of economic cooperation coincide with the military alliance—as regards the composition of members as well as the organisational framework. In the case of the GDR, however, an extensive congruence between the economic as well as the political and military alliance (Warsaw Pact) exists.

The EEC, the European Coal and Steel Community, and EURATOM, have in the meantime organisationally amalgamated into the "European Communities", which have proved to be the most important commitment of the FRG. These Communities are moving towards an economically fully integrated merger due to their members' political intentions and their immanent dynamics. This development of a supra-national common market with the character of a "domestic market" offers the West German economy the decisive

prerequisite to realising the creation of enterprises with long-term international competitiveness.

The GDR, on the other hand, in community with the other socialist countries, follows another route within the "Council for Mutual Economic Aid" (Comecon). Typical of this course is the pronounced bilateral character of this cooperation, which, however, in partial sectors establishes directly, not only gradually, the final stage of integration. Thereby the advantages, which the GDR as Comecon's most industrialised country can realise in many bilateral agreements, are also opposed by disadvantages resulting from the relative backwardness of the partner nations. These economies do not offer the highly developed GDR the chance of utilising fully the advantages of the international division of labour—a fact which is due to their comparatively undifferentiated economic structures and their low consumer purchasing power.

In 1969 the FRG was the second export and import country in the world. Its share in total world exports of 1969 was more than 10 p.c., and its imports amounted to 8.8 p.c. The GDR's share in international ex- and imports came to 1.5 p.c. in 1969.

The FRG's institutional commitment has clearly effected the volume and regional structure of

its foreign trade. The share of the EEC-trade partners has considerably increased since 1958. As against that the large share of Comecon-trade in the GDR's total foreign trade has remained almost unchanged since 1959.

In 1958, the first year after the Treaties of Rome, 46.8 p.c. of an export volume of \$ 10.1 bn fell to the share of the NATO nations, 25.6 p.c. thereof was the part of the EEC member states. The remainder went mainly to the NATO members belonging since 1960 to EFTA as well as to the US and Canada. But more than half of total exports (53.2 p.c.) went to countries not belonging to the defensive alliance (see Table 1).

Table 1

Regional Structure of the FRG's Foreign Trade 1958 and 1968

Year	total in US-\$ mn	shares in p.c.			
		allied countries (NATO)			other countries
		total	of which:		
			EEC	USA	
Exports					
1958	10,108.8	46.78	25.58	7.14	53.22
1968	27,199.8	59.96	37.54	10.88	40.04
Imports					
1958	8,506.3	50.83	23.14	13.47	49.17
1968	22,180.1	61.91	41.21	10.90	38.09

Source: Data from The Hamburg Institute for International Economics (HWWA-Institut für Wirtschaftsforschung-Hamburg).

Ten years later, after an increase of total exports by almost 170 p.c., to about \$ 27 bn, the share of nations not belonging to NATO dropped to 40 p.c., while the part of the member states rose to 60 p.c. It is remarkable that this growth can almost exclusively be attributed to the increased shares of the EEC members (to 37.5 p.c.) (see Table 1). Excluding the US, all the other members of the alliance, although registering an increase in absolute terms, maintained only their position in the West German market or lost a little in importance. Within the EEC there was some change in so far as France became the biggest export market ahead of the Netherlands.

These trends in development continued in 1969 and they comprise almost all important goods. Decisive were manufactures, that in 1969 made up 85 p.c. of total exports. Almost 60 p.c. thereof went to the NATO nations, 37.3 p.c. to the EEC alone.

The developments to be noticed in the FRG's exports also apply to its imports. However, in view of the structure of goods there are differences.

True, the share of goods procured in countries not belonging to the alliance in the FRG's total imports (49.2 p.c. in 1958 and 38.1 p.c. in 1968) is of about the same magnitude as the corresponding export values (see Table 1). But in 1968 imports were still composed of 66.9 p.c. food, beverages and tobacco, as well as raw materials. On the other hand, at the same time exports to these countries consisted of 90.2 p.c. of industrial finished products.

The cause for this development is to be found in the location of raw materials, on the one hand, and in the comparatively high food imports from developing countries and from centrally planned economies, on the other, where finished goods exports do not yet come up to the required technological and qualitative standards.

From 1958 to 1968 the regional structure of GDR exports has hardly changed in spite of an export volume increase by approx. 100 p.c., from \$ 1.89 bn to \$ 3.78 bn. The share of the Comecon countries in the GDR's total exports has stabilised itself at about 70 p.c. during the last decade (see Table 2). This applies also to the GDR's three most important trade partners within Comecon, the USSR (42 p.c.), the CSSR (10 p.c.) and Poland (7 p.c.). The share of the "capitalist industrial countries" including the FRG has grown slightly from 20 p.c. to 22 p.c.

Table 2

Regional Structure of the GDR's Foreign Trade 1958 and 1968

Year	total in US-\$ mn	shares in p.c.			
		allied countries (Comecon)		other socialist- countries	other countries
		total	of which: USSR		
Exports					
1958	1,889.7	67.67	44.77	9.08	23.25
1968	3,782.7	71.58	41.42	5.15	23.27
Imports					
1958	1,679.9	62.77	41.31	8.13	29.08
1968	3,386.5	71.64	44.05	3.86	24.49

Source: Data from The Hamburg Institute for International Economics (HWWA-Institut für Wirtschaftsforschung-Hamburg).

There does not exist any detailed and simultaneously complete reporting on the composition of trade between the GDR and the Comecon nations. Statistics reflect only roughly the commodity composition. With the GDR, exports of manufactures prevail, especially in the capital goods sector. The share of machinery and equipment in the deliveries of the GDR in its trade with the Comecon nations amounted to about 58 p.c. during

the last years. Therewith the GDR reached the biggest portion of all Comecon members. This reflects the technically high development level of the GDR economy as compared with the other Comecon nations.

Exports of machinery and equipment to the USSR since 1960 have maintained the comparatively high proportion of almost 60 p.c. of total exports to that country. The share of exports of industrial consumer goods has grown from 12 p.c. to about 16 p.c. from 1960 to 1968. Similar tendencies can also be registered in trade with the other Comecon states.

The share of Comecon countries in the GDR's imports amounted to 62.8 p.c. in 1958. Till 1968 it rose to 71.6 p.c. During the same period the GDR's import volume increased from \$ 1.68 bn by 102 p.c. to \$ 3.39 bn. In imports, too, the USSR's particular importance for the GDR's foreign trade is shown. In 1968, 44 p.c. of the GDR's imports came from the USSR (see Table 2).

The import side shows above all the GDR's pronounced dependence on raw materials. True, a trend towards a slight change in the import structure is indicated. The importance of raw materials is slightly decreasing, while with machinery and equipment since 1965/66 a relatively strong upward trend is to be noticed, although with a share of about 15 p.c. it is comparatively modest.

Due to the partition of the German economic area, the GDR is particularly dependent on raw materials. At present the supply of raw materials consists to a large extent of Soviet products. Soviet deliveries comprise mainly goods, that serve the production of heavy industries (hard coal, iron ore, pig iron, steel products) and the improvement of the GDR's supply with primary energy (mineral oil). Supplies of machinery and equipment have also grown noticeably.

Imports from other Comecon countries differ considerably from those from the USSR. Although with Polish deliveries raw materials and fuels

(hard coal and hard coal coke), metals and farm products still play a major part, the share of machinery and industrial equipment should have increased from 20 p.c. in 1963 to approx. 50 p.c. in 1970. The CSSR is that Comecon partner in whose case the commodity composition of mutual trade is approximately the same. With both countries machinery and vehicles at present comprise about half of the mutual exchange of goods. In imports from Hungary the increase in deliveries of machinery and vehicles has ousted food imports from the leading position. Farm products still dominate in imports from Bulgaria.

EEC and Comecon are the international economic systems most important to the two German states with regard to the intensity of institutional commitment as well as regarding inter-state exchange of goods. On the other hand, the FRG and the GDR play a decisive role within these organisations.

In 1968 the FRG had a share of more than 30 p.c. in intra-EEC exports. France, the most important EEC member after the FRG reached just 19 p.c. The FRG's share in intra-EEC imports totalled also about 30 p.c., while France (about 24 p.c.) follows here also at a considerable distance.

The position of the GDR is quite similar. True, in 1968 the USSR's share in intra-Comecon trade was by far the largest at 38 p.c. in exports and imports, but the GDR occupied the second place with 21 p.c. and 18 p.c., respectively, followed at a noticeable distance by the CSSR.

The regional structures of the FRG's and the GDR's international exchange of goods indicate a characteristic difference regarding their economic commitments to their specific alliances: Due to the fact that the USSR cooperates with the GDR within an institutionalised economic community, what is not the case between the US and the FRG, the FRG's economic fixation on its politically most relevant ally is much less pronounced than that of the GDR with regard to its major ally.

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