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aiming at long-term (3 to 5 years) trade and payments agreements. Until recently the COMECON countries' trade with developing countries was handled mainly on clearing basis. Recently there has been a growing trend towards the conclusion of new payments agreements on the basis of free convertible currency. Within the framework of trade agreements COMECON countries grant short-term export credits (3 to 6 p.c. interest, 3 to 6 years duration) or "company credits" which are extended through foreign trade organisations.

Long-term capital aid credits (2.5 p.c. interest, 8 to 12 years duration) are usually granted within the framework of agreements on economic and technical cooperation. It is extremely difficult to assess the exact amount of COMECON capital aid due to the complete absence of authentic statistics. Special difficulties arise out of the differences among credit offers, allocations and disbursements. According to the author's own research,

communist countries have officially promised an aid total of \$ 25,400 mn until the end of 1975. Out of this total the USSR accounted for \$ 12,000 mn and China, whose credits are usually interest-free and extended over periods from 10 to 20 years, for \$ 4,800 mn.

Some interesting recent developments: COMECON countries are prepared to implement projects in developing countries with the financial support of oil-exporting countries. On the other hand, oil-exporting countries such as Libya, Kuwait and Iran have provided credits for projects in COMECON countries. There has also been a recent trend towards joint ventures of COMECON and developing countries like India and Iran in third countries. Last not least, mention should be made of the COMECON countries' growing interest in the exploration and exploitation of strategic raw materials such as oil, gas, copper, lead, zinc and bauxite in developing countries.

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**EAST-WEST RELATIONS**

## The GDR's Foreign Trade Policy

by Ulrich Dietsch, Hamburg \*<sup>1</sup>

**Before the German Democratic Republic (GDR) achieved worldwide political recognition in 1972 and 1973 many Western observers were of the opinion that the GDR's trade with Western industrialised countries was still not very developed. A closer look at this field of activity shows, however, a different picture.**

The GDR's efforts to expand its economic contacts with Western industrialised countries began as early as the fifties and have been resolutely continued in the sixties and seventies, not without success. That these measures have received so little publicity in Western countries is primarily due to the fact that the GDR was not politically recognised, which meant that in the absence of any official contacts, effective public relations could not be established. Press and media in the GDR for their part largely ignored their country's economic relations with the West because by comparison with the relations with the socialist countries, and even with the developing countries, they were considered to have a low priority.

The complex of measures which has been created to expand trade and cooperation with the West was set up not only for economic but also for

political reasons. From the point of view of the GDR the political objectives weighed even more heavily than the economic ones: "Foreign policy . . . determines foreign trade policy"<sup>2</sup>. This maxim, which expresses to a greater or lesser degree the order of priorities observed in all centrally directed economies with their foreign trade monopolies, applied more especially to the GDR be-

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<sup>1</sup> cf. Ulrich Dietsch, *Außenwirtschaftliche Aktivitäten der DDR, Maßnahmen gegenüber westlichen Industriestaaten* (The GDR's external economic activities, Measures concerning Western industrialised states), Hamburg 1976. A further study by the author of the foreign trade activities of the GDR in its relations to EC-countries is due to be published shortly. The study comprises the GDR's largest Western trading partners. These are the EFTA countries Norway, Austria, Sweden and Switzerland, all EC countries except Ireland, and Japan.

<sup>2</sup> *Ökonomisches Lexikon* (Economic Encyclopedia), Berlin 1964, under "Außenhandel" (foreign trade), and Max Schmidt, *Wirtschaftsbeziehungen zwischen sozialistischen und kapitalistischen Ländern im Lichte neuer weltpolitischer und -wirtschaftlicher Prozesse* (Economic relations between socialist and capitalist countries in the light of new world-political and world-economic processes), IPW Berichte, 5th year (1976), No. 9, p. 3.

cause, in view of the fact that the Western countries refused for a long time to grant it political recognition, foreign trade policy represented to an important extent also a policy aiming at "recognition and normal political relations". The main economic objective was steadily to increase trade exchanges with the Western industrialised countries along the lines laid down in the GDR's external trade plans and to improve the trade structure by raising the share of substitutional exchange of high-quality industrial products. In this way the GDR authorities hoped, among other things, to be able to realise more effectively their ambitious internal economic investment schemes.

In achieving their objectives, the GDR authorities had to observe a number of fixed data which restricted them in the scope of their activities. For instance, their resources were, and still are, in a large measure tied down by long-term obligations to receive and supply goods from the other Comecon-countries. In 1974 roughly 61 p.c. of the GDR's external trade was with Comecon-countries. On the other hand, since the early seventies the share of the capitalist countries also steadily increased to amount in 1974 to a respectable 30 p.c.

Another factor which hampered the GDR's trade relations with Western countries was the Federal Republic of Germany's policy of isolating it politically. Since no governmental relations existed GDR products were refused most-favoured nation treatment as far as duties and import quotas were concerned. Bureaucratic difficulties used to be put in the way of GDR citizens or institutions wanting permits to visit foreign countries or to make arrangements there. In spite of these restrictions, the GDR managed to create the necessary contractual and institutional prerequisites for an exchange of goods.

#### Early Development of a System of Trade Agreements

Characteristic of the GDR's exchanges of goods with Western countries<sup>3</sup> is their principally bilateral settlement. The reasons for this are to be sought primarily in the nature of socialist central planning which depends among other things on specific foreign trade quantities which must be as concrete and binding as possible – conditions which are easiest to achieve in bilateral trade exchanges. But there are still other reasons: one is the lack of a convertible currency and another the desire to guard against trade and payments imbalances which could result from relations with capitalist countries<sup>4</sup>.

The basis for the exchange of goods were trade agreements which the GDR concluded with most of the Western countries as early as the mid-

fifties<sup>5</sup>. As by then the GDR had not yet been politically recognised, these agreements were negotiated at below government level. Yet, on the Western side the negotiating parties, private business associations or semi-governmental institutions, were regularly in close touch with the relevant authorities of their country. Such contacts were indispensable if for no other reason than the fact that trade with the GDR was subject to license. It is remarkable that the GDR has endeavoured to negotiate all of its trade relations with Western countries on the basis of a nearly perfect network of agreements. In this respect its policy is in striking contrast, for instance, to the practice of the Soviet Union whose trade relations with Western countries were only rarely established on the basis of economic skeleton agreements.

The policy of the GDR is probably founded on the belief that political and business risks are diminished by the conclusion of agreements and that it is easier in these circumstances to plan ahead. Thus in all the years since the early sixties the GDR has only once terminated a trade agreement on its own initiative. This happened towards the end of 1965 in the case of Austria, but even in this case the old agreement was at once replaced by a new contractual relationship. The only Western industrial country with which irregularities arose – and even there only for brief periods – was Great Britain. In this case delays occurred in concluding the agreements for 1962 and 1965 because the GDR had not used up sterling quotas for the purchase of United Kingdom manufactured goods but had instead used the sterling earned from the sale of its goods to buy raw materials in other Commonwealth countries.

Western Germany excepted, for the territory of the rest of OECD countries the all but "classical" contracting party acting on behalf of the GDR has been the Chamber for External Trade in East Berlin. Although the Chamber is legally not a state institution, it is nevertheless in fact an integral part of the governmental external trade organisation and as such a part of the GDR's state monopoly on foreign trade. It was not until 1970 that the Chamber, after roughly 18 years of activity, was replaced as contractual partner by the Board for External Trade Relations, which is directly responsible to the Ministry for External Trade.

<sup>3</sup> For the delimitation of the area cf. footnote 1.

<sup>4</sup> cf. i.a. Bernd Giersdorf, *Vorzüge und Nachteile bilateraler Clearingabkommen der DDR mit kapitalistischen Ländern (Advantages and disadvantages of the GDR's bilateral clearing agreements with capitalist countries)*, in: *Der Außenhandel*, 10th year (1960), No. 1, pp.13 et seq.

<sup>5</sup> In view of the extremely reserved attitude towards the existence of a second German State, no agreements were concluded with Japan and Switzerland before the recognition. They were concluded only in 1975.

1970 can also be regarded as the year in which the contractual trade agreements between the GDR and the Western industrialised countries entered into a new phase. For in that year the GDR succeeded in realising its long-cherished desire to base its business relations on a broad scale on long-term agreements. This breakthrough from one-year agreements to agreements with a duration of five years was looked upon by the GDR firstly as a step towards political recognition and, secondly, as a means of bringing its business relations — particularly regarding capital goods transactions which usually spread over several years — with the West more effectively into line with the government's overall economic plans which cover several years. Thirdly, the GDR authorities by being party to these trade pacts extending over more prolonged periods felt themselves safer from political encroachments from the West.

The question of whether these trade pacts have actually done something to stimulate the exchange of goods is difficult to answer. What is certain is this: they have greatly improved the conditions in which an exchange of goods can take place by insisting for instance that both sides of the agreement do their best so see that goods licences are issued, that deliveries and purchases stick as far as possible to the quotas (which are mostly set by the West)<sup>6</sup> and that regular meetings between representatives of both sides take place. As for the lists of goods enumerated in these agreements, they are in themselves of value to the GDR's foreign trade agencies as guides when they plan their future external trade.

That the links forged before recognition have proved their value may be judged by the fact that some private or semi-official institutions which before recognition served the GDR as negotiating parties and, being only a makeshift interim solution, should logically have become obsolete the moment recognition had been achieved, have in fact experienced a "renaissance". A case in point is the Italian Foreign Trade Chamber (ICE) which, being a trading partner of long standing with the GDR, has concluded trade-technical agreements with the GDR's Board for External Trade after recognition. Then there is the Netherlands Institute for the Promotion of Trade Relations between the Netherlands and the GDR which was established after recognition. This institute became also a

<sup>6</sup> Contrary to the GDR's agreements with the CMEA countries, there is no contractual obligation to accept delivery of the goods listed in the agreements.

<sup>7</sup> The GDR's reluctance to cooperate with the West is i.a. due to the — politically motivated — fear to get into a state of too much dependence on Western firms. For other reasons cf. Ulrich Dietrich, *Außenwirtschaftliche Aktivitäten der DDR, ...* (The GDR's external economic activities, ...) op. cit., pp. 142 et seq.

partner of the Board for External Trade Relations after the German-Dutch Chamber for Foreign Trade, a long-term partner of the Chamber for Foreign Trade, had ceased operations in 1975.

### Cautious Cooperation Policy

It was not until the early seventies that it became plain that the GDR was ready to cooperate more closely with Western firms<sup>7</sup>. Before that time dealings with the West were limited to some joint projects with firms from countries which were particularly favoured by the GDR. Among these were France, Italy and Austria. It is worth noting that in awarding contracts involving closer cooperation, enterprises run or influenced by the government were given preference over private businesses. The same attitude on the part of the GDR is also plainly discernible in its cooperation with LDCs<sup>8</sup>. Trade agreements concluded with France, Italy and Austria in the early sixties already contained provisions laying down certain rules governing cooperation. Austria — politically neutral — was the first Western country which already before the sixties, that is in 1959, agreed with the GDR on cooperation rules about industrial manufacture, technical cooperation in different branches of industry and, in connection with this, the granting and taking out of licences.

The adequate form of rules for cooperation within skeleton agreements were after recognition the governmental agreements on economic, industrial and technical cooperation. Nearly all those agreements<sup>9</sup> came into force in 1973 and 1974. They contain relatively few detailed regulations. Their most important parts are the ones concerned with the setting up of mixed government commissions and the section which defines the fields and forms of cooperation. One form of cooperation, mention of which is to be found in all agreements, is the cooperation in third markets — mostly in the sphere of marketing but also in that of production. In only one agreement — that with France — the possibility of forming joint ventures in France has so far been envisaged. In the GDR itself the establishment of joint ventures with Western participation or purely Western ones is until now not permitted.

The task of the mixed governmental commissions is to supervise the smooth running of the particular bilateral agreement, to promote it and to intervene if necessary. It is worth pointing out that these tasks are regarded as especially important for the commissions looking after the GDR's trade

<sup>8</sup> A study which considers the GDR's economic relations with LDCs is in preparation in the department "Wirtschaftsordnung und Wirtschaftssysteme" (economic order and economic systems) of the HWWA-Institut für Wirtschaftsforschung-Hamburg.

<sup>9</sup> With Japan and Switzerland no skeleton cooperation agreements have so far been concluded.

agreements with countries of the EC area. For these the commissions are the only governmental bodies in which representatives of these countries regularly meet representatives of the GDR to look after bilateral trade relations. This is because since 1973 when the EC started its common trading policy, individual member states are no longer permitted to negotiate trade agreements or individual trade measures on a national level. Therefore the conclusion of skeleton agreements with all non-German EC partners on economic, technical and industrial cooperation does not mean that the GDR intends to give priority to this form of international division of labour in preference to other forms, say trade. This form of treaty is simply regarded with the agreement of the GDR's Western partners as a means of circumventing the trade policy of the European Community. All other Western industrialised countries which have concluded agreements with the GDR on economic, technical and industrial cooperation are also still continuing to cooperate with the GDR by means of official trade agreements.

#### Marketing Little Developed

As for marketing measures, it must be remembered that the GDR managed even before its diplomatic recognition to undertake in this important field a number of activities which were primarily designed to improve its export chances. Worth mentioning in this connection are the participations of its external trade agencies in fairs and exhibitions in Western countries since here its interests in these countries become particularly clear. In contrast to participations in fairs and exhibitions by Western firms, which are almost exclusively motivated by business considerations, the GDR participation had not only economic but also political reasons. It was particularly on the somewhat larger public trade fairs in France, Italy, Japan, Austria and Sweden, but also in Great Britain, that the GDR concentrated its publicity campaigns. Outsize and from an economic point of view hardly sensible exhibition floor areas were rented, meetings of delegates were held and publicity campaigns in the Western media sought to make the GDR better known and to make propaganda for East Germany's diplomatic recognition.

These campaigns brought with them many a setback. For instance during the sixties the GDR was — with the exception of Austria — nowhere in the West permitted to exhibit under its own name; all the East Germans were allowed to do was to appear before the public under the names of the external trade companies or the Foreign Trade Chamber directly responsible for the exhibits. But despite these handicaps the East German

authorities persisted in the pursuit of their economic and political objectives.

In comparison with the GDR's activities at trade fairs, its efforts to set up marketing and purchasing bodies in the West have — before as well as after recognition — still proved rather disappointing. True, with the exception of Japan and Switzerland, it was possible to set up trade representations in the Western countries under review relatively early. But right into the seventies own bodies of the GDR marketing and purchasing organisations such as technical and commercial offices, after-sale service stations and trade centres have remained few and far between. It is still the commercial agent from the West who exercises the dominating influence in trade relations between the GDR and the Western industrialised countries.

With the present organisation there frequently arose difficulties such as

- disputes about competence between trade missions, external trade companies and manufacturing establishments;
- frequent personnel changes, particularly in the external trade companies;
- bad cooperation between trade representatives and foreign trade companies;
- long delays in the handling of orders;
- a too passive attitude towards the market;
- insufficient after-sale service; and
- the presence of too many "extraneous" agencies — like foreign representatives — in the marketing and purchasing organisations.

The GDR officials responsible for foreign trade hope to be able to meet the requirements of the market more effectively and thus to achieve an increase in turnover by the creation of joint ventures in the GDR's Western partner countries. At present the number of such companies is still very small — as far as is known, there are four of these companies in France, five in Belgium and one each in the Netherlands and Austria — and does not admit any definite judgement on their economic efficiency. However, the statements of leading GDR functionaries indicate that joint ventures offer prospects of success and that this method is therefore to be pursued further<sup>10</sup>. On the other hand, it must not be forgotten that for the setting up and staffing of such companies the GDR has to raise capital — in other words foreign exchange — and this is the limiting factor of such activities.

<sup>10</sup> Horst Sölle, *L'évolution positive des échanges France-RDA peut se poursuivre* (The exchanges between France and the GDR can continue to evolve), *Moniteur officiel du commerce international* of April 3, 1976.