

Dietsch, Ulrich

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# New Tendencies in the Cooperation Policy of the GDR

by Ulrich Dietsch, Hamburg \*

Until the early seventies the German Democratic Republic (GDR), in line with the CSSR and Bulgaria, was least disposed among CMEA countries to engage in cooperation activities with the West. One of the major reasons for the reserve shown by the GDR in this respect was probably that linkage through cooperation agreements of the GDR-owned production and distribution potential to Western partners was deemed to involve too great a political and economic risk. Since the political recognition in 1972 and 1973 however a reversal of views could be observed which is justified by GDR circles with a series of new trends in the world economy and in world politics.

The economic relations between East and West have made rapid strides forward since the early seventies, and as they expanded the modalities of the exchange of goods also changed more and more. The trade and credit relations were complemented to an increasing extent by cooperation agreements. The Eastern countries did not all participate equally actively in this form of international division of labour which has been common practice inside the Western and the Eastern hemisphere for a long time. Among the East European members of the CMEA Hungary, Romania and Poland showed themselves most interested in cooperation projects both on an inter-firm and on a supra-firm level while the USSR took a rather reserved attitude and concentrated its cooperation activities on the sphere of science and technology. Until the early seventies the GDR, in line with the CSSR and Bulgaria, was least disposed to engage in cooperation activities. The party and state leadership was swayed by the political motive of segregation from the

West. This was probably one of the major reasons for the reserve shown long by the GDR in regard to cooperation: linkage through cooperation agreements of the GDR-owned production and distribution potential to Western partners was deemed to involve too great a political and economic risk<sup>1</sup>.

## Reversal of Views

GDR circles refer to "a series of new trends in the world economy and in world politics"<sup>2</sup> as the reason for the reversal of views since the political recognition in 1972 and 1973. They had compelled the GDR to avail itself of more intensive forms of inter-systemary cooperation. The political détente between East and West – including the international recognition of the GDR – is pointed out as the most important element of the new trend, and the Conference for Security and Cooperation in Europe (CSCE) is mentioned as of special relevance in this context<sup>3</sup>. The growing economic strength of the socialist countries in the ambit of the world economy is regarded as another element ensuring the socialist countries, and thus also the GDR, of a secure start basis for increased cooperation in the inter-systemary sphere. It is not denied either that an intensifica-

\* Dr Dietsch is a member of the Department of Economic Systems of the HWWA-Institut für Wirtschaftsforschung-Hamburg.

<sup>1</sup> Cf. Zentralstelle für das Hochschulfernstudium, Dresden (ed.), *Lehrbriefe zum Außenwirtschaftsrecht* (Correspondence lessons on external economic law), No. 8, Berlin 1973, p. 42 f.; for other reasons cf. Ulrich Dietsch, *Außenwirtschaftliche Aktivitäten der DDR* (External economic activities of the GDR), Hamburg 1976, p. 142 ff.

<sup>2</sup> Cf. 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 economic processes), in: *IPW-Berichte*, 5th year (1976), No. 8, p. 3 ff.

<sup>3</sup> For the economic relations between East and West in the context of the détente and the CSCE conference cf. Wolfgang Borchardt, *Wirtschaftsbeziehungen im Entspannungsprozeß* (Economic relations in the process of détente), in: *Wirtschaftsdienst*, 57th year (1977), No. 6, p. 308 ff.

tion of the economic relations with Western industrialized countries is indispensable for the further strengthening of the economic position of the socialist countries. Other elements receiving mention are the general "internationalization of economic life" and the international economic problems, partly due to it, of safeguarding the supply of raw materials and energy, protection of the environment, transport and communications, etc., which are facing the GDR like others, merely because of its central geographical situation in Europe<sup>4</sup>. It emerges from the GDR analysis of the trends in international economic relations that the GDR considers the present conditions to be favourable to economic relations with the West and to more intensive forms of cooperation in particular.

#### **Determinants and Motives of the Cooperation with the West**

The economic literature of the GDR has of late provided more information about the GDR's interest in closer economic cooperation with the West. Until the early seventies it avoided open exposure of economic motives and interests because the official policy on external economic affairs was against closer economic relations with the West and aimed at integrating the GDR economy with the CMEA. The GDR's motives and interests in regard to economic cooperation with the West are oriented towards the three main spheres of production, marketing and research. The concurrent motive for all three is to approximate to the Western level of development and raise the economic growth and supply level through increased external economic relations as a result of cooperation. In the production sphere cooperation relations allow "production costs to be lowered, times to be cut and resources, capacities and manpower to be employed more rationally" and possibly also to maintain "stable prices over a longer period" so as to stabilize the cooperation. Improvement of the export pattern "in favour of exports of finished products" is stated to be an overriding objective in regard to sales, for a lasting structural improvement "minimizes the demand for foreign currencies", thus conserves the foreign currency stock and improves the deficitary balance of trade. Besides, new markets are to be opened with the help of Western cooperation. Research cooperation "results in opportunities for more intensive research work at lower cost because the research activities can be specialized and the research capacities of the partners

can be used jointly"<sup>5</sup>. The mentioned motives and interests correspond in content to those commonly attributed to the Eastern economies in the West<sup>6</sup>. The mentioned objectives have been and are being pursued on two levels. The GDR skeleton agreements on economic, industrial and technical cooperation operate on a superstructural level while other agreements — mostly between Western producers and traders and GDR state foreign trade enterprises — operate on the inter-firm level.

#### **Numerous Skeleton Agreements**

The skeleton agreements on economic, industrial and technical cooperation with Western countries were arranged on the governmental level. They apply for longer periods — five to ten years — which the GDR tries, not always successfully, to synchronize with the Five Year Plans. In addition to inter-governmental agreements there exist of late skeleton agreements between Western enterprises and GDR foreign trade enterprises which will not be dealt with here. The indicative character of the inter-governmental agreements does not permit detailed stipulations about the substance and extent of planned inter-firm cooperation projects. These are not required for supra-operational agreements because it is their sole function to provide the best possible conditions for inter-firm cooperation.

The cardinal feature of these agreements are mixed commissions staffed by the governments of the partner countries which have the task of providing guidance and supervision in bilateral economic relations, possibly through appointment of special working groups as happened in the case of France, Italy and Austria. These mixed commissions have attained a special importance under the GDR cooperation agreements with EC countries because the EC's common trade policy in force since 1973 rules out the conclusion of trade agreements on a national level, and the mixed commissions are therefore concerning themselves with matters of trade policy, albeit in circumvention of rules of the EC's trade policy<sup>7</sup>.

<sup>5</sup> Jürgen Nitz, *Probleme der Wirtschaftsbeziehungen zwischen Sozialismus und Kapitalismus (Problems of the economic relations between socialism and capitalism)*, in: IPW-Forschungsheft, 12th year (1977), No. 2, p. 88 and 20 ff.

<sup>6</sup> Cf. Klaus Bolz, Peter Plötz, *Erfahrungen aus der Ost-West-Kooperation (Experiences with East-West cooperation)*, Hamburg 1974, p. 136 ff., and Hans-Dieter Jacobsen, *Die Internationalisierung der Produktion und ihre Bedeutung für die Ost-West-Wirtschaftsbeziehungen — Vom Handel zur Kooperation — (The internationalization of production and its relevance to economic East-West relations — From trade to cooperation)*, Ebenhausen near Munich 1976, p. 54 ff.

<sup>7</sup> Cf. Ulrich Dietsch, *Außenwirtschaftspolitische Aktivitäten der DDR gegenüber den Mitgliedsländern der Europäischen Gemeinschaft (GDR activities towards member countries of the European Community in the sphere of external economic policy)*, doctor thesis, Hamburg 1976 (being printed).

<sup>4</sup> Schmidt mentions other elements of the recent economic development which have no connection with cooperation relations — the economic crisis in the Western industrialized countries in the mid-seventies and the greater weight of the developing countries. Cf. Max Schmidt, *ibid.*, p. 7.

From the viewpoint of the GDR the agreements have a political dimension: they are to show that the GDR is in earnest about tackling the tasks set out especially in basket II of the final document of the Helsinki conference. Special mention is made in this context of the skeleton cooperation agreements concluded with Portugal and Sweden in 1976; these actually refer to the final CSCE document<sup>8</sup>.

The first skeleton agreements on economic, industrial and technical cooperation with Western countries were arranged in 1973. The title is the same for all the agreements and their form and contents are similar. The very first agreement of this type was concluded with Italy in April, the next one with France in July. With both these countries the GDR had always maintained substantial economic contacts<sup>9</sup>. Agreements with Belgium, the Netherlands, Great Britain, Austria and Norway followed in 1974, with Denmark 1975 and with Sweden and Portugal — as mentioned — in 1976<sup>10</sup>.

No skeleton cooperation agreement has as yet been concluded with the Federal Republic with which the GDR is notoriously maintaining relations under special arrangements nor have concrete negotiations about the subject started although the Basic Treaty between the Federal Republic and the GDR of 1972 created the possibility. The supplementary protocol of Article 7 of this Treaty says: "The Federal Republic of Germany and the German Democratic Republic will conclude long-term agreements with the aim of furthering a continual development of economic relations, adjusting obsolete regulations and improving the structure of trade." The two main reasons for the scanty progress of the super-operational cooperation relations in spite of energetic efforts by the Federal Government especially since 1973 are that the inclusion of West Berlin creates a problem as it does for other proposed intra-German agreements on science, culture, protection of the environment, etc., and that the GDR still shrinks from entering into cooperation relations on an official inter-governmental level with the business partner from whom it wants to demarcate itself most distinctly. It pre-

fers to conclude inter-firm skeleton agreements as illustrated by those with Krupp, Hoechst and Salamander.

### Cooperation an Indeterminate Concept

A firmly determined concept of inter-firm cooperation — perhaps in the form of a legal definition — has not been evolved in the GDR, either in regard to economic policy or in economic science. GDR writers admit that opinions on the subject still differ in the whole socialist camp<sup>11</sup>. A definition in very general terms by the GDR economist Nitz merely says that international cooperation is "a new higher social productive force" compared with national cooperation and that it "opens new opportunities for the further increase of the effectiveness of social productivity"<sup>12</sup>. Beyond this, GDR authors refer to the work of a group of experts for international contractual arrangements of the ECE trade committee which was appointed in 1973 and completed its activities in 1976 with the issue of a "Guide for the arrangement of international treaties on industrial cooperation" which economists from the GDR helped for the first time to draw up<sup>13</sup>. The Guide says that "cooperation treaties (are) operations which go beyond the immediate purchase of goods or rendering of services and lead to a lasting community of interests between partners in different countries for their mutual benefit". Such treaties relate to

- ☐ Transfer of technology and technical experience (especially the exchange of licences — The author),
- ☐ Cooperation in the production sphere including research cooperation and production specialization (from the GDR viewpoint this includes compensation deals — The author),
- ☐ Cooperation in the opening-up of raw material deposits (including compensation deals — The author),
- ☐ Joint sale or sale on joint account of the products of industrial cooperation in the treaty partners' own countries or in third markets (including tripartite cooperation — The author)<sup>14</sup>.

This definition does not include explicitly the more intensive cooperation forms such as establishment of joint production and marketing enterprises. It includes however long-term compen-

<sup>8</sup> Cf. Wolfgang Nicolai, *Ausbau der ökonomischen Zusammenarbeit in Europa* (Extension of economic cooperation in Europe), in: *Deutsche Außenpolitik*, 22nd year (1977), No. 5., p. 11.

<sup>9</sup> Cf. Ulrich Dietsch, *Außenwirtschaftspolitische Aktivitäten der DDR gegenüber den Mitgliedsländern der Europäischen Gemeinschaft*, *ibid.*

<sup>10</sup> Cf. Ulrich Dietsch, Peter Plötz, *Die Wirtschaftsbeziehungen der DDR zu westlichen Industriestaaten und Entwicklungsländern — Abschätzung der Konsequenzen für die Lieferungen der DDR im Rahmen des innerdeutschen Handels* — (The economic relations of the GDR with Western industrialized states and developing countries — Appraisal of the consequences for the GDR deliveries in the framework of intra-German trade), Study on behalf of the Federal Ministry of Economic Affairs, Hamburg 1977, p. 229 ff.

<sup>11</sup> Cf. Jürgen Nitz, *ibid.*, p. 92.

<sup>12</sup> *ibid.*, p. 87.

<sup>13</sup> Cf. Fritz Enderlein, Jochen Völter, *Leitfaden der ECE* (Guide to the ECE), in: Supplement No. 25 of *DDR Außenwirtschaft*, 5th year (1977), No. 18, p. 5 ff.

<sup>14</sup> *ibid.*, p. 6.

sation agreements which were mentioned expressly in an earlier ECE study (dating from 1973) which GDR authors have also quoted<sup>15</sup>.

### Preference for Transactions of Low Intensity

In actual fact this form of international economic relations amounts often to no more than a deal involving one delivery from the West and a return transaction; Western deliveries of production plant paid for by products made or processed in this plant are a well-known example of such deals. By including such low-intensity transactions under the heading of cooperation the GDR wants to demonstrate its amenability to cooperation with the West which Western writers sometimes question. At the same time it wants to detract attention from the fact that more intensive forms of cooperation are still largely taboo to it for political and ideological reasons. In support of its attitude the GDR can argue that the final CSCE document, following a previous ECE definition, counts compensation deals among the cooperation agreements<sup>16</sup>. As seen by GDR authors, the supply of Salamander shoes as part of a longer-term contract and the payment for it in the form of plastics and timber products for instance amounts to cooperation<sup>17</sup>. The manufacture of Salamander shoes in the GDR which is to start towards the end of 1977<sup>18</sup> is to be regarded as licence cooperation which is one of the less intensive forms of cooperation.

### Inter-Firm Cooperation

A look at the skeleton cooperation agreements with Western partners confirms the thesis that the GDR is chiefly interested in less intensive forms of cooperation. Cooperation in third markets, which is desired mainly in marketing, ranks highest; licence cooperation including scientific-technical relations comes next. Compensation agreements are not mentioned specifically — presumably because the Western partners object to it — but take up very much room in actual GDR discussions<sup>19</sup>. Production cooperation, which includes specialization, is mentioned more rarely, as is also the establishment of mixed companies.

<sup>15</sup> Cf. Jürgen Nitz, *ibid.*, p. 93.

<sup>16</sup> Cf. Wolfgang Nicolai, *ibid.*, p. 13.

<sup>17</sup> *ibid.*

<sup>18</sup> Cf. news item in *Süddeutsche Zeitung* of March 16, 1977.

<sup>19</sup> Cf. Sigrid Röder, *Wirtschaftsbeziehungen im Interesse friedlicher Koexistenz* (Economic relations in the interest of peaceful coexistence), in: *Die Wirtschaft*, 32nd year (1977), No. 7, p. 31.

<sup>20</sup> Cf. Ulrich Dietsch, Peter Plötz, *ibid.*, p. 243.

<sup>21</sup> Cf. Paul Freiberg, Jürgen Nitz, *Formen und Perspektiven der Wirtschaftsbeziehungen zwischen sozialistischen und kapitalistischen Staaten* (Forms and prospects of the economic relations between socialist and capitalist states), in: *IPW-Berichte*, 4th year (1975), No. 11, p. 19.

The latter made their first appearance in a supplementary agreement between France and the GDR of 1975 subsequent to the skeleton agreement between the two countries of 1973<sup>20</sup>.

The restrictive information policy of the GDR party and state leadership makes it impossible to obtain a complete overall picture of the number and size of the actual cooperation projects planned, started, proceeding or completed, as is available for instance for Hungary, another CMEA country. To indicate the present state of the GDR's cooperation relations reference can only be made to a few projects, and the information about these is also for the most part vague. The cooperation of GDR enterprises with the Japanese Nippon Steel Corporation is regarded as an instance of combined production and research cooperation; the skeleton agreement concluded in 1974 provides in this case for cooperation in the production of metallurgical plants and machines<sup>21</sup>. An agreement on the erection of an electric steel works for VEB Stahl- und Walzwerk Brandenburg between the GDR foreign trade enterprise Industrieanlagen-Import and the Italian firm of Danieli & Co. SPA in March 1977 may be regarded as combining compensation and licence cooperation; several firms in Italy and Sweden are to assist in the erection of this plant by 1980. A contract was concluded at the same time which provides for the supply of metallurgical products made in this plant of a certain — not published — value<sup>22</sup>. Similar longer-term arrangements on a compensation basis are maintained by GDR foreign trade enterprises with other big companies such as Rhône-Poulenc, France; Montedison, Italy; Dow Chemical, USA; Ciba-Geigy, Switzerland; Guest, Keen & Nettlefolds, Great Britain; Egam, Italy; and others<sup>23</sup>.

### Tripartite Cooperation

Cooperation with Western firms in third countries is being practised by the GDR with all its Western partners including the Federal Republic. The cooperation with VOEST-Alpine AG, the Austrian engineering group, is considered to provide an excellent example of such tripartite cooperation<sup>24</sup>. From the GDR's point of view cooperation with Austria provides especially favourable conditions insofar as Austria, a neutral country, is politically a low-risk partner for the GDR who has always maintained extensive contacts with the East and handles a large part of its foreign trade turnover through state enterprises which the GDR prefers to private firms. It is said that in 1976 the VOEST-

<sup>22</sup> Cf. news item in *Neues Deutschland* of March 14, 1977.

<sup>23</sup> Cf. Sigrid Röder, *ibid.*, p. 31.

<sup>24</sup> Cf. e.g. Jürgen Nitz, *ibid.*, p. 103.

Alpine group alone accounted for 40 p.c. (= S1.2 bn) of the total foreign trade between Austria and the GDR<sup>25</sup>. GDR foreign trade enterprises including in particular Maschinen-Export and Invest-Export, both of Berlin, concluded so-called consortium agreements for several co-operation projects with the VOEST-Alpine group; the latest of these, in December 1974, involved a total amount of S 4 bn. As part of this agreement GDR foreign trade enterprises are supplying important components for the erection of an oil refinery in Mauretania, acting as consortium leaders in the joint planning and execution of a project for the production of lignite and its conversion into chemical products in Victoria, Australia, and playing a part in the erection of an integrated pulp and paper mill in Cameroon. Besides, VOEST-Alpine and GDR enterprises are cooperating in research into lignite production and processing, electricity generation and mining technology<sup>26</sup>.

### Selective Approach

The examination of possible and actually practised forms of cooperation with the West has already shown that the GDR approach is selective: it gives preference to certain forms of co-operation, neglects others and rules out some. The formation of mixed companies by the GDR in the West which can be regarded as a more intensive form of inter-systemary cooperation is among the cooperation forms which are practised little or not at all. The mixed companies constitute a border area of cooperation relations insofar as, in the eyes of the external economy planners of the GDR, they are not a permanent element of external economic activities but rather an exception<sup>27</sup>. The economic and political risks are as a rule considered very high, with the result that the tasks which mixed companies could undertake are today still for the most part performed by Western firms. According to the ideas of the GDR's external economy planners the mixed companies should confine their activities mainly to the sale and servicing of GDR products. The performance of productive functions (e.g. assembly) is not ruled out but no instances of firms having been set up for this purpose have become known. A few sales companies have on the other hand been founded, some of them as early as in the late sixties. The total number is not known exactly; there are five in Belgium, at least four each in France and Great Britain, at least one in

Austria and also in the Netherlands. The mixed companies are intended to pursue longer-term sales interests — especially in mechanical engineering — rather than engage in specific individual transactions at a particular time.

### Limits to Cooperation

Where the limits to cooperation with the West lie for the GDR at present is made clear by a consideration of the opportunities for cooperation in the economic area of the GDR. There is cooperation on the scientific level but instances of joint production or joint distribution by GDR enterprises have not become known. The highest form of cooperation, joint production in a joint plant on socialist soil — also known as "joint venture" — is being practised in some East European countries like Romania, Hungary and Yugoslavia but the GDR authorities have not yet sanctioned it. There are probably still too great ideological reservations springing from the principle of the national ownership of the means of production to allow a change. Nitz expresses regret at the lack of experience and then cautiously concludes that "in view of the systemary differences between the two economic and social orders they (the joint enterprises — The author) are unlikely to become the principal form of East-West cooperation but should be given more attention"<sup>28</sup>. In order to establish closer links between the long-term interests and competences of the cooperation partners in East and West, Nitz suggests that the ownership aspect should not be given too much prominence. In his view "enterprises established with the help of foreign investors" could in future guarantee profit shares for the Western partners and safeguard their right to a say on matters of technical and commercial policy and to representation of their interests in management<sup>29</sup>. These suggestions resemble those made by the GDR economist Karl-Heinz Domdey in the mid-sixties, when the relations with the West were briefly given a high priority; these however were never acted upon<sup>30</sup>. Although it is not to be expected at present that the forms of cooperation suggested by Nitz will be practised, it is not impossible that in view of the favourable political and economic conditions for GDR cooperation with the West in the seventies some of these proposals will be taken up by the party and state leadership in the not too distant future.

<sup>28</sup> Jürgen Nitz, *ibid.*, p. 98.

<sup>29</sup> *ibid.*

<sup>30</sup> Cf. Karl-Heinz Domdey, *Fakten und Probleme der wirtschaftlichen Kooperation zwischen sozialistischen und kapitalistischen Industriestaaten* (Facts and problems of economic cooperation between socialist and capitalist industrialized states), in: *Grundprobleme der Wirtschaftsbeziehungen zwischen den Staaten beider Weltsysteme*, Berlin 1966, p. 62 ff.

<sup>25</sup> Cf. news item in *Neues Deutschland* of March 14, 1977.

<sup>26</sup> Cf. news item in *Handelsblatt* of December 11, 1974; *Pressechau Ostwirtschaft*, No. 5, 1975; *Internationale Wirtschaft* of April 16, 1976; *Neues Deutschland* of November 6, 1976.

<sup>27</sup> Cf. Ulrich Dietsch, Peter Plötz, *ibid.*, p. 246.