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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF THE
SOVIET-OCCUPIED ZONE OF GERMANY

Record of the Meeting held on 29th April, 1965

Note by the Chairman

The International Staff has prepared the attached draft record of the meeting of 29th April, 1965, on the economy of the Soviet-occupied Zone of Germany. Should participants in the discussion wish to propose amendments, they are invited to send them to the International Staff before 10th June, 1965.

(Signed) A. VINCENT.

OTAN/NATO,
Paris, XVIe.

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SOVIET-OCCUPIED ZONE OF GERMANYTable of Contents

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Record of the meeting held on 29th April, 1965

The CHAIRMAN welcomed the presence of:

- Dr. Wolfgang FÖRSTER, Scientific Counsellor, Ost-Europa
Institute at the Free University
of Berlin;
- Mr. Horst H. SCHATTENBERG, Counsellor, Federal Ministry
of All-German Affairs, Bonn;
- Dr. Anton FURCH, Counsellor, Federal Ministry of
All-German Affairs, Bonn;
- Dr. KAULBACH, First Secretary, Federal Ministry
of Economics, Bonn;
- Dr. Gerhard CZYBULKA, Expert, Federal Ministry of Economics,
Bonn;
- Mr. Francis G. MEEHAN, Chief of Eastern Affairs Section,
United States Mission in Berlin;
- Mr. Henri QUIOC, First Counsellor, Ministry of Foreign
Affairs, Paris.

2. The CHAIRMAN recalled that the present meeting was the fourth in a series of reviews of the economic situation and trade policy of Eastern European countries. He thanked the German Delegation for their most valuable report (AC/89-WP/148 and supplementary note AC/89-WP/148/1) and invited them to open the discussion.

I. INTRODUCTION

3. Dr. FÖRSTER said that any assessment of the economy and trade policy of the Soviet-occupied Zone of Germany had to take account of two special problems: one of a political nature, and the other regarding statistical methods.

(a) Special Political Situation

4. From the political point of view, the Soviet-occupied Zone was one part of Germany which neither wanted to be Communist nor was located in Eastern Europe. Nevertheless, as a result of Soviet efforts to separate it by all possible means from the all-German economic structure, the Soviet-occupied Zone was an artificially constructed area whose economic potential and economic

system had become important factors within COMECON and the Warsaw Pact System. Any study which did not take into consideration the political basis of the economic situation of the Soviet-occupied Zone would inevitably lead to wrong conclusions.

5. As part of the Communist policy of expansion, the five following aims had guided the economic development in the Soviet-occupied Zone:

- the disruption of the unity of the German people through the artificial separation of the Soviet-occupied Zone, and the imposition of a régime whose main task it was to enforce the political aims of the Soviet occupation power;
- the Sovietization of all spheres of life by a transformation of the social structure and its economic foundations;
- the complete exploitation of the economy during the first post-war years, and more recently the orientation of the economy, especially of industry towards supporting the economic potential of the Soviet bloc;
- the deliberate disregard of individual requirements of the population for the purpose of favouring the production of raw materials and the heavy and armaments industries;
- the illegitimate claim for recognition as an independent state.

(b) Statistical Methods

6. The second special problem mentioned above, the methods of statistical reporting used by the Soviet-occupied Zone, was closely connected with the political orientation of all economic measures. Though this might appear unusual, if not absurd, from the point of view of Western economic thinking, the Soviet-zonal statistics were ideologically motivated and not objective and had always to be seen against the political background.

7. In spite of their unreliability, one could not avoid consulting the data contained in the Soviet-zonal statistical year-book, the official economic plans, the plan fulfilment reports and whatever other official or unofficial sources were available. Compared with reports from other Soviet bloc countries, Soviet-zonal plan fulfilment reports contained only very little information. In the statistics, the goods selected were changed deliberately or the various categories of goods were re-grouped to make comparisons difficult. Experts working patiently over details would repeatedly notice contradictions and inconsistencies even in one and the same document. These particular methods of

reporting would seem to be intended primarily to prove in figures the stability of the system and the steady growth of the economy. These figures were not outright falsifications; rather they were misleading combinations of data which might in themselves be correct. Soviet-zonal statistics should therefore neither be ignored nor accepted at their face value.

8. The problems outlined above with respect to internal economic comparisons applied even more to external comparisons, especially those between East and West. Apart from the fact that Soviet-zonal statistical data were based, according to the Soviet model, on gross production figures, there was a special problem of determining the exchange rate for the Soviet-zonal DM. (DM East). One was caught immediately in a maze of exchange rates when trying, for instance, to read from official Soviet-zonal statistics, the nominal relation between the DM (East) and the US \$. Such a table simultaneously shows for the same day the following quotations(1):

- foreign currency rate based on gold parity DM.222 = \$100;
- exchange rate according to currency agreement DM.419 = \$100 (followed by a footnote indicating one clearing dollar for DM. 4.20).

9. These different quotations showed that one and the same operation, e.g. the exports from one particular Western country to the Soviet-occupied Zone and Soviet-zonal imports from this country may result in entirely different data in Western and Soviet-zonal statistics.

II. INTERNAL SITUATION

(a) Population and Natural Resources

10. Referring to the German note, Dr. FORSTER recalled that the population of the Soviet-occupied Zone of Germany was 17.0 million in 1964 and the Zone covered an area of 108,300 sq.kms. The area was generally poor in natural resources. It had rich deposits of lignite, potash, mineral salts and limestone, and rather more modest ones of uranium ore, nickel ore and copper. It lacked iron ore and hard coal, hydraulic power and timber. Lead, zinc and tin requirements could not be covered from domestic sources.

(b) General Economic Performance

11. Recalling the different methods used in East and West for calculating GNP and national income, Dr. FORSTER said that national income or net material product (excluding services), according to the official statistics, had been DM. (East) 63 billion

(1) See statistical yearbook of the DDR 1964, Annex II, Page 68.

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in 1958 and DM. 77 billion in 1963. It was to reach DM. 100 billion in 1965 according to the abandoned Seven-year Plan. The estimated GNP calculated according to the "system of national accounts" of the OECD, i.e. at market prices, would be as follows:

	1958	1959	1960	1961	1962	1963
In billion DM. (East)	80	88	92	96	98	101

The resulting per capita GNP for 1963 would be DM. 5,897(1). The average annual rate of growth of GNP between 1959 and 1963 was 4.7% and that of net material product (national income) 4.1% (as against a target of 6.7% in the first Seven-year Plan). Under the second Seven-year Plan 1964-1970, net material product is to increase to DM. 104 billion, i.e. at an annual average growth rate of 4.4%.

(c) Industry

12. The part of Germany now under Soviet occupation had always been a highly industrialised area. In 1963, the share of industry in GNP could be estimated at 53%. However, the annual rate of growth of gross industrial production had declined from 12.4% in 1959 to 4.1% in 1963. Difficulties and shortages arose in practically all fields of production, so that the first Seven-Year Plan, which was to have covered the period from 1959-1965 had to be abandoned at the end of 1962. The second Seven-year Plan, 1964-70, now provided for an annual average rate of growth of 7%. Though this was a more modest target, the regime might have some difficulty in achieving it.

(d) Agriculture

13. Privately-owned farms were forced into collectives in the spring of 1960. About 86% of arable land was now owned by agricultural co-operatives and 8% by State Farms, while ornamental gardens and similar areas accounted for the rest. Collectivisation had been so important to the regime that it had been prepared to put up with considerable losses in agricultural production in the years following collectivisation. More recently, the regime had apparently succeeded in reversing the downward trend of agricultural production. The situation continued, however, to be unstable and will remain so under the Second Seven-year Plan.

14. Replying to a question from the CHAIRMAN as to the significance of the three different types of agricultural co-operatives in the Soviet-occupied Zone, Dr. FORSTER explained

(1) Note by the International Staff: if converted into US \$ at the tourist rate of exchange - \$1 = 4.2 DM (East) - this figure would correspond to the US estimate for the per capita GNP of \$1,400.

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that co-operatives in Communist countries were not comparable to those in Western countries where small enterprises united their forces on a voluntary basis for the purpose of becoming more competitive. In contrast, the three types of agricultural co-operatives in the Soviet-occupied Zone were only different steps in the direction of full nationalisation, the aim being to transform them later on into state farms. In the Type I co-operative, the peasants still owned part of the land, all the livestock and the buildings. In Type II co-operative, only part of the livestock and buildings were still considered to be private property, whereas in Type III, all property was collectivised.

(e) Labour and Employment

15. The number of persons gainfully employed had remained almost constant at around 8.2 million during the whole period of 1958-1963. There was full employment. With a share of female labour of 64% in the total labour force, reserves were probably almost exhausted. In spite of numerous, sometimes draconic methods of "incentives" to arrive at a higher labour productivity, the latter continued to pose problems for the régime. The average level of productivity for the entire economy could be estimated at about 25% lower than in the Federal Republic, the main reason being the shortage of up-to-date technical equipment. The second Seven-year Plan provided for an increase in productivity in industry of 65% (an annual average of 7.4%). Whether this target could be met depended above all on future investments.

16. Answering a question from the CHAIRMAN as to the possibility for COMECON countries to exchange labour among themselves and the number of COMECON workers within the Soviet-occupied Zone, Dr. FÖRSTER replied that, in the COMECON Statute, only an exchange of skilled labour for training purposes had been provided for. The actual number of such workers in the Soviet-occupied Zone was not known to him but could be considered to be insignificant,

(f) Investments

17. As far as investments were concerned, the situation in the Soviet-occupied Zone was characterized by the fact that industry was given absolute priority over other economic sectors, a common feature for centrally administered economies of the Soviet type. The annual rate of growth of gross fixed investments had declined from 16.7% in 1959 to zero in 1961 and had reached about 5% in 1963; according to provisional results, the corresponding figure for 1964 was 6% (against a target of 7.2%). Although the target for the annual average rate of growth of investment during the second Seven-year Plan (7.5%) was less ambitious, the régime would have difficulties in attaining it, in particular because of a necessary diversion of funds to the chemical industry as a consequence of Soviet demands for the delivery of complete chemical plant valued at about DM. 3 billion(1).

(1) US \$1.36 billion, if converted at the official rate of exchange for foreign trade transactions (\$1 = DM.(East) 2.22).

(g) Military Expenditure

18. The peculiar structure of budgets in Soviet-type economies made comparisons with the West of public expenditure very difficult. This was the case in particular with regard to military expenditure and purchases of armaments. German experts estimated that total military expenditure in the Soviet-occupied Zone had amounted to at least DM. 27 billion from 1956-1962 (annual average DM. 4 billion). Such an estimate did not include expenditure for para-military units such as the so-called "peoples' police" and the transport police.

19. The CHAIRMAN enquired whether the German Delegation had any information on the economic aspects of the Soviet arms deliveries, the production of arms within the Zone, the stationing of Soviet troops within the country, etc. He was particularly interested to know whether military equipment was being provided by the Soviet Union without payment or whether commodities were being exchanged.

20. Dr. FORSTER replied that the discrepancy between the trade balance of the Soviet Union according to their own statistics and that published by the Soviet-occupied Zone suggested that military equipment was being paid for by commodity deliveries. This subject was, however, top secret in the Soviet-occupied Zone. As to the "material basis" of the so-called "peoples' army", the largest part of it seemed to stem from domestic production.

(h) Standard of Living and Housing

21. The general level of living conditions had improved after a decline of almost dramatic dimensions in 1961-1962. It was still considerably below that of the Federal Republic of Germany. Although the population was adequately provided with foodstuffs, it lacked those one thousand and one things generally considered to be necessary for normal standards. Above all, there existed an accumulated demand for durable consumer goods. According to estimates, the share of private consumption in GNP had decreased from 61% in 1958 to 58% in 1963.

22. Housing construction was one of the most neglected branches of the Soviet-zonal economy, as industrial, administrative and military constructions were given absolute priority. The annual average of dwellings constructed for every 10,000 inhabitants during the years 1955 to 1961 was 36 for the Soviet-occupied Zone as against 104 for the Federal Republic of Germany.

23. Mr. MEEHAN said that there had undoubtedly been an increase in the standard of living since the "dark days" of 1961-1962 though it was not comparable to that of the Federal Republic of Germany. One of the basic pre-conditions for these changes had been the erection of the Berlin Wall in Autumn 1961. East German standards of living were the highest in the bloc and other Eastern European countries were asking themselves why the population of

the Soviet-occupied Zone "should have it so good". Paradoxical as it might seem for Western observers, East Berlin had become a show place for Eastern Europe, and the economic system of the Zone (see below II(i)) an example of how "socialism" can work in a developed country. This was undoubtedly of specific importance also to the Soviet Union.

24. The CANADIAN REPRESENTATIVE said that his Authorities had questioned the value of comparing the achievements of the Soviet-occupied Zone with those of the Federal Republic as post-war conditions had been quite different for the two parts of Germany. Most of the industrial plant of the Soviet-occupied Zone had been removed, and no aid comparable to Marshall plan aid had been granted. Thus, it would seem that a final document on economic development within the Soviet-occupied Zone would require a shift of emphasis putting the position of the Zone in a broader perspective.

25. Mr. QUIOC wondered whether there was any possibility of evaluating the average consumption of a family within the Soviet-occupied Zone and to find out how the budget of the worker had changed from year to year.

26. As to the standard of living, Dr. FÖRSTER replied that it was correct to say that East Berlin was a "shop window" for the East. To the same extent as the standard of living of the Soviet-occupied Zone was falling away from that of the Federal Republic, the other Communist countries' living standards were falling away from that of the Soviet-occupied Zone. A precise assessment of the level achieved was, of course, difficult to make. Several scientific institutions in the Federal Republic had come to the conclusion that real wages in the Soviet-occupied Zone were about 30% lower than in the Federal Republic and that the gap was widening: it had increased from 11% in 1950 to 30% in the middle of 1964.

27. According to German estimates, the standard of living was at a slightly higher level than that of Czechoslovakia, which in turn was somewhat higher than that of the Soviet Union. The gap between these three countries and the other Communist countries of Eastern Europe was probably considerable, with Bulgaria and Rumania having the lowest standards though that of the latter was quickly increasing as a consequence of its speedy economic development. Any such assessment was, of course, difficult to make as it depended on the "housewife's basket" one was comparing; and this varied a great deal according to the personal needs and consumption habits in the different countries. If the Soviet "basket" and the manipulated Soviet prices were used, the differences would probably not be striking, but the Soviet-occupied Zone would still be better placed than the other Communist countries. When comparing living standards in the Soviet-occupied Zone with those in the West, the low level of old-age pensions (monthly average DM. 147 in 1963) and disability pensions (DM. 144) should also be mentioned. They were at the minimum

subsistence level and about 33% less than those of the Federal Republic.

28. In answer to a suggestion made by Mr. BREECHER (United States) to compare per capita GNP by taking the Soviet Union as 100, Dr. FORSTER suggested that the index for Czechoslovakia could be put at 125 and that of the Soviet-occupied Zone a little higher. He agreed, however, with Mr. MEEHAN that such a comparison was of little interest to the population of the Soviet-occupied Zone as the latter would always compare their situation to the standard of living achieved in the Federal Republic of Germany.

29. To a question by Mr. BREECHER, whether there had been a change in the police system of the Soviet-occupied Zone, Dr. FORSTER answered that the régime had certainly changed its methods, but that it reached the same results by different means. Soviet-zonal writers had less freedom of expression than those of the Soviet Union, and there had not been much of a change in the economic discussion. In periodicals like "Die Wirtschaft" and "Deutsche Finanzwirtschaft" questions of methodology had been discussed at great length, but the aims of the reforms had never been questioned.

30. As to the reaction of the population to the erection of the Berlin Wall and the introduction of the new economic system, he would say that they had resigned themselves to "inner immigration". Instead of putting people in prison, the régime had introduced a new system of allowing "enemies of the people" to "qualify" themselves in production, meaning that, i.e. a teacher would have to work as an unskilled labourer with all the material losses in income and housing this might entail. Generally, people would tend to "fly into work" to get along better with everyday life. Such an attitude would, of course, favour the régime, though it was not meant to do so, as it would increase economic efficiency. The fact, however, that a great number of people still tried to escape over the wall or the barbed wire and mine-fields although the odds were one hundred to one against them proved that the population had by no means reconciled themselves to the present régime.

31. Mr. MEEHAN mentioned that his Authorities had made a mistake in thinking that after the erection of the Berlin Wall the oppression of the population by the régime would increase. On the contrary, they now seemed to tolerate the fact that people talk more freely and rather critically. The régime felt apparently more sure of itself because of the wall.

(j) Economic Organization and Reforms

32. According to Dr. FORSTER, the Soviet-zonal economic system followed the Soviet pattern in great detail, the present development being marked by two main characteristics: the progressive socialisation, and a continuous re-organization of economic administration. Collectivisation of agriculture had

been virtually completed in 1960, while the share of privately-owned enterprises in "Gross Social Product" (excluding services) was only 2.4%, and in the GNP only 8% in 1963 .

33. The frequent changes of methods and organizational reforms were primarily designed to improve the economic system, but not to change it fundamentally. The last and most comprehensive of these reforms was the "New Economic System of Economic Planning and Control" announced in July 1963. Though it was still too early to give a final assessment of all its implications, it could be assumed that the responsible authorities aimed at improving the efficiency of the economy by a certain degree of modernisation and relaxation of central controls. The régime emphasized, however, that no fundamental changes in the system were intended.

34. Mr. MEEHAN agreed with Dr. Förster that it was much too early to say now what the final outcome of the new economic system would be. Though it was true that no fundamental changes had so far come about, the reforms would seem to him to be potentially important, above all if there should be a change in the leadership. Certainly, Ulbricht was now in full control of the apparatus, but new people were coming up and the new system might assume a larger significance under them.

35. The new economic system undoubtedly aimed at an increase in overall efficiency. The VEB's and VVB's (enterprises and trusts) would, in future, have to pay their own way and develop their own investment funds. Prices were to be based on actual costs, and profitability was to be the main criterion of success. The VVB's had now assumed the responsibility for all accounting procedures and were authorised to dispose of operating funds. The practice of state subsidies regardless of cost was over. Enterprises and trusts had a greater voice in planning and operation. As far as incentives were concerned, the picture was rather cloudy, but managers would receive salaries based on their actual performance. The banking system would have a greater say in economic developments and in evaluating the usefulness of new investments. Capital use charges were to be introduced to safeguard an efficient and timely use of materials, and there was a new contract law governing the relations between enterprises.

36. In the opinion of Mr. MEEHAN, it would be wrong to underestimate these changes, though he admitted that opposition to too drastic economic changes had been voiced by the diehards of the régime at the last two conferences of the SED Party Presidium at which it had been decided to counteract a tendency towards a "too economic" approach, and not to lose sight of basic ideological truths.

37. Mr. MEEHAN furthermore doubted that the Soviet-occupied Zone really followed the Soviet example in detail. In his opinion, it was in the lead as far as the application of new economic thinking was concerned. Eastern European countries, including

the Soviet Union, were sending delegations to the Zone to find out how the new economic system was being implemented. Any comparison with the reforms recently introduced in Czechoslovakia would probably reveal that the Czechoslovaks were well behind in the application of new economic methods.

38. Mr. MEEHAN wondered whether there was any tendency to make the East German people accept their rôle under the régime. Would the population not work harder knowing that greater economic efficiency would result in an increase in the standard of living (which after all still remains the proclaimed objective of the Communist system)? He furthermore wondered whether such a tendency within the population might not make the system workable in the long run.

39. The CANADIAN REPRESENTATIVE stated that he had received preliminary comments of his Authorities on document AC/89-WP/148 which followed along similar lines as the remarks made by Mr. MEEHAN. The erection of the wall had had the consequence of making the population more willing to work, at least for themselves; but the régime would certainly also benefit from this attitude.

40. The pessimistic assessment of the German Delegation concerning the economic prospects in the Soviet-occupied Zone was not fully shared by the Canadian Authorities. The East German economists were aware of the defects of the system and apparently prepared to be more pragmatic. While the new system was probably not the beginning of a new era it was at least a new departure.

41. As to the importance of the new economic system, Dr. FORSTER agreed that things might be somewhat different when Mr. Ulbricht was no longer there. So far, if one read carefully, the 50 pages of the law introducing the new system and the several hundred pages of regulations so far issued for its application, one did not have the impression that something entirely new was in the making. What, for instance, was the meaning of a price reform? The introduction of new prices in relation to actual costs was by no means equivalent to an application of commercial principles to the planning system and a change in the direction of the market economy, as "costs" did not mean the same in both systems: in the Soviet system, they were not "real" but "planned" costs. Furthermore, the greater authority given to the management of the enterprises would be no departure from the system of central planning, though it aimed at greater efficiency. As in the case of Liberman, "profit" is not an absolute value but merely an index reflecting the degree of plan fulfilment, the only difference being that now, one index was replacing the great number of indices which had been applied so far to control the plan fulfilment. The new system also promoted the application of mathematical formulae; in a recent article, the Soviet economist Trapeznikov had explained that in contrast to mathematical statistical methods used by "capitalist" economists, the methods used in a "socialist" economy had only one aim: to make plan fulfilment more efficient.

42. As to the introduction of "production levies", nobody knew exactly what they implied. A number of Western economists had interpreted them in the beginning to represent "interest rates" in the Western sense. This would, of course, have been a fundamental change in the system. Though these levies had not been introduced so far, they were the subject of a rather lively discussion. The only agreement that had been reached so far was that these levies should by no means influence costs. If this was agreed, it could hardly be called a change in the system. Furthermore, quite a number of the points introduced in the new system were not so new to Soviet economic thinking, as they had already been applied in the Soviet Union in the 1920's; hence his assessment that the new economic system followed the Soviet pattern in detail. Generally, he felt that it would be safe to say that the new economic system aimed at a rationalisation, but not at a liberalisation of the present system.

43. Mr. AUTIER (France) suggested that the case of the Soviet-occupied Zone be compared with that of Rumania whose leaders seemed prepared to accept some elements of a market economy to make their economic system more effective, but would not think of any concessions in the field of ideology, thus safeguarding themselves against getting too closely involved with the "capitalist" system. On the other hand, the West was convinced that by using "capitalist" elements in their economy, the Eastern European countries were introducing a "Trojan horse" into their system. As far as economic progress was concerned, our previous studies seemed to have indicated that Rumania was in the lead, whereas Czechoslovakia was the least successful, with Poland somewhere in between. Now, the United States Delegation seemed to believe that the Soviet-occupied Zone of Germany was in a leading position. If this was correct, we might have to modify our assessment of development in Czechoslovakia, where we had concluded that the Communist economic system had proved inefficient because of the high standard of development of the country. If in a country with a similar high state of development such as the Soviet-occupied Zone of Germany the Communist system could be successful, our theory would be wrong.

44. The CHAIRMAN explained that one had to distinguish between the stage of development reached by a country and the dynamics of development as represented by increases in production. As far as the level of development was concerned Rumania, together with Bulgaria, were at the bottom. On the other hand, Rumania had the highest rate of increase while its methods were among the most orthodox or Stalinist of the region. Poland was less successful though a rather large part of its economy, agriculture, was still privately owned. As far as the Soviet-occupied Zone was concerned, it had the most developed economy of the region, and the average annual increase in GNP of 4% over the last 5 years, in spite of the critical years of 1961 and 1962, did not seem to indicate too bad a performance for a highly industrialised economy. Mr. MEEHAN added that all he had intended to convey was that the Soviet-occupied Zone had taken the lead in the application of new

economic thinking. This had nothing to do with economic progress or economic dynamism.

45. Dr. THIEME (Germany) doubted whether the dynamism of the leaders of the Soviet-occupied Zone could be very developed as they depended heavily on the Soviet Union and could not permit themselves to follow a line of action comparable to that of the Rumanians.

46. Questioned by Mr. AUTIER as to what kind of people came to the Soviet-occupied Zone of Germany from other Eastern European Communist countries to study development there, Mr. MEEHAN answered that they were, above all, managers, planners and other officials.

(k) Prospects for Internal Developments

47. Dr. FORSTER declared that the imposition of the Communist system on a highly developed economy, the forced reduction of economic relations with the Western part of the country and the transformation of the industry according to Soviet requirements had resulted in serious economic setbacks for the Soviet-occupied Zone. Certainly, the economy would not collapse as any difficulties which might arise in production would continue to be passed on to the consumer. Furthermore, the Soviet Union had repeatedly proved her willingness to assist the Soviet-occupied Zone in overcoming critical periods by additional supplies and credits.

48. More recently, the régime had made great efforts to rationalise the system of centralised economic planning and control. While these efforts would not be sufficient to eliminate all frictions, they might reduce disproportions and limit the effects of administrative errors. The Soviet-zonal régime was not aiming at abandoning the system of a centrally planned and controlled economy, but merely at consolidating it and making it more efficient. Neither were methods of a free market economy to be introduced at home nor a policy of liberalisation in foreign trade.

49. The BELGIAN REPRESENTATIVE agreed with his American and Canadian colleagues that too pessimistic an approach would be misleading as this would tend to under-estimate the economic strength of the Soviet-occupied Zone. As far as he could see, the principal difficulties had been overcome. The erection of the Berlin Wall had resulted in the stability of the labour force and the introduction of the reforms might have psychological consequences that would be favourable to the régime. Reparations had no longer to be made allowing the economy to develop in a more balanced way. The delivery of DM. (East) 3 billion worth of chemical plant to the Soviet Union would certainly be a strain on the economy, and in this connection one could ask to what extent the Soviet-zonal régime was able to draw up its own economic plans. It would also be interesting to learn to what extent innovations could be introduced in the industrial products of the Soviet-occupied Zone and how much freedom was left to innovators to do technical research.

III. EXTERNAL ECONOMIC RELATIONS(a) General Aspects

50. Dr. FÖRSTER further stated that because of its restricted raw material basis, its high degree of industrialisation and the narrowness of the domestic market, the Soviet-occupied Zone of Germany depended to a large extent on external economic relations. As a result of the division of Germany, there also existed a flow of goods which circulated exclusively within Germany as a whole: the Intra-German or Inter-Zonal trade, the transactions of which were of a particular nature. Though they had to be considered as domestic trade, they were carried out between two different currency areas of the DM., and the conditions governing these transactions had been agreed exclusively for the special purpose of Intra-German trade. Hence the necessity, in the case of the Soviet-occupied Zone, to distinguish between foreign trade proper on one side, and Intra-German trade on the other.

(b) Development of Foreign Trade Exchanges

51. According to Soviet-zonal statistics, in 1963 the total foreign trade turnover (excluding Intra-German trade) was 4.1 billion roubles, of which 2.2 billion were exports and 1.9 billion, imports(1). From 1958 to 1963, foreign trade turnover increased by 43% (annual average: 7.4%). Depending on how the GNP of the Soviet-occupied Zone, estimated at DM. (East) 100 billion, was converted into roubles, the share of imports in GNP could be estimated at between 6.5% and 10.7%. The development of foreign trade between 1958 and 1963 reflects truly the economic development of the Soviet-occupied Zone which appeared to recover slowly from the critical years of 1961 and 1962.

(c) Geographical Pattern of Foreign Trade

52. As far as the geographical pattern was concerned, the foreign trade of the Soviet-occupied Zone was being directed, to an increasing extent, towards Communist countries. In 1963, this trade alone amounted to 3.5 billion roubles, i.e. 86% of total Soviet-zonal foreign trade turnover (Intra-German trade excepted). Based on the figures for the trade turnover of 1961 to 1963, the average shares were as follows;

Soviet Union	50%	
Other COMECON countries	30%	
Other Communist countries	5%	
TOTAL COMMUNIST COUNTRIES		85%
NATO countries (Federal Republic excepted)	6%	
Non-NATO industrialised countries	6%	
Developing countries	3%	
TOTAL WESTERN COUNTRIES		15%

- (1) Soviet-zonal official statistics give all foreign trade figures in roubles, in contrast to the other Communist countries of Eastern Europe which generally use national currencies.

53. The Soviet Union was by far the most important trade partner of the Soviet-occupied Zone: in 1963, its share in total exports was 52%, and in total imports 55%; the share of the other COMECON countries was 31% and 25% respectively.

54. While trade with Communist countries showed an upward trend, the share of the free world in the foreign trade of the Soviet-occupied Zone had declined during the last few years in spite of an increase in volume. The share of NATO countries (other than the Federal Republic) in the total exports of the Soviet-occupied Zone had dropped from 6.4% in 1958 to 5.1% in 1963 and that in total imports from 9.8% to 6.6%. The five most important Western trade partners of the Soviet-occupied Zone over the last few years had been Denmark, the United Kingdom, the Netherlands, Austria and Sweden. Developing countries played only a minor part in the trade of the Soviet-occupied Zone, and the shares of individual countries varied considerably. In 1963, the share of the developing countries in the foreign trade turnover of the Soviet-occupied Zone was about 3%.

(d) Balance of Trade and Payments

55. Except for the years 1960 to 1962, Soviet-zonal statistics showed an export surplus, though the figures varied considerably from year to year. In 1963, the surplus was 302 million roubles, and the cumulative export surplus from 1958 to 1963 was 552 million roubles. Considering the difference in the statistical methods used in East and West, this surplus would be considerably reduced if Western methods were applied.

56. A comparison between Soviet-zonal foreign trade statistics and those of its trade partners showed a very considerable discrepancy which could not be fully explained. While foreign trade statistics of the USSR showed a cumulative Soviet export surplus of 802 million roubles for the years 1958 to 1963, in the corresponding statistics of the Soviet-occupied Zone this figure was only 72 million roubles. The most obvious explanation for this difference of 730 million roubles might be that Soviet-zonal statistics show only those exports and imports which actually cross its border while Soviet foreign trade statistics include all business transactions effected by Soviet foreign trade organizations. Thus, purchases made by the latter in third countries on account of the Soviet-occupied Zone would be represented as Soviet exports to the Zone in the Soviet trade statistics, while Soviet-zonal statistics would represent them as imports from the third countries concerned. Other reasons might be that surpluses were being used for arms purchases, the support of Red Army units stationed in the Soviet-occupied Zone(1), repayments of invisible excess credits, etc.

57. For trade with NATO countries, Soviet-zonal statistics showed an adverse trade balance of 159 million roubles accumulated

(1) Twenty divisions, according to information available at the International Staff.

during 1958/1963. This figure did not correspond to the findings of NATO documents AC/127-D/126 and AC/127-D/158, according to which the Soviet-occupied Zone had a favourable trade balance of \$28 million corresponding to about 25 million roubles; thus, there was a difference of 184 million roubles. A comparison of the Economic Bulletin for Europe of the ECE, Geneva (volume 15, No. 1), with Soviet-zonal statistics showed that exports from the Soviet-occupied Zone, according to Soviet-zonal statistics, corresponded roughly to the import figures given by the NATO countries, whereas the figures given in Soviet-zonal statistics for imports from NATO countries exceeded considerably the figures published by NATO countries for their exports to the Soviet-occupied Zone. Converted into roubles, the following discrepancies could be noticed in the statistics for 1961:

- United Kingdom exports to the Zone	20.5 million roubles
- Zonal imports from the United Kingdom	46.1 million roubles
<hr/>	
- French exports to the Zone	19.3 million roubles
- Zonal imports from France	25.1 million roubles
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- Netherlands exports to the Zone	14.4 million roubles
- Zone imports from the Netherlands	19.3 million roubles

58. Figures of other NATO countries showed similar differences. One could therefore conclude that Soviet-zonal imports from the West were more important than appeared from Western statistics. It would seem that Soviet-zonal statistics declared some of their imports from Commonwealth countries as imports from Great Britain, and that the Soviet Union provided foreign currency aid to the Zone for imports from Western countries which would appear as exports to the Soviet Union in Western statistics. The BELGIAN REPRESENTATIVE attached great importance to the fact that the Soviet Union would step in with credits and other aid to help the Zone in complicated situations as this pointed to the heavy dependence of the latter on the Soviet Union.

(e) The Soviet-occupied Zone and COMECON

59. Dr. FÜRSTER went on to say that the Soviet-occupied Zone had always been the most ardent supporter of Soviet plans to create a uniform planning body empowered to take majority decisions for the entire COMECON area. These plans had, however, not materialised on account of the opposition of other COMECON countries, in particular Rumania. In spite of an inadequate raw material basis, a serious shortage of manpower and repeated economic setbacks, the Soviet-occupied Zone was an essential factor for the whole economy of the Soviet bloc. For many years, with a short interval when Red China was in the lead, the Soviet-occupied Zone had taken first place among the foreign trade partners of the Soviet Union. On the other hand, the Communist countries had by far the greatest share in the Soviet Zone's foreign trade. In contrast to certain tendencies towards a greater autonomy which can be noticed in other Eastern European countries, the Soviet-zonal regime tended to remain subservient to Moscow even in these days of new developments.

(1) 20 divisions according to information available at the International Staff.

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60. Mr. MEEHAN felt that relations with COMECON deserved full attention as the economy of the Soviet-occupied Zone could not be considered in isolation from the economies of the other Eastern European countries. In a number of them, the wind was changing in the direction of greater liberalisation, and it was not realistic to believe that the Soviet-occupied Zone could remain immune to these changes.

61. The BELGIAN REPRESENTATIVE thought that it would be of interest to study to what extent the Soviet-occupied Zone had planned to expand its foreign trade. One reason for the interest of the Zone in integrating its economy with other COMECON countries might be that it found an easier market in this area than in the West. Referring to a statement made by the German Delegation as to the interest that the Soviet-occupied Zone was taking in integrating its economy with that of the other COMECON countries, he thought that it might be in the interest of the Alliance to prevent such a development by increasing its links with the Soviet-occupied Zone.

62. Mr. MEEHAN said that the Soviet-zonal regime would not mind cutting itself and the whole COMECON area entirely from the West as the Zone would thus acquire a very advantageous position in the area. It had clearly shown such a tendency in 1961, but wishes were one thing and facts another, and it would seem that the Zone was unable to achieve this. The Zone had always supported Soviet plans for full integration of COMECON, but as other COMECON members had not followed this line, developments within COMECON had gone against the interests of the Soviet-zonal regime.

63. Dr. FÜRSTER felt that the West could not do much to prevent a further integration of the Soviet-occupied Zone in the Soviet bloc. He recalled the general tendency of Communist countries to expand trade with the West only to the extent necessary, i.e. only inasmuch as they had to import from the West those goods which could not be produced within the bloc, and to export only what was necessary to pay for these imports. No Communist country wished to participate in world trade to such an extent that new demands would be created within their own country. This was a consequence of the foreign trade monopoly applying in all Communist countries. The present, greater interest of the Communist countries in trade with the West resulted from the fact that these countries had met difficulties in the further development of their economies, and that they could only overcome them through imports from the West. This would not mean a change in the fundamental attitude as outlined above.

64. Dr. THIEME said that from a practical point of view, such an assessment should prompt us to try to arrive at a common

trade policy vis-à-vis the Soviet bloc. Dr. FÜRSTER added that by such a policy NATO countries would avoid being played off against one another by Soviet-zonal and other trade representatives who definitely were good tradesmen and used to exploiting competition between Western firms.

(f) Foreign Trade Prospects

65. Dr. FÜRSTER said that foreign trade figures for 1964 would probably reach a surplus of about the same magnitude as in 1963. The unilateral orientation of the Soviet-zonal foreign trade towards the Soviet bloc was likely to continue to be a handicap to a further expansion of trade with the West. The latter would also increase, as a number of goods required by the Soviet-zonal economy were only obtainable in non-Communist countries; it was, however, limited since freely convertible foreign exchange was extremely scarce and an expansion of exports, especially to Western industrialised countries, would encounter difficulties because of the narrow range and comparatively low quality of Soviet-zonal export goods. This dilemma explained the interest that the Soviet-occupied Zone was taking in long-term credits and favourable payment conditions in its trade with Western industrialised countries. The regime's intention was to overcome, by way of a kind of development aid, bottlenecks resulting from inadequate raw materials and other difficulties with which the system was confronted. Simultaneously, it tried to shift the purchases of vital goods from Intra-German trade to trade with other Western countries, thus severing one of the last links with which Germany was united (see also IV(f) below).

IV. INTRA-GERMAN TRADE

(a) General Aspects

66. Dr. FÜRSTER recalled that any attempt to analyse economic developments in the Soviet-occupied Zone would be incomplete without taking into consideration that intra-German trade was to be considered a special institution. With a total amount of about 2 billion accounting units(1), intra-German trade represented only a small fraction of the flow of goods between the two parts of Germany prior to their division. Expressed in comparable prices and taking 1963 as a reference year, average annual intra-German trade exchanges during 1958 and 1963, had been only about 20% to 25% of the corresponding flow of goods in undivided pre-war Germany. Also, the commodity structure of this trade had changed considerably over the years.

(1) 1 accounting unit corresponds to 1 DM (West)

67. In spite of its modest volume and the changed commodity pattern, Intra-German trade was of utmost importance as it represented one of the last ties between the divided parts of Germany, and as it was directly linked to the free access to Berlin. Therefore, commercial considerations were of a secondary nature, and political criteria should be primarily applied to it. Although the Soviet-zonal regime was seeking to become independent of supplies from the Federal Republic, actual developments showed that it continued to be dependent on such supplies. Thus the West held a trump card which should not be played away for purely commercial reasons.

68. Though this was, above all, a German concern, the interests of the Western alliance were also directly affected. If the Soviet-occupied Zone sought to shift the purchases of indispensable bottleneck goods from Intra-German trade to trade with other Western industrialised countries, its principal aim was to render the link between access to Berlin and Intra-German trade ineffective. Any weakening of this link would necessarily increase the commitments resulting from the guarantees the Western community had assumed with regard to the freedom of Berlin. Once this interdependence had been eliminated, the Soviet-zonal regime would have a free hand to interfere with the free access to Berlin.

69. Dr. KAULBACH confirmed that the Federal Republic was interested in increasing interzonal trade not so much for economic reasons but for the purpose of using it as a political instrument. Interzonal trade was above all of predominant importance for the maintenance of free access to Berlin. This link had been established for the first time by the Jessup-Malik Agreement on the termination of the Berlin blockade in May 1949.

(b) Economic Aspects of Intra-German Trade

70. On a question by the CHAIRMAN, Dr. KAULBACH said that interzonal trade had increased in 1964 by 19% as against 1963 to 2.3 billion accounting units(1). He recalled that interzonal trade had decreased from 1961 to 1963 as a consequence of the termination of the interzonal trade agreement in Autumn 1960. The interzonal trade exchanges of 1964 had for the first time been larger than those of 1959/1960 (by 15%). Considering the price increases since 1959/1960, the actual growth of interzonal trade was much lower, probably nil.

Interzonal Trade Turnover 1959-1964 (in billion accounting units)

<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
2.0	2.04	1.8	1.8	1.94	2.3

(1) In NATO statistics, accounting units are generally converted into US dollars at the official rate of exchange for DM (West), i.e. \$1 = 4 DM.

71. Dr. KAULBACH went on to say that the main reason for the increase of 31.5% of West German deliveries in 1964 was a surplus of 122 million accounting units which the Soviet-occupied Zone had accumulated by the end of 1963. Thus, the Soviet-occupied Zone had been able to buy more goods from the Federal Republic in 1964 than it delivered.

72. As to the economic importance of free access to Berlin, Dr. KAULBACH gave the following figures:

	1950		1964	
	Volume (in mil- lion tons)	Value (in bil- lion DM)	Volume (in mil- lion tons)	Value (in mil- lion DM)
Deliveries from the Federal Republic to Berlin	3.9	2.2	10.05	9.2
Deliveries from Berlin to the Federal Republic	0.9	0.8	2.08	9.3
Total Turnover	4.8	3.0	12.13	18.5

73. Except for certain occasional interferences by the Soviet-zonal regime, the transport of these goods had gone on smoothly. The Federal Government would use all possible means to maintain the link between interzonal trade and free access to Berlin for the safety of the latter. It considered that a maximum expansion of interzonal trade would be one of the best steps in this direction.

(c) Swing and Credits

74. Mr. MEEHAN wondered whether the Federal German Authorities had given any thought to an extension of the swing and the granting of credits. Dr. KAULBACH replied that the swing applied in interzonal trade had nothing to do with normal commercial credits as it was only an instrument to allow for seasonal fluctuations and an overlapping of deliveries. Not only the Soviet-occupied Zone but also the Federal Republic had made use of it. The Soviet-occupied Zone mostly had a surplus on Subsidiary Account No. 2 ("soft goods") and a deficit on Account No. 1 which covered all the "hard" goods exchanged, such as rolled metal, machinery and electrical equipment. The Federal Government did not extend or grant any credits in interzonal trade and it was left to the private firms to arrange credit facilities. There was, however, a certain interdependence between private credits and credits granted by foreign countries. If Western countries granted credits to the Soviet-occupied Zone, West German firms would have to follow suit if they wanted to match Western offers.

75. Mr. BREECHER said that the United States was very sympathetic to the general attitude the Federal Government was taking in this matter. However, to avoid a misunderstanding, he wanted to recall that so far no long-term credits had been granted by any NATO country to the Soviet-occupied Zone, as was evident from the reporting procedure NATO had recently introduced for credits of over five years to Communist countries. As far as the nature of the swing was concerned, this certainly was not a normal credit as it did not bear interest. The situation would, however, be different if it could be carried on indefinitely. As to the meaning of "long-term credits", he suggested that NATO terminology should be used (1).

76. The CHAIRMAN recalled that the German Delegation had in 1962 informed the Economic Committee that the swing amounted to 100 million accounting units (2). He wondered whether this figure was still correct.

77. Dr. KAULBACH confirmed that this was still the value of the swing. As to the credits of other Western countries, it was correct to say that so far they did not exceed five years, but some of them would only start running after delivery, i.e. after one or two years. West German firms, which were free to grant any amount of credits, would not wish to extend credit terms if they were not compelled to do so. The Federal Government did not have any influence on the credit policy of the firms and there was definitely no question of granting Government guarantees for these credits. Whereas formerly, credits for investment goods in Intra-German trade had run from two to three years, now credits of four to five years had become normal practice.

(d) NATO Countries' Trade and Intra-German Trade

78. Mr. BREECHER pointed to the fact that through inter-onal trade, the Federal Republic had an overwhelming position as far as NATO countries' trade with the Soviet-occupied Zone was concerned: The Federal Republic continued to hold $\frac{2}{3}$ of all NATO countries' trade with the Zone, and facts so far available did not bear out the Federal Government's apprehension that it was losing out on this trade.

79. Mr. MEEHAN suggested that to avoid misunderstandings, NATO should study in greater detail the general pattern of the trade of its member countries with the Zone. According to OECD statistics, East German exports to NATO countries had increased by 33% in 1964, whereas imports had gone up only by 8.4%. It would thus seem that the Zone could offer quite a number of goods of interest to the West. The Zone did however not seem to dispose of hard currency reserves of any importance, and the little reserves it had would probably be sharply depleted if the West insisted on strict trade equilibrium.

(1) AC/127-D/154

(2) According to AC/127-D/101, paragraph 5, the two Central Banks have allowed each other overdrafts (swing margins) of 100 million accounting units for Subsidiary Account 1, and of another 100 million accounting units for Accounts 2 and 3 (services) together.

80. On a question as to whether it should be possible to assess the real importance of interzonal trade and NATO trade with the Zone for the economy of the latter on the basis of OECD statistics, Mr. BREECHER was informed by the International Staff that Soviet-zonal statistics were the only source giving the total value of the Soviet-occupied Zone's trade, so that NATO had no alternative but to use them.

81. In the opinion of the NETHERLANDS REPRESENTATIVE, NATO was confronted with two conflicting interests. Generally, it was in the interests of the West to have closer ties with the Eastern European countries, but in the case of the Soviet-occupied Zone it would seem that closer trade relations of NATO countries other than the Federal Republic would be to the detriment of the latter.

82. The CHAIRMAN wondered whether it would be realistic to make a distinction, as far as the trade of NATO countries with the Zone was concerned, between that which might be increased at the expense of interzonal trade, and that which might be increased at the expense of trade between the Zone and the rest of the Communist bloc, in particular the USSR. Mr. QUIOC believed that such a distinction should also include non-NATO industrialised countries. If the Soviet-occupied Zone wished to redirect its trade exchanges, it might also look elsewhere, for instance to Japan, which certainly would be a trade partner of great potential.

(e) Trade as a Political Instrument

83. Mr. MEEHAN agreed that economically, interzonal trade was not very interesting to the Federal Republic, and that the safeguard of free access to Berlin and the maintenance of all possible ties between the two parts of Germany were political aspects of great importance. He wondered, however, whether it would not be in the interests of the Federal Government that all NATO countries increased their trade with the Soviet-occupied Zone to make this instrument even more effective. There were, of course, economic limits to such a policy, as the goods produced by the Soviet-occupied Zone were not of sufficient interest in most Western countries.

84. Mr. BREECHER said that if interzonal trade really was an instrument to protect the access to Berlin, which he thought it was, this would lead to two conclusions: firstly, that deliveries from the Federal Republic were important for the Zone and secondly, that the Federal Republic would use this instrument to safeguard free access to Berlin.

85. Dr. THIEME replied that the conclusions drawn by Mr. Breecher were correct, but that the use of the instrument of interzonal trade in case of a Berlin crisis would only be efficient if the other NATO countries would also use their trade with the Soviet-occupied Zone in the same way. The interruption of West Germany's deliveries alone would not be sufficient.

86. Mr. BREECHER mentioned again the importance of interzonal trade as compared to other NATO countries' trade with the Zone: all other NATO countries together accounted for only half of the trade which the Federal Republic alone had with the Zone. In his opinion, a cessation of West German deliveries alone would already be a strong instrument of economic pressure whose effectiveness was not dependent on the attitude of other NATO countries. He added that the attitude of the United States in this connection would, of course, be in full conformity with that of the Federal Republic.

87. In reply to a number of preceding questions, Dr. KAULBACH said that the nature of the goods exchanged with the Zone should be taken into consideration. The share of West German deliveries of such "hard" goods as industrial equipment, machines and complete plant had fallen. In 1960, deliveries of machines and equipment from the Federal Republic had been worth DM. 224 million and only DM. 26 million worth of goods had been delivered by other NATO countries that year. In 1963, deliveries of machines and equipment from the Federal Republic had fallen to DM. 109 million whereas those from other NATO countries had increased to DM. 114 million. These were the commodities which would harm the Soviet-occupied Zone if their delivery was suddenly stopped, whereas textiles, fertilisers and other such goods were not important in this context. That was why the instrument of trade could only be used effectively if the NATO Allies followed suit.

88. Dr. THIEME added that if other NATO countries did not also use their trade with the Soviet-occupied Zone as a political instrument, the latter would try to transfer the imports of goods which the Federal Republic were withholding from them to other NATO countries. This would render the use of interzonal trade as an instrument of pressure ineffective.

89. Mr. BREECHER agreed with this assumption, but emphasized at the same time that he could not believe that any other NATO country would profit from such an occasion. The CHAIRMAN recalled that NATO had spent a good deal of time working out the procedure for "economic counter-measures" which might be jointly applied by its members in case of a Berlin crisis(1). The BELGIAN REPRESENTATIVE added that here the general policy of the Alliance was at stake.

90. Mr. BREECHER did not think that there was a difference for the economy of the Zone between imports from one NATO country or another. If all things imported were desperately needed by them, as pointed out earlier by Dr. Förster, it did not matter where they came from.

(1) See C-R(62)52

91. Mr. SCHATTENBERG agreed that in principle it should be immaterial to the Zone from which Western country it imported. But, in all cases where the Zone could buy plant under the same conditions in the Federal Republic or in the West, it would import it from the West to become independent from West German deliveries. Thus, the instrument of interzonal trade was being weakened.

92. Dr. KAULBACH added that when the Zone imported goods from Belgium, the United States or other countries, and not from the Federal Republic, it intended above all to reduce the political significance of interzonal trade. Economically it would seem to be of greater advantage for the Zone to buy these things from the Federal Republic to which it could deliver lignite, petrol and other soft goods in payment.

93. To this, Mr. BREECHER answered that, as an instrument of pressure, trade of other NATO countries was not less effective than interzonal trade and that there was no reason for the Federal Government to doubt the solidarity of the Alliance in the case of a Berlin crisis.

(f) Prospects for Intra-German Trade

94. Dr. KAULBACH said that the prospects for interzonal trade would be difficult to assess. The Federal Government continued to regard an increase of interzonal trade over its present level as a task which it should try to accomplish. As to developments in 1965, it was so far impossible to make any precise assessment. As interzonal trade was not a normal foreign trade and had to be strictly balanced, its volume depended very much on the ability of the Zone to increase its deliveries. Furthermore, the market for a number of goods offered by the Soviet-occupied Zone could not be expanded in the Federal Republic. This referred, above all, to lignite briquettes, the most important item among Soviet-zonal deliveries (252 million accounting units in 1963) which could only be slightly increased because of structural changes in the consumption of fuel in the Federal Republic and the high transport costs of this commodity.

95. The CHAIRMAN wondered whether the strictly bilateral character of interzonal trade would imply that, if there had been an important increase in one year, the tendency in the next year would be reversed so that in 1965 no increase in interzonal trade could be expected.

96. Dr. KAULBACH repeated that this very much depended on the trade policy followed by the Soviet-occupied Zone which had greater possibilities than the Federal Republic to direct its purchases as a result of the state trading system. The Federal Government had little influence on the actual purchases and deliveries of West German firms. Furthermore, the fact that once a year, on the 30th June, all payments had to be balanced, had the effect that the state trading companies of the Soviet-occupied Zone were always careful to buy comparatively little in the spring if they feared that otherwise they would run into a deficit.

97. Questioned by Mr. BREECHER whether the Federal Government was satisfied with the present state of affairs of NATO countries' trade with the Soviet-occupied Zone, Dr. THIEME replied that the actual situation was not alarming but that some tendencies had been noted which might reverse the present position. The Federal Government would continue to watch with concern any development that might tend to loosen the ties between the two parts of Germany and make the instrument of interzonal trade as one of the guarantees of free access to Berlin less effective.

98. Mr. QUIOC said that the French Authorities also had few possibilities of influencing trade with the Soviet-occupied Zone. The only means of doing so was the granting or withholding of credit guarantees through the C.O.F.A.C.E. On a question by the CHAIRMAN whether trade arrangements providing for an increase in trade and fixing quotas for exports and imports would be without any effect, Mr. QUIOC replied that even if quotas were fixed, this did not mean that they would be used up by the private firms doing the business. The increase of 80% provided for in the new trade arrangement between the Chambers of Commerce of France and the Soviet-occupied Zone would if at all, only be reached after two or three years.

99. The BELGIAN REPRESENTATIVE recalled that NATO countries were well informed about all trade arrangements which member countries had with the Zone because their texts and the protocols were deposited with NATO. He agreed with his French colleague that trade agreements were not of decisive importance. On the other hand, he considered that an expansion of this trade would be in the interest of the Alliance as long as the domestic market of member countries was not disturbed. The chances for a striking increase in trade with the Zone were, however, rather poor because of the lack of products of interest to the West which the latter could offer.

V. SUMMARY AND CONCLUSIONS

100. Summing up the discussion, the CHAIRMAN recalled that there seemed to be some difference of opinion as to the progress achieved by the economy of the Soviet-occupied Zone and its future development; it might therefore be difficult to find a true equilibrium between the more optimistic assessment voiced by some of the delegations and the more pessimistic one of the German Delegation. As far as NATO countries' trade policy was concerned, the discussion had proved that it was not possible to apply the same criteria to the Soviet-occupied Zone as to the other Eastern European countries. Any attempt in this direction, aiming at a loosening of the ties between the Soviet-occupied Zone and the Soviet Union, would above all have to consider the political aspects of the problem, as the question arose to what extent an increase of trade of other NATO countries with the Soviet-occupied Zone might prejudice the chances for a later

reunification of Germany and have unfavourable consequences for the free access to West Berlin. He recalled, however, that several Delegations had expressed the view that an expansion of NATO countries' trade relations with the Soviet-occupied Zone would be in the interest of the Federal Republic and the Alliance, as it would make the instrument of economic counter-measures more effective if the decision to apply them was taken. It had furthermore been emphasized that there was no reason for the Federal Government to doubt the solidarity of the Alliance in case of a Berlin crisis.