CIA/OER/S-06764-75 EAST GERMANY: RECENT TRENDS IN FOREIGN TRADE FEB 76 OUO

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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[redacted]

[redacted] 6 February 1975

MEMORANDUM FOR: Mr. James Treichel
Acting Director, East European
Affairs Division
Bureau of East-West Trade
Department of Commerce

SUBJECT : East Germany: Recent Trends in
Foreign Trade

Per your request, I am transmitting herewith a report, subject as above, prepared by [redacted] 25X1A9a of this Branch. If you have any questions, please call [redacted] on 143-4121.
25X1A9a

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[redacted]

[redacted]
Chief, Eastern Europe Branch
Office of Economic Research

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East Germany: Recent Trends in Foreign Trade

Growth of East German trade has accelerated since the mid-1960s, as the German Democratic Republic (GDR) has sought increasing amounts of foreign machinery and raw materials for its growing industrial sector. The USSR remains the leading trading partner by far, especially as a source for fuels, oils, and metals. The Federal Republic of Germany (FRG) is the major Western trading partner, trade being facilitated by the swing-credit arrangement between the two Germanies. Trade with the United States, although increasing rapidly in recent years, still accounts for only 0.2% of East German exports and only 1.7% of East German imports. (Tables 1 and 2 and the charts present numerical estimates of the growth and direction of GDR trade.)

Trade with Communist Countries

East Germany depends on Soviet deliveries for the lion's share of certain key imports: oil (81%), natural gas (100%), hard coal (58%), iron ore (95%), and rolled steel (80%). Purchases also include machinery and equipment, ranging from metal-cutting machine tools, tractors, and diesel locomotives to entire plants for the chemical, electrical, and consumer goods industries.

About half of East German sales to the USSR are industrial and agricultural equipment such as machine tools,

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textile machinery, tractors, and farm machinery. Consumer goods exports (furniture, clothing, shoes, and sports equipment) have mounted and now account for about one-sixth of total exports to the USSR.

We expect the value of GDR imports from the USSR to rise sharply beginning in 1976 when scheduled price increases for Soviet raw materials -- notably oil -- become effective. The GDR will have to step up exports to the USSR to meet the increased cost. A large share of the additional sales will likely consist of consumer goods. At the same time, the USSR no doubt will press the East Germans for more of the machinery needed in the GDR domestic economy or to earn hard currency in the West.

Trade with Industrial West

Since the late 1960s, the GDR has become increasingly dependent on the industrial West for basic materials (oil, copper, rolled steel, and synthetic fibers), agricultural products (grain and oilseed cakes and meal), and machinery (petrochemical and metallurgical equipment). West Germany furnishes one-third of the imports from the West, with the remainder coming chiefly from the Netherlands, France, the United Kingdom, and Switzerland. On the export side, the FRG also plays a dominant role, accounting in 1973 for half of GDR sales to the industrial West. The West Germans buy mainly consumer goods (textiles, clothing, and furniture) and basic materials (iron and steel, chemicals, and

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petroleum products). Exports to the West have trailed far behind imports. In 1973, the GDR registered a record trade deficit of $830 million with the West. The 1974 deficit probably was in the same ballpark. These deficits have been covered in the main by credits from the Western trading partners.

Growth of imports from the West cannot continue at the present pace if the GDR is to avoid serious balance of payments problems. Export growth to the West will be promoted, of course, but the GDR has difficulty in producing the kinds of machinery and other products that compete effectively in Western markets. Furthermore, it cannot readily find the resources to boost consumer goods exports to the West, inasmuch as it must satisfy rising domestic demand and growing commitments to its CEMA partners.

US recognition of the GDR, while improving the commercial climate, as yet has had little effect on trade. The GDR has been pushing for MFN, which, according to a US study, would affect tariffs on over 70% of sales to the US. The granting of MFN would not guarantee a sharp increase in exports, however, since the GDR would still have difficulty in expanding deliveries of consumer goods and in providing the marketing and servicing facilities necessary to promote further sales of machinery products.

The United States accounts for 6% of the GDR's imports from the West. Soybean meal, corn, and wheat made up 90%

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of US sales to the GDR of $135 million in 1973. For 1974, US Department of Commerce statistics indicate that East Germany imported less American agricultural products than in 1973; because transhipments of US products through third countries are an important element in this trade, however, the estimate for 1974 must remain uncertain until East German figures are available.

American companies have tried to promote sales of nonagricultural products with little success. No major contracts have been signed in the past several years, even though a market exists for US chemical plants and equipment, agricultural machinery, data processing equipment, and electronic components. Future growth of US sales hinges on East Germany's securing US financing competitive with West European and Japanese credits. The GDR has the option of turning to US subsidiaries located in countries that offer better terms.

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Table 1

East Germany: Foreign Trade Growth Rates and Balances a/

	Average Annual Growth Rates (percent)		Cumulative Trade Balance (million $)	
	1966-70	1971-73	1966-70	1971-73
Total	10.3	18.0	+ 238	+ 21
Industrial West b/	13.7	24.6	- 519	-1,625
West Germany	13.6	18.6	- 189	- 112
United States	28.5	44.2	- 91	- 238
Other	13.4	28.6	- 239	-1,275
Communist Countries	9.2	16.2	+ 700	+1,549
USSR	7.9	13.1	- 333	+ 983
Other	10.9	19.8	+1,033	+ 566
Other Countries	10.6	6.2	+ 57	+ 97

a. Data based on official East German trade statistics converted to dollar values.
b. Australia, Austria, Belgium-Luxembourg, Canada, Denmark, Finland, France, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, West Germany.

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Table 2

East Germany: Direction of Trade

Percent

	Exports			Imports		
	1965	1970	1973	1965	1970	1973
Total	100.0	100.0	100.0	100.0	100.0	100.0
Industrial West	20.5	22.8	24.7	22.6	27.4	33.9
West Germany	10.0	11.1	12.1	9.8	12.0	11.3
United Kingdom	1.2	0.1	1.3	1.8	1.8	1.3
The Netherlands	1.2	1.7	1.2	1.0	1.2	2.3
France	0.5	1.0	1.4	1.5	1.4	1.2
Switzerland	0.5	0.9	0.7	0.6	1.9	2.9
United States	0.2	0.2	0.2	0.2	0.8	1.7
Japan	0.1	0.6	0.2	0.1	0.2	0.9
Other	6.8	7.2	7.6	7.6	8.1	12.3
Communist Countries	74.5	72.9	71.2	72.5	68.3	62.8
USSR	42.5	37.5	36.7	42.7	39.5	30.8
Czechoslovakia	9.5	9.5	9.8	9.3	9.3	8.4
Poland	8.8	8.6	9.6	5.0	6.0	8.0
Hungary	4.1	5.8	4.3	4.4	4.5	5.8
Bulgaria	3.1	3.4	3.8	3.3	3.5	3.4
Romania	2.2	2.6	3.0	2.6	2.1	3.3
Other	4.3	5.5	4.0	5.2	3.4	3.1
Other Countries	5.0	4.3	4.1	4.9	4.3	3.3

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EAST GERMAN IMPORTS

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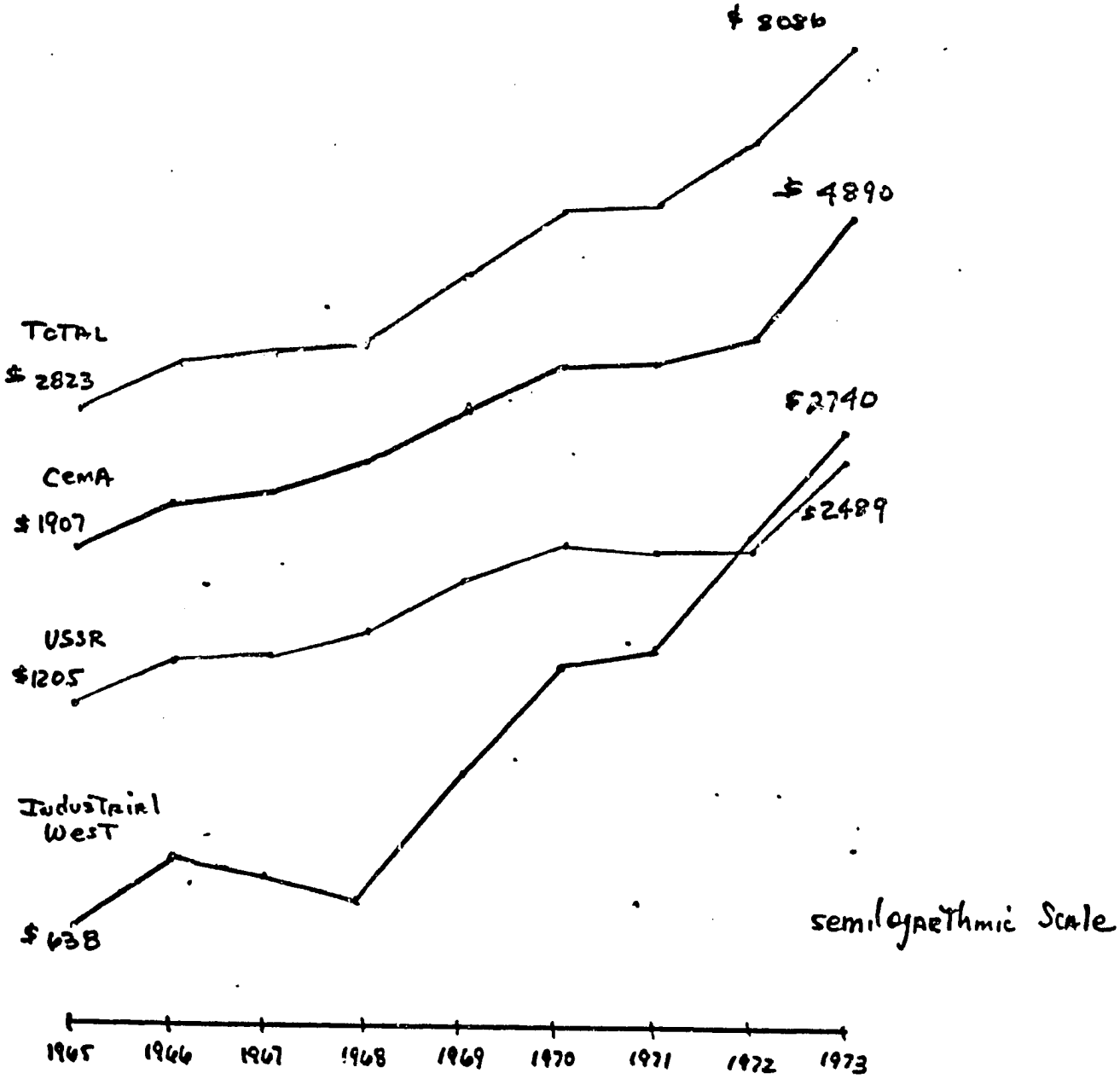
million US $



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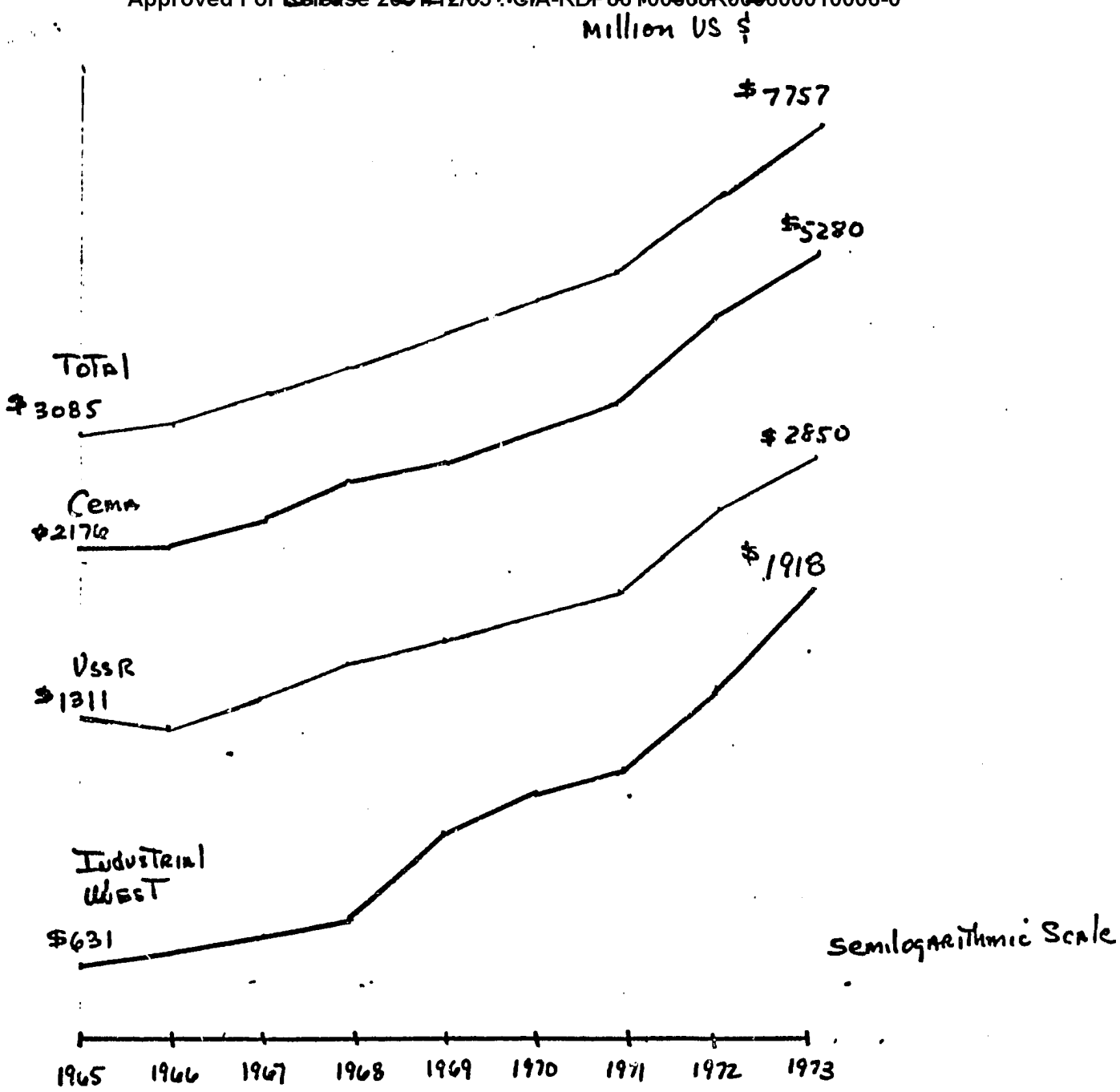
EAST GERMAN EXPORTS



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