

*General (Q) Distribution*GERMAN DEMOCRATIC REPUBLIC  
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## GERMAN DEMOCRATIC REPUBLIC: ANNUAL REVIEW FOR 1979

*Her Majesty's Ambassador at East Berlin to the  
Secretary of State for Foreign and Commonwealth Affairs*

## SUMMARY

As Honecker might see it, a year of mounting economic headaches, some prophylactic repression and qualified success in foreign policy. A decade of considerable achievement ended with a mixed outlook of promise and uncertainty. Subsequent paragraphs develop this analysis (paragraphs 1 and 2).

2. The immediate economic prospects, in particular steeply rising import prices, justify the austere tone of the December Plenum. But in spite of widespread popular disillusion in face *inter alia* of rising consumer prices, Honecker's security problem is probably in hand and the economy may still grow, though more slowly even if personal incomes don't. It should also offer a continuing market for Western exports of capital goods (paragraphs 3-5).

3. Our bilateral relations are still thin, but may be on the verge of expansion with the possibility in 1980 of a long-awaited breakthrough on the trade front, which remained disappointingly static throughout 1979. (paragraphs 6-8).

4. The GDR continued its unremitting effort in the Third World (paragraph 9).

5. Inner-German relations went into deep-freeze in the early summer following an East German clamp down on foreign correspondents. They partially unfroze in the last quarter, but the harvest of negotiated agreements was meagre compared with 1978. The announcement of a Schmidt-Honecker meeting early in 1980 punctuated a spiteful propaganda campaign against the FRG and unsuccessful attempts to shake its resolve over TNF renewal (paragraph 10).

6. Apart from some histrionics over the elections to the European Parliament, exploited as a pretext for a further East German infringement of the special status of Berlin, the city as a whole remained quiet (paragraph 11).

East Berlin,  
31 December, 1979.

My Lord,

Were I Honecker I might review the year thus:

- (a) maintained my position in the Party and with the Soviet leadership. Though popular domestic response lacked spontaneity, Leonid Brezhnev's 30th anniversary visit was successful on most counts, including the old man's ability to stay the course. The industrial co-operation agreement was largely window-dressing, but the undertaking to increase oil deliveries (at a price) by 8 per cent in the coming years was a major achievement. But how long can I go on pleading special geo-political factors to obtain credit from a country whose average living standards are half our own?
- (b) a difficult year economically. Despite brave words, production lost during vile winter never fully made good. Targets, already lowered in 1978, mostly undershot. At least a reasonable harvest. But in face of internal shortcomings, higher defence expenditure and sharply rising import prices, our external debt has further increased, especially to CMEA countries, and consumer price rises for non-essentials can no longer be avoided or concealed;
- (c) the West Mark as almighty as ever: coupons in place of cash over Intershop counters allayed fraternal criticism, as well as reducing the volume of sales. But the penetration of the DM into the grey market remains a problem for which there is no immediate remedy;
- (d) the coming year could well be even tougher. Felt bound at December Plenum to sound sharp note of warning without revealing too much detail. Import saving and higher technical efficiency imperative, but their achievement will be difficult: adjustment of production priorities has already caused dislocation. National income growth target of 4.8 per cent deliberately optimistic: this year we barely made 3 per cent;
- (e) meanwhile vital imports of Western technology and capital goods continued on remarkably favourable terms. Recession should ensure that capitalist countries continue to export on credit and against counter-purchase, even to their long-term disadvantage;
- (f) tightened screws on Western subversion; clipped wings of FRG journalists and television provocateurs with only transitory disturbance to inner-German relations and taught sharp lesson to disaffected intellectuals like Stefan Heym, who now know that passing manuscripts to the West could earn them up to 12 years in jail;
- (g) subsequent amnesty for 30th anniversary incidentally got rid of tiresome but chastened Bahro and over-rated nonentity Hübner. Should strengthen our position at Madrid. Meanwhile Western pressure on human rights seems to be subsiding, as shown by Schmidt's agreement to next year's meeting without any promise of so-called humanitarian concessions;
- (h) further progress in Abgrenzung within accepted détente strategy of leaving West Berlin in relative peace: elections to European Parliament provided convenient pretext for normalising status of Berlin members of Volkskammer, accompanied by clear Soviet statement confirming irrelevance of Q.A. to the capital of the GDR;

- (i) on balance a good year for foreign policy and the ideological struggle. Third World further destabilised and radicalised. My own visits to India, Libya, Angola, Zambia, Mozambique, Ethiopia and South Yemen helped to maintain revolutionary momentum in key strategic areas. But the net effect of Khomeini's [redacted] revolution on the correlation of forces is still difficult to determine in spite of positive features. The new mood which his emotional excesses have induced in the US and elsewhere, together with sharp reactions to the pacification of Kampuchea and Afghanistan, could threaten our détente strategy;
- (j) disappointingly the British may, moreover, have defused a well-laid powder-keg in Southern Africa. We underestimated the skill of their new Conservative Government in handling the seemingly unmanageable situation in Zimbabwe. In spite of their continuing economic weakness (apart from oil) the British are recovering confidence and showing more independence of thought and action both in Europe and outside. Consequently deserve more attention: decisions to cut them in on one or two worthwhile industrial contracts and to approve Hermann Axen's trip next year without prior commitment by Lord Carrington to visit Berlin were objectively correct;
- (k) another disappointment was our failure to stop NATO's TNF decision. With less vacillating American leadership a repeat of the neutron bomb triumph was perhaps never a realistic hope and we were right to leave open a tactical line of retreat. Criticism that we started offensive too late because of tactical decision to use Brezhnev visit for maximum impact on FRG may be justified in retrospect. But not reproaches by certain comrades that I subsequently misplayed my cards with Schmidt and SPD. Fact is we all misjudged determination of leading imperialist countries and must now concentrate on exploiting divisions in NATO to prevent implementation. Meanwhile withdrawal of 20,000 Soviet troops and their obsolescent tanks will hardly affect power balance and yield useful saving in support costs;
- (l) looking back over the past decade, satisfactory achievements on most fronts: in particular balance of military power evolved strongly in our favour, political and strategic gains on nearly every continent, Central Europe stabilised with achievements of past 30 years consolidated at Helsinki, GDR recognised world-wide with strengthened industrial power and international influence. On negative side: growth rate slowing down throughout Socialist camp, FRG and West Berlin economically stronger than ever, our own living standards still far behind and threatened by rising import prices, détente losing some of its narcotic effect on leading imperialist countries. In sum, the 1980s could be a further decade of opportunity for the advance of Socialism, but at a higher level of risk and uncertainty.

2. Though my own style and emphasis would be different, I would not disagree in substance with most of Honecker's ghosted assessment. But some aspects call for development: in particular how serious are his socio-economic problems and what are the prospects for our bilateral relations.

3. The honest answer to the first question is that we don't really know. Even if we had access to reliable statistics, their politico-psychological implications would still be a matter of speculation. That the growth rate is slowing down,

productivity recalcitrant, the bureaucratically encumbered economy wasteful and inefficient, the balance of payments deteriorating under the impact of rising import prices from East and West, the level of indebtedness increasing (debt ratio now probably over 30 per cent), that a gloomy economic forecast accompanied by price rises and hints of other austerities had to be announced at the XI (December) Plenum of the Central Committee, that there is widespread popular apathy, cynicism, grumbling, envy of West German prosperity and even occasional overt manifestations of industrial unrest—all this is undeniable.

4. But what does it add up to? Not, I think, the economic break-down sometimes predicted by West German analysts. Nor a repetition of June 1953, even though widespread increases in consumer prices are comparable in cumulative effect to the raising of work norms which triggered the events of a quarter of a century ago. Nor even real personal hardship: the subsidies on rents and basic necessities are to be maintained. And in the absence of any precise indication of the extent of the intended increases or of a published cost of living index, no one will know for sure (whatever his subjective impression) whether he is worse off or, if so, by how much. Meanwhile the higher prices for non-essentials may be, as no doubt intended, a spur to productivity and a sponge for excess purchasing power. Without any organised movement of dissent, which might focus popular discontent—the repressive measures of the past year seem to have effectively throttled any such development—Honecker's security (as distinct from his economic) problem is, I would conclude, fairly comfortably in hand. And if living standards fail to rise next year, the economy as a whole may still grow in strength.

5. As for the GDR's future potential as a market, it is true that the recent Plenum heralded an attempt to be more economical in the use of scarce resources, especially of imported fuel and raw materials which come mainly from the East, and to be more selective about starting new projects requiring heavy capital outlay. But there is as yet no sign that the régime is less keen to profit from Western eagerness to export sophisticated industrial plant on conditions of subsidised credit and counter-purchase, which in principle make such imports largely self-financing, at least in the longer-term, from the GDR's point of view.

6. Turning to our still thin bilateral relationship, the year has been inconclusive, frustrating but not devoid of hope. It began with an invitation to Hermann Axen, Politburo overlord of foreign affairs, to visit Britain in the first half of 1979 and ended with a renewed invitation for 1980. The timing of the initial invitation, which Axen accepted in principle, could hardly in the event have been less propitious, overtaken as it was in Britain by a wave of damaging strikes and a General Election, here by the loss to the French on political grounds of a major industrial contract, which could have given us a long-awaited commercial breakthrough. During the summer things ticked over with a routine visit for talks at the FCO by a Deputy Minister for Foreign Affairs, [redacted] the initiation of programmes of cultural and scientific exchanges and an atmospherically congenial visit by Sir George Young to extend the programme of exchanges under the Health Agreement.

7. The most encouraging development occurred in the trade field: not in bacon brought home—the annual statistics will show little improvement in our exports and a striking increase in the GDR's favourable balance—but in intangible promise. As I said in a despatch of 12 September,<sup>(1)</sup> there are signs that Buggins'

(1) Not printed.

turn may at last have come and that we could be on the verge of a development comparable to the special treatment which the French began to receive a few years ago. GKN, after their disappointment last year, look well placed to win at least one major contract in 1980; and there are one or two other hopefuls. East German Ministers and senior officials have begun to talk in distinctly more positive terms. The mood at the Mixed Commission Meeting in November was constructive. Mr. Parkinson, now helpfully redesignated Minister for Trade, is to visit the Leipzig Spring Fair and Dr. Beil, GDR State Secretary, will return the visit in June.

8. With a favourable first reaction from Axen to our renewed invitation and one or two other developments likely to follow, there is thus a prospect of an acceleration of bilateral relations in 1980 consistent with the general policy outlined in your despatch of 7 December to Sir Curtis Keeble. But we shall need to be both flexible and purposeful to shape this essentially opportunist relationship to our advantage. And after visits this year by several of your Western colleagues including M. François-Poncet and with an exchange of visits by the Federal Chancellor and Herr Honecker in early prospect, we must expect before long revived pressure for you, Sir, to come to East Berlin.

9. I shall not dwell this year, as I did in my previous annual review<sup>(7)</sup> and in a despatch of 27 April,<sup>(8)</sup> on the GDR's unremitting effort in the Third World. Suffice it to say that it continued unabated with a stream of inward and outward visits and some new friendship agreements as the outward and visible signs of an industrious contribution to the subversion of Western interests and the development of new sources of raw materials. Half at least of the chronology, sent separately to your department,<sup>(9)</sup> is devoted to these comings and goings. On 1 January the already thrusting East Germans will take their seat in the Security Council.

10. In inner-German relations it was a sluggish and for Bonn, I would imagine, an unhappy year. Far from the pace of 1978 being maintained, which nobody should have expected, negotiations even on minor matters went into deep-freeze in the early summer after the GDR Government's clamp-down on foreign correspondents. They unfroze partially in the last quarter with agreements on lorry transport and passenger car tolls and veterinary matters—hardly a rich harvest. It remains to be seen what fresh impetus is provided in a Federal election year by the coming Schmidt-Honecker meeting, for which the Chancellor is known to have little enthusiasm. Meanwhile Honecker has shown that, while ready to conclude lucrative economic deals, he is not prepared to sell political concessions or tolerate even remote threats to internal security. And his propaganda machine has for months been concentrating its spite on the Federal Republic (as well as the Americans) while he tried unsuccessfully with a mixture of threats and blandishments to shake Bonn's resolve to back NATO's TNF renewal plans.

11. But in a year of sharper accents in East-West exchanges, and in spite of some huffing and puffing over the elections to the European Parliament followed by a further Eastern infraction of the special status of Berlin, the city as a whole remained quiet as the world stumbled punch-drunk from a decade of détente into a decade of danger.

(7) Western European Departmental Series 10/79.

(8) Western European Departmental Series 18/79.

(9) Not printed.

12. I am sending copies of this despatch to Her Majesty's Representatives at Bonn, Warsaw Pact Posts, Washington and Paris, to the UK Permanent Representative to NATO, the GOC Berlin (British Sector) and the Commanders-in-Chief BAOR and RAF Germany.

I am Sir

Yours faithfully

PETER FOSTER.