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ECONOMIC COMMITTEE

THE EFFECTS OF COMECON ECONOMIC INTEGRATION ON THE GDR :

Note by the German Delegation

Early in 1976, the member countries of COMECON launched a "joint plan for multilateral integration" in the context of the "1971 comprehensive programme for the strengthening and improvement of co-operation and the promotion of socialist economic integration". These integration measures are based on methods which have, in fact, been known and applied for many years. They provide, inter alia, for:

- bilateral and multilateral research and development projects;
- multilateral specialization and co-operation projects;
- joint investments to secure long-term supplies of raw materials and energy.

2. These, then, are projects of immediate and direct relevance to the stated aims of East Europe on economic integration, i.e.:

- reduction of costs through division of labour;
- improved supply situation;
- high growth rates;
- rapid expansion of intra-bloc trade;
- economic stability.

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3. The importance of integration to the Soviet Union is that it leads to dependence and affords the best means of exploiting the economic and scientific capacity of the other COMECON countries in the interests of Soviet hegemony. This alone is enough to explain why the Russians see the process as a whole as highly positive and seek unremittingly to extend and increase co-operation. However, procrastination by governments within the advisory and executive bodies of COMECON (safeguarding of national sovereignty as provided by the statutes) has so far retarded economic integration and the effective co-ordination of overall economic planning.

4. In accordance with the COMECON unanimity rule whereby decisions are taken only by the countries concerned and apply only to them, the agreements concluded so far are mainly co-operative and do no more than ratify the present economic structures. They do not hamper the development of national industries, generally give rise to no dependence and amount to little more than ordinary bilateral agreements governing the exchange of goods.

5. So it is not surprising that COMECON only advertises its projects and its successes through well-chosen examples and gives only vague and general information on them (the addition of impressive figures and lists of agreements and conventions, projects and what they cover, participating research institutes and firms, etc.).

6. Judging from the information it does give, there is a high level of co-operation between the GDR on one side and the Soviet Union and the other COMECON partners on the other. The bulk of the agreements relates to joint research and development projects, but also to the joint building and use of facilities, specialization in certain goods and co-operation within so-called international and intergovernmental economic organizations. It is quite clear that the GDR benefits from many of these agreements and would have concluded and implemented them even without Soviet or COMECON pressure and merely in its own economic interest.

7. Foremost among these interests is the constant need to increase and improve the pattern of exports because of the scarcity of raw materials. For the GDR, therefore, the proportion of "specialized" goods in total exports is much higher than the corresponding proportion for imports.

8. But regardless of the unanimity rule, the GDR has had to conclude agreements, the aim of which is precisely to dismantle the traditional economic structures to make way for new research and production centres. The GDR, with its high-calibre scientific research and development and its advanced production techniques, is sometimes like the cleverest pupil in the class, who is envied and distrusted by his classmates. Out of esprit de corps, he stops from time to time to give the others a chance to catch up. COMECON accepts the fact that such an attitude may have an unfavourable effect not only on the

traditional economic structures developed in the GDR over many years but also on the performance of the newly organized and established structures.

9. However, the spirit of solidarity shown so far in the fields of co-operation and specialization has not always been of the highest order. It seems that the Russians, particularly, have no scruples about using the "monopolies" resulting from COMECON specialization agreements to exact unreasonable prices from their partners. On several occasions, they have reportedly misused their primacy as a constructor of nuclear power stations to the detriment of the GDR. The East Germans complain that, in violation of the specialization agreements, the Romanians, Hungarians, Bulgarians and Poles even undercut them on the capitalist markets. Not only the Soviet Union but the other COMECON countries, too, do not hesitate to seize the chance to sell to the West at the expense of their supply commitments to their COMECON partners. Recently, offers by Bulgarian and Polish producers to supply soda have been threatening the GDR's position on the Hungarian and Czechoslovak markets. The GDR's mechanical engineering industry, which is of prime importance to COMECON, has been protesting without success against the fact that its commitments to supply machinery, equipment and transport facilities to its partners are fixed partly on a quota basis in relation to total output, a requirement which impairs the GDR's qualitative and quantitative competitiveness on Western markets. A notable example of this is provided by lathe production where, as a result of COMECON decisions on concentrations, the GDR has been eased out of the Western market and left with only the COMECON market, while its place has been taken by the Russians and Poles.

10. Examples also abound of specialization agreements which have turned out to be completely or partly unfeasible and of research and production which had to be interrupted and resumed later (see page 1 of the Annex). Mention should also be made in passing of the deliveries of inferior quality crude oil by the USSR to the GDR.

11. Because the other members of COMECON do not always honour their delivery commitments in full or in accordance with GDR economic requirements, especially where industrial goods are concerned, the so-called progress of integration is beginning to be considered in a less favourable light in the GDR. In essence, the reaction is that priority should be given to meeting national requirements in spite of, and not thanks to, specialization and co-operation, and this could lead the GDR to adopt a stand similar to that taken by the USSR from the outset as the dominant power and pioneer of integration.

12. Basically, none of the countries taking part in intra-bloc trade knows whether the bilateral transactions for the exchange of one type of goods for another are profitable to it or not. Thus, it is all the more difficult to judge or evaluate the advantages or disadvantages which the GDR, for

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instance, derives from its participation in socialist economic integration and joint research and development projects. In the absence of the basic elements for calculating the value of goods provided and the expenditure and receipts - i.e. economic prices and exchange rates - the question arises whether at present there is any desire that these factors should be known. The existence of the "international economic associations" and the "jointly-managed enterprises" presents no contradiction in this respect since, nationally speaking, these institutions are still insignificant, for the present at any rate. It may well be that the "international economic associations", which have limited capital, are obtaining good results in accordance with their initial planning objectives, but their activities, again in accordance with their initial objectives, are limited to work related to production and marketing (market surveys, standardization, organization of trade fairs and exhibitions, etc.).

13. For the period 1976 to 1980, the GDR is expecting a global increase of between 45 and 50% (probably as compared with early 1976) in the cost of the necessary raw materials. The main reasons for this rise are the increased operating costs in the national mines, thinking among Third World suppliers of raw materials on the fixing of prices, which is motivated more by political than economic considerations, and the adjustment of the raw material prices charged within COMECON to the situation prevailing on the world market. According to information supplied by the GDR, the country has to face additional costs since it has been, and still is, under an obligation to produce certain high raw-material-content goods for its partners under the "socialist economic integration" process.

14. In the 1976-1980 Five-Year Plan, 8 milliard GDR marks are allocated to cover the GDR's contribution to joint investment projects designed to ensure supplies of raw materials and energy in the COMECON countries. In return the GDR will, among other things, be able to purchase the corresponding goods at a reduced price or will be entitled to full compensation. No information is available on how the discounts will be calculated, how much they will be and for what periods and quantities they will be valid. But it is reasonable to doubt whether the USSR really intends to grant proper and verifiable compensation. It could, moreover, remind its COMECON partners that for years it has supplied them with raw materials and energy at preferential prices. There are reports that the supply of material by the GDR for the building of factories in COMECON countries for the production of goods for export which the GDR will later import is generally considered as GDR participation in international investment projects, whereas it is manifestly a normal foreign trade transaction. In this

connection, the GDR supplies, among other things, equipment for the chemical industry, rolling mills, mining and the transport industry together with taps, valves and fittings. In response to a Soviet request, the GDR recently added a prefabricated house factory to its contribution to the building of the Orenburg pipeline.

15. But, of course, each economically worthwhile foreign trade transaction amounts to participation in the international division of labour - the "socialist international division of labour" within COMECON, where there is actually unlimited scope for all the COMECON member countries to take advantage of what in theory are beneficial co-operative ventures. And if the GDR sometimes finds that its interests are being sacrificed, this may also be because of the greater enthusiasm it shows in applying COMECON decisions.

16. Foreign investments, economic, scientific and technical co-operation, together with participation in inter-governmental organizations (such as the International Investments Bank, the Goods Wagon Pool and Interkhim as well as in the United Nations and its agencies), are perfectly normal in this day and age for industrialized, technologically-advanced economies like that of the GDR. Inside COMECON, political and structural factors work against the rational organization and use of the international division of labour. Consequently, COMECON's institutional framework has taken shape only slowly, and progress will continue to be slow. But, as a member of COMECON - all other things being equal - the GDR is in a position to overcome many of the problems connected with buying and selling and thereby strengthen basic elements of its economy.

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EXAMPLES OF CO-OPERATIVE AND SPECIALIZATION AGREEMENTS  
AND OTHER FORMS OF INTERNATIONAL ECONOMIC CO-OPERATION  
BETWEEN THE GDR AND ITS COMECON PARTNERS  
AND OF THE DIFFICULTIES ATTENDING THEM

1. GDR agreements with the USSR on co-operation and  
specialization in production and research,  
especially for the construction of chemical plant  
and for technology

Here are some examples:

- the series production in the GDR of petroleum processing plants; between now and 1980, the Russians wish to import 26 petroleum processing plants and 100 natural gas desiccating plants from the GDR at a cost of 1 milliard roubles;
- a "Polymir 50" ethylenic polymerization plant with a yearly output of 50 thousand tons for the production of polyethylene (high pressure); this plant, considered as a key example of co-operation, was designed and built jointly; in 1975, the first facilities of this type began to be tested at Novopolotsk, USSR; a larger model, the "Polymir 60", is now being built at the Leuna chemical combine. Further examples of co-operation are jointly-developed processes such as "Oxe-synthesis", for the manufacture of certain alcohols, and the "Parax" process for paraffins; if there is a demand, it is planned to grant production licences or to export complete units;
- the international economic association "Assofoto", founded in 1973 and comprising the Soviet "Soyukhimfoto" and the photochemical combine "Veb Fotochemisches Kombinat Filmfabrik Wolfen"; the head office of this organization is in Moscow, from where the production of the photochemical industry in the two countries, with its 50,000 employees, is directed; the enterprises making up "Assofoto" produce 90% of all the photochemical products and magnetic tapes made in the Communist countries. Outside the COMECON countries, "Assofoto's" products are sold mainly in Africa, Asia and South America;
- in September 1974, the "Domokhim" was founded, also in the form of an international economic association; its purpose is to supply the public in the USSR and the GDR with quality household chemical products,

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such as polyurethane furniture, cellular materials, floor coverings, cleansing products and aerosols; this organization is made up of the Soviet "Soyuzbytkhim" and the GDR's "VVB Leichtchemie";

- under the current Five-Year Plan, these two countries plan to exchange household chemical products worth 150 million roubles, including 15 products worth 60 million roubles manufactured under specialization and co-operative agreements; the GDR, which is the top producer of polyurethane, supplies mainly polyurethane-based goods;
- a striking example of co-operation between the GDR and Czechoslovakia is the ethylenic products association set up between "the Böhlen plant of the "Petrolchemisches Kombinat Schwedt" in the GDR and the Zaluži petrochemical combine in Czechoslovakia;
- under this contract, the GDR is committed to supplying Czechoslovakia with 170,000 tons of ethylene and 90,000 tons of propylene each year up to 1980 through a 137 km long pipeline in return for 40,000 tons of polyethylene and approximately 20,000 tons of polypropylene a year.

But the results of this co-operation are already disappointing because the GDR supplies have been both qualitatively and quantitatively inadequate; Czechoslovakia is, therefore, considering the building of an ethylene plant at Zaluži with a view to increasing by 450,000 tons a year the present annual output of 260,000 tons and thus making the country independent once again of supplies from the GDR.

In 1974, the GDR supplied Czechoslovakia with a monoglycerides plant with an annual capacity of 3,000 tons to meet the requirements of the two countries; payment will be made in the form of monoglycerides; however, as in the case of the association set up for ethylenic products, the results so far are below the targets set in the agreement.

In 1971, the "Veb Orbitaplast" plant was built at Weissandt-Gölzau in the GDR in conjunction with Czechoslovakia, which prepared the plans;

- for the pharmaceutical industry, specialization agreements exist not only between the GDR and Czechoslovakia but also with other COMECON countries, such as Bulgaria, Romania, Hungary and Poland, the aim being to avoid as far as possible any duplication of effort in this field.

As part of co-operation between the GDR and Poland, joint facilities for the production of proteins for fodder, with an annual output of 60,000 tons, are under construction at the "Veb Petrolchemisches Kombinat Schwedt" combine in accordance with a GDR/USSR process. During July 1973, a co-operative agreement on household chemicals, plastic material, rubber and goods for the protection of plants was signed.

Co-operative agreements on plastics and artificial and synthetic fibres have existed between the GDR and Hungary since 1970.

To summarize the situation in the chemicals sector, the GDR concentrates, within COMECON, on the building of chemical plant, plastics production and technology.

2. The GDR has been a party to certain specialization agreements covering the construction of plant, mechanical engineering and the manufacture of tools and vehicles which have already led to production conversions and transfers. There are also a certain number of agreements and ideas which so far have remained embryonic and do not appear to have been followed up.

- In January 1975, the production of tooling for open-cast mines was determined for the COMECON area as a whole. Under this decision, the GDR, the USSR and Czechoslovakia will be about the only countries to produce this machinery. The production centre will be situated in the GDR.

- The building of goods wagons was shared out in 1972 under an agreement concluded at a COMECON conference. So far, no allocations have been made for the building of passenger wagons since the safety regulations of the different countries have not yet been brought into line. Goods wagons are already being made in the USSR, Poland and the GDR, with Hungary and Czechoslovakia authorized to "assemble" them provided that the parts are

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procured from the above countries. Poland has been entrusted with research in this area but is working in close co-operation with the Soviet wagon constructors.

- Pursuant to an agreement concluded in 1974, the GDR is responsible for producing combine harvesters. Czechoslovakia has ceased production and should, in 1975, have received 600 machines from the GDR. Only 300 were actually received, however, allegedly because of the GDR's own requirements.

Specialization for heavy-duty tractors produced much the same results. In accordance with the COMECON agreement, Czechoslovakia no longer makes them and should have met its requirements by importing from the GDR. But here again the delivery agreements were not respected, the GDR giving the same reasons as those referred to above. Czechoslovakia is accordingly considering a resumption of production.

- A COMECON agreement, concluded about 1974, governs the production of pumps and compressors, which are to be made by the Soviet Union and the GDR. It has been agreed that, because of its limited production capacity, the Soviet Union should produce pumps for pipelines to meet only its own national requirements and that the GDR should supply the other COMECON countries. According to the information available, however, Czechoslovakia is still making pumps and compressors, but it is not known if this is being done in spite of the specialization agreement or with the approval of COMECON.
- The GDR was supposed to have stopped building diesel locomotives back in 1970. A compromise has now been reached which also includes Romania. Under the division of labour arrangements, the GDR is responsible for building diesel locomotives of less than 1,500 kW (2,000 HP) while the Russians, together with the Romanians, will build the more powerful engines.
- The USSR, the GDR, Poland, Bulgaria and Hungary build inland waterways and sea-going craft. Under the current Five-Year Plan, the GDR will be building factory ships for the fishing industry ("supertrawlers"), container ships and cargo vessels and seems to be faithfully observing the COMECON directives. Some of the vessels built are exported to the West.

- Attempts are being made to achieve co-operation between the USSR, Poland and the GDR in the construction of cranes and the development of telescopic (self-propelled) cranes of between 60 and 100 tons. Czechoslovakia has ceased production of cranes with a 6-7 ton lifting capacity in favour of the GDR; under a mutual agreement, port cranes are being made in Hungary and the GDR.
- In accordance with the division of labour decided on in 1974, the following equipment is to be furnished by the GDR to the Soviet Union between 1976 and 1980:
  - RDK 250 tracked swivel cranes;
  - DIER 160 tracked swivel cranes;
  - bumping tables;
  - bucket conveyors of between 150 and 375 kW (200 and 500 HP);
  - electrically-driven drum conveyors of between 2.2 and 4 kW;
  - homogenization facilities with an hourly capacity of 3,000 tons.
- For the construction of nuclear power stations or their components, the GDR has so far only contributed isotopic sensors and siphoning facilities. According to recent information, the GDR is already responsible for producing electrical equipment for nuclear power stations, and a factory intended for this purpose is under construction. However, the major components of nuclear power stations are still made by the Soviet Union, Poland, Czechoslovakia and Romania.
- The 1972 and 1975 agreements obliged the GDR to halt the manufacture of screw-cutting lathes and slide lathes and to specialize in the production of direct numerical control machine tools. There is no market for these machines in the West, where numerical control of machine tools is computer-assisted. The GDR has to import the lathes which are to be fitted with direct numerical control apparatus from Poland and the Soviet Union, where

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they are made. Among other things, the two last-named countries also export lathes without numerical control to the West.

- Under the terms of a COMECON multilateral specialization agreement on the manufacture of machinery for the plastics industry, comprising 250 different machines in all, the GDR is to manufacture 73 of the machines.
- In accordance with a COMECON decision, the production of machinery for making buttonholes was stopped in the GDR in 1974. This decision also applied to the same industrial sector in Czechoslovakia. The machinery should have been made in Hungary. However, it was quickly realised that Hungary has been unable to meet the COMECON requirements, and at present firms in Czechoslovakia which had not yet stopped manufacture are filling the breach.
- Pursuant to a COMECON decision, a Bulgarian firm should have been responsible for all fork-lift truck production. But the quality of the Bulgarian trucks was so poor that a GDR firm resumed production for national needs.
- The division of labour planned by COMECON for commercial vehicles has not been achieved because new factors are always coming to the fore and because the countries concerned are apparently not prepared to forego national production.
- The situation is similar for private cars except that, in this sector, there is an even greater tendency to lay plans, discuss them and then reject them. The confusion stems largely from the gradual change in the basic attitude to private motoring, which was originally sharply negative.

3. The GDR is a party to several COMECON agreements for the development and production of communications facilities. Responsibilities, taking into account the specific interests of the GDR, are as follows:

- carrier frequency and high-capacity transmission facilities are developed and produced by the GDR and the USSR;
- high-capacity radio relay systems are made by the GDR and the USSR in conjunction with Hungary;

- until recently the GDR was the only producer of retransmission facilities, but Poland has now established modern plant for this purpose using licences granted by France;
- the manufacture of electronic devices for ships should have been concentrated in Poland to the detriment of the GDR, but this has turned out not to be the case because Poland could not meet the COMECON demand qualitatively and quantitatively;
- the production of electronic installations for the National People's Army ("Nationale Volksarmee - NVA") and other militarized bodies of the GDR no longer takes place in that country;
- cathode tubes for colour television are made in Russia but in insufficient quantities. Continued difficulties in this area have led the GDR and Poland to start setting up their own modern plant for the purpose and to purchase Western know-how.

It is noteworthy that for communications as a whole the specialization and division of labour agreements are by common agreement not respected afterwards, apparently without any formalities being necessary, when it becomes obvious that the required production capacity will not be available as quickly as is desired. This pragmatic approach, while it does not always avoid log jams, has prevented too great a degree of dependancy growing up.

4. In the field of automatic data processing, the GDR plays the leading rôle in the Eser project ("Eser - Einheitliches System der elektronischen Rechentechnik" - uniform electronic calculation technique system). By agreement with the other participating countries, it has for several years produced the most effective machine (EC-1040, comparable to the IBM 360/50) in the EC compatible computer series, as well as the KRS-4200/42001 mini-computing system and the R-4000 processor.

But the Robotron "R-21" computer, designed by the "Veb Kombinat Robotron" combine, has not been included in the Eser series. After it had been produced for one year only, production had to be halted in favour of the Czech EC-1021 computer, which is comparable to the Robotron R-21. During the year it was produced, 50 units were sold, but the break-even point would have been at least 200 units.

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The GDR was one of the first countries to develop a magnetic disc memory (EC-5055). After lengthy negotiations, all research and production on memory discs has been stopped in the GDR. It appears that the GDR had to pass on its know-how to Bulgaria and thereby help expand and build up the Bulgarian electronics industry.

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