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I. Introduction and Summary

As 1973 begins, the GDR is on the threshold of a new stage in its development. After a quarter century of international ostracism, it is now virtually a fully accepted member of the world community. It has been formally acknowledged by the FRG as an equal. It is a full participant in the ongoing preparatory talks for a CSCE, and will have the same status in the prospective MBFR discussions. It has been granted a seat in UNESCO and on the observer bench at the UN. Virtually universal diplomatic recognition is a matter of months, as is full membership in the United Nations.

The GDR's newly-acquired international stature, in part a by-product of East-West detente, and more particularly FRG-USSR rapprochement, is also attributable to the pragmatism of the present East German

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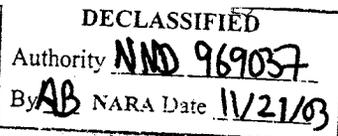
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leadership. Upon succeeding the failing Ulbricht in early 1971, Honecker shrewdly took the pulse of political change. He was aware that for the GDR there was no alternative but to follow the thrust of Soviet Western policy, and sought where possible to apply that policy to East German advantage. During 1972, a well-entrenched Honecker presided over the East German regime's efforts to streamline governmental operations, to increase industrial and agricultural production, and to raise the standard of living of its population. Despite its notable foreign policy successes and its relatively impressive economic accomplishments, the regime remains sensitive to the fact of the GDR's creation as a Soviet-imposed German rump state. It continues, therefore, to attempt to improve its public image as a sovereign political entity and to further its internal acceptability by instilling in the East German population the sense of a new, separate national identity. While these efforts have been only partly successful, the psychological impact on the population of international acceptance of the GDR should make them more effective.

But, as a full-fledged player on the world stage, forced to adjust to the intricacies and potential pitfalls of international politics, the GDR will also have to contend with the weighty political/economic embrace of a considerably more influential FRG. The most immediate problem stems from the diametrically opposed purposes for which the GDR and the FRG concluded the General Relations Treaty (GRT): for the former it is a divider, for the latter a link. To dispel illusions that the GRT may offer the East German population a shared future with the Federal Republic, the GDR now can be expected to apply "Abgrenzung" with stepped-up vigor. It will seek to remove vestiges of traditional ties between the two Germanies. It will also apply administrative measures to restrict a wide range of personal contacts between East and West Germans and thus vitiate some of the concessions it had to make in this regard. And it will attempt to undercut Brandt's popularity in the GDR by striking hard at Social Democracy and the convergence theory.

As a key subordinate element in the Soviet power structure in Eastern Europe, the GDR will continue to advance Soviet foreign policy. However, there is always the longer-term possibility that with some of its major policy objectives achieved, the GDR will seek new international goals which may not square entirely with those of the Soviets.

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The GDR will further integrate its economy into CEMA, to which the bulk of its trade remains committed. With its new international ties, however, the GDR can be expected to try to meet some of its economic requirements by expanding, within practical limits, its trade with the West. Additionally, it obviously is prepared to pay a political price to retain the distinct economic benefits of its present trade arrangements with the FRG.

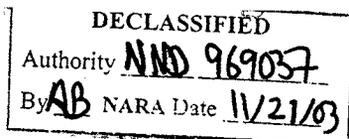
When the U.S. joins the other Allies in establishing relations with the GDR, presumably some time in 1973, it will for the first time have a diplomatic presence in both parts of the truncated Germany. US-GDR relations undoubtedly will be circumscribed by overriding political/military factors on both sides. But, even within these narrow parameters, there are some possibilities for promoting U.S. interests.

The GDR desire for relations with the U.S. and for a favorable political climate for on-going East-West activities should provide the United States with useful leverage for obtaining a GDR commitment to negotiate on outstanding bilateral issues. It should also restrain the GDR, at least in the initial stages, from attempting to undermine the Western position in Berlin.

US-GDR trade relations perhaps offer the most likely immediate area for progress. While the GDR lacks the economic potential to become a major trading partner of the U.S., transactions with the GDR could be significant for individual U.S. firms.

Despite a steady GDR drumbeat of anti-American propaganda, the East Germans display a high degree of positive curiosity about and interest in the U.S., particularly among the intellectuals and youth. Even though the regime is certain to impose restrictions, a selective and flexible U.S. information and exchange program over the long run may be able to influence a potentially important segment of East German society.

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For the foreseeable future, our political opportunities in the GDR will be limited. Initial U.S. efforts, therefore, will perforce be concentrated on the normalization of bilateral relations and the safeguarding of our position on the status of Berlin. This will also require a clear division of responsibilities between the Bonn Embassy, the Berlin Mission and an East Berlin Embassy.

An area where the U.S. could profitably engage the GDR is cooperation on matters of broader international concern, such as environmental protection, etc. The GDR's involvement in such activities eventually could have a positive influence on its policies.

With the foregoing in mind, we propose a relatively modest program for our further activities in the GDR. The recommendations contained in this assessment deal primarily with ways and means of expanding US-GDR trade and promoting cultural, journalistic and other exchanges, and possibilities for bilateral and multilateral cooperation with the GDR on apolitical issues. They also suggest a delineation of the functions of a U.S. Embassy in East Berlin consistent with our position on the special status of the Berlin area.

II. GDR Internal Developments

During the past year, SED First Secretary Erich Honecker has consolidated further his position as the man in charge. He has acted with assurance, but without unseemly haste, in presiding over the revocation of the Ulbricht legacy, and has established his personal primacy with a minimum of visible friction and rivalry. He has implanted his style and precepts on the Party, and proved adept at moving both men and policies with effectiveness. His generally colorless image has not prevented him from attaining a degree of public acceptance in the GDR.

Confronted with increasing bureaucratic sluggishness and proliferation, the Party in 1972 downgraded formally the Council of State, vested primary responsibility for policy implementation in the Council of Ministers, and eliminated a number of bureaucratic sub-groups, primarily in the sprawling economic sector.

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To deal with the prevailing public attitude of resigned acceptance, the GDR leadership in 1972 intensified its efforts to broaden its appeal. Greater latitude was granted in the arts, although only within the context of "socialist realism." Party propagandists and agitators as well as the media were encouraged to concentrate on entertainment value and human needs in their activities. Increased resources were devoted to satisfying the consumer. To enhance the regime's appearance of legitimacy, particular effort was made to instill in the population a sense of a separate East German pride and identity. Unable to develop a GDR nationalism from whole cloth, the regime has drawn heavily, and selectively, from German history. By means of a dialectical interpretation of the German past, the GDR seeks to represent itself as the embodiment of the traditional good German values: the evil was interred with the Third Reich or lives on in the FRG. The success of this effort is questionable. While outstanding GDR successes at the Olympic games led to an outburst of pride and pleasure from the East German population, the broader feeling of being "German" is still deeply rooted. This feeling notwithstanding, large segments of East German society are developing vested interests in the continuation of the GDR.

The GDR appears on balance to have met its 1972 economic goals. However, their quantitative fulfillment was frequently at the cost of quality. In view of the GDR's persistent and severe labor shortages, the GDR recognizes that increased output requires higher productivity and a more efficient utilization of resources. This will call for the modernization of industry, application of better managerial techniques, and improved technology. Whether these requirements can be met within the framework of a highly centralized, state-operated economy is moot. While its intensified integration in CEMA is to a large extent politically motivated, the GDR also hopes to supplement domestic production through cooperation and specialization projects with its CEMA partners. But it recognizes that it will have to expand its trade with the West as well, even if by so doing it incurs a larger trade deficit.

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III. GDR-FRG Relations

The GDR is now in the process of settling into its new relationship with the FRG. In particular, it has to cope with the diametrically opposed conceptions of the General Relations Treaty: the GDR views it as a license for separateness, while the FRG hopes it will forge links for some form of combined German future. The GDR consequently is intensifying its "Abgrenzung" campaign, determined to cut as many traditional, national, political, and cultural ties with the FRG as possible to disabuse all of notions that the two Germanies have a shared future. In practical terms, it is attempting to vitiate the visit and travel provisions of the Quadripartite and inner-German agreements by administrative restrictions on some parts of the population and stepped-up indoctrination and vigilance campaigns generally. It is attempting to undercut the personal popularity Chancellor Brandt has gained among the East Germans. It is also striking hard at Social Democracy in general and at the convergence theory in particular.

Internationally, the GDR will seek to elude the weighty embrace of the FRG. Inasmuch as it cannot match West Germany's economic and political clout in international councils, it probably will concentrate on establishing its separate German identity as a loyal, committed member of the Socialist camp. At the same time, the GDR will seek to gain leverage in multilateral negotiations from the FRG's desire for an inner-German link.

Trade presumably will continue to be an important bond between the FRG and the GDR. In 1973, this trade is likely to expand in line with the GDR's overall trade, or by about eight to twelve percent. The FRG probably will remain the GDR's second largest trading partner (after the USSR), with about ten percent of the GDR's total trade. However, the GDR will continue to be a relatively minor trading partner of the FRG, accounting for less than two percent of the latter's total trade. The current preferential trading arrangement entails some political compromises for the GDR and economic sacrifices for the FRG. Yet both were sufficiently interested in its continuation to include it specifically in a supplement to the GRT. This mutual interest will presumably continue beyond 1975, when the current swing credit arrangement expires.

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IV. GDR Relations with the USSR and Eastern Europe

The constant in Soviet-GDR relations is that the GDR is an essential component of the Soviet power structure in Eastern Europe. Even wider international acceptance of the GDR, therefore, should not cause the Soviets to relax their control over the GDR. Rather, such acceptance probably will be regarded by the USSR as acknowledgment of its continued hegemony in the GDR and the Warsaw Pact area in general.

The GDR, in turn, depends on the USSR as the guarantor of its existence. Its fundamental attitude, characterized by this dependence, can be expected to remain unchanged for some time, even though the GDR on occasion has attempted to take advantage of its importance to the Warsaw Pact to extract more favorable consideration from the USSR, especially in the economic area. International recognition of the GDR, despite its benefits to the GDR and the USSR, may introduce a new, and potentially troublesome, element in their relations. As the GDR develops into a fuller partner with respectable international credentials, it should gain a greater sense of security. In the long term, it could become more assertive with its allies, including the USSR. It may, for example, insist on a fairer distribution of the economic costs and benefits involved in the CEMA integration process.

An important but intractable factor in GDR-Soviet relations will be the further course of Soviet policy towards the FRG. Although Soviet and GDR interests in Central Europe, as elsewhere, largely coincide, broader Soviet objectives could require of the GDR, as they did in the recent past, certain concessions and restraints not entirely to the GDR's liking. And there will be continuing GDR concern lest the Soviet contribution to the FRG's political stature serve to promote a divided allegiance among the East German population.

While the GDR presumably will attempt to diversify its foreign trade markets, the Soviet Union almost certainly will remain its main trading partner. It will have to maintain its extensive deliveries of finished products in

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exchange for Soviet raw materials. In other areas of economic cooperation, such as research and development, it will also have to remain responsive to Soviet requirements. This could be a source of friction between them.

In Eastern Europe, the newly legitimized GDR will no longer be able to expect special consideration from its Warsaw Pact allies. Moreover, as the FRG expands its relations in that area, the GDR will have to reckon with an economically superior competitor for the "good" German image. For reasons of both internal and foreign policy, it will probably continue to develop closer political, economic and cultural links with its immediate Eastern neighbors, Poland and Czechoslovakia. The opening of GDR borders for visa-free travel to and from these countries was part of such an effort. The difficulties resulting from that move revealed the problems involved in integrating disparately developed economies. But the GDR, in line with the CEMA "Complex Program," is likely to increase the number of bilateral arrangements within that organization intended to develop new products, joint productive capacity, etc. In so doing, it will also seek to alleviate as far as possible its manpower problem.

V. The GDR and the Third World

Because GDR funds and personnel are limited, the GDR probably will become more selective in its attention to developing countries, now that it has established diplomatic relations with countries more important to it.

The proportion of trade with the developing countries, therefore, is likely to remain small. Favorable terms, such as concessional credit, earlier granted as price for recognition, will diminish. At the same time, the GDR probably will continue to offer economic aid in support of Soviet objectives in certain areas, such as the Middle East. GDR footholds established in the more important less developed countries, such as India and Chile, will not be relinquished.

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VI. US-GDR

The U.S. presumably will join the other Allies in establishing relations with the GDR some time in 1973. For the first time since the division of Germany, this will provide it with diplomatic presence, and the potential for directed influence, in both parts of the area covered by the Four Power rights and responsibilities.

However, several factors will serve to circumscribe our relations with the GDR. U.S. policy toward the GDR must take account of the paramount importance of our relationship with the FRG. It must also protect our basic interests in Berlin. As regards the GDR, it remains an integral part of the Soviet Union's Eastern European empire, with its major interests coinciding with, and its policies subordinate to, those of the Soviet Union. It almost certainly will regard the U.S. as a supporter of special FRG aspirations concerning the future of Germany.

At this juncture the GDR seems sufficiently interested in establishing relations with the U.S. to refrain from encroaching upon our legal position on Germany and Berlin, as well as related procedures and practices. It may also be relatively forthcoming as regards U.S. pre-conditions for the establishment of relations, including a commitment to negotiate at a later date on such bilateral issues as claims, restitution, and consular matters. The GDR's later general attitude may reflect its own and Soviet desire to maintain a favorable atmosphere for such negotiations as a CSCE. Nevertheless, the possibility of the GDR's attempting even in the early stage, and especially following its entry into the UN, gradually to alter existing Allied practices in Berlin cannot be excluded. Granted that the Allies for their part may wish over a period to make modifications in those practices, it is essential that in doing so the Allies avoid giving the impression that they are renegotiating such rights with the GDR. Otherwise, the basis of these rights would appear to have been changed from an original to a contractual one.

Even if the GDR were to make a general commitment to negotiate on claims and restitution, a satisfactory resolution is likely to be difficult to achieve. Thus far the GDR has maintained that it is not a successor state to the

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Third Reich and has refused, therefore, to accept any war or pre-war claims. Should it be pressed on the issue, however, it may counter by advancing claims of its own to former Reich assets. As regards claims to assets lost by U.S. citizens since creation of the GDR, the East Germans may be somewhat more forthcoming in order to qualify for better trading conditions. However, the GDR clearly lacks resources to satisfy all claims which a number of countries apparently plan to raise. It may also seek to apply political criteria to claimants of German origin.

Trade is perhaps the most promising area for early progress in US-GDR relations. Thus far, this trade has been most modest--a fraction of one percent of each country's trade and the potential for its expansion is minor in terms of our over-all trade volume. However, it could become significant for individual U.S. companies or industries. Neither the GDR's commitment to the USSR and CEMA, nor its arrangements with the FRG pose insurmountable hurdles. Since the GDR apparently is interested in expanding and somewhat diversifying its trade, this should make an increased share of the GDR market available to the U.S. This could be especially true for those U.S. products generally unavailable elsewhere. This development can be facilitated by expanding informal channels of communications with the GDR and by reducing unilaterally some of the current obstacles to such trade. The GDR now enjoys a good credit reputation, and U.S. measures to promote trade with it would serve not only our economic but over the longer term our political purposes as well.

The East German regime's lack of confidence in the allegiance of its population will make it particularly sensitive about U.S. information activities in the GDR. Despite a steady drumbeat of anti-American propaganda, however, the population generally seems to harbor no animosity toward the United States and has been according visiting Americans courteous and even friendly treatment. Especially among the youth and intellectuals, the high degree of personal curiosity about and interest in the United States offers some opportunity for reaching a potentially important segment of the East German population. The GDR probably will want to have a highly controlled exchange program with emphasis

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on arrangements that would best serve its own purposes--collecting scientific and technological information, propagandizing, and earning hard currency. But even so, an exchange program could be turned to United States advantage. Therefore, it would be in the U.S. interest not to insist on strict numerical reciprocity but rather to adopt a flexible approach providing for as many GDR visitors as feasible.

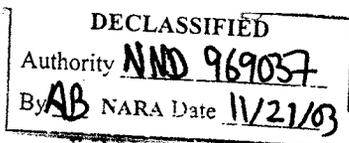
In the immediate future, our political objectives in the GDR will remain, to a large extent, a function of our relationship with the USSR in the broader East-West context. Our initial efforts in the GDR will have to be aimed primarily at the resolution of outstanding bilateral issues and at defining our relationship with the GDR in such a way as to inhibit the East Germans from encroaching upon quadripartite rights and responsibilities. This will also require drawing clear lines of authority between the Embassy in Bonn and the U.S. Mission in Berlin on the one hand, and the Embassy in East Berlin on the other. As a rule, the Embassy in East Berlin presumably would confine itself to US/GDR bilateral relations, with Embassy Bonn and the Berlin Mission handling quadripartite matters with the Allies and the Soviets.

The U.S. could profitably cooperate with the GDR on matters of broader international concern, such as environmental protection, conservation of fisheries, etc. The GDR's involvement in such activities eventually could have a positive influence on its policies.

Some ground work has already been laid for our future operations in the GDR. A number of informal contacts have been established with GDR academic and official circles. Channels of communication for exploring US/GDR trade possibilities are being expanded. Discussions have been initiated about facilitating activities by U.S. journalists and assistance has been provided to GDR and U.S. academic institutions interested in exchanges.

The following recommendations are designed to build upon these efforts both before and after the establishment of relations.

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VII. Recommendations

A. Prior to Establishment of Relations

1. The Mission should continue to develop and maintain an appropriate range of contacts in the GDR, particularly with a view to exploiting more fully the potential of the GDR as a trading partner. Also, U.S. trade with the GDR should be facilitated, if necessary, through unilateral steps to lower some of the existing trade barriers, for example by eliminating controls on exports to the GDR beyond those applicable to other EE countries.

2. Non-governmental academic and cultural exchanges between the U.S. and the GDR should be expanded.

3. Efforts to gain or improve access for U.S. journalists covering the GDR should be intensified.

B. Following Establishment of Relations

1. A clear division of responsibility should be made between a U.S. Embassy to the GDR on the one hand, and the U.S. Embassy Bonn and the U.S. Mission Berlin, on the other, to assure that quadripartite rights and responsibilities are not in any way undermined.

2. With satisfactory resolution of such bilateral issues as claims, restitution, etc., consideration should be given to negotiating a trade agreement with the GDR which would place American business on as equal a footing as possible with its Western (non-German) and Japanese competitors.

3. A modest program of informational, education, scientific and cultural exchanges designed to give East Germans a better understanding of the U.S. and its policies should be undertaken.

4. GDR cooperation, both bilateral and multilateral, in such areas of presumed mutual interest as environmental protection, health, conservation, narcotics control, etc., should be sought.

5. Pending negotiation of a consular convention, GDR assurances should be obtained as regards the protection and welfare of American citizens.

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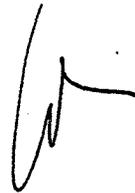
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6. During the initial stages of relations with the GDR, existing Allied practices in Berlin and on access routes should be steadfastly maintained, even in face of possible GDR challenges. In the longer term, the Allies should determine which of those practices are absolutely essential and which could be modified for broader political purposes. However, in making any modifications, the Allies must avoid appearing to renegotiate Allied rights with the GDR and thus transform the basis for those rights from the original to a contractual one.

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