Is The U.S. Serious About E-W Trade?

East Germany's First Major Trade Tour Here Raises The Policy Issue

Exclusive to the Executive Intelligence Review

The German Democratic Republic's first Economic-Technological Congress in the United States, held in the second week of May in three major U.S. cities, aimed to market GDR industrial products and processes, to spark the growth of East German-American trade from its tiny 1977 volume of $52.9 million. But both in the sessions and in high-level private meetings held on the trade congress's periphery, the central question was what kind of East-West trade policy the United States is going to pursue.

In successive sessions in New York, Los Angeles, and Chicago from May 9 to May 16, an East German delegation led by State Secretary and First Deputy Foreign Trade Minister Dr. Gerhard Beil met with U.S. industry and banking officials. The Congress sessions were organized through the efforts of the U.S.-GDR Trade and Economic Council, a business-promotion group based in Providence, R.I. and chaired by Jerome Ottmar, the head of Amtel, Inc.

What emerged in and around the trade congress meetings were central issues for American foreign trade policy. Will the United States make a commitment to financing an expansion of trade in industrial goods, particularly East-West trade in technologies? Is U.S. industry serious about mustering the political clout to get rid of the Jackson-Vanik amendment and other legislative obstacles to trade with the East, or will it continue to try to "end-run" the problem by dealing through foreign subsidiaries? Will the U.S. seize the opportunity for world economic recovery created by the 25-year economic cooperation pact signed May 6 between the Soviet Union and West Germany? Or will that political challenge be ignored, in favor of jockeying by U.S. firms to get "cut in" through their own individual connections and subsidiaries?

As the three-city tour came to a close in Chicago, one member of the GDR group expressed his surprise that the Bonn-Moscow accord was barely mentioned in American newspapers; in his view, it was an agreement that would be "changing all of Western Europe."

The coherence of the GDR group's purpose with that of Soviet President Brezhnev and West German Chancellor Schmidt came across dramatically in the Chicago address by the GDR Ambassador to the United States, Herr Sieber, who sounded one of the same themes that West German Chancellor Schmidt had stressed in speaking to Soviet President Brezhnev. Parallel with trade expansion, he said, there should be a cultural exchange featuring the best in Germany's heritage and eliminating the "clichéd" views that have hampered collaboration in the cultural and economic fields alike.

Contract signings to emerge from the week of lectures and discussions have not been announced, but Rudolf Murgott, president of the GDR's Chamber of Foreign Trade, told reporters in New York that 40 projects were under negotiation with American partners, all in a "sensitive stage" where details would not yet be made public. Commercial Counselor Werner Lange reminded his listeners in all three cities that in 1977 the GDR had invited U.S. firms to bid on 24 so-called "compensation" deals — arrangements for credit repayment through sale or deliveries of goods produced in the plant financed by that credit.

While in New York, Dr. Beil met privately with David Rockefeller, president of Chase Manhattan Bank. According to East German radio reports of their talks, they touched on not only possible U.S. investment in East Germany's domestic industrial projects, for which Dr. Beil said the potential was very high, but also cooperation in third countries.

The question of joint East-West projects in third markets, especially in the developing sector, came up repeatedly during the Congress sessions. It was put to the East German delegates at a discussion with reporters in New York, and again from the business audience in Chicago.

There exist no such deals between GDR organizations and U.S. firms at this time, replied Herr Nietzsche, Chairman of the GDR Foreign Trade Organization (FTO) Chemie, but the GDR is involved as a subcontractor in a number of Western European firms' projects in the Third World.

Asked whether this area of cooperation was not a priority because of its stabilizing political effects, in Africa for example, Nietzsche affirmed, "Our political influence is to help these countries. If we find partners for this in Western countries, then we welcome it. It is in our mutual interest and benefit. We help these countries with high quality goods, and we hope to benefit by buying their products."

How U.S.-GDR Trade Is Hampered

Despite the interest on both sides in strategically important breakthroughs such as joint developing sector projects, the primary concern of the GDR delegation was clearly the normalization of bilateral trade. A review of how this sector of East-West business runs now reveals ample reason for this priority.

The GDR is excluded from Most Favored Nation status and from all government financing and credit guarantees (including Eximbank credits and guarantees, Commodity Credit Corporation lines, and so on) under the Jackson-Vanik amendment to the Trade Act of 1974 and other restrictions on lending to most Eastern European countries imposed by Congress. This is what holds the trade turnover figures down.

But the $52.9 million trade registered in 1977 conceals the *real* interface between the U.S. and GDR economies.

In fact, as Department of Commerce representative Mishell George reported to the New York gathering, U.S. companies did $1,120 million in business with East Germany last year (including a high portion of grain exports). Most of the deals were "transshipments" through European subsidiaries of the U.S.-based corporations.

Thus, according to a businessman with years of experience in East-West trade, at the spring 1978 Leipzig Fair in the GDR new deals amounting to $360 million were consummated by U.S. firms. Every dollar's worth was routed through a European subsidiary.

A second aspect of bilateral "normalization" is the structure of U.S.-GDR trade, which Foreign Trade Bank President Werner Polze emphasized in his presentation. "In addition to a relatively low sales volume," he noted, "the structure of commodity exchange between the GDR and the USA still does not conform to that of the other developed industrialized nations."

The basis for Polze's complaint is well documented in a recent survey prepared by the U.S. Department of Commerce. The United States accounts for 1 percent of exports from the industrialized West to the GDR, and for 0.3 percent of manufactured goods exports. Of imports to the industrialized Western countries from the GDR, the U.S. is on the receiving end of just over one-half of 1 percent both of the total and of manufactured goods. (All of these figures ignore the "transshipment" factor.)

The trade balance likewise reflects the under-development of the U.S. market for Eastern European industrial goods, such as the industrial processes featured during the GDR delegation's tour. U.S. imports were 32 percent of the total bilateral trade in 1977.

Financing Trade

The question period following Dr. Polze's lecture in New York evidenced a lively interest in the need for innovative ways of financing East-west trade.

Polze was asked to comment on the prospects for the socialist sector's transferable ruble to play a role in clearing international trade transactions, a procedure allowed by the Eastern European regional banks. (It is not a form of currency convertibility.) "From the practical point of view this is a little bit difficult," answered Polze. "There are some business deals in transferable rubles, but only when other problems have been solved. Given this, it will take some time for the transferable ruble to be widely used in international trade."

Unfortunately, many of the questions also bore the mark of the bogus explanations for East-West trade's supposedly dim prospects being promulgated by some International Monetary Fund, New York, and London banking circles. They included: Why doesn't the GDR float its currency? How can competitive trade proceed if prices are government-controlled? Why should we have clearing agreements when your currency doesn't float?

Polze, who had presented a detailed account of how the GDR foreign trade system functions at present through the combined offices of the Foreign Trade Ministry and the country's national trade banks, promised that the nonconvertibility of the East German mark is not likely to change. But the GDR has payments agreements, he said, functioning with every major Western industrial country—except the United States.

—Rachel Berthoff

GDR Offers A New Steel-Making Process

The GDR's Economic-Technological Congress offered not only trading opportunities to the U.S., but a range of very advanced industrial processes. Here, a report from the Congress meeting in New York of one of the technologies presented there:

The second day of the Economic-Technological Congress in New York centered on seminars on advanced machine-tool,
technology being developed in the GDR. One of the most important presentations described the unique plasma beam steel-smelting furnaces now being developed in the GDR through joint research and development with Soviet scientists.

Dr. Franz Mueller, department chief at the GDR's Ministry of Ore Mining, Metallurgy, and Potash presented the plasma smelting process in what proved to be the meeting's most exciting seminar, with over 30 U.S. and international steel specialists participating.

The process, which will be offered to U.S. firms later this year, has been developed for application to steel scrap for the production of high-alloy steel. Krupp of West Germany has already inspected the two operational plasma furnaces in the GDR, and Nippon Steel and others have requested invitations. U.S. companies at the seminar, particularly Bethlehem Steel, expressed a keen interest in the new process, but were uncertain about the U.S. economy's demand for steel in the future.

In the conventional production of high-alloy steel from scrap, the energy source is either a fossil fuel or electricity. The plasma process provides heat through a set of (relatively) low-temperature argon plasma torches which are inserted into the vessel at an angle. This direct current arc plasma torch can produce temperatures up to 15,000 degrees Centigrade, as compared to maximum temperatures of 3,600 degrees for conventional furnaces. This higher temperature allows the recovery of almost 100 percent of the alloying materials from the scrap, decreased iron loss, high melting efficiency, and low heat and dust exposure for the operators.

According to GDR specialists, these benefits have led to a reduction of up to $400 per ton in cost of production over high-temperature electric arc furnaces. An important economic factor is the fact that the plasma furnace runs at about 40 decibels, whereas a comparable