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Aan Zijne Excellentie Prof. Dr. J.E. de QUAY
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GEHEIM

Soviet Bloc

SOVIET BLOC MOVES TO EXPAND CREDIT RELATIONS WITH
WEST

The Soviet bloc is attempting to obtain additional credits in the West for the purchase of technologically advanced equipment, principally for the plastics, synthetics, and petrochemical industries, fields to which the bloc has only recently given high priority. The import of such equipment has recently been stepped up and is facilitated by the extension of credits.

The current credit drive stems from a variety of economic and political motivations. The receipt of credits from Western sources will support Soviet attempts to expand exports, and the introduction of credit discussions with some West European countries will establish a new area of competition in East-West trade. The emphasis has been on medium-term credits - up to five years - , for which the USSR has been trying to get government guarantees in order to encourage the flow of private credits. Future repayment will be made through the export of bloc goods drawn from the larger productive base the bloc is establishing.

Duration of credits granted the bloc in recent years has ranged from 30-day commercial credits to a 20-year loan. Of chief significance to bloc countries are credits permitting lengthy deferment of payments for purchases of advanced Western equipment and plants for industrial modernization and development. Only Poland has received such loans; two West European and one American loan for 9-, 12-, and 20-year periods for the purchase of miscellaneous manufactured goods. The bloc has chosen the field of medium-term Western credits as the most promising, and potential private credit extensions are greatest in this field.

Within the past two years complete West European industrial units have been sold to the bloc on medium-term credits. All of these have been financed privately, but in some cases government credit guarantees have also been made available. At the same time the bloc itself also extends such credits to the free world, to less developed countries. Turkey, Iran, Indonesia, and Argentina, for example, have purchased less sophisticated factories financed by bloc loans of less than five years' duration.

The largest number of and most often used credits remain, however, commercial credits of up to a year connected with the financing of ordinary trade. These credits are designed primarily to ease the flow of trade, but, beyond facilitating the expansion of economic relations, are of only minor importance to the bloc.

Bilateral trade agreements concluded by the bloc frequently contain "swing" credit provisions. These are designed to permit temporary imbalances in trade under clearing agreements and usually are settled at the end of the year with payments in goods or cash. These temporary credit accounts, however, sometimes are carried over periods longer than one year and have been used by the bloc to force free world creditors into expanding imports of bloc goods.
