

Make East Bloc Debt A Strategic Issue

July 16 (NSIPS) — West German Chancellor Helmut Schmidt and U.S. Secretary of State Henry Kissinger took the occasion of their meetings this week in Washington, D.C. to open a potentially explosive destabilization campaign against the Soviet Union and its allies, using the Warsaw Pact countries as political leverage against the socialist sector. A barrage of articles intended to provoke and intimidate the USSR appeared this week in West German and U.S. Atlanticist press, all striking the identical Kissinger-scripted chord: the socialist countries are getting a free ride from East-West trade, have become over-indebted to Western banks, and must be made to pay up.

The press campaign, which spilled over even into outlets tied to pro-trade industrialists in West Germany, followed the precise lines of a recent Schmidt speech in which the Chancellor claimed wildly, in the face of increased West German dependence on its trade with Eastern Europe, that East-West trade hurts his country. It was Kissinger's speech at the London Institute of Strategic Studies last month — now reprinted in full in the influential West German daily, the *Frankfurter Allgemeine Zeitung* — that kicked off the sabre-rattling campaign over Eastern Europe's debts.

Kissinger's conduits have added outright lies to this intimidation. The *Journal of Commerce* claimed July 15 that the Soviet Union is seeking a \$5 billion loan in the West, offering gold as collateral. The *Frankfurter Allgemeine Zeitung* followed today with a report that the Soviets will henceforth be shut out of the gold market in Europe. Both of these highly suspect stories have been denied by informed banking sources. Charles Fuller, who wrote the *Journal's* story, admitted the political crux of the matter; the Soviets must be blackmailed to change their "Africa policy" — Kissinger's code phrase for Soviet material support of and strategic alliance with pro-development forces in the Mideast and other parts of the developing sector.

The following interviews with officials of Atlanticist banking, government and academic circles reveal that Kissinger and Schmidt were reduced to launching this politically ill-advised campaign out of sheer desperation. Soviet support for Third World debt moratoria and participation in a new world economic order, through offering of the socialist sector's transferable ruble to replace the dollar as an international exchange currency, is a matter of "fundamental political power changes" as Mr. Holtzman admits below. Thus, Kissinger is forced into the crudest bludgeoning maneuvers against the Soviets — throwing out a hook empty of enticing trade or of credit arrangements to make the Soviets bite. Kissinger hopes to intimidate not only the Soviets but also their potential collaborators, including pro-trade industrialists in Western Europe and the U.S.

With these tactical blunders, Kissinger has made debt a matter of strategic urgency for the Soviet Union. Soviet "leaks" via the Japanese government through the daily *Yomiuri*, and the Berlin correspondent of the French daily *Le Figaro*, are that Moscow is contemplating the offensive power of its own debt holdings in the developing sector — and the potential power of moratoria on those debts as political leverage against the Rockefeller interests.

However, even if the Soviet Union were neither to make use of or support the use of the debt moratorium weapon, Kissinger and his Wall Street sponsors would be no better off. As the Soviets have clearly indicated, their response to such threats against the strategic interests of the socialist sector would be a nuclear first strike against population centers and military targets in Western Europe and the United States. Kissinger and Rockefeller, in their insane gambit, have thus moved the world to the edge of nuclear destruction.

East-West Balance Sheet

July 17 (NSIPS) — The following are excerpt from an article appearing in the July 11 Japanese *Yomuri*.

by Minoru Hirano

Foreign Minister Miyazawa recently instructed his subordinates to carefully study the speech by US Secretary of State Henry A. Kissinger to a meeting of the Council of the Organization for Economic Cooperation and Development (OECD), held in Paris on June 22....

...Kissinger urged the OECD member nations to study, among other things: (1) what should be done to restore equilibrium in East-West trade; (2) how the member countries can deal with the problem of dumping and other unfair trade practices by countries in which prices need not bear a relation to costs or market forces; (3) what the implications are of the growing external debt of the communist countries; and (4) whether it is possible to bring the Soviet Union and the Eastern European countries into the process of responsibly assisting development in the Third World.

Immediately after Kissinger delivered this speech, Foreign Minister Miyazawa asked him who was the real addressee of the speech — whether he wanted to ask for Soviet cooperation in tackling North-South problems or whether he was urging the Western world to make better use of East-West economic relations on a more stable foundation, or whether he was asking the American people to make a new assessment of East-West relations. All these interpretations were possible.

Kissinger answered that he had no specific audience in mind and that he had only enumerated the problems in East-West trade.

He then said that he had once submitted a trade bill to Congress in order to accord most-favored-nation treatment to the Soviet Union but the bill had been killed by the anti-Soviet diehards in Congress.

Had the bill passed Congress, the Soviet Union would not have resorted to such action as intervention in Angola, he added.

Many people consider Kissinger to be a believer in power politics. The Foreign Minister also thought that the Secretary of State proposed a plan to reshape East-West relations into a form advantageous to the US by capitalizing on the West's "accounts receivable" from the East, which total some \$30 billion.

However, it is undeniable that the increase of East Europe's liabilities toward the West was the result of efforts by the West European countries to overcome the past recession by finding sales outlets in the communist countries. Therefore, the Eastern side can convert their liabilities into strength by asserting that the inherent weakness of capitalism has produced such liabilities.

The West European countries will receive a serious blow if they fail to collect their bills from the East. One European leader criticized Kissinger's thinking at the San Juan summit by saying that it was undesirable to discuss the problems of economics and trade from a political viewpoint.

Japan has trade accounts receivable from North Korea. North Korea's debts to Japan resulting from imports under deferred

Journal of Commerce Psywar On Soviet Debt

July 17 (NSIPS) — Following are excerpts from the page one lead article in the July 15 Journal of Commerce, which appeared under the headline, "Soviets Reportedly Seeking 5 Billion Dollar Loan in W. Europe." Appearing under the byline of Journal of Commerce staff writer Charles Fuller, the article was admittedly based entirely on unsubstantiated rumors floated by unnamed sources in the U.S. and denied or discounted — the article further conceded — by every authoritative identifiable source available in both Europe and the U.S.

The Soviet Union is reportedly sending out feelers in Western European capitals for a massive loan of up to 5 billion dollars in order to pay for heavy grain purchases and to roll over a portion of its foreign debt.

In Europe, however, bankers contacted by the Journal of Commerce were unable to substantiate the reports.

Several sources here told this newspaper that the Soviets have approached European central bankers for the funds, but have encountered considerable resistance in light of the U.S.S.R.'s heavy foreign debts and its poor balance of payments position.

One source said the Europeans would put up the foreign exchange only if the Soviets pledged 5 billion dollars in gold as collateral or, alternately, simply trade the gold for the currencies at a price favorable to the European. He indicated that a deal may already have been worked out, with the Bank for International Settlements (BIS) handling the gold transactions.

A European correspondent for this newspaper was told that at the BIS board meeting Tuesday, the indebtedness of Eastern European countries was discussed in a general way. However, it is said that nothing has transpired which would indicate that the BIS has any application for such financing...

If reports that the Soviets are indeed searching for 5 billion dollars are true, such financing could mean that crops in the Soviet Union are worse than generally believed. If so, additional — and unexpectedly high — purchase of U.S. grains and soybeans could be around the corner...

A demand for gold in light of heavy loans to the Eastern Bloc nations in recent years is not viewed by observers as being out of keeping with the credit markets. West German chancellor Helmut Schmidt has expressed anxiety about any further loans to the Communist nations. In only a few years, their debts have soared from virtually nothing to about 40 billion dollars.

A spokesman for the New York Federal Reserve Bank said he had no indication that a multibillion dollar loan to the Soviets is being considered in Europe. He said Federal officials who returned this week from the BIS monthly meeting had heard nothing of such a loan request... A spokesman for the U.S. Department of Agriculture said current USDA estimates for the Soviet grain crop indicate that the U.S.S.R. will harvest about 195 million tons this year, close to the second highest crop on record...

payment arrangements, total about \$280 million, of which \$60 million are overdue. North Korea has asked Japan for a grace period of two years for the overdue portion of the debts and offered to pay interest for that part at a rate which was lower than the internationally prevailing rate.

Japan consented to extend a two-year period of grace but rejected the proposed interest rate. Negotiations are under way.

Collections of bills from the communist bloc involves complicated political problems. New Zealand Prime Minister Robert Muldoon during his visit to Japan at the end of April said, when conferring with Prime Minister Miki, that (1) should a war break out in the Korean Peninsula, its cause would possibly be the worsening of the North Korean economy; (2) so it was unwise to drive the North Korean economy to bay; and (3) the West should be lenient in collecting trade accounts from North Korea. Prime Minister Miki said he agreed with this opinion.

The economic relations between West Europe and East Europe can be likened to those between Japan and North Korea. Should West European countries try to forcibly collect bills from East Europe, trouble would develop in the economies of East Europe, and the whole of Europe might be faced with an undesirable situation. East-West trade poses many problems for Japan, too.

Exclusive NSIPS Translation:

Comecon: Increased Economic Integration

July 17 (NSIPS) — The following is excerpted from an article appearing in the July 13 French daily *Le Figaro*. The article was datelined Berlin and written by the paper's special correspondent Jean-Paul Picaper.

Five "common programs" have been adopted (at the Comecon meeting), all covering a fifteen-year period. These include: an increase in raw material resources and energy reserves which presently constitute — especially the latter — the main bottle-neck for the countries of the East; a numerical increase in high-technology machines; a joint effort in the food sector; a schema for an integrated system of electrical energy, as well as the improvement of the road and railroad network of the member countries.

... Finally, the Comecon "is impatiently waiting for an answer from the European Economic Community" to its proposal to conclude an agreement between the two economic blocs. This is what Mr. Faddeiv, Soviet Comecon Secretary, declared in a press conference. collaboration in this framework would be the logical follow up on the Helsinki conference.

... "Exchanges," properly speaking, only take place with the West with large amounts of Western credits; Comecon debts (excluding East Germany) to the Federal Republic of West Germany alone amounted to some 18 billion Francs in 1975 (the East German debt to the BRD is close to 5 billions)....

With only Rumania having taken legislative steps to allow Western capital's participations in their economy, trade with the East is only financed by Western credits whose irresponsible multiplication poses a political problem: by postponing their (debt) repayment, or even by not renewing contracts and thereby create unemployment in the EEC, the Soviets would have available an excellent means of pressure.