

WORLD BUSINESS

WESTERN EUROPE

Calculated Risks

Western Europeans long ago settled the issue of whether to trade with Eastern Europe and the Soviet Union. Last year their transactions through the Iron Curtain amounted to \$3 billion—and they are scrambling for more. The new argument, which divides governments and stirs the competitive instincts of businessmen, is what credits should be granted to cover all this trade. Pressure is mounting for Western European governments to trust Communist countries with easy, long-term credit instead of demanding, as in the past, repayment in five years or less. Despite U.S. and West German protests, Britain and Italy have already given in to long-term credits, and the French government last week appeared ready to back a seven-year loan to Russia. Of all the major European trading nations, West Germany alone is still holding out.

One reason that the West has held off this long is the Berne Union, a gentleman's agreement among trade insurers of 20 industrial nations not to extend export credit on terms longer than five years. Over the years, countless exceptions were made, but never to Communist countries. Then, in June, the British government agreed to guarantee a twelve-year credit of \$10 million to Czechoslovakia for a fertilizer plant—and that set the precedent. Since then, Britain has opened negotiations for a \$112 million, 15-year credit so that Russia can buy a prefabricated chemical plant. Italy granted a ten-year credit to the Czechs for a metal-galvanizing plant. Not to be outdone, a powerful consortium of French banks recently arranged to grant the Soviets \$380 million worth of seven-year credits, pending almost certain approval by the French government.

Considering the danger of a turn for the worse in East-West relations, such long-term credits are a definite gamble. Yet Western businessmen are eager to take the risk to get a firm toe hold in the potentially enormous market in Russia and its European satellites. So far, one of the main attractions has been Nikita Khrushchev's seven-year program to spend \$42 billion developing Russia's lagging chemical industry. Even the West German government is under considerable pressure from businessmen to yield to such commercial temptations. Says Berthold Beitz, Krupp's general manager: "We are excluding ourselves from this big market in the future unless we offer the same terms as our Western competitors do." And Russian trade commissars, knowing a good ploy when they see it, are hopping from capital to capital with a not-so-subtle threat: either extend long-term credit or no deal.

MONEY

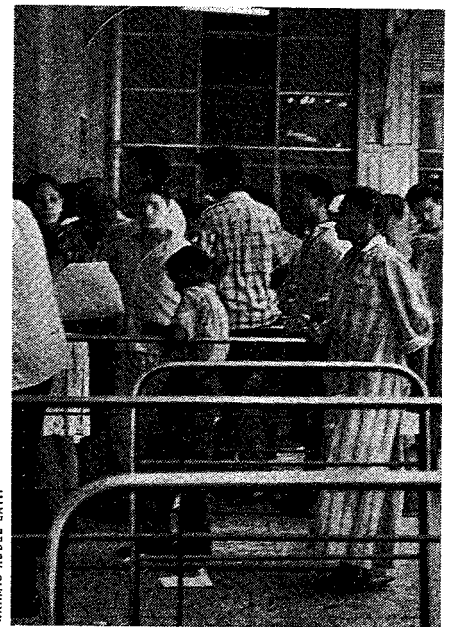
What It Costs

Arabs in dusty white robes queued up outside a government bank from sunup to sundown in Cairo last week. In the back streets of Hong Kong, men ducked through the beaded curtains of dingy little stalls, later reappeared clutching envelopes. And in Rome, workers with small salaries and large families stood hopefully before the cashier windows of pawnshops, known popularly as the *monte di pietà*—mount of pity. All of them had one quest in common—money—and they were willing to pay a price to get it.

Just how much money should cost—the interest paid on loans—has been fiercely argued from Aristotle to Aquinas to Adam Smith. The cost varies by the time and the place: in 1964 money is generally becoming more expensive to obtain. Under pressures of inflation or economic expansion, central banks in Japan, Britain, Sweden, Belgium, France, The Netherlands and the U.S. increased their discount rates in the past year, thus encouraging a broad rise in interest rates.

Farther from Wall St. Where inflation has taken hold—as it has in many parts of the world—lenders charge higher and higher rates as protection against being repaid in drastically devalued currency. Credit is so scarce in Latin America that borrowers consider themselves lucky if they pay only 60%, and rates in Brazil go as high as 20% a month. In Argentina, when a government bank recently announced that it had secured an international loan to finance home building, money-seeking mobs rushed the bank, smashing windows and overturning desks. The Southeast Asian pays up to 20% for prime business loans, and Iranians pay anywhere from 8% to 15% in Teheran. Most well-connected Middle Eastern businessmen get their loans in Lebanon at 5½% to 12%. As a rule, says U.S. Treasury Economist Henry Bittermann, "the cost of money is liable to increase with the distance one goes from Wall St."

The world's cheapest money can be found in Switzerland (4% to 5% a year on low-risk business loans) and the U.S. (5%); similar loans cost most Western European businessmen 7% to 9%. Though their interest rates are still well above those in most industrial nations, the cost of money has been declining in Taiwan, Mexico, Thailand and India, thanks to commercial development and increasing stability. Paradoxically, by trying to make money cheap enough to lure investors, some developing countries have set rates too low to attract working money from such safe havens as Zurich and New York. In the Soviet bloc, economic planners have a genuine



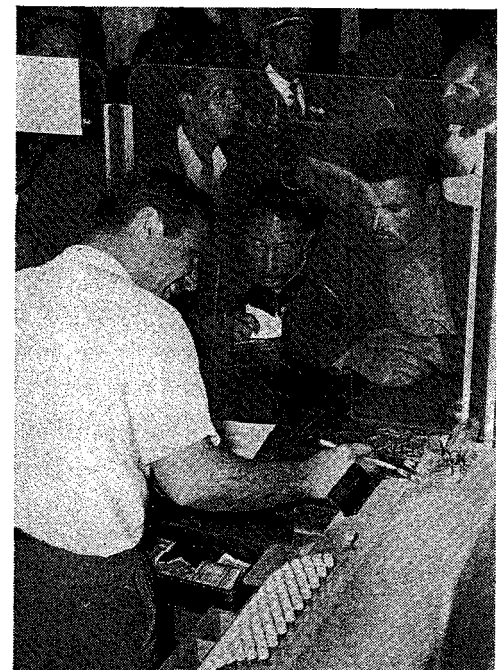
KHAMIS ABDEL LATIF

BANK LINE IN CAIRO

ROMA'S PRESS



PAWNSHOP IN ROME



BORROWERS IN TEHERAN
It pays to be a Moslem.