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November 7, 1938.

Mr. Secretary:

You will doubtless recall that Dr. Walter Funk, German Minister of Economy, was recently reported to have declared in Istanbul that Germany was about to enter into negotiations with the United States for the conclusion of a commercial treaty along the lines of agreements signed by Germany with other countries. The attached despatch from Istanbul reports the circumstances connected with Dr. Funk's visit to Turkey and his reported declaration.

The chief purpose of Dr. Funk's visit was to extend to Turkey a credit of some \$60,000,000 for further Turkish purchases in Germany of industrial and military supplies. In this connection, Dr. Funk is said to have expressed the opinion that until the reestablishment of the world credit market, the only method by which the international exchange of commodities between certain countries could progress was through the extension of Government credits, to be repaid through the export of commodities and not through the international transfer of funds. He said that, according to reports which were reaching him, a realization of this fact was growing in England and America, and that "we are on the point of beginning negotiations with America on the basis of these very principles."

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It is interesting to note that replies to Dr. Funk's remarks appeared in a French newspaper published in Istanbul, and were based on press despatches from Washington stating that competent American circles considered with some reserve the statements made by Dr. Funk, and were of the opinion that the principle of commercial agreements on a bilateral basis was incompatible with the American point of view. These despatches were given to the Turkish press by the French Embassy in Istanbul, and appeared in the same editions (October 12) which carried Dr. Funk's remarks.

The new German credit to Turkey, providing for repayment over a ten year period, at five percent, appears to be merely an extension of an arrangement already in force between the two countries, by which Turkey has been purchasing for some time commodities in Germany on long term credit. At present, goods to the extent of approximately \$25,000,000 have been imported into Turkey from Germany which have not been paid for, and in the case of two-thirds of this amount, the credit extended was for a longer period than six months. Germany could have merely allowed the Turks to continue this practice without any formal announcement, but in that event there would have been little publicity

licity for the arrangement, and the Germans doubtless desired to make what would appear a coup, in order to counteract the impression made a few months ago, when Britain extended an \$80,000,000 credit to Turkey, that Turkey had been brought into the British camp.

There is also indication that the German offer of the new credit may have been proposed unexpectedly by Dr. Funk after his arrival in Ankara, to the surprise and possible embarrassment of the Turks. According to a despatch recently received from Berlin, an official of the German Foreign Office is reported to have expressed doubt that the Turks would ever avail themselves of any considerable amount of the German credit. We have had several reports that the Turks have been endeavoring to escape from their close commercial relations with Germany, and judging from the latest reports received from our Trade Agreements delegation in Turkey, the Turkish negotiators have, since the German credit, appeared for the first time anxious to obtain a satisfactory Agreement with the United States.

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