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Postwar Bilateral Payments Agreements

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and
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INTERNATIONAL FINANCE SECTION
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This monograph was prepared while Dr. Merlyn N. Trued, now on the staff of the Federal Reserve Bank of New York, was completing his doctoral work and teaching at the University of Virginia. Raymond F. Mikesell is Professor of Economics at the University of Virginia. The authors of course do not pretend to speak for the institutions with which they are or have been associated.

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While the Section sponsors the Studies, the writers are free to develop their topics as they will. Their ideas and treatment may or may not be shared by the editorial committee of the Section or the members of the Department.

Gardner Patterson, *Director*
International Finance Section

Princeton University
January 1955

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I. Introduction[1]

The bilateral payments agreement was developed in the 1930's partly as a means of enabling creditor countries to collect from debtor countries unwilling or unable to pay in free exchange, and partly to finance bilateral trade where one country or both employed exchange controls. The essential element in these agreements was the control over the use of national currency balances in the hands of nonresidents. This control included limitations on the transferability of the balances to third countries, restrictions on the purposes for which payments could be made with the balances, and definition of the transactions under which the balances could be credited.

A bilateral payments agreement may be defined as an agreement which establishes a general method of financing trade between two countries, giving rise to credits which are available for use in making payments for a wide range of imports from the other country or for other specified purposes. The establishment of an account simply for measuring the progress of an agreement to exchange a given quantity of one commodity for a given quantity

[1] NOTE ON SOURCE MATERIAL

This study is based in large measure on information obtained from the basic payments agreement documents, but it appeared neither feasible nor desirable to cite here the several hundred documents used. Many of them were made available through the courtesy of the International Monetary Fund. Much information was also gained from conversations, especially with members of the staff of the International Monetary Fund engaged in the study of various restrictions on international trade and payments. Our debt to them is very great, but it did not seem appropriate to attempt to attribute specific statements to specific individuals. Many of the statements of fact therefore are unsupported by references to sources.

A large number of easily accessible publications have also been used, the more important being: *Aussenhandelsdienst* (Cologne); *Bilateral Agreements in International Trade* (mimeo.), Washington, D.C., U.S. Department of State, Office of Intelligence Research, April 1954; *Board of Trade Journal* (London); *Commercial Trade News* (London); *Conjuntura Econômica* (Rio de Janeiro); *Far East Trader* (San Francisco); *Fortnightly Review*, London, Bank of London and South America; *Financial Times* (London); *Foreign Commerce Weekly*, Washington, D.C., U.S. Department of Commerce; *Handelsblatt* (Dusseldorf); *International Trade News Bulletin*, Geneva, General Agreement on Tariffs and Trade; *International Financial News Survey*, Washington, D.C., International Monetary Fund; *Journal of Commerce* (New York); *Le Monde* (Paris); *Le Moniteur Officiel* (Paris); *Monthly Bulletin of the British Chamber of Commerce in Brazil* (Rio de Janeiro; *Neue Zürcher Zeitung* (Zurich); *New York Herald Tribune; New York Times; Oriental Economist* (Tokyo); *Review of the River Plate* (Buenos Aires); and *Wall Street Journal* (New York).

of another is excluded from our definition. Such arrangements, even if they cover several commodities, represent barter transactions and involve no foreign exchange payments.

After the end of World War II, the bilateral payments agreement, differing in important respects from the type negotiated before the war,[2] became the basic instrument for the financing of trade among most of the countries of the nondollar world.[3] The postwar agreements were regarded by most signatories as *temporary* devices for *liberating* trade and payments from the severe restrictions imposed on transactions in convertible exchange necessitated by economic conditions immediately following the war. These agreements made it possible for individual countries to purchase foreign goods with their own currencies without risk of depreciation or loss of hard-currency reserves. They also made it possible for them to free at least some of the balances of their currencies held by foreigners without a loss of free exchange.

A large number of these agreements were first negotiated in 1944 and 1945, a time when the Bretton Woods agreements were under consideration. Many of the early bilateral payments agreements therefore contained clauses providing for the termination of any provisions which might subsequently be found inconsistent with obligations assumed by the signers as members of the International Monetary Fund. Thus, the features of the pacts which involved restrictions on current transactions were regarded as transitional arrangements to be swept away with the reestablishment of the world-wide multilateral payments system envisaged by the Articles of Agreement of the Fund.

But these early expectations were not to be realized. The fail-

[2] The agreements of the 1930's were principally between free-exchange and exchange-control countries; only a handful of such agreements exist today. Moreover, before the war, trade between exchange-control countries was frequently conducted under bilateral *clearing* agreements. Although many of the postwar agreements employ one or more clearing accounts for recording credits and debits arising out of trade, they differ from the prewar clearing agreements in that they commonly employ "swing" credits which enable exporters in the creditor country to receive payment without having to wait for importers in the debtor country to make payment into the account. Even where definite swing credits are not employed, in practice the accounts may be unbalanced between settlement dates.

[3] See R. F. Mikesell, *Foreign Exchange in the Postwar World*, New York, Twentieth Century Fund, 1954, Chaps. 1 and 2.

ure of the British convertibility experiment in 1947 encouraged the conviction that the postwar transitional period, during which members of the Fund were permitted to employ restrictive arrangements, would be of indefinite duration. And the number of bilateral payments agreements, which totalled some 200 in 1947, nearly doubled in the following three years until they covered virtually the entire nondollar world. And so it remains at the time of writing.

It is important to note that this growth in the network of payments agreements did not mean that trade was therefore becoming increasingly more bilateral in character. On the contrary, the absence of a bilateral payments agreement between two nondollar countries frequently meant that trade between them took place only under rigidly balancing barter arrangements, if at all. Inasmuch as nearly all nondollar countries had adopted a policy of not making payments in convertible currencies except in trade with the dollar area or for the purchase of certain "scarce" commodities, a bilateral payments agreement was necessary for the establishment of a *general* means of financing trade between nondollar countries.[4]

It is, of course, true that the early postwar payments agreements generally sought to achieve a bilateral trade balance between the partners or their currency areas. They were therefore accompanied by trade-quota or bulk-purchase agreements which involved a rather high degree of control over the course of trade. Excessive debtor positions were frequently liquidated after a short time in gold or dollars, and most countries, anxious to conserve their free-exchange holdings for imports from the dollar area, were therefore reluctant to exceed their credit margins or to permit balances of their own currencies to be transferred to third countries. However, this situation has changed greatly in recent years. Most nondollar trade, although still conducted under bi-

[4] British bilateral agreements set forth the conditions for the transfer of sterling between nonsterling countries generally. In some cases, however, trade between nonsterling countries was conducted through the use of inconvertible sterling and without a formal payments agreement, but in such cases it was necessary for the countries concerned to have an arrangement with Britain governing the conditions under which sterling might be used; these countries were listed as "unclassified countries" by British exchange regulations.

lateral payments agreements, is not bilateral in character. Transferability of balances is permitted over a wide area, and the greater part of nondollar trade is no longer governed by trade-quota or bulk-purchase agreements. Nevertheless, the bilateral payments agreements serve to limit the area of the transferability of the balances arising out of international transactions and frequently limit the purposes for which they may be used.

Before proceeding to a detailed examination of the postwar agreements, a brief description of the major types of provisions to be found in bilateral payments agreements and of the major types of agreements seems in order.

Major Provisions of the Agreements

TENURE PROVISIONS. Most payments agreements provide either for a definite period during which the pact is valid or for annual tacit renewal. Some agreements have an indefinite life but are subject to termination upon reasonable notice by either party. The tendency has been for the payments arrangements to continue in force without major change for several years. On the other hand, trade-quota agreements, where they exist, are usually renegotiated every year to take account of changing import needs and export availabilities, as well as of the bilateral payments position as reflected in the account.

THE ACCOUNTS. All payments agreements designate one or two units of account and prescribe the method of accounting for debit and credit transactions arising under the agreement. Under some —for example, the sterling agreements—the method of accounting differs little from that in the financing of trade with sterling or dollars before World War II, except that the sterling cannot be transferred to a resident of the dollar area. Most of the payments conventions among the Western European countries provide for financing in the currency of either partner and the accounts are held in the form of bank balances owned by banks or firms in the partner country. Under agreements which permit accounts to be maintained in commercial banks, periodic clearing between the commercial banks and the central bank of each country is usually required in order to determine the net position of the partner countries. In other cases, the accounts are centralized in one or both of the central banks of the partner countries and the accounting units may be either one or both of the national currencies or, in some cases, a third currency, usually the dollar or sterling. Where more than one currency is employed as the unit of account, the agreement establishes the exchange rate between them.

CREDIT PROVISIONS. Except for pure barter transactions with no time lag between deliveries, all international trade transactions involve credit. Most bilateral payments agreements provide for reciprocal credits, established in different ways depending upon the accounting arrangements. A typical "swing" credit allows each partner to run a deficit in the account up to a certain limit, beyond which it must make a settlement. In some agreements, such as those between members of the European Payments Union (EPU), periodic settlement dates take the place of definite swing credits. In many of the sterling agreements, the credit is unilateral in favor of Britain inasmuch as the partner countries simply agree to hold an indefinite amount of sterling.

SETTLEMENT PROVISIONS. Problems of settlement arise both during the life of an agreement and at its termination. Some agreements provide for the settlement of balances in *excess of swing credits* during the life of the agreement only in goods, while others provide for settlement in gold, in third currencies, or, as in the case of the agreements between members of the EPU, through a clearing union. The settlement of final balances is frequently left to mutual agreement at the termination of the convention or is by payment in gold over a period of time in the event that the partners cannot agree.

TRADE PROVISIONS. Sterling agreements and those between EPU members provide for multilateral settlements over a wide area and a method for financing virtually all transactions. Although individual countries may employ quantitative restrictions on certain imports, such agreements, in general, are not discriminatory as between members of the group and do not aim at a bilateral balance of trade between any two particular countries. Most other payments agreements, however, are selective as to the types of transactions and kinds of goods and services that may be financed under the arrangement. Generally the payments agreement itself excludes capital transactions but does not deal with the specific goods and services that may be financed; rather it makes reference to the trade agreement, a separate pact, which accompanies the payments agreement and treats more or less in detail the goods and services to be financed. The usual means of seeking to balance trade between partners is to establish, in the trade pact, lists of commodities which each country is interested in buying from the other, together with the import quotas which each country agrees to set for each of the commodities listed. Except where debt service or other invisible payments are involved, the sums of the import quotas establish a target trade balance for the two countries over the life of the trade pact. Such conventions, often called trade-quota agreements, are usually revised every year.

TRANSFERABILITY OF BALANCES. Some agreements permit balances in the accounts to be transferred to third countries; some also authorize transfers of balances held by third countries in one of the partner countries to be credited to the bilateral accounts. Such transfers may be permitted automatically or only by mutual consent.

Major Types of Agreements

Bilateral payments agreements may be classified in a number of ways inasmuch as their provisions differ widely as to the nature of the accounts, the credit arrangements, the settlement of balances, the means of limiting the surpluses or deficits, the transferability of balances, and so on. The most significant classification would seem to be with reference to the flexibility of the payments arrangements and the degree to which they permit an advance toward free-exchange conditions. From this point of view, bilateral payments agreements may be divided into three types: bilateral offset agreements, exchange settlement agreements, and automatic transferability agreements.

Bilateral offset agreements make no provision for the settlement in gold or third currencies of balances that exceed the swing credit limit set in the agreement: any such balance in the accounts must be settled by the export of goods from the debtor country. Similarly, any balance that may exist upon expiration of these agreements is settled only in goods. Bilateral offset agreements also frequently contemplate strict supervision of trade and short-term bilateral balancing of goods and services. Moreover, they usually specify that reexported goods are not acceptable accounting items.

Bilateral offset agreements are accordingly the least flexible of the payments arrangements and are distinguished from barter transactions only by the fact that they permit trade in a wide variety of items to be financed through the accounts and allow a time lag between deliveries. As a rule, records are maintained in central clearing accounts established in one or both of the national currencies of the partners or in a third currency, in practice usually the dollar.

Exchange settlement agreements make provision for the settlement of balances beyond the swing credit in gold, convertible currencies, or in mutually agreed third currencies which are inconvertible. Provision is frequently made for the transferability of balances in the accounts to third countries, provided all three countries agree to such transfers. Generally, all transactions must be recorded in the central account or accounts which the partners agree to maintain in accordance with the terms of the agreement.[5]

Automatic transferability agreements provide for automatic transfers of balances to certain third countries or to a clearing union, as in the case of the European Payments Union. In addition, they sometimes permit payments between residents of the partner countries in designated third currencies, and, in some cases, provision is made for the automatic settlement of balances in third currencies. In practice, arrangements of the automatic transferability type permit banks and firms to hold balances in the partner country and provide for a considerable degree of freedom in foreign exchange operations by the authorized banks.

Automatic transferability agreements such as those between members of the EPU and those negotiated by Britain with nearly all nondollar countries are usually not accompanied by trade agreements which aim at bilaterally balanced trade. Nor do they

5 Under a number of these agreements, some countries, as a domestic matter, permit transactions to be financed with currency balances held by their commercial banks and firms in the commercial banks of the other country. In such cases, however, foreign balances above a certain level must be turned over periodically to the central bank so that the bilateral position between the partner countries can readily be determined. These various arrangements are discussed in Section III.

as a rule provide for definite swing credits or place limits on the amounts of the transferable currencies which the partners may hold. The fact that the balances are transferable makes it easier for countries to avoid accumulating large inconvertible balances. But the country whose currency is transferable must be in approximate balance with the transferable group as a whole or its currency is likely to accumulate in large quantities in the accounts of the strongest members of the system within which it is transferable. It was for this reason that strong-currency countries like Belgium and Switzerland chose not to be members of the sterling transferable account system after August 1947. However, after the establishment of the EPU, sterling balances became available for EPU settlements and hence generally acceptable to Belgium and Switzerland, as well as to all other Union members.[6]

While all three types of payments agreements are in operation today, since March 1954 over two-thirds of the world's nondollar trade has been financed under the automatic transferability type of agreement. The bulk of the remaining nondollar trade among free-world countries is conducted under exchange settlement agreements which provide for the settlement of balances in excess of permitted swing credits in gold, United States dollars, or in mutually agreed third currencies. Agreements of the bilateral offset type, which approach more closely the conditions of barter trade, are largely confined to arrangements with countries in the Soviet orbit, although Western European nations have negotiated a few such agreements with Latin American countries. Table I classifies the 388 bilateral payments agreements known to the authors to exist as of June 1954 according to types of agreement and major geographical areas.

[6] Before March 1954, sterling was automatically transferable between bilateral-account countries only when they were members of the European Payments Union. Since then Britain has placed virtually no restrictions on sterling transfers among nondollar countries.

TABLE I

NUMBER OF BILATERAL PAYMENTS AGREEMENTS BY TYPES OF SETTLEMENT AND BY MAJOR AREAS

(As of mid-1954)

	Automatic transferability	*Exchange settlement*	*Bilateral offset agreements*	*Other*[a]
Sterling area	43	0	0	0
Continental OEEC with:				
Continental OEEC	78	0	0	0
Spain	0	8	2	3
Latin America	1	35	11	1
Far East	1	6	0	0
Middle East	1	14	4	5
Eastern Europe[b]	0	31	54	4
Spain with:				
Latin America	0	5	3	0
Middle East	0	1	0	0
Latin America with:				
Latin America	0	17	0	0
Far East	0	2	0	0
Middle East	0	2	0	0
Eastern Europe	0	12	5	3
Far East with:				
Far East	0	7	0	0
Middle East	0	0	1	0
Eastern Europe	0	1	0	0
Middle East with:				
Middle East	0	1	2	2
Eastern Europe	0	5	7	2
Eastern Europe with:				
Eastern Europe[c]	0	0	8	0
Total	124	147	97	20

[a] Information necessary for classification not available.
[b] Includes countries of the Soviet orbit, plus Finland and Yugoslavia.
[c] Excludes intra-Soviet orbit agreements.

Source: Based on information obtained from the sources indicated in footnote 1, page 1, of this study. It should be noted that some agreements may in practice vary from the classification given here because of changes through secret protocols, or because of amendments not made public.

II. The Network of Agreements

Excluding the intra-Soviet orbit agreements, there were some 388 bilateral payments agreements in existence on June 1, 1954. In this chapter, we shall look at these agreements by regional groupings, indicating each group's more important characteristics. It may be noted at the outset that it is common for the partners to the agreements to represent currency areas, rather than countries, where the former are larger than the latter. Thus, for example, the British agreements determine, by and large, the means of financing trade between the sterling area and the currency area of the partner country; the Belgian agreements are made on behalf of the Belgian-Luxembourg Economic Union;[1] many of the Netherlands agreements are joint agreements with Indonesia, which for some purposes may be considered as a part of the guilder area; and the French agreements are negotiated on behalf of the French Union.

The Sterling Agreements

The network of British payments arrangements covers virtually the entire nondollar world.[2] Britain has formal agreements with forty-three countries and, in addition, informal arrangements with seven other countries providing for the use of inconvertible sterling in transactions with the sterling area and certain other nondollar countries. The British agreements were negotiated on behalf of the independent countries and territories which make up the sterling area, and they have been, therefore, the least bilateral of all the postwar agreements. Moreover, Britain has encouraged the transferability of sterling among all nondollar countries throughout the postwar period, whenever this could be done without incurring a loss of gold. This was accomplished in two ways. First, Britain negotiated agreements with a number of countries which

[1] The Benelux nations have announced their intention to negotiate joint payments and trade agreements with other countries as a part of the Benelux plan for economic union.

[2] For detailed accounts of the sterling agreements, see R. F. Mikesell, *Foreign Exchange in the Postwar World*, New York, Twentieth Century Fund, 1954, Chaps. 10 and 11; *Digest of the United Kingdom Exchange Regulations*, London, District Bank Limited, 1954; and A. R. Conan, *The Sterling Area*, London, Macmillan Company, 1952.

agreed to accept sterling from the sterling area and from other so-called transferable-account countries, without limit and without demanding a gold settlement. To these countries Britain granted the right of automatic transferability of sterling for current transactions with other members of the transferable-account group, as well as with the sterling area. Second, Britain permitted other so-called bilateral-account countries to transfer sterling on an administrative basis, provided the transfers would not give rise to a gold drain on Britain. Transfers of sterling between nonsterling countries have been large, totalling 802 million pounds in 1953, and such transfers probably have increased since the broadening of the area of automatic transferability in March 1954.[3]

Only nine of Britain's bilateral agreements are two-currency agreements, requiring acceptance by Britain of the partner country's currency, and all of these are with members of the European Payments Union. Therefore, Britain is not faced with the problem of accumulating bilateral balances in foreign currencies since all EPU currencies held by Union members are transferable to the Union in exchange for its credits and gold.

Before the establishment of the Union in July 1950, a number of Britain's agreements, mostly with European nations, provided for gold payments to the partner country whenever that country's sterling holdings exceeded a certain level. Alternatively, Britain could demand gold from these countries when her holdings of their currencies rose above a specified level. Hence, Britain tended to restrict transfers of sterling from third countries to these countries whenever such transfers were likely to cause Britain to lose gold or, in the case of debtor countries, where she might forego an opportunity to earn gold. With the inauguration of the EPU, however, monthly clearings were substituted for the swing credit and excess balance provisions of the bilateral payments agreements among the EPU countries, and as of June 1, 1954, only Britain's agreement with Argentina continued to provide for a gold settlement. But since transfers of sterling to EPU members from nonsterling countries not in the Union could affect Britain's

[3] *International Financial News Survey,* International Monetary Fund, August 6, 1954.

EPU position,[4] Britain still stood to lose gold. Nevertheless, she continued to permit automatic transferability among the eighteen transferable-account countries (eight of which were members of the EPU) and to permit administrative transferability on a fairly liberal basis for the remaining countries.[5]

Until March 1954, automatic transferability of nonresident sterling balances was confined to the accounts of certain banks in countries with which Britain had transferable-account agreements. As a rule, these banks were authorized by their governments to engage in foreign exchange operations and could be counted on to respect the terms of the international agreements to which their governments were parties. Although Britain permitted private firms and individuals all over the world to hold deposits in British banks, balances held by persons outside the sterling and the dollar area were not automatically transferable except within the monetary territory of the holder. If the holder were a resident of a transferable-account country, however, such balances were freely transferable to a transferable account held by a bank of that country.

An important purpose of these restrictions on sterling transferability among nondollar countries, even where there was no threat of an immediate gold loss, was to confine sterling transfers to those arising out of current transactions and to avoid the use of inconvertible sterling for financing transactions between the sterling area and the dollar area. Inasmuch as Britain's bilateral payments agreements with transferable-account countries specifically limited sterling transfers to other transferable-account countries to the financing of "direct current transactions," it was

4 The EPU rules permitted members to discharge deficits with the EPU by transferring sterling balances even though they were not in deficit with the sterling area. This meant that EPU members could use past accumulations of sterling, or sterling transferred from other members of the transferable-account system, for settling their EPU deficits. Britain was fearful that such transfers might result in a serious gold or dollar drain to the EPU, and the U.S. government agreed—as a part of its effort to bring the EPU into being—to reimburse, up to a specified amount, the United Kingdom for any net payment of dollars to the EPU which might result from the use of accumulated sterling holdings by participating countries to cover EPU deficits. This United States commitment had been discharged by the end of 1952.

5 Sterling was also automatically transferable among the nine members of the European arbitrage scheme inaugurated in May 1953, and three of these—Belgium, France, and Switzerland—were also bilateral-account countries.

reasoned that authorized banks in the transferable-account countries would abide by these regulations. However, the history of so-called "cheap sterling" deals and the widespread use of transferable-account sterling for financing trade between the United States and the sterling area belie the British faith in the sanctity of their agreements.[6]

Since March 1954, all bilateral sterling accounts, except temporarily that of Turkey, have become transferable accounts, and sterling has been made freely transferable throughout practically the entire nondollar world for both current and capital transactions. Months before this, the dollar price of transferable-account sterling had fluctuated within less than 2 per cent of the official parity. While British controls seek to prevent the use of inconvertible sterling for financing transactions between the sterling and the dollar area, sterling had by 1954 become sufficiently strong so that the British could afford the small cost of such additional transactions of this type which might result from the automatic transferability of sterling throughout the nondollar world. Greater sterling transferability was expected to increase confidence in the currency and increase the demand for British financial services.

The Nonsterling Agreements

Excluding the sterling agreements, which, by reason of the broad transferability of sterling and the uniform character of the provisions, must be considered in a class by themselves, there are in operation at least 345 bilateral payments agreements, involving fifty-four countries. (Intra-Soviet orbit agreements are excluded from these figures because of inadequate information and because of their proximity to barter arrangements.) Of these 345 agreements, the Continental members of the Organization for European Economic Cooperation (OEEC) are one or both partners to 259, Eastern European countries to 132, Latin American republics to 97, Near and Middle Eastern nations to 47, Spain to 22, and Far Eastern countries to 18. (See Table II.)

THE CONTINENTAL OEEC AGREEMENTS. There is a complete system of agreements among the thirteen monetary areas represented

6 See Mikesell, *op.cit.*, Chap. 9.

by the Continental OEEC countries, seventy-eight agreements in all. Settlements take place monthly through the European Payments Union so that no bilateral swing credits are provided for during the life of the Union. However, in the event the EPU is terminated, some of the agreements provide for the reconstitution of the swing credit and settlement arrangements in operation be-

TABLE II

NUMBER OF NONSTERLING BILATERAL PAYMENTS AGREEMENTS BY AREAS
(As of mid-1954 and excluding intra-Soviet bloc agreements)

	Continental OEEC	*Spain*	*Latin America*	*Far East*	*Near and Middle East*	*Eastern Europe*
Continental OEEC	78	13	48	7	24	89
Spain	13	0	8	0	1	0
Latin America	48	8	17	2	2	20
Far East	7	0	2	7	1	1
Near and Middle East	24	1	2	1	5	14
Eastern Europe	89	0	20	1	14	8
Total	259	22	97	18	47	132

Source: Based on data obtained from sources cited in footnote 1, page 1, of this study.

fore July 1950. Most of the agreements provide for the use of the currencies of both partners as units of account, but the Greek drachma and the Turkish lira are not used and in a few cases the United States dollar is employed as the sole unit of account.

These countries are members of a multilateral payments system (EPU); therefore, no attempt is made to balance trade bilaterally and the trade-quota agreements tend to be nondiscriminatory with respect to intra-OEEC trade. The currencies of eight of these countries, along with sterling, are freely transferable among the members of the European arbitrage scheme.[7] In addition, nonresident holdings of the West German Deutsche Mark are, like sterling, automatically transferable throughout most of the nondollar world.

The Continental OEEC nations' agreements with countries in

[7] The members of the European arbitrage scheme at the time of writing are the Scandinavian countries, the United Kingdom, the Belgium-Luxembourg Economic Union, West Germany, France, the Netherlands, and Switzerland. Transferability must take place through authorized banks.

the rest of the world exceed in number those of any other regional group. Most of them employ an OEEC currency or the dollar as the sole unit of account. The majority of the agreements with Eastern Europe are of the bilateral offset type, and nearly all of these are accompanied by trade-quota agreements which provide for bilaterally balanced trade and modest swing credits. Their agreements with Latin America show considerable diversity, and a number of recent developments have tended to reduce the degree of bilateralism in interregional trade between the countries in these two regions. There are relatively few agreements with the Far East since most of the countries there either are members of the monetary areas of EPU countries or finance the bulk of their trade in sterling. In spite of the existence of a number of agreements with Middle Eastern countries—principally Egypt, Iran, Israel, and Lebanon—trade with them is not for the most part bilateral in character. Finally, all but one of the Continental OEEC countries have payments agreements with Spain, most of them of the exchange settlement type.

LATIN AMERICAN AGREEMENTS. From the standpoint of their payments relations with other countries, the Latin American countries may be divided into three groups. The first group, including Argentina, Brazil, Paraguay, and Uruguay, has tended to trade with the nondollar world almost entirely on an inconvertible currency basis and has made extensive use of trade and payments agreements, both within the group and with the outside world. The second group, consisting of Bolivia, Chile, Colombia, Ecuador, and Peru, has conducted a substantial portion of its trade with the nondollar world on a dollar basis but during the early postwar period negotiated some bilateral pacts. The third group, consisting of Mexico, Venezuela, and the Central American and Caribbean republics, trades almost entirely on a convertible currency basis.

The bulk of the Latin American agreements are with Britain and the countries of Western Europe, including Spain, but there are also agreements with Japan and a few with Eastern European nations. Intra-Latin American trade represents only about 10 per cent of the area's total trade, and there are relatively few agreements between these countries.

In the early postwar period, most of the Latin American countries tended to have surpluses in their bilateral accounts with the rest of the nondollar world. Some of these credit balances were settled by the purchase of European-owned railroads and utilities, and some by transfers of United States dollars or sterling. More recently the balances have tended to go the other way and some of the European countries have had difficulty in collecting their outstanding credits. Further, there has been an increase in the number of agreements negotiated with Western Europe in the past few years, and a larger volume of trade has been financed with inconvertible currencies. This has been particularly true of Chile, Colombia, Cuba, Ecuador, and Mexico, which have been finding it increasingly difficult to obtain convertible currencies for their exports to nondollar countries. For example, Chile formerly sold nearly all of her copper and nitrates for United States dollars, and most of her bilateral agreements specifically excluded these commodities. More recently, however, she has sometimes accepted sterling and other inconvertible currencies for them. The same situation has obtained with respect to Brazilian and Colombian coffee and Cuban sugar.

The Latin American countries have negotiated a wide variety of agreements. In addition to the six sterling agreements, most of the early postwar agreements with Western European countries employed a European currency as the unit of account, while the dollar was commonly used as the accounting unit in agreements with other countries. The newer agreements with Western Europe, however, and in particular those with West Germany, are based on the dollar as the accounting unit; these accounts as such are inconvertible. While a few intra-Latin American agreements, and some of the agreements with Spain, have employed the Argentine peso or the Brazilian cruzeiro, the multiple exchange practices of these countries have rendered the local currency generally unsuitable as a unit of account.

Except for the sterling agreements, most of the bilateral payments arrangements have been accompanied by or have been an integral part of trade-quota conventions which have aimed at balanced trade. In late years, however, the trade pacts have had less significance and the degree of bilateralism has been substantially reduced. This has been due in part to the increased transferability of European currencies together with the development of facilities for transferring balances accumulated under bilateral payments agreements. In addition, the fact that European markets have been made freer has greatly expanded the possibility of transit trade and "commercial switch" transactions.

EASTERN EUROPEAN AGREEMENTS. Agreements among the Soviet-bloc countries are almost exclusively of the bilateral offset type. While the ruble is used as the unit of account for most if not all of these agreements, ruble balances are not transferable between Soviet countries. Indeed, the ruble values of the bilateral clearing account balances are quite artificial since the official parities of the Soviet-bloc currencies bear little relation to internal costs and prices. Ruble prices of the commodities entering into international trade are not determined on the basis of world prices but are negotiated with reference to the nature and quantities of the particular commodities against which they are to be traded. For this reason the ruble balances do not represent a uniform or measurable amount of purchasing power. Triangular deals in commodities which appear to involve a transfer of ruble balances have been negotiated between Finland and members of the Soviet bloc, but the commodity trade is worked out in advance.

Except in the USSR and Romanian agreements with Finland, the ruble is not used as the unit of account in agreements between the Soviet bloc and the rest of the world. Most of the East-West agreements employ either a Western European currency or the dollar as the unit of account. Since Soviet trade is entirely in the hands of state trading organizations, trade under the East-West agreements tends to be rather rigidly governed by trade-quota and bulk-purchase arrangements. Except under the sterling agreements, multilateral transfers of balances are not permitted and most of the pacts provide for settlement only in goods. A considerable portion of the imports into the Soviet bloc from the sterling area and from Continental Europe in 1953 and early 1954 are reported to have been financed with sterling acquired by gold sales.

FAR EASTERN AND MIDDLE EASTERN AGREEMENTS. Most of the Far Eastern countries are members of OEEC country currency areas and accordingly have relatively few payments agreements. Japan has by far the largest number, and, except for her sterling agreement, all of the Japanese bilateral payments arrangements employ the dollar as the unit of account.

At the end of the war, most of the Middle Eastern countries were members of the sterling or the French franc currency areas and had very few payments agreements. But after Egypt, Israel, and the Levant States broke off their membership in European currency areas, they negotiated a number of agreements. Lebanon and Syria have free-exchange markets and few import restrictions, so there is relatively little bilateralism in their trade relations. Some of Egypt's agreements provide for the transferability of Egyptian pounds over a wide area. In fact, Egypt has established a special Egyptian pound account which is transferable among a large number of countries. Israel has a number of exchange settlement agreements, but since she tends to have a heavy deficit on current account she has had to make substantial dollar payments to the partner countries.

III. Currencies and Accounts

The accounting arrangements established by the payments agreements differ widely, depending upon (1) the nature of the exchange controls in the partner countries, (2) the relative strengths of the currencies of the partners and the extent to which they are employed in international trade, (3) the willingness of the partners to extend credits, (4) the degree of trade liberalization practiced by the partners, and (5) the existence of special claims or indebtedness which the partners may desire to handle by means of separate accounts. These accounting arrangements are of more than technical interest. They determine in part the relative freedom of commercial transactions and the degree of governmental participation in trade and financial arrangements. They also help determine the extent to which multilateral trade is possible. Finally, the more nearly the financial practices permitted by the agreements approximate free-exchange conditions, the easier will be the transition to those conditions.

Currencies of Account

The national currencies employed in payments agreements are overwhelmingly those of the United States and the countries of the Organization for European Economic Cooperation. Out of a total of 388 agreements studied, 151 employ the United States dollar as the accounting unit. There are only 26 of the other agreements which do not use an OEEC currency at all, although an additional 19 agreements, to which an OEEC country is partner, employ both the OEEC and the partner country currency. Of the nondollar, non-OEEC currencies, those most frequently employed are the Egyptian pound, the Argentine peso, and the Brazilian cruzeiro. Where the dollar is employed the accounts are maintained in dollar units and in most cases invoicing in dollars is required, but dollars are not, of course, actually transferred in making payments.

THE EXCHANGE RATE PROVISIONS. Exchange rate provisions are included in bilateral payments agreements for two reasons: to convert invoice values into currency-of-account values and to convert currency-of-account values into an agreed currency for settlement purposes.

Before the EPU was established, the great majority of intra-OEEC country agreements stipulated an exchange rate which could be changed only after notice had been given to the partner and adjustments made in the accounts. After the formation of the EPU, its members agreed with the Union to maintain a certain rate in terms of the EPU accounting unit, which rate is used for settlement purposes, thus making unnecessary any exchange rate provisions in the individual payments agreements. Other agreements either set the rate in the accord or provide for the use of the cross-rate on the dollar, the official or bank rate, or the rate established with the International Monetary Fund.

A number of countries employ multiple exchange rate systems, and in such cases the exchange rate varies with the particular transaction involved. For example, the Argentine-Norwegian five-year agreement of August 1949 employed a single Norwegian krone account, specified the use of a cross-rate on the United States dollar, but further required that the conversion of pesos to dollars was to be made at the dollar rate applicable in Argentina for that specific type of transaction or good. This provision is typical of those contained in agreements between countries one or both of which employ multiple exchange rates. So long as the same set of rates is applied to trade with different countries, there is no discrimination arising from the exchange rate for or against payments agreement partners.

Some bilateral payments agreements contain no exchange rate provision. Generally, this occurs where (1) a single currency is used as the currency of account, (2) invoicing is required in that currency, and (3) settlement of excess (if permitted) and final balances takes place either in goods or in the same currency. The Greek-Spanish agreement, for example, contains no exchange rate clause since it uses a single dollar account, specifies dollar invoicing, permits no excess balances (i.e., balances in excess of the permitted swing credit), and stipulates final settlement in goods. The Austrian-Uruguayan agreement also uses a single dollar account and specifies invoicing only in dollars; again, no excess balance is permitted and final settlement is subject to negotiation. Similar provisions allow the exclusion of exchange rate clauses from other agreements, including those between Austria and Poland, Israel and Yugoslavia, Uruguay and France, Uruguay and Turkey, West Germany and Paraguay, Italy and Paraguay, and Spain and Paraguay.

The 1948 agreement between Italy and Russia, which established the lira as the unit of account, provided that payments could be expressed in United States dollars, Swiss francs, Italian lire, or pounds sterling. Such values were then recorded in the account by converting them at the Italian bank rate on the pertinent currency. The Norwegian-Bulgarian agreement permits invoicing in dollars or Norwegian kroner and specifies the official rate for converting kroner to dollars. In the Finnish-USSR agreement, ruble invoicing is stipulated for ruble accounts.

Although these agreements do not specify the local currency rate which banks are to use in paying exporters upon the latter's surrender of shipping documents, the rate is of course of considerable importance. If, for example, the exporting country applies a penalty rate to proceeds of exports to certain bilateral payments agreement partners, it discourages exports under the agreement and thus may discriminate against trade with particular partners. Nonetheless, this conversion rate has commonly been regarded as a domestic matter and has not been treated in the payments agreement document.

REVALUATION GUARANTEES. Balances in payments agreement accounts are frequently covered by guarantees against a reduction in value resulting from a depreciation of the unit of account. Four of Britain's agreements—those with Argentina, Brazil, Iran, and Peru—bear a gold-value or revaluation guarantee, and all intra-EPU accounts bear guarantees in terms of the EPU accounting unit, the value of which is defined in terms of gold. Of the remaining agreements, about seventy-seven are known to have a revaluation guarantee clause, and twelve of these employ the dollar as the unit of account.[1] The vast majority of the dollar account agreements, however, do not employ a gold guarantee.

Revaluation guarantees are sometimes applied to swing credits so that the swing credit is increased proportionately with the devaluation of the currency of account. Such arrangements assure

[1] Eight of the twelve dollar account agreements with gold-guarantee clauses involve Argentina as one of the partners.

that devaluation of the currency of account will not produce an excess balance on the account as a result of the operation of a revaluation guarantee with respect to the balance. Adjustments in balances were made in a number of cases following the September 1949 devaluations. For example, the Brazilian-Swedish agreement of May 1949 established a Swedish krona account with a revaluation guarantee covering both the current balance and the swing credit. When the krona was devalued by 44 per cent, the balance in favor of Brazil was increased proportionately and the swing credit expanded from 50 to 72 million kronor.

Countries whose currencies are employed as the unit of account avoid such guarantees whenever they can, for they work to the advantage of the partner country if, at the time of devaluation, the partner country holds a credit balance. Inasmuch as prices in the devaluing country usually do not rise by the full extent of the devaluation, the creditor tends to enjoy an increase in real purchasing power. Gold-guarantee clauses in dollar account agreements would also be disadvantageous to debtor countries if, as would be likely, a devaluation of the dollar in terms of gold were accompanied by a simultaneous devaluation of most other currencies.

Single Account Agreements

Most bilateral payments agreements provide that all the transactions between the parties be financed through a single set of accounts which are established in stipulated banks. Such agreements are commonly called "single account" agreements, even though two accounts are established if two currencies are employed. Where the dollar or some other third currency is the unit of account, the account is usually maintained in the central bank of one of the partners, although frequently duplicate accounts are maintained in both central banks.

Each partner undertakes to see that payments are channelled through the accounts in the manner specified by the agreement. The commercial instruments employed by the foreign traders and the commercial banks are generally the same as those employed before exchange controls and payments agreements were instituted—letters of credit, sight or time drafts, and so forth. But actual payment is made by debiting the account of the buyer's country and/or crediting the account of the seller's. In those few cases where one of the partners does not employ exchange controls, the exchange-control country must assume primary responsibility for enforcing the terms of the agreement.

The role that commercial banks are permitted varies as between agreements. Only rarely is the payments agreement itself concerned with any except the central or "master" account; thus, the manner and extent of commercial bank participation are usually a matter of domestic governmental or banking policy. It is common practice to permit foreign exchange transactions to take place through "authorized" commercial banks, which are licensed by the government to handle foreign payments and receipts in accordance with regulations laid down by the exchange-control authorities. In such cases, the commercial banks simply function as agents for the exchange-control authorities in exchange dealings and do not hold balances in foreign banks. Accordingly, the use of centralized accounts prevents normal correspondent relations between banks. For example, Article 15 of the Brazilian-Czech payments agreement of May 1950—a typical provision—stipulated that "Banks authorized to operate in exchange may, as intermediary parties, effect any operation within the norms established by the present Agreement, but through temporary accounts, liquidated immediately afterwards through the sole account annually opened by the Banco do Brasil, S.A., in the name of the Czechoslovak National Bank, Praha."

Similarly, the 1951 Austrian-Brazilian agreement stated that payments between the two nations would be made directly by the Banco do Brasil and the Austrian National Bank but that ". . . interested persons, Austrian or Brazilian, may, however, have recourse to the services of banks or institutions authorized to deal in exchange in their respective countries in order to carry out their operations." Under this provision, the Bank of Brazil issued a circular letter designating four banks to be "Authorized Banks" and specifying that these banks would not be able to maintain balances with banks in Austria as a result of transactions conducted through the agreement. They were, however, by means of transitory accounts, permitted to be used as intermediaries in export and import transactions, including correlative services.

In some instances, commercial banks are allowed to maintain balances, deal directly with correspondent banks abroad, and execute any operation permitted under the payments agreement—but under close supervision and control. A typical arrangement of this type requires the banks to solicit permits from the exchange-control authorities, specifying in their request their correspondents in the partner country and agreeing that, upon expiration of the payments agreement, the exchange-control authorities may transfer to the central account any debit or credit balances which may exist between the commercial banks. The authorized banks are usually required to report their position at least once a month to the central bank for clearing purposes. They are, furthermore, generally warned that any balances they hold may be summarily taken over by the central bank at its discretion.

The policy of centralizing accounts stems largely from the fact that the more the balances are dispersed, the greater is the likelihood of overdrafts' not being detected quickly and the more likely the use of balances for unauthorized transactions. At the same time, centralization of the accounts makes for rigidity and delays, and greatly increases the work of the exchange-control authorities.

The rigidity of the financing mechanism employed under the agreements described above contrasts rather sharply with the operation of the sterling and intra-OEEC country agreements, under which commercial banks play a role closely approximating that in free-exchange conditions. So far as British exchange regulations are concerned, there are usually no restrictions on sterling transfers between nonresidents of any country outside the dollar area. Sterling can be held by individuals as well as by banks, and it can be used to finance capital as well as current transactions. While inconvertible sterling is traded in the New York market, it cannot legally be used to finance transactions between the dollar and the nondollar area; only American account (convertible) sterling can be used for this purpose. However, the countries with which Britain has sterling payments agreements frequently maintain restrictions on the use of sterling just as they do with respect to dollars or other currencies.

Continental OEEC countries in recent years have also generally permitted the commercial banks considerable freedom in the holding of foreign exchange balances. EPU members agree to enforce rules designed to assure that bilateral positions are calculated fully and correctly for reporting to the clearing agency—the Bank for International Settlements—and this has meant, as a minimum, that each authorized bank must report monthly the exact amount of its holdings of partner country currencies. In some cases, the commercial banks have also been required to transfer foreign exchange balances in excess of specified amounts to the national control authorities. Nevertheless, authorized banks in countries of the EPU group have steadily increased their participation in the financing of trade within the terms of bilateral payments agreements. Beginning in 1953, nine of these nations[2] have entered into an arrangement whereby authorized banks conduct arbitrage operations by buying and selling the currencies of the other participants in the exchange market of any participant. Thus, for example, a French bank no longer must buy Belgian francs in Belgium but may buy them from a Swedish bank. Rates for the various currencies are permitted to fluctuate within 3/4 of 1 per cent of parity. Commercial banks in these countries are thus given a degree of freedom which is denied banks by the governments in most other nations of the world.

Multiple Account Agreements

Of the agreements on which this study is based, sixteen are known, as of late 1954, to contain provisions for the use of multiple accounts—that is, for the use of separate accounts to record different types of transactions. These agreements are between the following countries: Austria with Bulgaria and Yugoslavia; Denmark with Poland; Spain with Cuba and the Belgian-Luxembourg Economic Union; East Germany with West Germany; France with Lebanon and Syria; Israel with Finland, Hungary,

[2] The United Kingdom, France, Belgium, Switzerland, the Netherlands, Norway, West Germany, Sweden, and Denmark.

and Poland; and Switzerland with Bulgaria, Czechoslovakia, Spain, Poland, and Yugoslavia.[3]

The reasons for the establishment of multiple accounts vary with the different agreements. The simplest case of the use of multiple accounts is that of an agreement which establishes two accounts, one of which is used to record payments for invisibles and the other payments for commodities. Such an arrangement is designed to provide a separate accounting mechanism for each of two different types of transactions. An example is furnished by the Austrian-Bulgarian agreement of December 1948 (amended in June 1950) under which an "A Account" is used for payments for goods and a "B Account" for recording collateral expenses. Both accounts are denominated in dollars and a reciprocal swing credit is provided for each. Establishing a reciprocal swing credit for each account indicates a desire to maintain balanced trade in each of the categories of permitted transactions.[4] The employment of a single swing credit, on the other hand, frequently means that the objective of the multiple account procedures is simply to record certain values separately for information purposes.

It is, of course, possible to limit the volume of transactions in each of the categories without establishing a swing credit for each of the accounts. The West German–Colombian agreement of February 1952, for example, covered payments for total trade in goods up to 90 million dollars annually; in addition, it specifically provided that invisibles up to 5 million dollars could be financed through the account. Invisible transactions in excess of 5 million dollars required free United States dollar (or other hard-currency) payment. But only one swing credit and one account were employed—presumably, the German bank maintaining an account in each category to ensure that the agreement terms were fulfilled.

3 Among EPU countries in the pre-EPU period, only certain of Switzerland's agreements, as for example with Austria and Greece, employed multiple accounts. Earlier agreements between Argentina and the Netherlands, Argentina and Paraguay, and Israel and the Netherlands also employed multiple accounts.

4 Other provisions in agreements are sometimes calculated to accomplish the same objective—a desire by the partners to see that the services are shared somewhat equally. For example, Argentine agreements often provide that one-half the goods exchanged will be carried in Argentine ships and insured by Argentine companies.

Occasionally, multiple accounts are directly linked to multiple lists of goods established in an underlying trade agreement. This is to ensure, in the words of the Greek-Uruguayan agreement of June 1951, ". . . only the exchange of goods equal in economic importance." The trade-quota agreement provides for implementation of this provision by stipulating three lists of Greek goods and three opposing lists of Uruguayan goods. In this case, all the values are cleared through one dollar account, with the licensing of goods presumably providing enforcement of the balancing provision. Unless trade is small and/or very rigidly controlled, however, actual enforcement of such a provision while employing only one account is difficult. Under the Greek-Uruguayan agreement, for example, it appears that, in practice, trade is virtually restricted to compensation deals since licenses are issued only after the exporter and importer have signified what is being secured in the exchange. That is to say, control authorities in both nations must approve each individual exchange of commodities prior to the actual movement of the goods. Compared with the usual method of transacting business under bilateral payments agreements, this procedure is highly restrictive.

Multiple accounts are occasionally employed for the progressive liquidation of obligations. This practice became more common in the years just after 1949 when some Eastern European countries—particularly Yugoslavia—negotiated pacts with various Western European nations on the total indemnities to be paid foreign investors whose property had been nationalized. In the typical case, representatives of the two governments met and agreed upon a total indemnity for the nationalized property to be paid by the Eastern European to the Western European government. The allocation of this total among the claimants in the Western European nation was a domestic concern of the recipient country.

Some of these pacts—including those between France and Hungary, France and Yugoslavia, and Sweden and Bulgaria—provided for periodic payments to be made in gold or convertible currencies by the Eastern European country. Such agreements became distinct and separate from the regularly established payments agreement accounts. Occasionally, however, the liquidation agreement became directly interrelated with the payments agreement, as for example under the Czech-Swiss payments agreement of December 1950. The two governments agreed upon a total indemnity of 16.6 million United States dollars. Czechoslovakia immediately paid about 6.5 million dollars by the transfer of accounting balances accumulated previously and earmarked for such an eventual payment. The remaining 10.1 million dollars was to be paid in twenty semiannual installments, to be accumulated by crediting 7 per cent of the value of Czech exports to a special "Liquidation Account."[5]

Moreover, an additional clause provided an inducement for Czechoslovakia to export at least 7.25 million dollars in goods every six months, 7 per cent of this amount being equal to the required semiannual payment of 505,000 dollars. The Czech National Bank agreed that if 7 per cent of the value of Czech exports fell short of this amount, it would make up with a cash payment the difference betwen 800,000 accounting dollars—a sum in excess of the normal requirement—and the sum which had accumulated in the special account. On the other hand, if the balance in the "Liquidation Account" exceeded the required sum, 505,000 dollars, Czechoslovakia was entitled to receive free foreign exchange for the excess. Thus, an inducement in the form of free foreign exchange was provided in one case, a penalty in the other.

The Swiss-Bulgarian agreement was similar in nature. Seventy per cent of Bulgarian export values were credited to one account, balances on which could be used to purchase Swiss commodities enumerated on a quota list. Twenty per cent of the Bulgarian export proceeds were credited to a second account; balances accumulating in this account were applied to the payment of debts. The remaining ten per cent was credited to a free Swiss franc account and the balances put at the free disposal of Bulgaria. A special inducement was thus offered Bulgaria in the form of free Swiss francs, although, unlike the situation under the Czech-Swiss agreement, no penalty provisions applied.

Liquidation of such obligations also may take place with the

[5] A variation is found in the Danish-Yugoslav agreement whereby the proceeds of certain Yugoslav exports were credited to a special account. Special export quotas were established on certain commodities in amounts sufficient to liquidate the obligation within three years.

use of a single account. Under the French-Czech agreement, for example, Czechoslovakia agreed to pay indemnities totalling 12 million accounting dollars in twenty semiannual installments. Payment was to take place via the regularly established payments agreement account by means of a planned Czech export surplus established in the trade agreement quotas. The balances accumulating in favor of Czechoslovakia were to be transferred semiannually to France.

Creditor countries would of course prefer to receive payment in gold or convertible currencies, since liquidation through payments agreements requires the payments to be used for purchases in the debtor country and may involve the buying of relatively unwanted goods at prices above those generally prevailing in world markets for similar commodities. But the Western European claimants have accepted them as perhaps the only means of receiving payment. Available evidence indicates that agreements providing for liquidation through the accounts have in practice proved more successful in securing compensation than demanding outright payments.[6] Indeed, the gold or free dollar payments required by a number of the agreements have failed to materialize.

Although liquidation through the accounts has proved relatively successful, payment depends on trade's actually taking place as planned. There is no guarantee that it will. In 1949, for example, Poland undertook to pay Switzerland about 52 million Swiss francs (roughly 12.4 million United States dollars) as compensation for nationalized properties. Payment was to be made in thirteen annual installments beginning in 1951. The installments were to accrue by the crediting of a special account with 3 per cent of all proceeds of Polish exports, the percentage to be raised as Swiss imports of coal increased. In 1951 and 1952, however, Polish exports of both coal and other goods fell far short of the amounts required to make the annual payment,[7] the low level of coal exports being attributed to the fact that Polish coal

6 Setting aside 5.5 per cent of the value of imports of Polish coal into Sweden, for example, reduced Swedish claims upon Poland arising from nationalization of property from 21 million United States dollars in 1951 to 16 million in 1953. *Foreign Commerce Weekly*, November 30, 1953, p. 12.

7 In this agreement, Switzerland did not offer Poland the special export inducement of receiving partial payment in free currencies.

not only failed to meet Swiss quality requirements but was also somewhat overpriced.[8]

Several of Israel's agreements are designed to liquidate a special form of claims—immigrants' accounts abroad. Many immigrants into Israel owned balances in the countries from which they came, and these persons were in most cases anxious to transfer such assets to their new home. To the authorities in Israel, faced with a large unfavorable balance of trade, the repatriation of these "emigrant holdings" to pay for necessary imports assumed special importance. At the same time, the countries holding the immigrants' assets had in this fact a decided advantage in bargaining with Israel over the provisions in the bilateral payments agreements which Israel began to conclude shortly after she became an independent nation. For the most part, these countries exercised their advantage by requiring Israel to make partial payments in free dollars for imports if the partner, in turn, were to accept the "emigrant holdings" in payment for a further portion. These considerations are clearly reflected in the agreements which Israel concluded with the Netherlands, Finland, Hungary, Poland, and Yugoslavia. Complete details are lacking for all these conventions, but available evidence suggests that each operated in a manner similar to that of the agreements with the Netherlands and Hungary.

The Israeli-Dutch agreement of November 1951 established two guilder accounts in the Netherlands central bank. The "A Account" was credited and debited with the values of goods and services exchanged between the partners. This account had a reciprocal swing credit of 1 million guilders (about 263,000 United States dollars). Because of Israel's large trade deficits, it was expected that she would exhaust this credit rather quickly. At the same time, Israel desired to utilize the guilder balances which had accumulated from emigrant holdings, as well as from gifts and remittances. Therefore, a "B Account" was opened and credited with the value of free dollars transferred by Israel to the Netherlands and with the value of the transfers of emigrant holdings from a third account. It was stipulated that at least one-half of the balances in the "B Account" had to be derived from dollar

8 *International Financial News Survey (IFNS)*, July 17, 1953.

transfers. This account could not show a debit balance. When the A Account was overdrawn, balances from the B Account could be transferred to reduce the A Account to an acceptable level. In this manner, Israel paid for a portion of her imports by liquidating emigrant holdings, and for the remainder of her imports in dollars or exports.

The other pact on which detailed information is available is the Israeli-Hungarian payments agreement of February 1950, which employs a dollar account (with subaccounts) in the Bank Leumi (Israel). This multiple account system operates in the following manner: The main account ("Collector Account") is credited with the total value of imports from Hungary. On the last day of each month, the balance is transferred to three subaccounts: 27.5 per cent is credited to the "Number 1 Account," which, during the month, has been debited with the value of Israeli exports;[9] 52.5 per cent is credited to the "Number 2 Account," which must be settled by an Israeli payment in free United States dollars within the following thirty days; (3) 20 per cent is credited to the "Immigration Account," which was previously debited with the value of holdings of Jewish emigrants.

These multiple accounts thus assure the partner country that Israel will pay dollars for a certain percentage of her imports if, in return, the Israelis are permitted to pay for another portion by the liquidation of immigrant holdings. Whether such agreements are, in fact, beneficial to Israel depends, *inter alia,* on the pricing of products exchanged between Israel and her agreement partners. If the partners are able to secure prices for exports to Israel in excess of the prices Israel would have to pay elsewhere for similar commodities, it tends to offset Israel's gain in paying for portions of imports with immigrant holdings. In addition, if in order to liquidate the holdings Israel has to purchase certain goods which she otherwise would not buy, it tends to destroy the advantage Israel presumably receives. If, however, pricing proceeds on a basis consonant with world market prices, it can safely be assumed that Israel actually does benefit—or has benefited—by being permitted to use such balances to secure needed imports.

[9] Transportation charges are also debited and credited to the "Number 1 Account." It was anticipated that the 27.5 per cent of Hungary's exports would be roughly equal to the entire value of Israel's exports; therefore, the Number 1 Account was expected to be approximately balanced by this procedure.

Some multiple account agreements reveal a combination of objectives. For example, in April 1949, Belgium and Spain concluded a three-year payments agreement which established three accounts denominated in Belgian francs and located in the National Bank of Belgium. The accounts were used in the following manner: 8 per cent of Spain's export proceeds were credited to a "Special Account," balances in which were used for the transfer of profits earned by Belgian investors in Spain and for the settlement of outstanding financial claims; 15 per cent were credited to the "A Account" and the balances used for Spanish purchases of commodities stipulated in the trade agreement as "nonessentials"; the remaining 77 per cent were credited to the "B Account," balances in which were to be used for purchases of Belgian goods enumerated in the quota lists. Thus, the Belgian-Spanish multiple account agreement was designed for the liquidation of claims and the exchange of "nonessential goods," as well as for the exchange of "essential" goods.[10]

The agreement of December 1948 between Denmark and Poland sought to realize still another purpose: to provide sterling and free dollar payments for a portion of Polish coal exports. Two accounts denominated in Danish kroner were established. The regular account was debited with the total value of Danish exports and credited for the total proceeds of all Polish exports except coal. Only 71 per cent of the coal proceeds were credited to the account, the remaining 29 per cent being credited to a "Special Account." At the end of each month, 22 per cent of the accumulated krone balances in the "Special Account" were transferred to an "A Account" denominated in dollars, while 78 per cent were credited to a "B Account" denominated in sterling, krone balances being converted into dollars or sterling at the official rates. Both the A and B Accounts were placed at the free disposal of Poland.

The two-year agreement concluded between Cuba and Spain in 1952 is interesting in that one of the accounts established under

[10] A similar agreement, involving only two accounts, was concluded by Spain and Switzerland. One account was credited with 92.5 per cent of Spain's export proceeds. Balances in the account were used for imports from Switzerland as enumerated in a quota list. Seven and one-half per cent of the export proceeds were credited to a second account, and these balances were used to pay for specified invisibles, including insurance, pensions, earnings of Swiss investments, and student expenses.

it takes the form of a freely transferable United States dollar account, with the objective of increasing trade between the partners. The agreement established three dollar accounts in the Bank Gelata, in Havana: (1) There is an "EP Account"—credited for all private remittances, rents, and other noncommercial payments in favor of Spain. Balances in this account are at the free disposal of Spain for paying current obligations *in Cuba*. Spain agreed to use these proceeds initially to liquidate certain debts which had accrued in favor of Cuban tobacco exporters. (2) There is an "A Account"—credited with the following portions of Spanish export proceeds: 17 per cent of the first 3 million dollars, 20 per cent of the trade values totalling 3 to 5 million dollars, 25 per cent of the 5 to 7 million dollar volume, and 50 per cent of all proceeds in excess of 7 million dollars. Balances in the A Account may be used by Spain for purchases *anywhere in the world*. Thus, certain freely transferable balances accumulate in favor of Spain. (3) There is a "B Account"—credited with those portions of Spanish export proceeds not credited to the "A Account." Balances in this account may be used for purchases *in Cuba*, the values of which are debited to the account. Inasmuch as no swing credit is explicitly provided, the account presumably cannot have a debit balance. Therefore, since only credit balances may accrue in the account, a unilateral swing credit in favor of Cuba results.

The multiple account provisions were in this case designed to encourage larger Spanish exports—and hence, of course, to promote greater purchases by Spain from Cuba. A previous agreement (1950) provided that a uniform percentage of the value of exports up to 7 million dollars should be credited to the A Account, but it did not prove effective in securing the desired objective. Hence, in the 1952 agreement, the percentage of free dollars available to Spain is decreased for lower trade volumes and substantially increased with increases in the volume of trade. In addition, the accounts were established to provide funds with which Spain could liquidate debts, primarily those which had accumulated to tobacco exporters.[11]

[11] The agreement also contained a variety of other provisions. Among others, Spain agreed to reduce duties and charges on cigars. Subsequently, the consump-

Ruble Account Agreements

Since 1950, the ruble has been used as the unit of account for intra-Soviet bloc agreements and for certain agreements between members of the bloc and Finland. Soviet bloc agreements normally provide for the establishment of ruble accounts in the central bank of each partner. Upon receipt of the shipping documents, the importing firm makes deposits in its own bank, which in turn advises the exporter's bank to make payment to the exporter. The importer's bank notifies the central bank, which credits the clearing account in favor of the exporting country.[12]

These ruble account agreements call for a strict bilateral balancing of trade over a twelve-month period. While some of the agreements provide for final settlements in commodities or in gold or convertible currencies, settlements are believed in practice to be made entirely in commodities. Moreover, with the possible exception of three multilateral agreements each involving Finland, the USSR, and one other country,[13] ruble balances are not transferable between members of the bloc. Indeed, their official value is so artificial and their purchasing power so dependent upon the bilateral trade bargaining that they could scarcely serve as a medium of multilateral settlements.

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tion tax was decreased from 70 to 55 per cent while the commission paid to the government tobacco monopoly by Spanish merchants was reduced from 40 to 30 per cent. On the other hand, Cuba agreed to rescind her law of March 1949 which imposed a special tax on Spanish wines and liquors.

12 For a discussion of Soviet trade and payments agreements, see *Economic Treaties and Agreements of the Soviet Bloc in Eastern Europe, 1945-1951*, New York, Mid-European Studies Center, 1952.

13 The three third members are Poland, Czechoslovakia, and Communist China.

IV. Credit Provisions

All international transactions financed other than by simultaneous barter deals or by the exchange of goods against gold involve an element of credit. In any transaction, there is no problem of the willingness of exporting countries to accept convertible currencies without limit. Even an inconvertible currency, provided it is relatively strong and transferable over a fairly wide area, may be accepted in payment by some countries at least, more or less without limit. This is particularly true in the case of a currency such as sterling which, in addition to having wide transferability, traditionally has been used as a reserve against local-currency circulation. Thus, only one British agreement, that with Argentina, provides for a reciprocal swing credit involving a limitation on the other country's holdings of sterling and the right of conversion into gold of sterling accumulated in excess of the established limit.[1] But few countries have been willing to accept an inconvertible currency other than sterling without limit, and even Britain was unable to negotiate agreements of this sort with such strong-currency countries as Belgium, Portugal, and Switzerland.[2]

As will be seen in Table III, 216, or over 87 per cent, of the nonsterling agreements outside the intra-EPU group for which information is available provide for reciprocal swing credits. Most of these agreements employ centralized accounts and provide no facilities for the transferability of accounting credits to third countries. Unilateral swing credits involving the acceptance of a European currency up to a certain limit were fairly common in the early postwar period, especially between Western Europe and Latin America, but many of these agreements were later renegotiated, so that by June 1954 only eleven nonsterling agreements contained unilateral credit clauses.

1 The Anglo-Argentine payments agreement of 1949 provided for a reciprocal swing credit of 20 million pounds. Britain agreed to provide Argentina with sterling to cover deficits up to 20 million pounds and to convert into gold any net Argentine holdings of sterling in excess of the same figure. This agreement expired on June 30, 1954.

2 The European Payments Union's monthly clearing and settlement mechanism replaced, after June 1950, the swing credit provisions which existed in the payments agreements between EPU members.

TABLE III

NUMBER OF BILATERAL PAYMENTS AGREEMENTS BY SWING CREDIT PROVISIONS AND BY AREAS[a]

(As of June 1954)

	Agreements containing:			
	Reciprocal swing credits	*Unilateral swing credits*	*No credit provision*	*Other*[b]
Continental OEEC with:				
Spain	11	0	1	1
Latin America	36	5	5	2
Far East	7	0	0	0
Middle East	17	2	2	3
Eastern Europe	76	2	6	5
Spain with:				
Latin America	7	1	0	0
Middle East	1	0	0	0
Latin America with:				
Latin America	9	1	3	4
Far East	2	0	0	0
Middle East	2	0	0	0
Eastern Europe	15	0	3	2
Far East with:				
Far East	7	0	0	0
Middle East	1	0	0	0
Eastern Europe	1	0	0	0
Middle East with:				
Middle East	3	0	0	2
Eastern Europe	14	0	0	0
Eastern Europe with:				
Eastern Europe	7	0	0	1
Total	216	11	20	20

[a] Excludes sterling and intra-EPU country agreements.

[b] Information not available.

Source: Based on information in sources noted in footnote 1, page 1, of this study.

Of the 247 bilateral agreements outside of the sterling and intra-EPU categories for which information is available, 20 contain no specific credit provision. The absence of a credit clause usually indicates one of four possibilities: (1) the exchange of goods may be conducted on a barter or compensation basis with little or no credit element involved; (2) the credit provisions may be contained in a secret annex or protocol; (3) the total volume of trade permitted under the agreement may be so limited that any substantial accumulation of balances is impossible; or (4) frequent settlement dates may preclude the possibility of a substantial extension of credit by either party.

In the first case, a bilateral payments agreement as defined for purposes of this study does not exist. A limited number of the agreements used as a basis for this study may be of this type, but because information confirming this was lacking they have been included in the tables. If there are such in our lists, they are most likely to be ones in which an Eastern European country is one of the partners.

As to the second case, it is known that credit provisions are sometimes omitted from the published texts or accounts of agreements because of possibly adverse political repercussions, especially in the nation extending credit.

An example of the third possibility is the agreement concluded between the Argentine government and the Colombian Coffee Growers Federation (a semigovernmental monopoly) in 1949. This established two lists of goods to be traded, with coffee accounting for virtually all of the Colombian exports. A single account denominated in United States dollars is opened annually in the Argentine Central Bank; all Colombian coffee export values are credited to the account and Argentine exports are debited to the account. The total value of each country's exports during 1953, for example, was set at only 500,000 dollars.[8] Moreover, at the end of each year the account is closed and settled. Most of Colombia's payments agreements are designed to facilitate coffee exports and operate in a manner similar to that of the Argentine-Colombian arrangement. Total trade volumes contemplated under the agreements, which contain no specified swing credit, range from 500,000 to 9,500,000 United States dollars; annual settlement of the accounts plus the limitation upon total trade presumably have made specific swing credit clauses unnecessary.

Examples of the fourth case are to be found in the Brazilian-Uruguayan and Colombian-Ecuadorian agreements, in which there are no limits set for maximum balances, but the accounts are closed semiannually and any balance must be paid in an agreed currency within thirty days.

[8] The 1954 trade-quota agreement established the target trade at 5.75 million dollars.

Size and Purpose of Swing Credits

The usual purpose of swing credits is to provide liquidity, or working balances, for carrying on trade. Even though nations expect to balance their trade bilaterally over a period of time, trade is usually unbalanced over short periods because of different delivery dates, seasonal movements, unexpected delays on the part of suppliers, shifts in demand from the expected pattern, and so on. The larger the swing credit, the greater is the opportunity for flexibility in the trading arrangements. Where all trade under the agreement is closely planned, and especially where it is conducted largely by state enterprises, smaller swing credits usually are required than in cases where trade is chiefly in private hands and subject only to permissive import quotas.

The commodity composition and the volume of trade between two countries are also factors in determining the size of the swing credits. A survey of the agreements studied shows that swing credit limits tend to be established in a range of 8 to 12 per cent of the contemplated annual value of trade, although there are important exceptions on either side. Absolute values have ranged from 20,000 United States dollars (Austria-Yugoslavia) to 100 million (Argentina-Italy).

As production and trade levels increased during the post-World War II period, the original swing credits frequently became unduly restrictive. In response to increased volumes (and values) of trade and the development of larger leads and lags in the actual flow of goods, swing credits often have been expanded in order to serve better the liquidity purpose. Thus, for example, the swing credit under the Finnish-French agreement was progressively increased from 0.5 million dollars in 1947, to 2 million in 1948, to 6 million in 1950, and to 10 million in 1952, while that under the Swedish-Uruguayan agreement of 3.5 million Swedish kronor in 1949 was increased to 15 million kronor in 1952.

When one country has exhausted or nearly exhausted its swing credit, the partners have several alternatives. The existing balance can be settled by payment in gold or an acceptable third currency. It can be funded and a new swing credit established. Frequently, however, the procedure has been to expand the swing credit, not because of a need for liquidity to take care of temporary and reversible swings in the trade balance, but in order to provide a "loan" to the debtor country. When credit limits are expanded for the latter purpose, the second most important purpose of swing credits, the increase is usually accompanied by an agreement that utilized credits will be funded over a period of time. Though technically reciprocal, such credit expansions are unilateral in intent.

The operation of the early postwar agreements between Western European and Latin American countries tended in practice to provide long-term financing for European import surpluses with these countries. As the original swing credits became exhausted, the Latin American nations, especially Argentina and Brazil, expanded the credits as a means of maintaining the flow of exports. The 1946 Brazilian-Belgian agreement, for example, initially provided for a modest reciprocal swing credit of 10 million Belgian francs, but subsequently Brazil agreed not to seek settlement unless the balances reached 1 billion francs. Similarly, the Belgian-Uruguayan 1946 agreement provided for a swing credit of 5 million francs, but Uruguay later agreed to allow franc balances to accumulate up to ten times that amount.

Beginning in late 1948, most of the Latin American nations, with their gold and dollar reserves declining rapidly and with European goods becoming more readily available, became anxious to shift purchases to nondollar sources of supply and took the initiative in concluding new, or making alterations in old, agreements with the Western European countries. Almost all the unilateral credit clauses were made reciprocal and the limits were often increased.[4] Western European nations thereupon rather quickly assumed a creditor position on many of the accounts. Using the swing credits to provide loans has not been limited to the European agreements with Latin American countries; the increase in the credit provisions of the West German–Spanish agreement from 63 million to 84 million Deutsche Marks in 1951

[4] For example, the French-Brazilian agreement of 1946 provided a unilateral credit of 15 million United States dollars to France, but a 1948 amendment provided a reciprocal credit of 20 million dollars; a unilateral credit under the Swedish-Brazilian agreement was changed to a 100 million kronor reciprocal credit in May 1950; and an originally unilateral swing credit of 1 million United States dollars extended by Argentina to Austria was replaced in 1953 by a 5 million dollar reciprocal credit.

was primarily in order to extend an additional unilateral credit to Spain.

Swing credits have been reduced only rarely, and then usually as a result of unfortunate experiences encountered in trading during a past period. For example, in the 1949 agreement between Norway and Poland, a 1.5 million kroner credit was originally provided. As trade progressed, this limit was found to be restrictive and it was increased to 10 million kroner. Thereafter, Poland rapidly developed a debtor position in excess of this new limit. The available evidence suggests that Poland then attempted to secure premium prices for exports of coal. After prolonged negotiations, during which Poland refused to make gold or free dollar payments in accordance with the terms of the agreement and at the same time used the debtor position as a bargaining weapon to secure special price concessions, a new agreement was concluded in late 1952. Poland's exports were planned to exceed those of Norway in order to reduce the excess balance. Moreover, Norway succeeded in decreasing the credit limit to 7 million kroner.[5]

Discouraging Large or Persistent Balances

A swing credit, if it serves its primary purpose of providing liquidity, should operate so that periods of indebtedness by both partners are followed by periods in which both have a credit balance. Large and persistent debit balances violate this principle and may represent a deliberate effort on the part of the debtor country to obtain a long-term loan. Some agreements therefore include special measures for discouraging large or persistent balances, the most important being provisions for the payment of interest on debit balances.

The vast bulk of the payments agreements in effect in 1954 specified the use of "non-interest-bearing accounts," but several of the conventions have in the past provided for the payment of interest and a number continue to do so. Many of the bilateral agreements between Western European countries before the establishment of the European Payments Union, for example, included

[5] In 1954, West Germany, because of her consistently high creditor position, reduced some swing credit margins, and, at the time of writing, she was attempting to reduce others. See Section VI.

such interest provisions.[6] The usual procedure was to levy an interest charge on balances in excess of an agreed level, with payments being made either in gold or United States dollars or through the accounts. A requirement to pay the penalty charges in gold or dollars is of course more severe than one to pay through the accounts. Penalty provisions in the early intra-OEEC agreements were about equally divided between these two types of requirements. A variation in the procedures was found in several of the French pre-EPU agreements, which permitted the creditor partner to invest balances above a stipulated amount in the treasury bonds of the debtor country. Similar provisions continue to hold in the agreement between Poland and the Belgian-Luxembourg Economic Union.

Table IV lists the agreements containing penalty provisions on swing credit balances known to be in operation during 1954. All but one of the agreements involve either Argentina or Brazil as one of the partners. Brazil's agreements generally provide an interest charge of 2.5 to 3.0 per cent per annum on the amount of the swing credit used during a six-month period. The charge is payable through the accounts. Argentine agreements, on the other hand, usually impose charges only on the balances which accumulate in excess of a stipulated portion of the permitted swing credit. The common practice here also is to have the charges payable through the accounts. For example, any balance in the Argentine-Norwegian agreement above 8 million Norwegian kroner of a permitted 20 million kroner swing credit earns 2.5 per cent per annum.

Agreements sometimes contain a clause requiring consultations between the partners when balances in the account reach a stated percentage of the permitted swing credit. For example, the West German–Argentine agreement stipulates that when 80 per cent of the permitted swing credit of 50 million dollars is utilized, the

6 Comparable provisions are incorporated in the European Payments Union conventions, with interest being paid to the Union by debtors and by the Union to creditors. The rate of interest paid by debtors increases with the length of time the debt has been outstanding. During the fiscal year 1953-1954, debtors were charged rates ranging from 2½ to 3¼ per cent and creditors received 2¾ per cent for credits within the quota and 3 per cent for credits beyond their quota. See *Third Annual Report of the Managing Board of the European Payments Union*, Paris, Organization for European Economic Cooperation, June 1953, p. 122.

partners will consult on the measures to be taken to prevent an overdraft. Similarly, the Japanese-Finnish agreement stipulates consultation when 80 per cent of a 1 million dollar credit has been used.

TABLE IV

PENALTY PROVISIONS ON SWING CREDIT BALANCES,
SELECTED BILATERAL PAYMENTS AGREEMENTS
(*As of mid-1954; dollars are United States dollars*)

Agreement partners	*Reciprocal swing credit provision*	*Penalty clause*
Argentina-Brazil	$45 million	2 per cent on balances above $15 million; 2.5 per cent above $30 million
Argentina-Bulgaria	$1 million	3 per cent on credits used, payable annually in creditor currency
Argentina-Czechoslovakia	50 million pesos	3 per cent on balances over 20 million pesos
Argentina-Finland	No limit specified	Interest charge payable on net balance, calculated semiannually and paid through the account
Argentina-Israel	Unlimited, favor of Argentina; $3 million, favor of Israel	2.5 per cent on balances over $0.3 million, payable through the account annually
Argentina-Mexico	$0.5 million first year, $0.25 million thereafter	2.5 per cent on balances over $0.2 million first year and $50,000 thereafter
Argentina-Norway	20 million kroner	2.5 per cent on balances over 8 million kroner
Argentina-Poland	$5 million	3 per cent on balances over $2 million
Argentina-Uruguay	1 million pesos	3.5 per cent on credits used, calculated quarterly and payable through the account
Belgian-Luxembourg Economic Union–Poland	50 million francs	Balances over 5 million francs invested in treasury bonds
Brazil-Denmark	20 million kroner	2 per cent on balances over 7.5 million kroner
Brazil-France	$20 million	Interest equal to rate on 6-month treasury bills paid on credits used, calculated semiannually and payable through the account
Brazil-Greece	$0.2 million	Interest on credits used, payable annually through the account
Brazil-Italy	$5 million	3 per cent on credits used, calculated semiannually and payable through the account
Brazil-Japan	$10 million	2.5 per cent on credits used
Brazil-Yugoslavia	$1 million	3 per cent on credits used, calculated semiannually and payable through the account

Source: Compiled from the sources cited in footnote 1, page 1, of this study.

The West German–Paraguayan agreement of May 1950 contains a unique combination of measures to be applied as balances accumulate in the account. The agreement provides a maximum reciprocal credit of 2.5 million dollars, but the partners agree to consult when the balance reaches half this amount. However, any balance in excess of 1.5 million dollars held constantly for six months or longer earns interest payable in United States dollars. In addition, any balance in excess of 2.5 million dollars requires immediate free dollar settlement.

These methods of discouraging large or persistent balances are essentially attacks on symptoms. More fundamental measures for preventing such balances are to be found in the accompanying trade agreements between the partners, to be discussed in a later section.

It is, of course, true that the granting of swing credits undoubtedly has an inflationary impact on the creditor countries and a deflationary effect on the importing countries. These forces alone, however, are unlikely to be sufficient to restore equilibrium in the balance of payments. Inflation is usually the result of many different policies, and price rises may continue to be more rapid in the deficit country than in the surplus country. Furthermore, discriminatory trade controls and the absence or blunting of price competition may also interfere with the operation of the automatic correctives in the restoration of balance. Perhaps the most basic cause of persistent imbalance, however, is that the structure of production and demand is such that approximate bilateral balance between two countries is most unlikely in the absence of rigid controls over imports and exports.[7]

[7] It should be noted that since the war it has been common for countries with strong trading positions to be in a creditor status with respect to all, or nearly all, of their bilateral agreements at the same time. For example, in the pre-EPU period, Belgium had a credit balance with nearly every country in Western Europe. At the end of May 1952, Japan was a creditor in ten out of a total of twelve open-account agreements, and in six of these agreements the balances exceeded the swing margins. In mid-1953, West Germany had a creditor position on her bilateral accounts (exclusive of her EPU position) of 228 million dollars, while total permitted swing credits amounted to only 208 million dollars.

V. Settlement of Excess Balances

The method of settling accumulated balances is perhaps the most important single factor in determining the nature of the trade financed through the operation of a bilateral payments agreement. Under agreements in which balances can be readily transferred by the creditor country for the settlement of debts with third countries, or where both parties to the agreement can easily agree to settle debit balances with third currencies, bilateral balancing of current trade becomes unnecessary and trade restrictions may be mild or nonexistent with respect to trade with a number of countries. On the other hand, bilateral offset agreements, which permit settlements only in goods, or perhaps only in goods from a limited list, require the strictest governmental control over trade. The sterling agreements with non-EPU countries and all of the intra-EPU agreements are of the automatic multilateral settlement type and will not concern us in this section. Of the remaining agreements, only three provide for automatic transfers of balances to third countries.[1]

Settlement provisions in the postwar payments agreements may be divided into two categories: (1) those which provide for the settlement of balances in excess of stipulated swings and (2) those which relate to the settlement of the total balance at specified settlement dates or at the termination of the accord. Agreements which provide for regular settlement dates for total balances may or may not have swing credits. Table V shows a breakdown of the agreements by types of settlement of excess balances during the operation of the agreement. It will be seen that (excluding the sterling and intra-EPU agreements) 147 agreements make specific provisions for settlements in gold or third currencies—that is, have exchange settlement provisions—while 97 agreements either provide for settlements to be made only in goods or prohibit the accumulation of excess balances—that is, have bilateral offset

[1] This number does not include West Germany's agreements. Payment may be made for German imports in either bilateral-account credits or, since April 1954, in Deutsche Marks of limited transferability. Nonresident holdings of transferable Deutsche Marks may be transferred throughout the nondollar area except for Brazil, Turkey, and Yugoslavia; bilateral-account credits under agreements with non-EPU countries, however, are not transferable.

TABLE V

SETTLEMENT PROVISIONS OF BILATERAL PAYMENTS AGREEMENTS BY TYPES AND AREAS

(Excludes sterling and intra-EPU country agreements)

	Exchange settlement provisions			*Bilateral offset provisions*				
	Gold or dollars	*Gold or agreed currency*	*Periodic settlement in gold or convertible currency*	*Goods only*	*Restrict trade*	*Consultation*	*No provision*	*Other*[a]
Continental OEEC with:								
Spain	5	3	0	0	1	0	1	3
Latin America	18	11[b]	6	1	0	2	8	1
Far East	1	2	3	0	0	0	0	0
Middle East	1	13[c]	0	2	0	0	2	5
Eastern Europe	3	23	5	7	11	12	24	4
Spain with:								
Latin America	1	3	1	0	0	1	2	0
Middle East	0	1	0	0	0	0	0	0
Latin America with:								
Latin America	4	3	10	0	0	0	0	0
Far East	0	1	1	0	0	0	0	0
Middle East	1	0	1	0	0	0	0	0
Eastern Europe	6	3	3	0	0	1	4	3
Far East with:								
Far East	3	2	2	0	0	0	0	0
Middle East	0	0	0	0	1	0	0	0
Eastern Europe	0	1	0	0	0	0	0	0
Middle East with:								
Middle East	0	1	0	2	0	0	0	2
Eastern Europe	2	2	1	1	4	1	1	2
Eastern Europe with:								
Eastern Europe	0	0	0	0	4	2	2	0
Total	45	69	33	13	21	19	44	20

[a] Sufficient information for classification is not available.

[b] Includes Brazilian-Danish agreement, which requires dollar payment when Brazil is debtor, sterling payment when Denmark is debtor.

[c] Includes French-Syrian agreement, which requires periodic settlements in sterling.

Source: Compiled from the sources cited in footnote 1, page 1, of this study.

provisions. Discussion of the settlement provisions for balances existing at the termination of the agreements is reserved for a later part of this section.

Exchange Settlement Provisions

Of the 147 agreements which provide exchange settlements during the operation of the agreement, 78 require settlement in gold or a convertible currency, while 69 permit settlements in mutually agreed inconvertible currencies or in a specific inconvertible currency. The rigidity of the exchange settlement requirement varies from agreement to agreement. The most common requirement is that the debtor must liquidate an excess balance immediately upon the demand of the creditor, or within thirty days. Sometimes, however, the agreements are less stern and there are many variations in the procedures. The agreement between Denmark and Spain, for example, provides for consultation during a two-month period following an overdraft on the account; if no satisfactory solution is reached, and if the balance has not declined to within the swing margin, the debtor must then make payment in gold or dollars. The Japanese-Finnish agreement stipulates that a gold or free dollar settlement is not required unless the balance exceeds the margin continuously for thirty days. The French-Ecuadorian agreement contains a unique provision under which balances are struck semiannually and any excess balance on the account must be settled in a convertible currency. Thus, no payments for overdrafts are required between stipulated settlement dates. The Norwegian-Argentine agreement presents another variation. It contains a reciprocal swing credit of 20 million kroner but requires free dollar settlement of any balance in excess of 8 million kroner when the account is struck quarterly.

Payments in foreign exchange other than United States dollars or convertible currencies are required in but four agreements. The 1951 Brazilian-Danish agreement requires free dollar payment when Brazil is an excess debtor but sterling payment when Denmark is an excess debtor. Sterling payments both ways are required under the agreements between Sweden and Poland, West Germany and Iran, and France and Syria.

Bilateral Offset Provisions

Bilateral offset agreements also present a variety of settlement mechanisms. In 44 of the 97 agreements of this type noted in Table V, there is no provision for the settlement of excess balances inasmuch as such balances are not supposed to accumulate. Presumably, control over trade and surveillance of the accounts are relied upon to prevent any excess balance. Licenses simply are not issued for an export or import which will overdraw the account; in a few instances, the exporter cannot receive payment if, when he surrenders his documents, the account is overdrawn or will thereby be overdrawn. In twenty-one cases, restrictions are imposed on the licensing of imports or exports after the balance exceeds the swing margin. Conclusive information is not available on the individual agreements as to whether the obligation rests primarily on the creditor to limit exports or on the debtor to restrict imports, but, in thirteen agreements which stipulate settlement only in goods, indications are that the creditor bears primary responsibility for eliminating the excess balance by making additional purchases.

In nineteen agreements, consultation between partner governments is stipulated. In the majority of these cases, such consultation is required when a specified percentage of the swing credit is reached. The assumption behind these provisions is that consultation will result in measures' being taken to avoid excess balances. Licensing restrictions are the measures usually resorted to, although consultation could lead to agreement upon any method to limit further imbalances, or possibly even to a method to settle overdrafts should such occur. Since these provisions are not combined with requirements that overdrafts be paid in dollars or gold if no alternative method is agreed upon, and since consultation precedes the actual overdraft, it may safely be assumed that consultation commonly results in action which prevents an excess balance.

The rest of these nineteen agreements require the governments to consult *after* an excess balance accumulates. Some of these merely specify that such consultations shall be held in order to determine upon a method of settlement, but others stipulate that payments are required in "gold, dollars, or agreed goods." Available evidence suggests that, in practice, settlements under these agreements take place almost entirely in goods.

Operation of the Settlement Provisions

Settlement provisions are in the nature of penalties designed to discourage the accumulation of balances in excess of the agreed limits. Such accumulations are, nonetheless, a common occurrence. This is due in important part to the fact that bilateral arrangements often involve partners whose trade did not even approximately balance before the introduction of controls. While efforts are usually made under the bilateral payments agreements to plan more or less balanced trade through the issuance of licenses for imports and, sometimes, for exports, planning provides no assurance of performance. Thus, as early as the end of 1947, Western European countries had extended payments agreement credits to one another for a total amount equivalent to 1.5 billion United States dollars,[2] a substantial portion of which represented amounts in excess of the swing credits stipulated in the agreements.

What the creditor country does in practice when faced with the possibility of an accumulation of balances in excess of what the agreement provides depends in large measure upon its ability and willingness to extend further credit and how anxious it is to maintain exports. These factors in turn depend in large part on the creditor country's confidence that it will ultimately be repaid, on the importance of export industries in the domestic economy, and on the ready availability of alternative markets, together with the amount of pressure placed upon the government by exporters to grant further credits. The Bank deutscher Laender in Frankfort has indicated its policy in such cases in the following statement: "In some cases, it is true . . . the German . . . claims slightly exceed the limit of the 'swing.' However, so long as such excesses remain within a certain tolerable limit, and so long as it appears justifiable to expect that they will be worked off again within a relatively short period, the German side can refrain from taking counter-measures."[3] This is perhaps an understatement of West

[2] *Eighteenth Annual Report*, Basle, Bank for International Settlements, 1948, p. 145.

[3] *Monthly Report of the Bank deutscher Laender*, Frankfort, August 1953, pp. 20-21.

Germany's willingness in fact to permit overdrafts, for she has permitted certain debtors to accumulate balances several times the amount of the original swing credit. Her attitude is, nevertheless, fairly typical of the reluctance of many countries to take action when they become large creditors on bilateral accounts.[4]

The continued extension of credits, however, represents a drain on the resources necessary for the purchase of raw materials and other factors entering into the production of exports, and if balances continue to accumulate, action at some point to limit or reduce them becomes imperative. Within the terms of the payments agreements, several courses of action—as noted previously—are available:

1. Payment of the balance in gold, United States dollars, or other currencies stipulated in the agreement.
2. Restriction of imports by the debtor country.
3. Restriction of exports by the creditor country.

Frequent use of these measures, in accordance with the terms of the various agreements, has occurred. In the actual settlement of excess balances, however, a wide variety of measures not contemplated by the agreements have been employed:

4. Payment in some mutually acceptable currency not stipulated in the agreement.
5. Use of credit balances for investment in securities of the debtor country.
6. Funding of the balance into a debt payable over a period of years.
7. Establishment of a special list of commodities, not in the regular trade agreement, which the creditor may purchase with credits in the account.
8. Reexport of the debtor's goods to third countries by the creditor.
9. Reexport of third-country goods by the debtor to the creditor.

4 Japan, for example, refrained from restricting exports to Indonesia for a considerable time after Indonesia became a debtor in excess of the swing credit. Not until July 1954, when Japan's creditor position reached 160 million United States dollars—or 145 million dollars above the swing limit—did she finally suspend further acceptance of Indonesian textile orders. Indonesia normally purchases over 30 per cent of Japan's textile exports. *The Economist* (London), July 24, 1954, p. 271.

10. Transfer of balances to a third country.

11. Establishment of a free market for accounting credits in either the debtor or the creditor nation.

Specific examples may best illustrate several of these methods for settling excess balances that have accumulated under various agreements.

CURRENCY SETTLEMENTS. The debtor may of course be willing to settle an excess balance in gold or United States dollars as stipulated in the agreement, and then to continue to import at the same rate as before. Substantial gold and free dollar payments were made to various Latin American countries by their Western European agreement partners in 1947 and 1948, although by no means all of the overdrafts were settled this way. More recently, West Germany reportedly has had considerable success in obtaining hard-currency settlements under her agreements with a number of partners, including Egypt, Chile, Japan, Iran, and Yugoslavia.[5] Such settlements, made in accordance with the terms of the agreements, are of course not an uncommon event. Sometimes, however, the debtor country may be unwilling or unable to settle the excess balances in hard currency, even though this is called for in the agreement. In such cases, payments are sometimes made in some other mutually acceptable currency not stipulated in the agreement. West Germany, a large creditor on bilateral account, has occasionally accepted sterling, in lieu of dollars, in settlement of excess balances. Another example was furnished by the operation of the Danish-Brazilian payments agreement when Brazil overdrew the account and was faced with an obligation to make settlement in United States dollars. Insisting she was unable to make a dollar payment, Brazil posed two alternatives to Denmark: payment in sterling rather than dollars, or the imposition of restrictions on imports from Denmark coupled with a slow liquidation of the balance. Denmark elected to receive sterling payment.

RESTRICTION OF IMPORTS. Perhaps the most common method of reducing balances has been for the debtor to restrict imports by means of direct controls. This procedure is so well known as to

[5] See, for example, *Monthly Report of the Bank deutscher Laender*, Frankfort, July 1953, p. 13; September 1953, pp. 22-23; and November 1953, p. 25.

make unnecessary any reference to specific examples here. The West German–Chilean agreement, however, provides an interesting variation of the standard practice and is also an illustration of an exchange settlement agreement operating in the fashion of an offset agreement. The agreement established a swing credit of 2.5 million dollars and stipulated free dollar payments as the procedure for settling overdrafts. When Chile became an excess debtor, however, dollar payment was not forthcoming, and in September 1952 she temporarily suspended all imports from West Germany until the value of her exports could reduce the balance within the credit limits. Subsequently, however, Chile made a dollar payment to West Germany and discontinued the restrictions.[6]

CURTAILMENT OF EXPORTS. The restriction of creditor exports to a percentage of the value of debtor exports represents a common method for settling excess balances. The licensing required may be made the primary responsibility of either the debtor or the creditor nation. One method of settlement is to conclude a trade agreement which contains lists of goods with quotas so calculated as to provide an excess of exports by the debtor nation. Under the Norwegian-Polish agreement, for example, Poland overdrew the account during 1951 and 1952. Under the trade agreement concluded for the period April 1, 1953, to March 31, 1954, Norwegian exports were set at 44.5 million kroner while Polish exports were set at 53.5 million kroner.[7]

EXPORTS BY THE DEBTOR OUTSIDE THE REGULAR TRADE AGREEMENT. The liquidation of excess balances without multilateral transfers may be accomplished by the expansion of exports from the debtor country. The use of supplementary quotas for balancing trade upwards is illustrated by the operation of the Argentine-Brazilian agreement. During 1952 Argentina had accumulated a deficit with Brazil of about 100 million agreement dollars,

[6] Since February 1951, Chile has been a consistent debtor on her account with West Germany. At one time, the balance reached 5.6 million United States dollars, 3.6 million dollars in excess of the swing margin.

In her total trade with West Germany, however, Chile has been running a surplus. This situation arises because under most of her agreements Chile excludes certain items—notably copper and other so-called "dollar commodities"—from the terms.

[7] At the same time, the swing margin was reduced from 10 to 7 million kroner.

and the next year a new trade and financing agreement was concluded. In order to liquidate this debt, quotas for Argentine exports (wheat) to Brazil were established outside the regular trade agreement quotas in amounts calculated to liquidate the entire balance within three years.[8]

The pricing aspects involved in such arrangements are important since an excess debtor position may provide a powerful bargaining weapon for the debtor. Under the agreement considered above, for example, Argentina and Brazil reportedly agreed on an f.o.b. price of 112 United States dollars per ton of wheat. This was considerably above international wheat prices. Insofar as Brazil had delivered goods at international market prices in accumulating the balance, the reduction of the balance by imports of goods at premium prices meant a depreciation of the value of the debt. Experience has shown that a creditor country which allows such balances to accumulate frequently runs this risk in settling overdrafts.

COMMERCIAL SWITCH DEALS. Another type of multilateral settlement is effected by commercial switch transactions. Bilateral payments agreements normally prohibit the financing of transit trade through the accounts. Nevertheless, a substantial amount of such trade takes place, either with or without the consent of both parties to the agreement. In some cases, the accumulation of excess balances leads to the negotiation of an agreement for the reduction of a balance through switch transactions. One of two procedures may be utilized:

1. The creditor may reexport the debtor's goods to third countries. Such transactions frequently require the creditor to sell the debtor's goods at a loss. However, if the goods can be sold to the dollar area, the dollars or the dollar goods acquired have frequently been sold at a premium in terms of soft currencies. Debtor nations often oppose such deals on the ground that they undermine the markets for their direct exports, particularly in the case of exports to the dollar area.

2. The debtor may reexport to the creditor country goods obtained in third countries. For example, in July 1952, Sweden had a deficit of 11.6 million dollars under her open-account

[8] *The Financial Times* (London), March 6, 1953.

agreement with Japan, over 7 million dollars in excess of the stipulated swing credit. Under an agreement of October 1952, Sweden was permitted to reduce this excess balance by exporting to Japan 4.2 million dollars' worth of rice acquired from Thailand, 1 million dollars' worth of sugar from Cuba, and 1.8 million dollars' worth of potash from East Germany. This arrangement had certain advantages to Sweden over a settlement in free United States dollars, as was provided for by the terms of the payments convention. First, except for the purchase of sugar from Cuba, Sweden was able to settle the debt without the payment of hard currencies and could in addition continue importing from Japan. Second, Swedish traders earned a profit on the sale since the prices paid by Japan probably exceeded world prices. Third, Sweden could reduce her credit balance with East Germany.

Japan also stood to gain by the arrangement inasmuch as she was anxious to continue exporting to Sweden and might not have been able to do so had she demanded free dollar settlement of the excess balance. Second, Japan was able to obtain Cuban sugar, a dollar commodity, without convertible currency payment. The disadvantage of the arrangement to Japan, however, was that she probably had to pay somewhat higher prices for these imports than she would have paid through direct purchase with dollars and sterling.[9]

Another example of the use of reexports to decrease overdrafts is provided by the Finnish–West German agreement. In August 1952, Finland's payments agreement debt to West Germany exceeded the specified limit, and the following month Finland purchased wheat from Russia for shipment directly to West Germany.[10] Finland thus made payment by reducing her creditor position with Russia and received payment from West Germany by a reduction in West Germany's claims on Finland.

Settlement of payments agreement balances in dollar goods frequently has meant that the goods have been sold to the creditor

[9] By early 1954, the positions of Japan and Sweden were reversed and Japan was a debtor for 8 million dollars. To liquidate the excess balance of 4 million dollars, Japan was scheduled under the 1954 trade plan to export 12 million dollars in goods and import only 8 million dollars' worth. *Weekly Review of Economic Affairs in Japan*, Bank of Tokyo, May 15, 1954.

[10] *Commercial Trade News* (London), September 4, 1952.

country at premium prices. By mid-1954, the premium on many dollar goods had virtually disappeared when sold for sterling and other EPU currencies. However, settlements in dollar goods rather than in dollars was often still preferable to the debtor country, since its traders could thereby earn commissions on the sale. This was one of the reasons why Japan, when a debtor on most of her open-account agreements in 1953, adopted the practice of settling the balances with dollar goods rather than with United States dollars.

Creditor countries have sometimes taken unilateral action to eliminate excess balances through switch transactions. For example, under the Argentine-Swedish agreement, balances in favor of Sweden had accumulated to a total of the equivalent of 53.5 million dollars by December 1951. A year later, this balance had been reduced by more than half, partly by the transfer of a portion of the balance to West Germany, partly by stronger Argentine restrictions on imports from Sweden, and partly by the introduction of a scheme for encouraging reexports of Argentine goods to the United States.[11] Under the last measure, the government of Sweden suspended the requirement that exporters to Argentina had to surrender their peso receipts to the central bank at the official rate, and instead permitted banks and traders to sell such proceeds for United States dollars in a legal free market. When the Argentine credits went to a considerable discount,[12] United States importers of Argentine products were encouraged to buy the credits, which were then used to purchase Argentine goods for shipment through Sweden to the United States. Such purchases and shipments were of course cleared through the payments agreement account. Thus the scheme induced additional purchases in Argentina, benefited a United States buyer through lower prices on Argentine goods, and allowed Sweden to acquire some United States dollars, although at a premium over the official cross-rate.

Argentina objected to this arrangement on the ground that her exporters tended to lose direct dollar sales. Thereafter, Sweden

[11] *International Financial News Survey,* Washington, D.C., International Monetary Fund, January 9, 1953.

[12] By mid-1953, the discount was about 22 per cent.

only intermittently authorized the sale of receipts in the free market and in June 1953 agreed to abandon the scheme on condition that Argentina quote more competitive export prices.

TRANSFERS OF ACCOUNTING BALANCES. Transfers of accounting balances represent a form of multilateral settlement which must be mutually agreed upon in each individual case if specific provision is not made for unilateral action by the creditor. Occasionally, trilateral deals have been arranged whereby country A cancels its claim on country B, B cancels its claim on C, and C cancels its claim on A.[13] For example, at the end of 1952, Sweden had a substantial creditor balance in her bilateral account with Argentina, while at the same time she was running a deficit with West Germany, which in turn had a deficit with Argentina. In August 1952, the three countries reached an agreement whereby about 10 million dollars of the Argentine-Swedish clearing account balance was transferred to West Germany.

Three-cornered settlements of this type are rather infrequent and difficult to negotiate, for one country is reluctant to give up a claim on another unless it receives in return a credit which it regards as being of equal value. For example, during the operation of the Intra-European Payments Scheme, the predecessor of the European Payments Union, Denmark was unwilling to cancel a credit with Belgium, a relatively hard-currency country, in exchange for the cancellation of a debt to France or Italy.

Occasionally, clearing balances are sold by the creditor for free dollars or other currencies with the consent of the debtor. In early 1954, Japan reduced her open-account deficit with Brazil by permitting the latter to sell accounting credits to American textile importers at a discount from their official value. This transaction enabled Japan to reduce her indebtedness to Brazil by expanding exports to the United States without reducing the yen prices of her exports. While Brazil had to sell her accounting credits at a discount, she was at least able in this way to continue exporting to Japan.

[13] This was the principle employed in the Intra-European Payments Scheme and its immediate predecessor, both operated by the Bank for International Settlements for the OEEC countries during the period 1947-1950, before the EPU was established.

FREE MARKETS FOR ACCOUNTING CURRENCIES. Excess balances are sometimes eliminated by a creditor country through establishment of a free market for the clearing balances in that country and permitting the rate to depreciate sufficiently to induce a balance in the account. This method avoids the necessity of trade restrictions on exports or of any special action on the part of the debtor. The procedure was employed by West Germany and the Netherlands in 1952-1953 to reduce their clearing balances with Brazil. In October 1952, the Netherlands Bank announced that it would no longer take over private bank balances in cruzeiros at the official rate. All payments under the bilateral agreement with Brazil were henceforward to be conducted in the free forward market established for cruzeiros.[14] Three objectives were in mind: (1) the discouragement of further receipts of cruzeiros, (2) the stimulation of the use of existing cruzeiro balances, and (3) the reduction of the exchange risk run by the Netherlands Bank on cruzeiro balances.

The action disturbed Brazil for a number of reasons. Earlier, the Netherlands had been granted rights to reexport Brazilian coffee to third countries with the exception of the United States, Canada, and Sweden. So long as cross-rates were maintained, there was only a small profit incentive for Dutch traders to resell to these areas inasmuch as the prices they could quote could be met by Brazilian coffee exporters. However, with a depreciated cruzeiro, the incentive to reexport coffee to these countries increased since Dutch exporters could now quote lower coffee prices in terms of United States dollars. And such resales, in turn, tended to undermine Brazil's attempt to maintain world prices on her coffee.

Thus, although the measure succeeded in reducing Dutch claims

[14] *The Financial Times* (London), October 15, 1952. Specifically, the Netherlands Bank refused to convert cruzeiro receipts into guilders at the official rate. Rather, it allowed exporters to hold their own accounts and to use them for payments for imports (for domestic use or resale), or for transfer to another resident at the guilder/cruzeiro rate for internal settlements, or for delivery to an authorized bank in accordance with a forward contract concluded after October 10. At the same time, the official buying rate was lowered. Authorized banks could conclude forward transactions in cruzeiros with each other and with private persons without covering them at the Netherlands Bank. But the Netherlands Bank reserved the right to influence the free-market rate. Thus, the market established was not a free market in the same sense as was the one established by West Germany.

on Brazil, it met opposition. As with other countries that established a free market for cruzeiros, the Brazilian government retaliated with a decree forbidding the export of coffee to the Netherlands unless payment were received in free United States dollars.[15] After this retaliatory measure, the Netherlands Bank announced that it would convert cruzeiro receipts at the official rate. Dutch coffee contracts were again to be concluded by means of cruzeiro purchases from the Netherlands Bank at the official selling rate, thus maintaining the official cross-rate between the cruzeiro, guilder, and dollar.

The establishment of a free market for an accounting currency in the creditor country tends to promote balanced trade by increasing imports from the debtor country and discouraging exports to it. Whether or not trade will be balanced at a higher level than existed under the official exchange rate will depend upon the relevant demand and supply elasticities of the commodities traded. Conceivably, all bilateral agreements might operate in this way and achieve a balance at all times through the operation of the price mechanism and without the use of quantitative controls.[16] However, if commodity arbitrage is permitted to take place, a decline in the price of an accounting currency will tend to encourage purchases for reexport to countries in which the value of the currency has remained stable, e.g., the dollar area. In a world of fluctuating rates for bilateral-account currencies, commodity arbitrage should bring about a system of consonant cross-rates for all of the currencies. The economic cost is of course heavy, for commodity arbitrage usually involves a great deal more freight and handling charges than if the trade were direct.

Settlement of Final Balances

Almost all bilateral agreements for financing trade contain a clause stipulating the method for settling any accounting balance

[15] *ibid.*, October 15, 1952. The decree, however, excluded cacao and cotton (and some other minor products), since these were regarded as "soft-currency exports," which, Brazil reasoned, could be advantageously sold anywhere for either hard or soft currencies.

[16] It is assumed that arbitrage in the accounting currencies would be prohibited; otherwise, bilateral balancing of trade would be unnecessary.

which may remain at the time an agreement is denounced, expires, or otherwise becomes inoperative.[17] Most agreements contain annual tacit renewal clauses and thereby tend to remain in effect for an indefinite period. Since only a few agreements have expired without being replaced by new ones, a relatively small volume of settlements have so far occurred under final settlement provisions. When an alternative agreement is concluded, the old balance generally is carried forward to the new account.

Prior to the establishment of the European Payments Union, the most common provision in the intra-OEEC agreements for the settlement of final balances at the termination of the agreement was that such balances would be invested in treasury bonds earning the current rate of interest for such securities in the debtor country. Amortization periods ranged from one to ten years in the thirteen agreements specifying this procedure, interest and principal being payable in the creditor's currency. Generally speaking, the larger the permitted swing credit, the longer the tenure of the bonds.

The second most common provision required the balance to be liquidated by exports of goods by the debtor country. Some of the agreements specified that the balance had to be reduced by some minimum amount per period of time. Under the West German–Norwegian agreement, for example, the balance had to be decreased by at least 10 per cent per month, while under the West German–Swedish agreement, the balance had to be decreased by at least 2 million United States dollars per month.

A few of the intra-OEEC agreements required settlement of the final balance in gold, United States dollars, or a mutually agreed third currency. Under this provision, interest charges were rarely imposed, and the agreements were divided about equally between those requiring payment in less than one year and those requiring payment in one to five years. A modified version of the convertible-currency settlement clause was contained

[17] There is almost always a provision that when an agreement is denounced, or automatically expires, the account will be maintained for a period of one to six months in order that all transactions initiated prior to denouncement or expiration may be completed under the terms of the agreement. Hence, the balance requiring final settlement is the balance on the account at the end of the extended period rather than that on the day of denouncement or expiration.

in some of the accords. This version provided for the balance to be liquidated by exports of goods during a one- to nine-month period, at the end of which time any balance remaining was to be paid in gold or free dollars.

The final settlement provisions in intra-OEEC country agreements were largely nullified with the establishment of the European Payments Union. At the time the Union was inaugurated, July 1, 1950, special agreements between EPU debtors and creditors were negotiated for the repayment or funding of balances outstanding. Since July 1950, special arrangements for reducing debtor and creditor positions with the EPU have also been made from time to time. In June 1954, for example, certain creditor and debtor members of the Union concluded agreements for direct bilateral settlements of their Union positions; part of the agreed payments were to be made immediately in gold or dollars and the remainder in installments. In addition, the EPU itself made gold payments out of its own resources to the creditors for a part of the outstanding obligation.[18]

In most payments agreements outside of the intra-OEEC country and sterling agreements, the provisions for final settlement have tended to parallel the already discussed procedures regarding excess balances. Thus, in the case of the bilateral offset agreements, final balances are in general required to be settled in goods. However, several of the offset agreements provide for consultation on the method of liquidating the balance without specifying the method, and a few of the agreements specify settlement in treasury bonds of the debtor country, payable in the creditor's currency.

Exchange settlement agreements carrying rather rigid provisions for the settlement of excess balances in gold or dollars over the life of the agreement usually require similar settlement terms for final balances and specify that the accounts be closed within a relatively short period of time. In a number of cases, however, the debtor is given three to six months in which to make payment in goods, with any remaining balances to be liquidated in gold or foreign exchange.

[18] For the details, see *European Payments Union, Fourth Annual Report of the Managing Board*, Paris, Organization for European Economic Cooperation, June 1954, pp. 95ff.

VI. West Germany's Experience: A Case Study in the Operation of Payments Agreements

West Germany's experience with bilateral payments agreements provides a case study of typical problems encountered in their operation. By early 1954, she had concluded thirty such agreements, of which thirteen were with other members of the European Payments Union. This section will be largely concerned with the remaining seventeen agreements, concluded with Spain and the countries of Latin America, the Middle East, and the Far East. Of these, twelve are exchange settlement and five are bilateral offset agreements.

During the early postwar years, West Germany accumulated large debts on most of her bilateral accounts. In the period from 1949 through 1951, she began to run surpluses with many of the partner countries and her indebtedness on the accounts started to decline. But at the end of 1951, she remained a debtor to most of the countries and her net position on all the accounts combined was an indebtedness of the equivalent of just over 20 million accounting dollars (see Table VI). The following year, West Germany's mounting trade surpluses with the partner countries sharply reversed her position. At the beginning of 1953, she had become a net creditor to the extent of the equivalent of 185.2 million agreement dollars, and in the following period she maintained a modest but continuous debtor position with only one of the partners—Colombia. On most of the remaining accounts, West Germany's large creditor position has continued and she has been faced with the necessity of dealing with a number of accounts in which credits have substantially exceeded the agreed swing limits.

Methods of Settlement

Except in the case of the Brazil agreement, which will be discussed in detail later, West Germany has employed three main methods for dealing with situations in which the partner countries have tended to exceed the swing credit margins: she has requested dollar or sterling payments, imposed restrictions on exports and simultaneously attempted to stimulate imports, and instituted the "waiting room" procedure.

TABLE VI

WEST GERMANY'S POSITION ON BILATERAL PAYMENTS ACCOUNTS
(Millions of United States dollar equivalents; West German deficit, —)

Partner country	Swing credit (as of June 30, 1954)	Balance on: Dec. 31, 1951	Dec. 31, 1952	Mar. 31, 1953	June 30, 1953	Sept. 30, 1953	Dec. 31, 1953	Mar. 31, 1954	June 30, 1954
Argentina	50.0	—33.3	—7.4	4.4	15.6	31.4	33.1	38.0	33.2
Brazil	13.5	—4.2	91.9	95.1	93.5	89.3	78.8	63.0	59.1
Bulgaria	2.0	1.2	1.5	1.9	1.6	1.4	0.9	1.8	1.8
Chile	2.5	3.9	2.8	1.3	2.9	2.6	2.6	2.7	2.3
Colombia[a]	11.0	—6.3	—6.1	—7.0	—3.8	—2.5	—0.5	—2.3	—1.4
Czechoslovakia	5.6[b]	10.1	6.1	5.5	4.9	4.0	4.3	5.2	5.2
Ecuador	2.0	0.4	1.1	1.3	0.5	0.8	1.5	1.1	—0.2
Egypt	15.0	—0.5	9.9	11.4	18.4	20.0	18.2	7.0	9.3
Finland	20.0[c]	—2.4	27.9	31.0	26.0	18.3	11.7	10.6	8.3
Hungary	5.2[d]	3.7	5.0	4.2	5.1	4.9	3.4	4.2	4.6
Iran	8.0	—0.1	8.2	6.2	6.0	6.5	4.5	4.5	7.2
Japan	12.0[e]	—10.5	—0.1	4.5	8.8	17.1	14.6	13.5	12.8
Paraguay	2.5	—0.7	1.7	1.9	2.5	1.9	2.0	2.4	2.3
Poland	7.5	5.7	7.4	7.7	4.6	3.7	5.6	7.4	6.4
Spain	16.3	—1.8	17.4	12.2	8.5	16.5	18.9	12.7	10.2
Uruguay	5.0	4.7	0.5	—1.9	—1.4	—0.5	1.8	2.5	1.6
Yugoslavia	17.0	10.0	17.5	17.0	16.3	14.6	11.5	16.8	10.5
Total	195.1	—20.1[f]	185.2	196.9	210.0	229.9	212.6	190.9	158.8

[a] Agreement reported denounced in September 1954.
[b] Decreased from 7.5 million dollars in April 1953 and from 6.25 million dollars in January 1954.
[c] Decreased from 32.0 million dollars in early 1953 and from 27.0 million dollars in January 1954.
[d] Decreased from 5.5 million dollars on January 1, 1954.
[e] Increased from 9.0 million dollars in April 1953.
[f] In addition, West Germany was a debtor for 5.0 million dollars to Mexico under an agreement then in effect. The agreement was denounced in June 1952. On December 31, 1952, the balance had been reduced to 1.9 million dollars.

Source: *Monthly Report of the Bank deutscher Laender*, Frankfort, December 1953, p. 83, and August 1954, p. 91.

PAYMENT IN CURRENCIES. Transfers of dollars and other third currencies have been made by bilateral-account debtors to West Germany since 1952, but more especially during 1953 and early 1954. The Bank deutscher Laender in its *Monthly Report* has frequently reported receiving exchange settlements for excess balances. For example, "two countries paid free dollars to the extent of $2.9 million and $3.75 million because they had exceeded their agreed swings."[1] Again, in the September 1953 issue, the Bank reported receiving payments in dollars or "through mutual agreement, payment in sterling." The next month, total receipts equivalent to 9 million United States dollars in dollars and sterling transfers from Egypt, Japan, and Iran were reported. "Since the beginning of this year [1954], liabilities of bilateral account countries have been met in other countries' currencies to the extent of $23 million."[2]

As indicated above, the payments received have generally been in free United States dollars and, occasionally, in sterling. With these payments, it is possible for trade to continue on an unbalanced basis. While West Germany has been relatively successful in securing such settlements, it may be noted that payment usually has followed the imposition of some restraints on West German exports or of some other restrictive device. Dollar and sterling settlements of overdrafts increased after West Germany discontinued her more liberal foreign credit policies of 1952.[3]

EXPORT RESTRICTION AND IMPORT ENCOURAGEMENT. From mid-1952 on, West Germany attempted to deal with a number of her creditor positions by encouraging imports from the debtor nations. As we have seen, agreements sometimes contemplate that balance be achieved at maximum, rather than minimum, levels by

1 *Monthly Report of the Bank deutscher Laender*, Frankfort, August 1953, p. 20.

2 *ibid.*, June 1954, p. 28.

3 West Germany introduced increasingly firmer measures of restraint on the further extension of credit during 1953 and 1954. In addition to using the measures considered in the following discussion, she reportedly approached Colombia and Ecuador with proposals to finance trade with convertible currencies, reduced some swing credit margins (the Argentine–West German swing, for example, reportedly was decreased from 50 million to 12.4 million United States dollars), and insisted on interest payments on balances owed her (Brazil, for example, agreed to pay 2.5 per cent on her debtor balance). See *The Financial Times* (London), June 18, 1954.

imposing on the creditor an obligation to increase its imports. In the case of West Germany, the policy of import encouragement (not accompanied by adjustments in pricing methods) has been relatively unsuccessful. In mid-1952, she liberalized trade with Spain and, by public solicitation, encouraged imports from all bilateral-account countries except Japan, Ecuador, and Colombia. The results were disappointing. Inasmuch as free dollar settlements were not forthcoming, "it followed then that the bilateral balancing of the accounts . . . had to be mainly effected by reducing Western Germany's exports to the countries in question."[4]

By the first quarter of 1953, a balance on current trade with the debtor nations had nearly been attained. The net addition to West Germany's surplus on the accounts during that quarter totalled only 5 million accounting dollars as compared with 62 million in the third quarter of 1952 and 46 million in the fourth quarter of 1952. This was accomplished primarily by a decrease in West German exports rather than by an increase in imports.[5] One of the major obstacles to additional imports into West Germany was the inflationary conditions in a number of the partner countries. High prices and overvalued exchange rates tended to discourage purchases in a number of the agreement countries, particularly Finland, Argentina, Brazil, and Chile.

West Germany also sought to encourage imports from the debtor countries by establishing free markets for accounting balances and by facilitating reexports. These methods will be discussed in a later section.

THE "WAITING ROOM" PROCEDURE. The "waiting room" procedure was first instituted by West Germany in February 1953. This process resembles that employed under the clearing agreements of the prewar period, and represents one of the few cases where the principle of "waiting" has been introduced into the operation of the postwar bilateral payments agreements. Normally an exporter with a valid export license may, upon shipment of the goods, submit his documents to an authorized bank and receive payment at once in local currency. The Bank deutscher Laender found it necessary to modify this practice because of

[4] Bank deutscher Laender, *Report for 1952*, Frankfort, p. 30.

[5] *Monthly Report of the Bank deutscher Laender*, Frankfort, April 1953, p. 16.

the considerable delay between the issuance of licenses and the presentation of documents for payment. By the time the exporter presented the documents, it sometimes happened that the account would be overdrawn.

Thus, for example, Yugoslavia in February 1953 was debtor on the account to the extent of 17.7 million agreement dollars, and, in addition, 488,000 dollars in orders for payment had been presented to the Bank deutscher Laender by German exporters.[6] The swing margin was for only 17 million dollars. The Bank deutscher Laender thereupon announced that, as a general principle, local-currency payments to exporters who sent goods to Yugoslavia could be effected only to the extent that agreed credit margins were not exceeded. Thus, Deutsche Mark payments to German exporters were made only when the countervalue, which the foreign importer was required to pay into the account, could be transferred in accordance with the agreement; that is to say, it had either to fall within the credit margin or be transferred in gold or free United States dollars. By March 1953, 2.4 million dollars in payment orders were awaiting cover, and in April nearly 1.9 million dollars in orders still awaited payment. Application of the "waiting room" procedure therefore required individual German exporters to extend credits to their customers for an indefinite period. Since German exporters, under the procedure, had no assurance that they would receive local currency payments when they surrendered documents, even though they held valid licenses, the result tended to be a decrease in exports.[7] If the exports involved are considered essential by the partner country, a lower

[6] *ibid.*, March 1953, p. 35.

[7] Inasmuch as the Bank deutscher Laender could establish a "waiting room" at any time, German exporters desired some basis on which to judge the probability of receiving immediate payment for exports to bilateral payments agreement partners. The Bank therefore made it a practice to publish the positions of the bilateral-account nations in its *Monthly Report*. Knowledge of the accounting positions does, of course, give some aid to exporters, but its reliability is impaired by the fact that considerable time elapses between licensing and actual payment so that the position of the account may change radically between the two dates. Exporters must, therefore, also take into account the recording and movement of licenses, the placing of orders, and the actual movement of goods. As a further aid to exporters, a special committee was established in the Bank deutscher Laender to observe the trends and movements and to advise exporters. The Hermes Export Credit Insurance Corporation also signals exporters when any particular balance approaches the point where "waiting rooms" might be declared open.

volume of such imports may induce the debtor nation not only to encourage its exports but also to reduce the debt more quickly by a payment in some agreed currency.

The effectiveness of the "waiting room" procedure, as employed by West Germany, is indicated in Table VI above. Thus, by June 30, 1953, Yugoslavia's debt had been brought well within the swing credit limit as German exports declined and Yugoslavia made currency payments. In June 1953, a "waiting room" was declared for the Egyptian–West German account. The next month, Egypt made a payment in United States dollars and the restriction was quickly rescinded. Since July 1953, no "waiting rooms" have been announced except in the case of the special arrangement with Brazil discussed below.

West Germany's Position with Latin America

In the interwar period, Germany's bilateral clearing account agreements played a major role in the expansion of her trade with Latin America. In the early postwar years, West Germany's exports to Latin American countries remained at a low level, primarily because of her low level of production, but also because she had concluded no payments arrangements with these countries and they were often reluctant to pay United States dollars for the available German goods.

During the latter half of 1948, West Germany began to conclude a number of bilateral agreements with Latin American nations. By 1950, she had trade and financing agreements with Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, and Uruguay.[8] It was the usual practice under these arrangements (frequently negotiated initially by the Joint Export-Import Agency) to provide that trade be financed through dollar clearing accounts and that, except for a very small credit on the account balances were payable in United States dollars upon the creditor's demand. Trade relations with the Latin American nations as a group, however, were considered far from satisfactory by West

8 The agreement with Mexico was denounced in July 1952 and no new accord was reached, payments being made subsequently with convertible currencies. In December 1953, West Germany also indicated her intention to denounce the agreement with Colombia. *Foreign Commerce Weekly,* Washington, D.C., U.S. Department of Commerce, January 4, 1954, p. 12.

Germany. Some of the Latin American nations—including Argentina, Brazil, Chile, and Uruguay—seemed to consider the agreements as a device for earning free United States dollars and hence tended to promote exports to, while restricting imports from, Germany. As Table VII shows, the volume of German trade with four of the countries revealed a large expansion in Germany's imports with little expansion in exports. In the latter part of 1949 and

TABLE VII

WEST GERMAN TRADE WITH FOUR LATIN AMERICAN COUNTRIES, 1948 AND 1949

(*Millions of dollar equivalents*)

	Argentina		*Brazil*		*Chile*		*Uruguay*	
	1948	*1949*	*1948*	*1949*	*1948*	*1949*	*1948*	*1949*
German exports to:	0.7	1.8	0.8	10.0	0.1	1.9	0.3	1.8
German imports from:	27.2	45.5	11.8	24.6	0.2	5.1	3.4	19.6

Source: *Direction of International Trade,* New York, United Nations, January-December 1949.

during 1950, therefore, West Germany concluded a number of new agreements which provided for substantial increases in the commodity schedules as well as increased reciprocal swing credit facilities. The wider swing margins at first permitted West Germany to increase her purchases on a credit basis, but after 1950, when Germany's trade balance was reversed, they became the basis for a substantial expansion of credit-financed exports to Latin America.

The Brazilian–West German Agreement

It is impossible in a monograph to discuss in detail all of West Germany's payments agreements, and we have therefore selected for analysis her agreement with Brazil. This agreement, and the trading experience under it, may be regarded as illustrative of many of the problems of a large number of postwar payments agreements of the exchange settlement type.

At the time the June 1950 agreement was signed, West Germany's deficit position with Brazil under the previous agreement had already been reversed, and the West Germans were recording a surplus reflecting in large part the fact that their production and the competitive position of their exports were growing rapidly while Brazil's position was deteriorating. The gold and dollar reserves accumulated by Brazil during the war had fallen substantially as domestic inflation increased her import demand and seriously weakened her competitive position on exports. The new agreement, therefore, received a warm reception in Brazil, especially since the early postwar export surplus with Western Europe as an area was rapidly being reversed.

THE TERMS OF THE AGREEMENT. The original payments agreement contained an annual tacit renewal clause and provided for the establishment of an account in the Bank of Brazil, denominated in United States dollars, with a swing credit of 11.5 million dollars. In view of the fact that Brazil's exports were seasonal while West Germany's were primarily made up of long-term investment goods, it was provided that if the swing credit were exceeded neither would demand settlement unless the balance surpassed an additional 2 million dollars. The effective swing limit was, therefore, 13.5 million dollars. Accounting balances were to be settled annually and earned interest at the rate of 3 per cent.

Capital transactions and earnings on capital, as well as reexports, were specifically excluded from the list of acceptable accounting items. The relevant clause dealing with reexports read as follows: "The cost of merchandise bought by one of the two in the other for reexport to third countries or which is reexported within 1 year from purchase: this merchandise must be paid for in currency having unrestricted international transferability." All other current payments representing direct transactions were acceptable for payment through the account. The accounts were of a centralized nature though it was specified that traders could make use of the services of banks and institutions authorized to deal in exchange. The agreement stipulated that invoicing was to be done in United States dollars but if, under "exceptional circumstances," it was done in other currencies, conversion was to take place on the basis of the average rates of exchange effective for the third currency in the two countries.

Balances in excess of the permitted swing credit were payable on the creditor's demand. The procedure for annual settlement varied according to whether or not the agreement was automatically renewed. If it was, the old account was to remain open for

90 days; the balance then remaining was to be paid by the debtor within an additional 30-day period. A new account was to be opened for the following year's transactions. If the agreement was not extended and hence no new account was opened, the old account was to remain open for 180 days. Any balance in excess of 11.5 million dollars was to be payable at once in free dollars or gold, with 50 per cent of the remainder payable within 30 days and 50 per cent within 60 days.

A companion trade agreement of August 17, 1950, provided for an annual exchange of goods totalling 115 million dollars in value each way. Originally concluded for one year, it also contained an annual tacit renewal clause. Brazil's exports were to be primarily coffee, tobacco leaf, sisal hemp, hides, and skins, while Germany's exports were to consist mainly of manufactured goods.

In order to assure that import licenses would be granted in accordance with the terms of the trade agreement, it was stipulated that the creditor could not require payment in full if his country had not granted the import licenses to which it had committed itself, provided they had been regularly applied for. The amount of licenses not so granted was to be deductible from the amount payable.

These provisions, among others, of the trade and payments agreements were believed adequate to insure balanced trade. Although allowances were made for some fluctuations in trade by the inclusion of a swing credit, the gold and dollar clauses, coupled with an interest charge on balances and annual liquidation of accounts, suggested that no significant balance would be permitted to emerge. Yet within a short time the swing limit was grossly exceeded and German exporters were faced with the prospect of serious exchange losses.

THE WEST GERMAN SURPLUS. The German export surplus in trade with Brazil began to develop as early as March 1950 (see Table VIII), shortly before the new agreement was concluded. The surplus continued to grow throughout 1950 but did not assume serious proportions until the end of 1951.[9] There were at

[9] In April 1951, however, the Bank of Brazil announced it would no longer receive applications for licenses to import from Germany, Italy, the United Kingdom,

least five major reasons for the constantly increasing surplus: (1) the Korean war induced Brazilian authorities to grant "excess" import licenses due to fear of a future shortage of commodities; (2) inflation and high prices continued to characterize the Brazilian economy; (3) by mid-1951, orders for German machinery which had been placed earlier were being filled; (4) Ger-

TABLE VIII

WEST GERMANY'S MERCHANDISE TRADE WITH BRAZIL

(Millions of United States dollar equivalents)

	German exports to Brazil (f.o.b.)		German imports from Brazil[a] (c.i.f.)	
1948		0.5		11.8
1949		10.0		24.6
1950: January-March	4.6		3.2	
April-June	6.9		5.7	
July-September	8.2		6.0	
October-December	15.3		5.7	
Total, 1950		35.1		20.6
1951: January-March	14.9		8.7	
April-June	24.1		21.4	
July-September	32.4		21.2	
October-December	41.1		23.6	
Total, 1951		112.5		74.9
1952: January-March	37.0		25.5	
April-June	47.5		17.6	
July-September	44.4		13.8	
October-December	25.4		17.2	
Total, 1952		154.3		74.3
1953: January-March	13.1		16.3	
April-June	26.9		15.9	
July-September	24.6		23.0	
October-December	44.6		40.0	
Total, 1953		109.2		95.2
1954: January-March	33.9		36.2	
April-June	33.9		34.8	

[a] The f.o.b valuation of German exports and c.i.f. valuation of German imports tends, of course, to overstate Brazil's claims on West Germany.

Source: *Direction of International Trade*, New York, United Nations.

Argentina, Czechoslovakia, Austria, and Yugoslavia except requests relating to raw materials, machinery, and industrial needs considered most essential. This action was taken in part because most of the import quotas in the bilateral trade agreements were exhausted and in part because Brazil's deficit on the accounts was increasing rapidly.

many was especially anxious to increase her export markets and refused to limit exports; and (5) Germany maintained a high sales tax on coffee.

The over-all import policy of Brazil, particularly up to July 1951, was considerably influenced by the Brazilian officials' assessment of the international situation following the outbreak of war in Korea. The Director of the Foreign Trade Department of the Bank of Brazil announced that Brazil's highest financial authority (the Council of the Superintendency of Currency and Credit) had decided in the spring of 1951 to run the risk of high indebtedness to supplier countries rather than the risk of allowing Brazil's economy to be crippled by a shortage of imports which it was feared would occur with the outbreak of World War III.[10] Import licenses issued by Brazil in 1951 were 77 per cent (by value) greater than the total issued in 1950.

Events in 1951 actually proved less favorable for Brazil's trade balance than had been allowed for when issuing such a large number of import licenses. First, United States exporters were able to fill Brazilian orders more rapidly than expected. Second, prices of Brazil's imports (including freight and other invisibles) rose considerably while the prices of Brazilian exports rose only slightly from their already inflated levels. Furthermore, Argentina's failure to supply the full quota of wheat under the Argentine-Brazilian agreement necessitated additional purchases of wheat by Brazil in the dollar area.

In the event, Brazil had a trade deficit with all countries together of 4.7 billion cruzeiros (about 242 million United States dollars), whereas in the previous year she had achieved a surplus of 4.6 billion cruzeiros. A relatively important portion of this total deficit in 1951 was reflected in the Brazilian–West German payments account.

Moreover, some of the licenses granted by Brazil's export-import authority for purchases from Germany, as well as other countries, did not have their full effect until early 1952, largely owing to the lag in deliveries of German manufactured goods, which often required rather long periods of manufacture. It was at this time, and under the pressure of rapidly rising accounting balances,

[10] *Aussenhandelsdienst* (Cologne), July 31, 1952.

that West Germany agreed to a temporary increase in the swing credit limit to 33 million dollars. But in the absence of accompanying measures to restore balance in the accounts, Brazil's indebtedness to Germany continued to rise sharply until the balance stood at 60 million dollars by mid-1952.[11]

FIRST ATTEMPTS TO CORRECT THE IMBALANCE. It has been noted earlier that the reexport of goods provides a means for reducing excess balances. Reexporting may take place in either of two directions: (1) the debtor may be allowed to reexport third-country goods to the creditor, in which case the goods are usually sold to the creditor at premium prices; (2) the creditor may be permitted to reexport debtor's goods to third countries. Either method usually entails special pricing practices in order to induce the transit trade. It may, for example, involve a *de facto* depreciation of the debtor's currency in order to induce the additional purchases in the debtor country for profitable reexport to third countries.

The use of reexport privileges under bilateral payments agreements as a means of reducing an imbalance is usually reserved as a "method of last resort." In this instance, however, it was the first means adopted to settle an excess balance on the account. Confronted with Brazil's inability or unwillingness to pay the balance in United States dollars or gold, and with an intense desire on her own part not to restrict exports, this method commended itself to West Germany. On the other hand, Brazil found it expedient to allow Germany the reexport right on coffee rather than run the risk of having her impose restrictions on exports to Brazil. The original agreement therefore was modified so as to permit West Germany to reexport Brazilian coffee to third countries other than the United States, Canada, and the Scandinavian nations. The share of Brazilian coffee in total German imports of that product thereupon rose substantially, thus tending to restrain the mounting German surplus. The noted geographical limitation, however, nullified some of the possible effect of the reexport privilege. Moreover, West Germany already was running a surplus with the European Payments Union, and reexports of Brazilian coffee

[11] *ibid.*, July 31, 1952. At the same time, it may be noted, unpaid letters of credit in favor of United States exporters totalled an estimated 250 million dollars.

tended to enlarge this surplus. Because of this, the Bank deutscher Laender recommended that traders secure dollars or other hard currencies (especially free Swiss francs) for Brazilian merchandise. This proved not to be possible at prices which would allow German traders to operate at a profit,[12] and reexports of coffee consequently proved of only limited effectiveness in the effort to balance the German-Brazilian trade.

As noted above, under the terms of the payments agreement, the Bank deutscher Laender was entitled to demand free dollars or gold for any further exports after the swing credit was exceeded. But, according to the head of the Foreign Department of the Bank, such a measure would have interrupted trade and "shocked" German exporters.[13] The Bank therefore continued to make payments to German exporters and to credit the account, without cover, presumably in the hope that the Bank of Brazil would somehow eventually meet its obligations in dollar or gold payments. In mid-1952, a German delegation was dispatched to Rio de Janeiro to carry on discussions regarding the constantly increasing Brazilian debt, which, by the end of August, had risen to almost 70 million dollars.[14]

During the conference, the West German delegation was reported to have recommended the following measures for reducing the balance:[15]

1. The Bank of Brazil should grant import licenses for only 80 per cent of the value of Brazilian exports to Germany.

2. The Bank should allow the pairing of individual import and export transactions under measure 1 and also allow such transac-

12 *Aussenhandelsdienst* (Cologne), October 23, 1952.

13 *Handelsblatt* (Düsseldorf), September 17, 1952.

14 At this time, Brazil was in arrears with almost all its major trading partners. In addition to its deficit with West Germany, Brazil was indebted (as of September 6, 1952) on its bilateral payments agreement accounts with Italy (22 million dollars), Holland (17.5 million dollars), and Norway (1.6 million dollars). Also, there were applications registered and awaiting cover at the Bank of Brazil in favor of exporters of the United States (337.5 million dollars), the United Kingdom (105.1 million dollars), and Belgium (17.6 million dollars). On only two accounts, with France (16.4 million dollars) and Sweden (1.7 million dollars), did Brazil enjoy a surplus. Including the West German account, Brazil's total net debtor position was the equivalent of 576.2 million dollars. *Fortnightly Review*, London, Bank of London and South America, November 15, 1952.

15 *Aussenhandelsdienst* (Cologne), July 31, 1952.

tions to be paired when there was an agio settlement, if outpayment of the agio were made in Germany.

3. The Bank should allow Germany to reexport other products in addition to coffee.

4. The Bank should stimulate exports by adopting measures for reducing the price level.

Brazil delayed taking any of the recommended actions. Germany thereupon decided that ". . . one realistic solution remained. Since, at the present time, Brazil is unable to transfer the amounts paid by her importers, the German exporter has had to be given an opportunity of disposing of his Brazilian clearing dollars by selling them freely to German importers. He can, of course, choose to wait until transfers are again possible within the framework of the German-Brazilian payments agreement."[16]

Specifically, the Bank deutscher Laender ordered that German exporters surrendering documents covering contracts concluded *after* September 4, 1952, would not be paid in Deutsche Marks but rather would have an account credited in their favor with "Brazil Dollar Credited Funds." Exporters submitting documents covering contracts concluded *prior* to September 4 were permitted to convert 50 per cent of their claims into Deutsche Marks at the official rate while the remaining 50 per cent was credited in "Brazil Dollar Credited Funds."[17] Exporters receiving such credits could sell them to German importers at a rate established in a free-exchange market or could hold them until such time as official conversion might again be permitted.

German importers were permitted to obtain up to 80 per cent of their exchange requirements in the free market; the remaining 20 per cent had to be purchased at the official rate from the Bank deutscher Laender. This was designed to bring about a gradual reduction of the Brazilian debt, but in a manner calculated to prevent too abrupt a drop in the volume of German exports to Brazil.

16 Statement by J. Tüngeler, member of the Managing Board of the Bank deutscher Laender, quoted in *Handelsblatt*, September 17, 1952.

17 Thus, the arrangement was retroactive and meant that German exporters experienced exchange losses estimated at 10 million United States dollars. *The Economist* (London), September 20, 1952.

German exporters appear to have been generally unaware of the seriousness of the trade imbalance, and the central bank—admittedly—did not feel free to warn them. The new regulations issued by the Bank deutscher Laender to implement the free market in Brazilian clearing dollars therefore caused consternation in German trading circles and roused strong criticism from German exporters.[18]

The effect of the new arrangement was to discourage the conclusion of new contracts, for exports to Brazil decreased sharply almost at once, but the full potential effect of the free market was not felt immediately. Some 157 million dollars in contracts concluded prior to September 4, 1952, had to be filled, and exporters filling these orders were entitled to convert 50 per cent of their claims into Deutsche Marks at the official rate. As the Bank made these conversions, the accounting balance was pushed still higher. The fulfillment of the old contracts also tended to hinder additional imports as the market for "Brazil Dollar Credited Funds" was rather narrow. The demand for such funds in the free market was relatively strong inasmuch as importers could use them to pay up to 80 per cent of the import values. But the supply of such funds was relatively small since exports under new contracts were retarded and since only one-half the value of claims arising from old contracts had to be sold in the free market—and then only if the exporter wished to realize his claim immediately. A number of exporters did not in fact sell their special Brazilian dollars at once, preferring to hold them for a better market.[19] As a result, the special Brazilian dol-

18 *The Economist* (London), September 20, 1952. *The Economist* commented as follows: "As things stand at the moment, the insurance granted by the 'Hermes' credit insurance company does not cover losses through measures taken internally by German authorities, and German exporters certainly seem justified in feeling that they were first encouraged to make a big export drive in Brazil, and then were not warned when that country's payments position passed the danger mark. It is not surprising that one of the big German commercial banks has publicly—and tartly—declared that the central bank's experiment with Brazil must not be made into a precedent for other countries that are involved in payments difficulties."

The strong reaction by trading circles to the free-market action was largely responsible for the Bank deutscher Laender's decision in February 1953 to publish monthly the accounting position on all Germany's bilateral accounts.

19 *Monthly Report of the Bank deutscher Laender*, Frankfort, October 1953, p. 22.

lars, which had depreciated to about 12 per cent below the official rate when the free market first opened, began to rise in value. By December the discount was roughly 9 per cent, and by April 1953 it had declined to less than 6 per cent.[20] During the same period, the balance on the payments account rose from 69 million to almost 96 million agreement dollars. Thus, during the period September 1952 to April 1953, the Brazilian debt was pushed higher because 50 per cent of the value of exporters' claims arising from old contracts considerably exceeded purchases of accounting dollars by German importers for 20 per cent of their requirements.

The establishment of the free market for special dollars so altered the operation of the West German–Brazilian exchange settlement agreement that only two links with the original bilateral financing mechanism remained: West German importers had to purchase 20 per cent of their currency requirements from the Bank deutscher Laender at the official rate, and 50 per cent of the value of exports under old contracts was converted at the official rate and debited to the account.

The free market in special dollars had serious disadvantages for Brazil. If German importers could buy Brazilian coffee, say, at an exchange rate of 4.5 cruzeiros per Deutsche Mark, there was an incentive to increase imports both for domestic sales and for reexport. But the initial free-market rate was sufficiently low to induce imports of coffee from Brazil for reexport (under the agreement) to other European nations and from there it could be profitably resold to the United States, Canada, and the Scandinavian countries.[21] It was this aspect that induced Brazil to impose retaliatory measures and to attempt to close the free market. In mid-October 1952, Brazil restricted her exports of coffee to West Germany to a maximum of 300 sacks for each transaction and established a minimum price of 62 United States dollars per 50 kilograms. The maintenance of this price prevented German exporters from buying the cheaper brands and made less attractive the reexport transactions under which coffee was

[20] Bank deutscher Laender, *Report for 1952*, Frankfort, p. 79.

[21] *Direct* reexports to the United States, Canada, and Scandinavia were, of course, greatly encouraged and probably occurred, despite official prohibition.

sold by Germany to other European countries and then resold to the United States. Thus, while the free market was allowed to exert its full effect on the German export side and to decrease sharply the volume of exports (under new contracts), the counter-measures taken by Brazil nullified part of the effect on the German import side.

Largely because of the Brazilian counter-measures, a new agreement was reached in December 1952 embodying three additional measures designed to correct the imbalance in the account. First, the list of items eligible for reexport was extended, with the stipulation that if the balance were corrected the additional items would be removed, and if the balance were to persist for more than six months the agreement would be subject to reexamination. Under this arrangement, all Brazilian products sold to Germany were eligible for direct sale to any destination or for reexport except coffee sales to the dollar area and sales of cotton to the United Kingdom, France, and Italy.[22] Second, payments made by German importers into the account were required to exceed by 20 per cent the value of any Brazilian purchases in West Germany. This in effect set a trade ratio of 5 to 4. Third, West German capital was to be permitted to enter and leave Brazil, the transactions being financed through the bilateral account.

In accordance with the agreement, the Export-Import Department of the Bank of Brazil announced that it would issue licenses for imports from West Germany up to 26.7 million dollars for the first quarter of 1953 while export licenses would be granted up to an additional 20 per cent. Despite these measures and the presence of the free market for special Brazilian dollars in Germany, the accounting balance continued to rise. In April 1953, when the balance had reached a new peak of nearly 96 million dollars, the problem entered a new phase. By then, about one-half the old contracts had been worked off and so the supply of special Brazilian dollars was steadily expanding. Consequently, the discount on such funds widened, and this incentive resulted in a significant rise in imports from Brazil. During June 1953 the withdrawals began to exceed inpayments on the German account at the Bank of Brazil, and by the end of Sep-

[22] *Fortnightly Review*, London, Bank of London and South America, February 21, 1953.

tember the balance had declined to 89 million dollars. During October the debt fell sharply, by 10 million dollars, but this was due in large measure to a reduction of the German domestic sales tax on coffee.[23]

In September 1953, West Germany and Brazil again modified the 1950 trade agreement in a manner designed to reduce further the imbalance. Total contemplated annual trade was increased from 115 million dollars each way to 142 million dollars, and the coffee quota was increased from 30 million to 65 million dollars. Germany also agreed to license imports of coffee from all sources on the following basis: for each 30 units of coffee imported from Central America and each 40 units from Colombia, Germany agreed to authorize the importation of 100 units from Brazil. In addition, a new agreement on capital transfers was reached, and this too was of considerable importance in reducing the accounting balance. The earlier provision on capital transfers, noted above, had not proved effective inasmuch as no concrete measures had been taken to implement it. Under the new agreement, West Germany not only agreed to permit transfers of capital for investment purposes but, in addition, made available special long-term financing facilities for 42 million dollars of German machinery exports.[24]

THE ARANHA PLAN. In October 1953, the then Finance Minister of Brazil, Oswaldo Aranha, introduced the so-called "Aranha Plan," which, he said, would end the confusion that had existed earlier under the Export-Import Control Board, which had issued licenses "haphazardly."[25] Under his plan, still in effect at

[23] The expansion in Germany's imports of coffee which followed the effective depreciation of the cruzeiro was retarded by a heavy German sales tax on that product. On August 24, the German government, in a measure primarily intended to help reduce its trade surplus with Brazil, reduced the sales tax from 10 to 3 Deutsche Marks per kilogram. The price of roasted coffee dropped by about 30 per cent, and retail sales rose sharply. *International Financial News Survey*, Washington, D.C., International Monetary Fund, September 4, 1953.

[24] A joint Brazilian-West German commission was established to investigate and approve or reject proposed purchases of machinery under the long-term credit clause. *Foreign Commerce Weekly*, Washington, D.C., U.S. Department of Commerce, October 12, 1953. The proposal that capital exports be permitted under a number of West Germany's other bilateral agreements has received strong support in some German trade circles, as rising surpluses on the accounts cause German exporters increasing difficulty in maintaining export volumes.

[25] See the *New York Times*, October 19, 1953.

the time of writing, the official par value of the cruzeiro (18.5 cruzeiros per United States dollar) is maintained and all foreign exchange earnings from exports must be sold to the Bank of Brazil (or to authorized banks) at the official rate. However, an additional 5 cruzeiros per dollar is paid for proceeds of coffee exports and 10 cruzeiros for proceeds of other commodities. Thirty per cent of the exchange is set aside for governmental use and the remainder may be sold at auction. Imports are classified into five categories according to the officially defined essentiality of the goods, and minimum premiums are set for each currency and category of goods. Buyers of the auction certificates are entitled automatically to an import license for goods listed in the category for which the auction certificates are valid. In addition to paying for the certificates, the purchasers are required to buy exchange at the official rate, following approval of the proposed import as to prices, quality, and conditions. A free market for cruzeiros is maintained for the remittance of profits, capital transfers, and Brazilian tourist requirements.[26]

Since the first auctions on October 16, 1953, various currencies have been sold, sometimes at substantial premiums. The exchange rate varies, of course, with different currencies, thus establishing a series of effective cruzeiro rates which may differ considerably from the official cross-rates. The West German–Brazilian agreement dollar generally has commanded a premium second only to that paid for the United States dollar. In July 1954, the effective rates ranged from around 33 cruzeiros per agreement dollar for essentials to well over 100 cruzeiros per agreement dollar for nonessentials. The effect of the auction, of course, is to make imports into Brazil substantially more expensive.[27]

Meanwhile, the German-Brazilian agreement dollar has sold at discounts in Frankfort and other West German exchange markets. During 1953 and early 1954, the discount averaged 7 to 8 per cent. By May 1954, the discount had risen to almost 10

26 The selling rate in the free market was 55.8 cruzeiros per dollar on December 31, 1953; 60.5 at the end of February 1954; and 62.5 at the end of August 1954. *International Financial Statistics*, Washington, D.C., International Monetary Fund, October 1954.

27 The auction procedure, it may be noted, also restores the price mechanism in the allocation of import licenses and provides a source of government revenue.

per cent. The effect of the discount is to make imports from Brazil more attractive to those paying in Deutsche Marks.

The combined result of these measures has been to bring a greater degree of balance into the payments agreement account. This balance fell from just over 89 million dollars on September 30, 1953, to about 59 million dollars on June 30, 1954 (see Table VI)—a substantial reduction for a nine-month period.

VII. Conclusions and Evaluation

A review of over 500 bilateral payments agreements, which have been in effect sometime during the postwar period and have formed the basis for this study, reveals a wide variety of purposes which these arrangements were intended to serve. They have been developed primarily as a means of financing trade between countries desirous of husbanding their dollar resources for goods and services available only by dollar payment or of expanding their monetary reserves. On the other hand, the fact that most countries of the world have been willing to export for inconvertible credits has forced many countries into the network of bilateral arrangements as a means of maintaining or expanding their external commerce. In fact, it is impossible to separate the currency or balance-of-payments functions of the agreements from their function as a discriminatory commercial policy device.

The payments agreements are an integral part of the systems of exchange and trade controls of the countries employing them. Where trade between countries is closely controlled, as in the case of trade with Soviet-bloc countries, the agreements tend to be of the bilateral offset type with no provision made for the settlement of net balances in gold or third currencies. In such cases, the objective is to assure bilaterally balanced trade. Where trade is not rigidly controlled, however, bilateral balancing is generally not achieved, although the arrangements tend to skew the trade pattern in that direction. Where trade takes place on the basis of trade-quota agreements covering a large number of commodities for which licenses are granted on a permissive basis, there is considerable flexibility in the payments arrangements and they usually provide for an exchange settlement. In cases where countries are reluctant to make exchange settlements, flexibility is often achieved by the extension of credits beyond the swing margins, by implicit devaluation, or by arrangements which encourage commodity arbitrage.

Automatic transferability of balances in payments agreement accounts makes it possible for countries to dispense with arrangements for the bilateral balancing of trade. It may also be said that the desire of countries to avoid rigid trade controls has determined the character and the operation of their financing arrangements.

The sterling area countries have tended to establish import quotas for groups of countries having currencies of the same degree of "hardness" rather than to set quotas for imports from individual countries. Several other nondollar countries, including Lebanon, Syria, Peru, and Thailand, have generally avoided bilateral balancing of trade throughout the postwar period by trading with the rest of the nondollar world in sterling, which has been transferable over a wide area, and by establishing free markets for inconvertible currencies.

A wide variety of accounting arrangements have been employed in the agreements studied. Countries whose banking systems are well developed and whose currencies were widely used in international trade before the war have tended to employ decentralized accounting arrangements, and to make considerable use of the facilities of the commercial banks; the operations of their payments agreements have in many respects approximated free-exchange conditions. Agreements between countries neither of whose currencies has been employed extensively in international trade usually specify the dollar as the unit of account, and normal correspondent relationships between their commercial banks do not exist.

Where the settlement of past financial obligations has been involved, payments agreements frequently have employed multiple accounts, one for current trade and one or more for debt settlement transfers or emigrant accounts. Multiple accounts have also been employed for different types of current transactions where there has been a desire to achieve a balance for each type. Such arrangements reflect the artificial values of the currency balances arising under payments agreements. Thus, a balance arising from the export of luxury goods to a certain country may be available only for the purchase of high-priced nonessentials, while a balance arising from the export of wheat or coal may be used to purchase steel or other essential goods, perhaps at prices competitive with those of dollar goods of the same type.

All payments agreements involve an element of credit. Except for the sterling agreements, where the credit has been unilateral in favor of Britain, and for the European Payments Union agreements, where the credit element has been provided by the clearing union mechanism, most agreements have stipulated a reciprocal swing credit. A certain number, however, have avoided a formal credit limitation through frequent settlement dates. Closely related to the credit arrangements are the provisions for the settlement of balances over and above the swing credits or the provisions for settlement at the end of specified periods of time. Here again we have found a wide variety of arrangements, ranging from immediate payment in gold or United States dollars to a simple requirement for consultation. In practice, the credit terms and the means of settlement have often differed greatly from the provisions of the agreements, and one must look to the actual operations of the agreements for significant conclusions on these matters.

The first conclusion to be drawn from the operation of the agreements studied is that target trade levels have almost never been achieved and that, in the case of the more flexible type of agreements, an annual balance has usually not been approximated. In most cases, this lack of balance has been due to a deficiency of exports by the debtor country rather than to imports by the debtor in excess of the targets established in the trade agreements. The deficiency of exports may have been due in a few instances to the inability of exporters to fill orders, but in the case of primary commodities, at least, the difficulty usually has been found in the high prices of the exports. Occasionally, the lack of balance has been due to the failure of the creditor country to issue the necessary import licenses.

There are many reasons why it is difficult to maintain bilateral balance between countries, even where trade and production have been carefully planned and even where they are under direct state controls. Production delays, crop failures, difficulties in negotiations over terms, raw material shortages, and even transportation difficulties all play a part. Where trade is largely in private hands, demand and output are difficult to predict and quotas are only permissive, not compulsory. Furthermore, the trade and payments agreements frequently have excluded certain items from trade through the accounts, and most of them have prohibited the sale of goods for reexport. Unfettered trade is, of course, normally multilateral rather than bilateral, and the system of permissive quota arrangements has proved far too weak to channel private trade into a bilateral mold.

Aside from these structural barriers, bilateral balancing is subject to the same difficulties as over-all balancing. The cause of intractable deficits has frequently been found to lie in inflationary conditions and an overvalued exchange rate in the debtor country. Internal inflation has frequently resulted in a country's having a deficit with all or nearly all of its trade agreement partners; while a country which had achieved internal stability has frequently found itself a creditor in its bilateral accounts with other countries.

A second conclusion is that the provisions of the exchange settlement agreements with respect to balances in excess of permitted swings are usually not adhered to in practice. This has become increasingly apparent in recent years when creditor countries have been anxious not to curtail exports or to bring pressure on debtor countries to balance trade in a downward direction. Swing credits have frequently been expanded or excessive credits funded so that the original swing credits could be reconstituted. A variety of special devices have been introduced in order to achieve a balance in the accounts without gold or exchange settlements or a stoppage of exports by the creditor. Important among these have been the establishment of new trade ratios, a *de facto* depreciation of the debtor's currency through the establishment of free markets for clearing balances in the creditor country, and agreements to finance reexports through the accounts.

This leads to a third conclusion, namely, that a substantial volume of multilateral trade has taken place within the system of bilateral agreements through transit transactions. The financing of purchases for export to third countries through the agreements may have taken place with or without the agreement of both countries to the transactions. As a rule, however, agreements for such deals have occurred only when there has been need to reduce an excessive balance, while transit trade in violation of the agreement often has gone on continuously. Sometimes this trade has been encouraged by the creditor governments by sales of clearing balances at a discount from the official rate. It has also been profitable at times for traders to sell the exports of the bilateral agreement partner for hard currencies, perhaps at a discount, and to buy dollar goods, which have been sold at a premium in soft-currency markets. Certain governments have facilitated these so-called "commercial switch transactions" by issuing the necessary licenses to their traders. Finally, in 1953 and 1954, Britain and certain Continental countries reestablished many free commodity markets, which greatly increased the opportunities for commodity arbitrage.

A fourth conclusion follows from those already stated. To a considerable degree, the payments agreement accounts have been balanced by implicit or explicit depreciation of the balances. Not only has this depreciation facilitated direct imports into the creditor country and discouraged exports to the debtor country, but by breaking the cross-rates it has encouraged reexports to third countries. In this way, one of the important objectives of the exchange-control systems and of the payments agreements has been defeated, namely, the maintenance of the official parities in trade. In other words, much the same trade pattern might have been achieved merely from a readjustment of exchange rates.

What may be said by way of evaluation of these agreements? During the early postwar period, bilateral payments agreements commonly were regarded as devices necessary for providing a means of financing trade between countries whose dollar earnings and reserves were very low compared with their urgent needs for goods available only in the dollar area. They also performed the function of supplying short-term working balances inasmuch as trading partners were reluctant to use their international reserves in the form of gold and dollars for meeting temporary deficits with nondollar countries. However, as we have seen, the credits made available under the agreements have frequently exceeded the requirements for liquidity and have become a means of financing medium- and long-term deficits.

But these purposes cannot account for many of the special features of the payments agreements, such as the exclusion of certain items from financing through the mechanism and the use of multiple accounts. Nor can these purposes satisfactorily explain bilateral agreements between nondollar countries which could readily employ other means of settlement, or between dollar and nondollar countries. For example, India and Pakistan, members of the sterling area normally employing sterling in their foreign trade, have separate bilateral payments agreements with Egypt and France, respectively; Cuba and Colombia, members of the dollar area, have negotiated bilateral agreements with several Western European countries. These payments agreements and their accompanying discriminatory trade agreements have no currency justification; they stem from a desire on the part of countries to expand or maintain export markets by discriminatory devices.

The commercial motivation of the payments agreements has largely been revealed in the trade agreements which have frequently accompanied them. Countries often have desired to use their bargaining power as buyers to expand markets for exports which could not be sold even in *nondollar* markets on a competitive basis. In other cases, countries have sought to use their more essential exports, such as coal, as a bargaining weapon, either for the purchase of other equally essential goods in exchange or as a means of expanding sales of nonessentials at noncompetitive prices. Perhaps the same result could have been achieved by exporting all goods for convertible currencies at competitive prices, but the attempt to accomplish it through trade and payments agreements has led to the use of such devices as multiple trade lists and multiple accounts.

To a large degree, these complex trading devices have been a product of the price disparities existing between countries at the going exchange rates, and the trade and payments arrangements have provided a means of implicit devaluation or price reduction.

Some countries have sought to stimulate industrialization by providing an artificial market for their exports through bilateral arrangements. It should also be noted that the nature of many of the agreements negotiated with the Soviet bloc has been necessitated by the absence of any private business contacts with these countries. Free-world countries desiring to do business with the Soviet bloc sometimes have felt themselves forced to enter into bilateral agreements as the only means available to them of carrying on an appreciable amount of trade. Moreover, free-world governments have frequently preferred to exercise control over trade by their citizens with the Soviet bloc, and bilateral agreements provide a means of exercising such control. It is quite likely, therefore, that bilateral arrangements between the Western countries and the Soviet bloc will continue long after most of the trade among the free-world nations has become free of control.

There are reasons for questioning, in late 1954, whether there is any justification on currency grounds for the continued employment of means of payment which are inconvertible for nonresidents. But so long as the major nondollar currencies remain inconvertible, many countries would experience serious commercial and balance-of-payments difficulties if they were to trade only on a convertible-currency basis. In any event, there is a question as to whether there is a justification for the continued operation of bilateral payments agreements which do not permit transfers of balances throughout the nondollar area. In other words, does not the existence of the European Payments Union plus the transferable sterling and Deutsche Mark accounts provide sufficient facilities for financing trade on a nondollar basis without the negotiation of bilateral agreements which lack automatic transfer privileges? These facilities could be further expanded by the conversion of all EPU members' agreements with non-EPU countries into agreements employing the currency of a member as the unit of account and by making all members' currencies freely transferable throughout the nondollar world, as is already the case with sterling and the Deutsche Mark.

There is, however, one function which would be lost by such an arrangement, namely, the liquidity function which is performed by the swing credits under existing agreements. There are, doubtless, techniques that could be worked out for providing substitutes, but we doubt the necessity or desirability of maintaining strictly bilateral credit facilities. If several Western European currencies became generally transferable and acceptable throughout the nondollar world, other nondollar countries could not only trade with these currencies but accumulate them as liquid reserves. Moreover, with the restoration of international money markets and normal banking facilities in the leading financial centers of Europe, bilateral swing credits should no longer be necessary.

The possibility of the restoration in the near future of the convertibility of sterling and several other major Western European currencies raises the question of the effect of this action on the present structure of bilateral trade and payments arrangements.[1] Interconvertibility of the dollar, sterling, the guilder, the Deutsche Mark, and the Belgian and Swiss francs[2] would mean interconvertibility of the currencies which currently finance perhaps three-fourths or more of the world's trade. Under these circumstances, the dollar could in no sense be considered a scarce currency, and bilateral trade and currency arrangements would clearly serve only as instruments of trade discrimination and for the granting of tied credits. The continued use of bilateral arrangements as instruments of discriminatory trade policy will depend in large part upon the success of such international organizations as the International Monetary Fund and the Contracting Parties to the General Agreement on Tariffs and Trade in trying to eliminate them. It must of course be anticipated that restrictions of this sort will continue to be employed in trade with the Soviet bloc, whose members are outside of the international trade and currency organizations. The underdeveloped countries are also likely to demand special privileges for practicing discrimination in favor of one another as a means of promoting industrialization.

The credit function of the existing bilateral payments agreements may prove to be extremely difficult to supplant with other means. Ideally, international credits should be provided in the form of fully convertible currencies and, probably, through the international money markets or from the Monetary Fund. But there is likely to be a tendency for many countries to continue to finance transactions with one another through bilateral accounts, credits on which are available only for purchases in the partner

[1] By convertibility as here used is meant giving nonresident holders of a currency the option of exchanging it for any other currency, including dollars, in the free markets of the world and the absence of all restrictions by the affected government on the use of its currency in the making of international payments by residents of any foreign-currency area.

[2] Official pronouncements of the governments of these countries where currencies are concerned indicate that the guilder, the Deutsche Mark, and the Belgian and Swiss francs are likely to become convertible immediately following action by Britain.

country. Bilateral currency arrangements may also continue to function as a means of collecting international debts. These are serious problems, but they are being faced by the International Monetary Fund and the General Agreement on Tariffs and Trade as they strive towards their goal of ridding the world of bilateral payments arrangements.

Appendix: Table of Major Provisions of Nonsterling Bilateral Payments Agreements

The following table lists 345 nonsterling bilateral payments agreements believed to have been in effect on June 1, 1954. The information contained in the table has been gathered from the sources listed in footnote 1, page 1, of this study. It is of course likely that the information on some agreements has been altered by secret protocols or amendments, and, in a few cases, perhaps entirely new agreements have been concluded which have remained unpublished. It may also be noted that agreements sometimes operate in a fashion which contrasts sharply with the terms of the documents; a number of such instances have been noted in the preceding pages.

In the table, the countries of the world have been divided into the following six geographical groups: Continental Western Europe (OEEC countries), Spain, Latin America, the Middle East, the Far East, and Eastern Europe. Since there is practically no information available on individual agreements between Soviet bloc countries, these agreements are not listed.[1] Agreements between Continental OEEC countries are followed by those between OEEC nations and members of other geographical groups. Other agreements follow the same pattern, are listed alphabetically, and are not repeated in the reverse order; thus, Denmark-Norway will not be listed again as Norway-Denmark.

In the table, partner countries and the date of the original agreement are given in the first column. In most cases, the date refers to that on which the agreement went into effect; in a few cases, however, it refers to the date the agreement was signed or the date of ratification. Dates of the numerous protocols or amendments to the basic documents are not indicated. However, the

[1] It is believed that the bilateral payments agreement network between members of the Soviet bloc is complete except for Communist China, which has agreements only with the USSR, Hungary, Poland, and Czechoslovakia. There are some indications that Russia is attempting to form a ruble bloc and a "foreign-currency pool" for the Soviet bloc in the Moscow State Bank. Invoicing in rubles appears to be increasingly in use, and sterling drafts drawn on the Moscow State Bank have been employed in payments for imports by various members of the Soviet bloc—including Communist China. *Journal of Commerce and Shipping Telegraph*, Liverpool, May 6, 1954.

other information given in the table takes into account any known alterations made subsequent to the date of the original agreement.

The currency of account, the second column, refers to the accounting unit or units in which credits and debits are registered. If a single partner currency is noted, the account is kept in a bank of the country whose currency is employed. If a single account denominated in a third currency is maintained, the location of the account is indicated; if there are two accounts (whether in both partner currencies or a third currency), one is kept in each country.

The third column notes the swing credit provision. All such credits are reciprocal unless a unilateral credit is specifically noted. A number of possibilities, discussed in Section III of the text, exist for agreements which contain no swing credit provision.

The general type of agreement is indicated in the fourth column. The basis for differentiation between agreements of the offset, exchange settlement, and automatic transferability types was outlined in Section I.

The nature of the underlying *trade* agreement is noted in the fifth column. "Quotas for a target balance" is the general rule and means that each partner has agreed to issue licenses up to a specified amount and as requested by exporters and importers; if all quotas were utilized, trade would be bilaterally balanced. The intended value of trade in each direction is also stated when known. "Quotas" indicates that the partners have established specific quantities of various commodities for exchange but data on the amounts so established are not available to the authors. "Lists of goods but no quotas" means that partner countries have simply listed the commodities which they are interested in importing but there is no agreement to issue licenses or to take any specific action to implement trade. Other significant provisions of both the trade and payments agreements are noted and are self-explanatory.

Only the countries involved, the date of the agreement, and the currency of account are given for agreements between Continental OEEC countries. Swing credits were automatically provided by the European Payments Union mechanism, and monthly settlements through the regional clearing organization made bilateral settlement arrangements unnecessary. Some 80 per cent of the direct private trade among these countries was free of quota restriction in mid-1954, and quotas were not employed for bilateral balancing.

The following abbreviations are employed:

Bfr	= Belgian franc	Skr	= Swedish krona
Dkr	= Danish krone	E. pound	= Egyptian pound
Ffr	= French franc	BLEU	= Belgian-Luxembourg Economic Union
DM	= Deutsche Mark		
Nkr	= Norwegian krone	N.A.	= not available
Sfr	= Swiss franc		

Dollars are United States dollars unless otherwise noted.

INTRA-CONTINENTAL OEEC AGREEMENTS

Partners	*Currency of account*	*Partners*	*Currency of account*
Austria–BLEU (October 1951)	Bfr account	BLEU–Italy (March 1951)	Bfr account
Austria–Denmark (November 1948)	Dkr account	BLEU–Netherlands (October 1943)	Bfr, guilder accounts
Austria–France (November 1949)	Ffr account	BLEU–Norway (September 1953)	Bfr, Nkr accounts
Austria–W. Germany (May 1950)	DM account	BLEU–Portugal (February 1949)	Bfr, escudo accounts
Austria–Greece (May 1950)	Dollar account in Austria	BLEU–Sweden (December 1950)	Bfr, Skr accounts
Austria–Italy (June 1950)	Two dollar accounts	BLEU–Switzerland (November 1951)	Bfr, Sfr accounts
Austria–Netherlands (March 1951)	Guilder account	BLEU–Turkey (December 1948)	Bfr account
Austria–Norway (January 1953)	Nkr account	Denmark–France (October 1945)	Dkr, Ffr accounts
Austria–Portugal (June 1951)	Dollar account in Austria	Denmark–W. Germany (January 1954)	Dkr, DM accounts
Austria–Sweden (April 1948)	Skr account	Denmark–Greece (February 1949)	Dkr account
Austria–Switzerland (August 1946)	Sfr account	Denmark–Italy (October 1950)	Dkr, lira accounts
Austria–Turkey (July 1949)	Dollar account in Austria	Denmark–Netherlands (January 1946)	Dkr, guilder accounts
BLEU–Denmark (August 1951)	Bfr, Dkr accounts	Denmark–Norway (April 1951)	Dkr, Nkr accounts
BLEU–France (August 1946)	Bfr, Ffr accounts	Denmark–Portugal (April 1949)	Dkr, escudo accounts
BLEU–W. Germany (July 1951)	DM, Bfr accounts	Denmark–Sweden (February 1951)	Dkr, Skr accounts
BLEU–Greece (December 1948)	Bfr account	Denmark–Switzerland (March 1951)	Dkr, Sfr accounts

Intra-Continental OEEC Agreements (continued)

Partners	*Currency of account*	*Partners*	*Currency of account*
Denmark–Turkey (December 1948)	Dollar account in Denmark	Greece–Switzerland (April 1952)	Sfr account
France–W. Germany (February 1950)	Ffr, DM accounts	Greece–Turkey (November 1953)	Two dollar accounts
France–Greece (April 1946)	Ffr account	Italy–Netherlands (June 1951)	Guilder account
France–Italy (January 1954)	Ffr, lira accounts	Italy–Norway (January 1951)	Lira, Nkr accounts
France–Netherlands (October 1948)	Ffr, guilder accounts	Italy–Portugal (February 1950)	Dollar account in Italy
France–Norway (June 1946)	Ffr, Nkr accounts	Italy–Sweden (November 1949)	Lira, Skr accounts
France–Portugal (February 1952)	Ffr account	Italy–Switzerland (October 1950)	Lira, Sfr accounts
France–Sweden (July 1948)	Ffr, Skr accounts	Italy–Turkey (February 1952)	Dollar account in Italy
France–Switzerland (December 1952)	Ffr, Sfr accounts	Netherlands–Norway (November 1945)	Guilder, Nkr accounts
France–Turkey (August 1946)	Ffr account	Netherlands–Portugal (March 1946)	Guilder, escudo accounts
W. Germany–Greece (July 1950)	DM account	Netherlands–Sweden (November 1945)	Guilder, Skr accounts
W. Germany–Italy (November 1950)	DM, lira accounts	Netherlands–Switzerland (October 1945)	Guilder, Sfr accounts
W. Germany–Netherlands (September 1949)	DM, guilder accounts	Netherlands–Turkey (September 1949)	Dollar account in Netherlands
W. Germany–Norway (October 1949)	DM, Nkr accounts	Norway–Portugal (November 1949)	Nkr, escudo accounts
W. Germany–Portugal (May 1952)	DM, escudo accounts	Norway–Sweden (February 1951)	Nkr, Skr accounts
W. Germany–Sweden (September 1950)	DM, Skr accounts	Norway–Switzerland (July 1947)	Nkr, Sfr accounts
W. Germany–Switzerland (October 1953)	DM, Sfr accounts	Norway–Turkey (February 1949)	Two dollar accounts
W. Germany–Turkey (July 1953)	Dollar account in Turkey	Portugal–Sweden (May 1950)	Escudo, Skr accounts
Greece–Italy (April 1949)	Dollar account in Italy	Portugal–Switzerland (1952)	Escudo, Sfr accounts
Greece–Netherlands (August 1951)	Guilder account	Portugal–Turkey	N.A.
Greece–Norway (March 1950)	Nkr account	Sweden–Switzerland (June 1951)	Skr, Sfr accounts
Greece–Portugal (December 1949)	Dollar account in Portugal	Sweden–Turkey (July 1948)	Skr account
Greece–Sweden (June 1948)	Skr account	Switzerland–Turkey (October 1945)	Sfr account

Continental OEEC–Spanish Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
BLEU-Spain (April 1949)	Bfr account with sub-accounts	Bfr 100 million	Exchange settlement	Quotas for target balance. For use of accounts, see p. 32.
Denmark-Spain (July 1950)	Dkr account	Dkr 15 million	Exchange settlement	Quotas for target balance. 1954 target Dkr 150 million.
France-Spain (July 1949)	Ffr account	No provision	Offset	Quotas for target balance. 1954 target Ffr 23 billion.
W. Germany–Spain (October 1952)	DM account	DM 84 million	Exchange settlement	Quotas for target balance. 1954 target DM 300 million.
Greece-Spain (February 1950)	Dollar account in Spain	$300,000	Offset	Quotas for target balance.
Iceland-Spain	Sterling account	N.A.	N.A.	N.A.
Italy-Spain (April 1952)	Dollar account in Italy	$2 million	Exchange settlement	Quotas for target balance.
Netherlands-Spain (October 1946)	Guilder account	Fl. 2.5 million	Exchange settlement	Quotas for target balance. 1953 target Fl 80 million.
Norway-Spain (January 1951)	Nkr, peseta accounts	Nkr 7.5 million or equivalent	Exchange settlement	Quotas for target balance. 1954 target Nkr 84 million. Norway's OEEC free list to apply to Spain.
Portugal-Spain (February 1943)	Dollar account	Reciprocal	N.A.	Quotas for target balance.
Sweden-Spain (July 1948)	Skr account	Skr 5 million	Exchange settlement	Quotas for target balance. Sweden's OEEC free list applies to Spain. Compensation transactions permitted in specified goods.
Switzerland-Spain (May 1949)	Sfr account with sub-accounts	Sfr 10 million	N.A.	Quotas for target balance.
Turkey-Spain (June 1951)	Dollar account in Turkey	$500,000	Exchange settlement	Quotas for target balance. 20 per cent of Turkey's exports to be paid in free currencies.

Continental OEEC–Latin American Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Austria-Argentina (March 1952)	Dollar account in Austria	$5 million	Exchange settlement	Lists of goods but no quotas. 1953 target $30.7 million; 1954 target $21.4 million.
Austria-Brazil (May 1951)	Dollar account in Brazil	$3 million	Exchange settlement	List of goods but no quotas. 1953 target $18.5 million.
Austria-Uruguay (February 1951)	Dollar account in Uruguay	$2 million	Offset	Quotas for target balance.
BLEU-Argentina (March 1950)	Bfr account	N.A.	N.A.	List of goods but no quotas.
BLEU-Bolivia (April 1949)	Bfr account	Unilateral, favor of BLEU	Exchange settlement	Quotas for target balance.
BLEU-Chile (December 1953)	Bfr accounts	Unilateral, favor of Chile	Offset	BLEU to purchase 30,000 tons nitrates July 1953–July 1954; Chile to license imports for manufactures up to value of Bfr 88 million as exchange accumulates in account.
BLEU-Colombia (April 1948)	Bfr account	Reciprocal	Exchange settlement	October 1953 trade agreement: BLEU to authorize minimum imports of Bfr 350 million of coffee and bananas; Colombia to authorize imports which it permits only from trade agreement countries.
BLEU-Uruguay (June 1946)	Bfr account	Bfr 5 million	Exchange settlement	Quotas for target balance.
Denmark-Argentina (December 1948)	Dkr account	Dkr 40 million	Exchange settlement	List of goods but no quotas. 1953 target $120 million.
Denmark-Brazil (May 1951)	Dkr account	Dkr 20 million	Exchange settlement	N.A.

Continental OEEC–Latin American Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Denmark-Uruguay (September 1953)	Dkr account	Dkr 1.25 million	Exchange settlement	Quotas for target balance.
France-Argentina (October 1953)	Ffr account	Ffr 15 billion	Exchange settlement	Provides consultative transferability. 1954 target: Argentine exports Ffr 25 billion agricultural products, imports Ffr 22 billion in manufactures. Ffr 3 billion to liquidate French assets blocked in Argentina.
France-Bolivia (May 1949)	Dollar account in France	Unlimited	Offset	Quotas for target balance. Excludes tin shipments. Special provision on rubber exports. Balances in correspondent banks transferred to central banks monthly.
France-Brazil (March 1946)	Dollar account	$20 million	Exchange settlement	Quotas for target balance. 1954 target $130 million.
France-Chile (November 1948)	Dollar account in France	No provision	Offset	Quotas for rigid balance. Special quotas set September 1953 on copper and nitrate exports.
France-Cuba (September 1952)	Ffr account	Unilateral, favor of France	Offset	70 per cent value Cuban sugar exports paid into account, balances to be used for purchases in France; 30 per cent to be paid in free dollars.
France-Ecuador (October 1949)	Two dollar accounts	$500,000	Exchange settlement	List of goods with quotas set only upon Ecuador's luxury imports from France.
France-Mexico (July 1950)	Ffr, peso accounts	$5 million	Exchange settlement	List of goods but no quotas. Private compensation transactions allowed.

Continental OEEC–Latin American Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
France-Paraguay (December 1949)	Dollar account in France	No provision	Exchange settlement	Quotas for target balance. 1953 target $1 million.
France-Peru (December 1950)	Ffr account	No provision	Automatic transferability	Peru may use accrued franc balances for settling commitments to third countries as agreed upon.
France-Uruguay (March 1950)	Dollar account in France	$3.9 million	Exchange settlement	Quotas for target balance.
W. Germany–Argentina (August 1950)	Dollar account in Argentina	$50 million	Exchange settlement	Quotas for target balance. 1954 target $136.6 million.
W. Germany–Brazil (September 1950)	Dollar account in Brazil	$13.5 million	Exchange settlement	Quotas for target balance. 1954 target $142 million.
W. Germany–Chile (December 1953)	Dollar account in Chile	$2.5 million	Exchange settlement	List of goods but no quotas. 1954 target $17.5 million. Copper exports excluded from agreement.
W. Germany–Colombia (February 1952)	Dollar account in Germany	$11 million	Exchange settlement	Covers trade up to $45 million and invisibles up to $2.5 million each way.
W. Germany–Ecuador (March 1950)	Dollar account in Ecuador	$2 million	Exchange settlement	Quotas for target balance.
W. Germany–Paraguay (February 1950)	Dollar account in Germany	$2.5 million	Exchange settlement	Quotas for target balance. 1953 target $5.2 million.
W. Germany–Uruguay (January 1952)	Dollar account in Germany	$7 million	Exchange settlement	Quotas set on German exports but not on imports.
Greece-Brazil (July 1952)	Dollar account in Brazil	$200,000	Exchange settlement	Lists of goods but no quotas. 1953 target $2.12 million.

CONTINENTAL OEEC–LATIN AMERICAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Greece-Uruguay (June 1951)	Two dollar accounts	Unilateral, favor of Uruguay, $1 million	Offset	Quotas for target balance. 1954 target $650,000. Multiple lists of goods. Unscoured wool exports from Uruguay require free-dollar payment.
Iceland-Brazil (August 1953)	Sterling account in Iceland	Reciprocal	Exchange settlement	Lists of goods but no quotas. 1954 target £800,000.
Italy-Argentina (June 1952)	Dollar account	$100 million	Offset	Quotas for target balance. 1953 target $56.1 million. Agreement also covers Italian emigration and settlement of Italian claims blocked in Argentina.
Italy-Brazil (July 1950)	Dollar account in Italy	$5 million	Exchange settlement	Lists of goods but no quotas. 1953 target $124 million.
Italy-Colombia (August 1953)	Dollar account (opened in partner banks in alternate years)	No provision	Offset	Compensation agreement governing sale of Colombian coffee for Italian goods up to $9.5 million (1953).
Italy-Ecuador (May 1951)	Two dollar accounts	$150,000	Exchange settlement	Commodity lists. Import licenses to be issued without limit. Italy agrees to import minimum of 2,000 tons coffee annually.
Italy–El Salvador (May 1953)	Dollar account	No provision	Offset	Lists of goods but no quotas. $2 million maximum trade.
Italy-Paraguay (April 1952)	Dollar account in Italy	$200,000	Exchange settlement	Lists of goods but no quotas.
Italy-Uruguay (June 1953)	Dollar account	N.A.	Offset	Quotas for target balance. 1954 target $13 million.
Netherlands-Argentina (May 1954)	Dollar account	$22 million	Exchange settlement	1954 target balance $53 million.

CONTINENTAL OEEC–LATIN AMERICAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Netherlands-Brazil (June 1953)	Dollar account	Unilateral, favor of Netherlands	Exchange settlement	Reexports of coffee and cocoa paid for through the account are prohibited to United States, Canada, Switzerland, and port of Antwerp. Agreement dollar can be traded on the Amsterdam spot and forward markets, if there is a real underlying transaction, at rates which may vary from 3.77 to 3.83 guilders per dollar.
Netherlands-Paraguay (February 1950)	Guilder account	Fl 1 million	Offset	List of goods but no quotas. 1954 target Fl 4 million.
Netherlands-Uruguay (June 1947)	Guilder account	Fl 250,000	Exchange settlement	List of goods but no quotas. Uruguay agrees to take into account the accounting balance when setting quotas.
Norway-Argentina (August 1949)	Nkr account	Nkr 20 million	Exchange settlement	List of goods but no quotas. 1954 target Nkr 54 million.
Portugal-Brazil (September 1949)	Two dollar accounts	$5.4 million	Exchange settlement	Quotas for target balance. 1954 target $6 million.
Sweden-Argentina (November 1951)	Skr account	Reciprocal	Exchange settlement	List of goods but no quotas.
Sweden-Brazil (May 1949)	Skr account	Skr 100 million	Exchange settlement	Quotas for target balance.
Sweden-Uruguay (June 1949)	Skr account	Skr 15 million	Exchange settlement	Quotas for target balance.
Turkey-Brazil (January 1954)	Dollar account in Brazil	Reciprocal	Exchange settlement	N.A.

Continental OEEC–Far Eastern Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
France-Japan (December 1950)	Dollar account in Japan	$8 million	Exchange settlement	1954 quotas: Japan exports $28.8 million, imports $24.4 million.
France-Formosa (March 1954)	Dollar account	$1.5 million	Exchange settlement	Quotas for target balance at $10 million.
W. Germany–Japan (August 1951)	Two dollar accounts	$12 million	Exchange settlement	Quotas for target balance. 1953 target $45 million. Consultative transferability.
Italy-Japan (January 1953)	Two dollar accounts	$1 million	Exchange settlement	Quotas for target balance. 1954 target $15 million. Japan's imports of rice require free-dollar payment.
Netherlands-Indonesia (April 1950)	Guilder accounts	Fl 25 million	Automatic transferability	Provides basis for Indonesia's participation in Dutch payments agreements with third countries.
Netherlands-Japan (April 1951)	Dollar account in Japan	$2 million	Exchange settlement	Quotas for target balance. 1954 target $7.3 million.
Sweden-Japan (March 1952)	Dollar account in Japan	$4 million	Exchange settlement	Quotas for target balance. 1954 target $10 million.

Continental OEEC–Middle Eastern Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Austria-Egypt (July 1953)	E. pound account	Unilateral, favor of Egypt	Offset	No quotas or list of goods.
BLEU-Egypt (May 1953)	E. pound, Bfr accounts	N.A.	N.A.	N.A.
Denmark-Israel (November 1952)	Dkr account	Dkr 2 million	Exchange settlement	Denmark OEEC free list applies to Israel. Lists of goods but no quotas.

CONTINENTAL OEEC–MIDDLE EASTERN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
France-Egypt (June 1948)	E. pound, Ffr accounts	4 million E. pounds	Exchange settlement	Quotas for target balance.
France-Iran (May 1952)	Ffr account	Equivalent $1.75 million	Exchange settlement	N.A.
France-Israel (July 1953)	Ffr account	N.A.	N.A.	Lists of goods with quotas on French imports. Transfer of French emigrant holdings up to total of Ffr 1 million permitted. Other invisible transfers permitted up to 15% of franc zone commodity exports to Israel.
France-Lebanon (January 1948)	Ffr account with sub-accounts	No provision	Offset	Some quotas.
France-Pakistan (July 1953)	Ffr account	N.A.	N.A.	Certain imports into Pakistan from France and all of Pakistan's cotton exports to France financed through Ffr account. Proceeds of exports other than cotton are paid for in Ffr, sterling, or rupees.
France–Saudi Arabia (November 1950)	Ffr account	Reciprocal	Automatic transferability	Credit balances may be used by Saudi Arabia for purchases of specified third currencies.
France-Syria (October 1949)	Ffr account with sub-accounts	No provision	Exchange settlement	Some quotas.
W. Germany–Egypt (July 1951)	E. pound, DM accounts	Equivalent $15 million	Exchange settlement	Quotas for target balance. 1953 target 28 million E. pounds. Trade ratio set for 1954 to reduce W. Germany's claims on Egypt.

Continental OEEC–Middle Eastern Agreements (continued)

Partners	*Currency of account*	*Swing Credit*	*Type of Agreement*	*Trade provisions*
W. Germany–Iran (June 1952)	Dollar account in Iran	$8 million	Exchange settlement	Quotas for target balance.
Iceland-Israel (May 1953)	Sterling account in Iceland	£150,000	Exchange settlement	No lists of goods and no quotas.
Italy-Egypt (November 1952)	Lira, E. pound accounts	3 million E. pounds for Egypt; 2 million for Italy	Exchange settlement	Italy permitted (August 1953) to reexport cotton. Quotas.
Greece-Egypt (May 1953)	E. pound account	Unilateral, favor of Greece, 250,000 E. pounds	N.A.	No quotas or lists of goods.
Netherlands-Egypt (April 1953)	Guilder, E. pound accounts	Reciprocal	Offset	Netherland's OEEC list applies to Egypt. Quotas on goods not on OEEC list. Commercial payments to Egypt made in E. pounds at fluctuating rate but Suez Canal dues and all other invisibles settled in guilders at Fl 10.91 per E. pound. Complete liberalization of imports into Egypt.
Netherlands-Israel (November 1951)	Guilder account	Equivalent $1 million	Exchange settlement	Quotas. Agreement, prior to modification in January 1953, used multiple accounts and required some dollar payments by Israel. 1954 targets: Israel exports $3.3 million, imports $4.2 million.
Norway-Ethiopia (N.A.)	Sterling account	Reciprocal	N.A.	N.A.
Norway-Israel (May 1953)	Nkr account	Nkr 5 million	Exchange settlement	Quotas. 1953 targets: Norway exports Nkr 20 million, imports Nkr 17 million.

Continental OEEC–Middle Eastern Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Portugal-Egypt (April 1954)	Escudo, E. pound accounts	Reciprocal	Exchange settlement	Portugal agreed to import no less than 0.5 million E. pounds in goods.
Switzerland-Egypt (April 1950)	Sfr, E. pound accounts	Sfr 5 million	Exchange settlement	No quotas or lists of goods.
Turkey-Egypt (September 1953)	Two dollar accounts	$900,000	Exchange settlement	N.A.
Turkey-Iran (December 1951)	Dollar account in Turkey	Reciprocal; no limit	Offset	N.A.
Turkey-Israel (April 1950)	Dollar account in Turkey	$840,000	Exchange settlement	Lists of goods but no quotas.

Continental OEEC–Eastern European Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Austria-Bulgaria (December 1948)	Two dollar accounts with subaccounts	$1 million on "A," $30,000 on "B Account"	Offset	For use of multiple accounts, see p. 26. Quotas for target balance. 1954 target $11 million.
Austria-Czechoslovakia (July 1948)	Two dollar accounts	$3.5 million	Offset	Quotas for target balance. 1954 target $1.7 million.
Austria-Hungary (March 1947)	Two dollar accounts	$2 million	Offset	Quotas. 1954 targets: Austria exports $12.9 million, imports $13.2 million to correct imbalance in accounts.
Austria-Poland (January 1952)	Two dollar accounts	$2 million on "coal account", $500,000 on "B Account"	Exchange settlement	Quotas. Austria must make partial dollar payment for coal imports.
Austria-Romania (April 1950)	Two dollar accounts	$1.5 million	Offset	Quotas for target balance. 1954 target $15.5 million.

CONTINENTAL OEEC–EASTERN EUROPEAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Austria-Yugoslavia (October 1949)	Dollar accounts with subaccounts	$1 million on "A," $50,000 on "B Account"	Offset	Quotas for target balance. 1954 target $25 million. "A Account" used for goods and related expenses; "B" for other transactions.
BLEU-Bulgaria (May 1947)	Bfr account	Bfr 20 million	Exchange settlement	Quotas for target balance.
BLEU-Czechoslovakia (April 1946)	Bfr, koruna accounts	Bfr 20 million	Exchange settlement	Quotas for target balance. 1953 target $12 million.
BLEU-Finland (November 1945)	Bfr account	Bfr 150 million	Exchange settlement	Quotas for target balance. 1953 target $15.0 million.
BLEU-Hungary (February 1949)	Bfr account	Bfr 10 million	Exchange settlement	Quotas.
BLEU-Poland (April 1950)	Bfr account	Bfr 50 million	Exchange settlement	Quotas.
BLEU-Romania (September 1948)	Bfr account	No provision	Offset	Quotas. Barter trade permitted.
BLEU-USSR (February 1948)	Bfr account	Bfr 20 million	Offset	Quotas.
BLEU-Yugoslavia (August 1946)	Bfr account	Bfr 125 million	Exchange settlement	Quotas for target balance.
Denmark-Bulgaria (May 1947)	Two Swiss franc accounts	Sfr 500,000	Offset	Quotas for target balance. Maximum trade not to exceed Sfr 500,000 annually.
Denmark-Czechoslovakia (December 1949)	Dkr, koruna accounts	Dkr 15 million	Offset	Quotas for target balance. 1954 target $2.5 million.
Denmark-Finland (March 1949)	Dkr, markka accounts	Dkr 25 million	Offset	Quotas. 1954 targets: Finland exports $26 million, imports $18.5 million to correct imbalance in account.

Continental OEEC–Eastern European Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Denmark-Hungary (January 1948)	Dkr account	Dkr 1.5 million	Offset	Quotas for target balance. 1952 target Dkr 10.7 million. Barter permitted.
Denmark-Poland (December 1948)	Dkr account with subaccounts	Dkr 25 million	Offset	Quotas. 1953 targets: Denmark exports $10.8 million, imports $15.9 to correct imbalance. For use of multiple accounts, see p. 32.
Denmark-USSR (July 1946)	Dkr account	Dkr 2 million	Exchange settlement	Quotas for target balance. 1954 target $20.9 million. Barter permitted.
Denmark-Yugoslavia (June 1947)	Dollar account in Denmark	$400,000	Exchange settlement	Quotas. 1954–1955 quotas: Denmark exports $8 million, imports $12 million. Special account for liquidating Yugoslav debt to Denmark.
France-Czechoslovakia (June 1950)	Ffr, koruna accounts	Kcs 250 million	Exchange settlement	Quotas. 1953 quotas: Czechoslovakia exports $10 million, imports $8.3 million. Surplus used to liquidate French claims.
France-Finland (June 1950)	Ffr account	Ffr 5,250 million	Exchange settlement	Quotas. 1954 targets: French exports $30 million, imports $38.6 million to correct imbalance in accounts.
France-Hungary (October 1946)	Ffr account	No provision	Offset	Quotas for target balance. 1954 target $7.14 million.
France-Poland (August 1947)	Ffr account	$5.4 million	Exchange settlement	Quotas for target balance. 1954 target $11.4 million.
France-USSR (July 1953)	Ffr account	$3.5 million	Offset	Quotas for target balance. 1954 target $34 million.

Continental OEEC–Eastern European Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
France-Yugoslavia (May 1949)	Ffr, dinar accounts	$3 million	Exchange settlement	Quotas for target balance. 1954 target $20 million.
W. Germany–Bulgaria (November 1947)	Dollar account in Bulgaria	$2 million	Offset	Quotas. 1953 targets: Germany exports $11.4 million, imports $11.9 million to correct imbalance.
W. Germany–Czechoslovakia (September 1947)	Koruna account	$7.5 million	Offset	Quotas for target balance. 1954 target $34 million.
W. Germany–Finland (February 1952)	Dollar account in Finland; DM account in Germany	$27 million	Offset	DM account used for payments on transactions concluded in DM; dollar account for others. Quotas. 1953 targets: Finland exports $55 million, imports $45 million to correct imbalance.
W. Germany–E. Germany (September 1951)	Multiple accounts in "units" kept in each bank (unit equivalent to W. German Mark) with subaccounts	10 million units favor E. Germany; 20 million units favor W. Germany	Offset	Quotas for target balance. 1953 target $102 million.
W. Germany–Hungary (October 1947)	Dollar account in Hungary	$5.5 million	Offset	Quotas for target balance. 1954 target $24 million. Provides dollar payment of $2 million by Hungary to reduce imbalance.
W. Germany–Poland (August 1949)	Dollar account in Poland	$7.5 million	Exchange settlement	Quotas.
W. Germany–Yugoslavia (June 1952)	Dollar accounts	$17 million	Exchange settlement	Technically there are DM and dinar accounts which are converted to dollars daily at IMF rates. 1954 targets: W. Germany exports $30.6 million, imports $57.9 million.

Continental OEEC–Eastern European Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Greece-Bulgaria (December 1953)	Two dollar accounts	$150,000	Offset	Quotas for target balance. 1954 target $1,080,000.
Greece-Czecho-slovakia (August 1948)	Koruna account	N.A.	N.A.	N.A.
Greece–E. Germany (December 1953)	Dollar account	$250,000	Offset	Quotas for target balance. 1954 target $6.3 million.
Greece-Finland (March 1949)	Dollar account in Finland	$1.5 million	Offset	Quotas. 1954 targets: Finland exports $5.7 million, imports $4.7 million to correct imbalance in account.
Greece-Hungary (June 1953)	Dollar accounts	$250,000	Offset	Quotas for target balance. 1954 target $2.25 million.
Greece-Poland (October 1952)	Dollar accounts	$400,000	Offset	Quotas for target balance. 1954 target $4 million.
Greece-Romania (May 1954)	Dollar accounts	$250,000	Offset	Quotas.
Greece-USSR (July 1953)	Dollar accounts	$1 million	Offset	Quotas for target balance. 1954 target $20 million.
Greece-Yugoslavia (April 1951)	Dollar account in Yugoslavia	$750,000	Offset	Quotas for target balance. 1953 target $8.8 million. Private barter allowed on specified goods.
Iceland	Iceland reported to have clearing arrangements with Czechoslovakia, Finland, E. Germany, Hungary, Poland, and USSR but no details available.			
Italy-Bulgaria (September 1953)	Dollar account in Finland	$200,000	Offset	Quotas for target balance. 1954 target $5 million.
Italy-Finland (May 1951)	Dollar account in Finland	$2 million	Offset	Quotas for target balance. 1953 target $16 million. Compensation transactions permitted.
Italy–E. Germany (June 1949)	Two dollar accounts	$250,000	Exchange settlement	Quotas for target balance. 1953 target $10,950,000.
Italy-Hungary (December 1948)	Lira account	500 million lire	Offset	Quotas.

Continental OEEC–Eastern European Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Italy-Poland (July 1949)	Two dollar accounts	$2 million	Offset	Quotas for target balance.
Italy-Romania (December 1950)	Lira account	400 million lire	Offset	N.A.
Italy-USSR (December 1948)	Lira account	600 million lire	Offset	Quotas. 1954 targets: USSR exports $30 million, imports $27.8 million.
Italy-Yugoslavia (April 1947)	Lira account	Reciprocal; N.A.	Offset	N.A.
Netherlands-Bulgaria (June 1947)	Guilder account	Fl 600,000	Exchange settlement	Quotas.
Netherlands-Czechoslovakia (November 1946)	Guilder, koruna accounts	$7 million	Offset	N.A.
Netherlands-Finland (June 1946)	Guilder account	Fl 12 million	Offset	Quotas.
Netherlands–E. Germany (June 1949)	Guilder account	Fl 2 million	Exchange settlement	Quotas for target balance. 1954 target $2.1 million.
Netherlands-Hungary (December 1947)	Guilder account	Fl 6 million	Offset	Quotas for target balance. 1954 target $6 million.
Netherlands-Poland (December 1946)	Guilder account	Fl 5 million	Offset	N.A.
Netherlands-USSR (June 1948)	Guilder account	Fl 2 million	Exchange settlement	No annual schedules or quotas noted for recent years.
Netherlands-Yugoslavia (February 1948)	Guilder account	Fl 12 million	Exchange settlement	Quotas for target balance. 1954 target $17.8 million.
Norway-Bulgaria (September 1951)	Two dollar accounts	N.A.	Offset	Covers merchandise only. In recent years, trade conducted largely on compensation terms.
Norway-Czechoslovakia (December 1953)	Nkr, koruna accounts	$2.3 million	Exchange settlement	Quotas for target balance. 1954 target $5.6 million.

CONTINENTAL OEEC–EASTERN EUROPEAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Norway-Finland (November 1945)	Nkr account	Nkr 5 million	Offset	Quotas for target balance. 1954 target $9.8 million.
Norway-Hungary (August 1946)	Nkr account	Nkr 1 million	Offset	Quotas for target balance. 1953 target $1.1 million.
Norway-Poland (January 1949)	Nkr account	Nkr 1.5 million	Offset	Quotas. 1953 targets: Norway exports $6.2 million, imports $7.5 million to correct imbalance.
Norway-USSR (January 1947)	Nkr accounts	Nkr 1 million	Exchange settlement	Quotas, compensation transactions permitted.
Norway-Yugoslavia (August 1946)	Two dollar accounts	$100,000	Exchange settlement	N.A.
Portugal-Finland (January 1950)	Escudo, markka accounts	Escudos 15 million	Offset	N.A.
Sweden-Bulgaria (October 1947)	Skr account	N.A.	Offset	Quota lists have not been renewed in recent years.
Sweden-Czechoslovakia (October 1947)	Skr, koruna accounts	Skr 33 million	Exchange settlement	N.A.
Sweden-Hungary (August 1946)	Skr account	No provision	Offset	Quotas. 1954 targets: Sweden exports $3.75 million, imports $4.4 million to cover part of her claims.
Sweden-Poland (May 1954)	Skr account	Skr 15 million	Exchange settlement	Quotas. In 1954, Sweden granted Poland a temporary additional credit of Skr 15 million. Polish surplus to liquidate debts and nationalization claims.
Sweden-USSR (September 1940)	Skr account	Skr 500,000	Offset	Quotas for target balance. 1954 target $14.2 million.

CONTINENTAL OEEC–EASTERN EUROPEAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Sweden-Yugoslavia (April 1947)	Skr account	Skr 100,000	Exchange settlement	N.A.
Switzerland-Bulgaria (December 1946)	Sfr account with sub-accounts	No provision	N.A.	Quotas lists not renewed in recent years. Bulgarian export proceeds used: 70% to "A Account" and used only for imports; 20% to "B Account" to apply on debts; 10% to "C Account" at free disposal of Bulgaria for use anywhere.
Switzerland-Czechoslovakia (December 1950)	Sfr account with sub-account	Unilateral, Sfr 10 million, favor of Czechoslovakia	Offset	For use of multiple accounts, see pp. 28-29.
Switzerland-Finland (August 1950)	Sfr account	Sfr 3 million	Exchange settlement	Quotas for target balance. 1954 target Sfr 25 million.
Switzerland-E. Germany (December 1948)	Sfr account	No provision	N.A.	N.A.
Switzerland-Hungary (July 1950)	Sfr account	Unilateral, Sfr 5 million, favor of Hungary	Offset	Quotas. July 1950–June 1955 targets $10 million annually. October 1, 1953, supplementary quotas: Switzerland exports $11 million, imports $7 million.
Switzerland-Poland (July 1949)	Sfr account with sub-accounts	Unilateral, Sfr 20 million, favor of Poland	Offset	N.A.
Switzerland-Romania (August 1951)	Sfr account	N.A.	N.A.	N.A.
Switzerland-Yugoslavia (October 1948)	Sfr account with sub-accounts	No provision	Offset	Three accounts used for specified transactions.
Turkey-Bulgaria (April 1942)	Turkish pound account	35,000 Turkish pounds	Offset	Actual trade conducted largely in compensation terms.

Continental OEEC–Eastern European Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Turkey-Czechoslovakia (July 1949)	Koruna account	Kcs 150 million	Offset	No quotas on listed goods.
Turkey-Finland (June 1948)	Dollar account in Finland	$2 million	Exchange settlement	List of goods but no quotas.
Turkey-Hungary (June 1949)	Dollar account in Turkey	$500,000	Exchange settlement	List of goods but no quotas.
Turkey-Poland (August 1948)	Two dollar accounts	$500,000	Exchange settlement	Quotas for target balance.
Turkey-Romania (February 1954)	Dollar account in Turkey	Reciprocal; N.A.	Offset	Total trade up to $1 million to be financed. Turkish-Romanian trade negligible in past years and believed handled through Turkish-Czechoslovakian account.
Turkey-USSR (October 1937)	Sterling accounts	No provision	Offset	N.A.
Turkey-Yugoslavia (January 1950)	Two dollar accounts	$500,000	Exchange settlement	Quotas. 1953 targets: Turkey exports $30 million, imports $40 million.

Spanish–Latin American Agreements

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Spain-Bolivia (February 1948)	Two dollar accounts	$1 million	Exchange settlement	Lists of goods but no quotas. Provision for special purchase 1,000 tons rubber by Spain annually at not less than $1.00 per pound.
Spain-Brazil (July 1952)	Dollar accounts	Reciprocal; N.A.	Offset	Quotas for target balance. 1954 target $10 million.

Spanish–Latin American Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Spain-Chile (August 1950)	Two dollar accounts	$2 million	Exchange settlement	1954 target $15 million. Lists of goods with quotas on copper and nitrates.
Spain-Colombia (November 1952)	Dollar account in Colombia	$1 million	Exchange settlement	Quotas for target balance. 1954 target $3 million.
Spain-Cuba (September 1952)	Dollar account with subaccounts in Cuba	Unilateral, $7 million, favor of Cuba	Exchange settlement	For use of multiple accounts, see pp. 32-33.
Spain–El Salvador (April 1953)	Dollar accounts	$300,000	Exchange settlement	Lists of goods but no quotas.
Spain-Mexico (March 1951)	Dollar account in Spain	$2 million	Offset	Lists of goods but no quotas. 1954 target $9.4 million.
Spain-Paraguay (August 1950)	Dollar account in Spain	$1 million	Offset	Quotas for target balance. 1954 target $3 million.

Spanish–Middle Eastern Agreements

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Spain-Egypt (August 1953)	E. pound accounts	350,000 E. pounds, favor of Spain; unlimited, favor of Egypt	Exchange settlement	Quotas.

Intra-Latin American Agreements (continued)

Partners	Currency of account	Swing credit	Type of agreement	Trade provisions
Argentina-Bolivia (March 1947)	Argentine peso account	Unilateral, 62 million pesos, favor of Bolivia	Exchange settlement	Lists of goods but no quotas. Export commitment by Bolivia of 12,000 tons tin annually against free-dollar payment.

INTRA-LATIN AMERICAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Argentina-Brazil (March 1953)	Two dollar accounts	$45 million	Exchange settlement	Quotas for target balance. 1954 target $135 million. 2% interest charged on balances above $15 million; 2.5% above $30 million.
Argentina-Chile (April 1952)	Dollar account	$15 million	Exchange settlement	1953 targets: $52.2 million each way in unlicensed trade and $15 million in goods subject to license.
Argentina-Colombia (July 1949)	Dollar account in Argentina	No provision	Exchange settlement	1953 target: Colombian coffee against Argentine products up to $500,000. 1954 target $5.75 million.
Argentina-Ecuador (August 1953)	Two dollar accounts	$1 million	Exchange settlement	Lists of goods but no quotas. 1954 target $6.7 million.
Argentina-Mexico (July 1950)	Dollar account in Argentina	$250,000	Exchange settlement	Covers trade in books, periodicals, and pamphlets only.
Argentina-Paraguay (December 1949)	Dollar account	$5 million	Exchange settlement	Lists of goods but no quotas. 1954 target balance $15 million.
Argentina-Peru (September 1949)	Argentine peso account	N.A.	Exchange settlement	Lists of goods but no quotas. 1954 target balance 55 million pesos.
Argentina-Uruguay (August 1948)	Argentine peso account	1 million pesos	Exchange settlement	Quotas for target balance. Special provision on tourist exchange rate to avoid "balance-of-payments difficulties."
Bolivia-Brazil (December 1953)	Dollar account	N.A.	Exchange settlement	Lists of goods but no quotas. 1954 target balance $4 million.
Brazil-Paraguay (January 1953)	Dollar account	N.A.	Exchange settlement	1954 target balance $4 million.
Brazil-Uruguay (December 1949)	Cruzeiro account	No provision	Exchange settlement	Quotas for target balance. 1954 target balance 36 million pesos.

Intra-Latin American Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Chile-Ecuador (August 1949)	Two dollar accounts	$250,000	Exchange settlement	Excludes financing of copper and nitrates, which require free-dollar payment.
Colombia-Ecuador (April 1949)	Peso, sucre accounts	No provision	Exchange settlement	Covers all transactions, including capital transfers.
Colombia-Uruguay (December 1953)	Two dollar accounts	$1 million	Exchange settlement	Lists of goods but no quotas. 1954 target $3.6 million.
El Salvador–Nicaragua (August 1951)	Peso, cordoba accounts	N.A.	Exchange settlement	Lists of goods but no quotas.
Paraguay-Uruguay (February 1953)	Dollar account in Uruguay	$4 million	Exchange settlement	Lists of goods but no quotas. 1954 target balance $4 million.

Latin American–Far Eastern Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Argentina-Japan (May 1953)	Dollar account in Argentina	$20 million	Exchange settlement	Consultative transferability. 40% Argentine transport charges to be paid by Japan in free dollars. Lists of goods, no quotas. 1954 target $90 million each way. 1953 actual trade: Japan exports $10.6 million, imports $53.4 million.
Brazil-Japan (July 1952)	Dollar accounts	$10 million	Exchange settlement	Lists of goods with quotas on important trade items. 1954 targets: Japan exports $33.5 million, imports $35.6 million.

LATIN AMERICAN–MIDDLE EASTERN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Argentina-Israel (June 1950)	Dollar account in Argentina	Unlimited, favor of Argentina; $3 million, favor of Israel	Exchange settlement	Lists of goods but no quotas.
Uruguay-Israel (January 1951)	Dollar account	$2 million	Exchange settlement	Lists of goods but no quotas.

LATIN AMERICAN–EASTERN EUROPEAN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Argentina-Bulgaria (May 1949)	Dollar account in Argentina	$1 million	Exchange settlement	Quotas. Bulgaria required to pay partial values of specified imports in free dollars.
Argentina-Czechoslovakia (July 1947)	Koruna account	$6 million	Exchange settlement	Lists of goods but no quotas.
Argentina-Finland (July 1949)	Dollar account in Argentina	Reciprocal; N.A.	Exchange settlement	List of goods but no quotas. 1954 target balance $32 million.
Argentina-Hungary (July 1948)	Dollar account in Argentina	$5 million	Exchange settlement	Lists of goods but no quotas. 50% of value of Hungary's exports used to settle debts to Argentina.
Argentina-Poland (December 1948)	Dollar account in Argentina	$5 million	Exchange settlement	List of goods but no quotas.
Argentina-Romania (October 1947)	Dollar account in Argentina	No provision	Offset	List of goods but no quotas. Argentine exports of oils, wools, and hide require dollar payment outside of agreement.

Latin American–Eastern European Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Argentina-USSR (August 1953)	Dollar account in Argentina	$11 million	Exchange settlement	Lists of goods but no quotas. 1954 target $150 million. Permits reexports freely. Includes provision for Russian exports of $30 million in capital equipment on long-term credit.
Argentina-Yugoslavia (June 1948)	Dollar account in Argentina	$9 million	Exchange settlement	List of goods but no quotas. 1954 target balance $20 million. Yugoslavia must pay in free dollars 10% of values of wool and hide purchases.
Brazil-Czechoslovakia (May 1950)	Dollar account in Brazil	No provision	Exchange settlement	Lists of goods but no quotas. 1954 targets: Brazil exports $16.8 million, imports $18.0 million.
Brazil-Poland (January 1949)	Dollar account in Brazil	N.A.	N.A.	Lists of goods but no quotas. 1953 target balance $6.6 million.
Brazil-Yugoslavia (January 1950)	Dollar account in Brazil	$1 million	Exchange settlement	Lists of goods but no quotas. 1954 target balance $18 million.
Colombia-Finland (March 1951)	Two dollar accounts	No provision	Offset	Colombia to authorize coffee exports up to $4 million and imports of nonprohibited goods to $4 million.
Mexico-Czechoslovakia (October 1950)	Peso, koruna accounts	8 million pesos	Exchange settlement	Lists of goods but no quotas and no trade targets.
Paraguay-Czechoslovakia (March 1954)	Dollar account	$1 million	N.A.	N.A.
Paraguay-Finland (September 1953)	Two dollar accounts	$200,000	Exchange settlement	N.A.

Latin American–Eastern European Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Paraguay-Hungary (November 1953)	Dollar account	$400,000	N.A.	N.A.
Paraguay-Yugoslavia (January 1950)	Dollar account in Yugoslavia	$500,000	Offset	Lists of goods but no quotas.
Uruguay-Czechoslovakia (January 1947)	Koruna account	$1 million	Exchange settlement	Quotas for target trade balance.
Uruguay-Hungary (N.A.)	Dollar account	$3 million	Offset	Recent trade has been largely of compensation and barter types.
Uruguay-Yugoslavia (January 1950)	Dollar account in Yugoslavia	N.A.	Offset	Quotas.

Intra-Far Eastern Agreements

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Japan-Indochina (May 1948)	Dollar account in Japan	Reciprocal; no limit	Exchange settlement	The account is merged with the French-Japanese account semi-annually and the entire net balance settled in dollars.
Japan-Indonesia (July 1952)	Two dollar accounts	$15 million	Exchange settlement	Quotas. Reported that trilateral clearing arrangement proposed February 1954 between W. Germany, Japan, and Indonesia.
Japan-Korea (April 1951)	Dollar account in Japan	$2 million	Exchange settlement	Quotas. 1953 targets: Japan exports $32 million, imports $16 million.
Japan-Formosa (July 1950)	Dollar account in Japan	$10 million	Exchange settlement	Quotas for target balance. 1954 target $74.5 million. 1953 actual trade: Japan exports $54.1 million, imports $60.5 million.

INTRA-FAR EASTERN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Japan–Philippine Republic (May 1950)	Two dollar accounts	$2.5 million	Exchange settlement	Quotas for target balance.
Japan-Thailand (September 1953)	Two dollar accounts	$5 million	Exchange settlement	Quotas for target balance. 1954 target $65 million.
Formosa-Ryukyus (August 1951)	Two dollar accounts, one in Formosa, one in Japan	$100,000	Exchange settlement	Lists of goods but no quotas.

FAR EASTERN–MIDDLE EASTERN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Japan-Egypt (November 1953)	Dollar account in Egypt	$5 million	Offset	Quotas for target balance.

FAR EASTERN–EASTERN EUROPEAN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Japan-Finland (December 1952)	Dollar account in Japan	$1 million	Exchange settlement	Consultative transferability. Quotas for target balance.
Indonesia	Indonesia is reported to have concluded separate payments agreements with Czechoslovakia, Poland, Finland, Yugoslavia, and Hungary, but no details are available to the authors.			

INTRA-MIDDLE EASTERN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Egypt-India (July 1953)	Rupee account	Reciprocal	Offset	India to pay for purchases 60% in sterling and 40% in rupees. Rupee balances may be used only for purchases in India. Lists of goods but no quotas.
Egypt-Lebanon (September 1951)	E. pound account	N.A.	N.A.	Lists of goods but no quotas.
Egypt-Saudi Arabia (May 1949)	E. pound account	N.A.	N.A.	N.A.
Iran-Israel (June 1953)	Dollar account in Iran	$500,000	Exchange settlement	Lists of goods but no quotas.
Israel-Ethiopia (November 1951)	Two dollar accounts	$250,000	Offset	No lists of goods or quotas. Trade not to exceed $2 million.

MIDDLE EASTERN-EASTERN EUROPEAN AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Egypt-Czechoslovakia (October 1951)	E. pound account	Reciprocal	N.A.	N.A.
Egypt-E. Germany (March 1953)	E. pound account	$1.4 million	N.A.	Quotas for target balance. 1953 target about $12 million.
Egypt-Poland (June 1949)	Dollar account in Egypt	$980,000	Exchange settlement	Quotas.
Egypt-Romania (January 1954)	E. pound account	$1.4 million	Offset	Quotas for target balance. Reexports permitted on agreement.
Egypt-USSR (August 1953)	E. pound account	1 million E. pounds	Offset	USSR may reexport Egyptian goods freely to Bulgaria, Czechoslovakia, E. Germany, Hungary, Poland, Romania.

MIDDLE EASTERN–EASTERN EUROPEAN AGREEMENTS (CONTINUED)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Egypt-Yugoslavia (August 1950)	E. pound account	$1.4 million	Offset	No quotas or lists of goods noted.
Iran-Poland (March 1951)	Rial account	10 million rials	Offset	Lists of goods but no quotas.
Israel-Finland (January 1951)	Dollar account with subaccounts in Israel	$2 million	Offset	Quotas for target balance. 1954 target $6.3 million. Israel pays some dollars in order to be permitted to use immigrant holdings in Finland.
Israel-Hungary (February 1950)	Dollar account with subaccounts in Israel	Reciprocal	Exchange settlement	Lists of goods but no quotas. Israel pays some dollars in order to be permitted to use immigrant holdings in Hungary. For use of subaccounts, see p. 31.
Israel-Poland (April 1951)	Dollar account with subaccounts in Israel	$250,000 on "A Account"	Exchange settlement	Requires some dollar payments by Israel.
Israel-Yugoslavia (January 1951)	Dollar account in Yugoslavia	$200,000	Exchange settlement	Israel required to pay some dollars in order to be permitted to use immigrant holdings in Yugoslavia.
Lebanon-Czechoslovakia (July 1952)	Lebanese pound, koruna accounts	$230,000	Offset	Provides for trade up to 5 million Lebanese pounds each way.
Lebanon–E. Germany (December 1953)	Two dollar accounts	$100,000	Offset	Quotas for target balance. 1954 target $1 million.
Lebanon-USSR (April 1954)	Lebanese pound, ruble accounts	1.2 million rubles	Exchange settlement	Target balance 10 million Lebanese pounds.

EASTERN EUROPEAN–FINNISH AGREEMENTS

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Bulgaria-Finland (October 1948)	Two dollar accounts	$500,000	Offset	Quotas for target balance. 1954 target $2 million.
Czechoslovakia-Finland (October 1950)	Two dollar accounts	N.A.	Offset	Quotas. 1954 targets: Czechoslovakia exports $14 million, imports $3.9 million. Trilateral trade provided.
Finland–E. Germany (December 1951)	Two dollar accounts	$1 million	Offset	Quotas. Trilateral trade with USSR as third party. 1953 quotas $7 million each way. Supplement September 1953: Finland exports $2.8 million, imports $3.3 million.
Finland-Hungary (December 1951)	Dollar account	$500,000	Offset	N.A.
Finland-Poland (March 1947)	Two dollar accounts	$3 million	Offset	Trilateral trade with USSR as third party. 1953 quotas: Finland exports $13.9 million, imports $27 million.
Finland-Romania (March 1951)	Ruble account	1.6 million rubles	Offset	Trilateral trade with USSR as third party. 1954 quotas: Finland exports $4 million, imports $7 million.

Eastern European–Finnish Agreements (continued)

Partners	*Currency of account*	*Swing credit*	*Type of agreement*	*Trade provisions*
Finland-USSR[a] (January 1951)	Ruble accounts	6 million rubles	Offset	Quotas for calculated Finnish surplus to be offset by deliveries from third countries. 1953 USSR-Finnish quotas: USSR exports $112 million, imports $150 million. Finnish deficits with Czechoslovakia, E. Germany, Hungary, Poland, and Romania calculated to establish balance.
Finland-Yugoslavia (October 1948)	Two dollar accounts	$500,000	Offset	Quotas for target balance. June 1953–December 1955 quotas: $2.5 million each way annually.

[a] A 1954 amendment altered the terms of this agreement. The USSR agreed to pay gold up to $5 million of a calculated deficit of about $17 million. Deficits over $5 million are to be paid in sterling or Swiss francs. In June 1954, the USSR was reported to have transferred $5 million in gold to Finland. *International Financial News Survey*, Washington, D.C., International Monetary Fund, June 18, 1954.

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