

PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 8

Financing Free World Trade
with the
Sino-Soviet Bloc

Raymond F. Mikesell
and
Jack N. Behrman

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIOLOGY
PRINCETON UNIVERSITY—1958

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THIS is the eighth number in the series called PRINCETON STUDIES IN INTERNATIONAL FINANCE. These monographs are published from time to time by the International Finance Section of the Department of Economics and Sociology in Princeton University. The authors have long been active in studying international economic problems. Raymond F. Mikesell is now W. E. Miner Professor of Economics at the University of Oregon. He has frequently served as a consultant to various United States and international organizations, both public and private. Jack N. Behrman has recently accepted an appointment as Professor of Economics at the University of Delaware. Before that he had been at Washington and Lee University and was for three years prior to that a Research Assistant in the International Finance Section.

This study was undertaken as a part of a systematic inquiry into the foreign economic relations of the Soviet Union, Eastern Europe, and Mainland China. It was sponsored by the Soviet Bloc Foreign Economic Relations Project of the Woodrow Wilson Department of Foreign Affairs at the University of Virginia and financed by the Dearborn Foundation. The authors are grateful for the many services provided by the Project in the course of the study. Robert Loring Allen, its director, read and commented on the manuscript and directed the compilation of the appendix tables. Mr. Aubrey Drewry made important contributions to the statistical analysis. The authors also acknowledge substantial assistance from Mr. Franklin Howard, Mr. Donald Wells, Mr. William Bartsch, and Mr. Hermann Stoller in gathering and assembling data. Mrs. Lucy Vick, secretary to the Project, performed many essential chores in connection with the preparation of the manuscript.

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GARDNER PATTERSON, *Director*

Princeton University
June 1958

CONTENTS

INTRODUCTION	1
I. THE STRUCTURE OF EAST-WEST TRADE	3
Pre-World War II	3
The Early Postwar Period, 1947-1951	4
Postwar Trade, 1953-1956	9
Importance of Bilateral Agreements	11
Areas of Multilateralism	15
II. MOTIVATION IN NEGOTIATION OF BILATERAL AGREEMENTS	17
MOTIVES OF FREE WORLD COUNTRIES	17
Some General Considerations	17
Some Specific Objectives	19
SINO-SOVIET MOTIVATION	25
Expanding Trade	25
Improving Bargaining Position	26
III. FINANCING EAST-WEST TRADE	30
Introduction	30
THE NATURE OF THE PAYMENTS ARRANGEMENTS	31
Clearing Account Type	31
Agreements Providing for Payments in Transferable Currencies	41
Barter and Private Compensation	43
COMMERCIAL AND BANKING PRACTICES	45
Cash and Letters of Credit	45
Government Regulations	46
Instruments for Financing Barter and Compensation Deals	47
Credit Guarantees	49
Trading in Clearing Account Balances	50
INTERMEDIATE AND LONG-TERM CREDITS	50
THE ROLE OF GOLD AND FREE CURRENCIES	52

THE PROBLEM OF MULTILATERAL SETTLEMENT	53
Triangular Settlements Between Finland and Sino-Soviet Bloc Countries	54
The ECE Multilateral Clearing Scheme	55
Problems of Operation of the ECE Scheme	57
Intra-Soviet Bloc Clearing	59
The British Proposal	60
IV. TRADE AGREEMENTS AND THE ORGANIZATION OF EAST-WEST TRADE	62
THE AGENCIES CONDUCTING EAST-WEST TRADE	62
Free World Organizations	62
Sino-Soviet Bloc Trading Agencies	63
NATURE AND OPERATION OF THE TRADE AGREEMENTS	65
Trade Quotas	65
PRICING PRACTICES IN EAST-WEST TRADE	70
General Practices	70
Pricing Under Barter Transactions	72
Long-Term Contracts	72
Soviet Bloc Pricing Practices	73
TRADE PRACTICES AFFECTING EAST-WEST TRADE	74
Inflexible Merchandising	74
Representation, Servicing, and Deliveries	75
STATISTICAL ANALYSIS OF THE OPERATION OF THE AGREEMENTS	76
Volume of Trade	77
Stability of Bilaterally Planned Trade	80
Trade Balances and Agreement Trade	81
Target Trade Balances vs. Actual Trade Balances	85
V. EXPERIENCE IN TRADING UNDER THE BILATERAL AGREEMENTS	87
Expanding Markets for Exports	87
Terms of Trade and Quality of Imports	90
Creditor-Debtor Experience Under the Agreements	94
VI. SUMMARY AND EVALUATION	97

LIST OF TABLES

1. Merchandise Trade of Major Free World Areas with Sino-Soviet Bloc, USSR, European Satellites, and Communist China, 1938, 1948, 1952-1956 5
2. Total Free World Trade and Free World Trade with Sino-Soviet Bloc, Annually 1947-1956 and January-June 1957 8
3. Indexes of Volume of Trade Between Eastern and Western Europe, 1938, 1949, 1950, 1952, 1954, 1955, and 1956 9
4. Relative Importance of East-West European Trade in Total Trade of Eastern and Western Europe, 1937, 1948, 1954, 1955, and 1956 10
5. Merchandise Trade Between Free World and Sino-Soviet Bloc by Major Areas: Total Imports and Exports in 1955 and Per Cent of Total Trade Between Countries Which Were Partners to Trade Agreements in 1955 13
6. Principal Methods of Financing Trade Between Free World and Sino-Soviet Bloc Countries 32
7. Estimated Sino-Soviet Bloc Aid to Less Developed Countries, 1955-1957 as of December 30, 1957 52
8. Trade Agreements Valid September 1956, Classified by Quota Provisions 68
9. Frequency Distribution of 240 Selected Soviet Bloc-Free World Trade Agreements According to Percentage of Fulfillment of Trade Targets 78
10. Actual Trade Values as a Percentage of Agreement Targets for 240 Selected Soviet Bloc and Free World Trade Agreements, by Areas 79
11. Actual Trade as a Percentage of Trade Agreement Targets for Selected Items in Seven Trade Agreements Between Eastern and Western European Countries 82
12. Frequency Distribution of Annual Percentage Changes in Export Proceeds in Trade of Selected Free World Countries With Western Countries and Soviet Bloc Countries, 1948-1956 84

13. Frequency Distribution of Bilateral Trade Balances for 238 Selected Trade Agreements According to Number of Cases in Which Actual Trade Balance Exceeded Sched- uled Trade Balance by More Than One-Half Million Dollars	86
14. Net Balance of Egypt's Bilateral Clearing Accounts	95

APPENDIX TABLES

I	Summary of Payments Agreements and Other Trade Accords between the Free World Countries and the Sino-Soviet Bloc	103
II	Sino-Soviet Long-term and Intermediate-term Credits to Free World Countries	250

INTRODUCTION

TRADE between the Sino-Soviet bloc countries¹ and the rest of the world is both a weapon of the cold war and an aspect of peaceful co-existence. On both sides of the Iron Curtain, the conduct of trade is closely controlled and heavily burdened with national economic and security interests. The primary concern of this study is with the financial and trading practices of the Free World and Communist bloc trading partners. Most of this trade is conducted under some form of bilateral agreement. Therefore, our investigations have centered on the character and operation of the agreements and on the economic and political motivations underlying them.

A portion of this study is devoted to a statistical and qualitative analysis of the trade and payments agreements and of the volume and character of the trade which has been conducted under them. Our primary aim, however, has been to evaluate certain financial and trading practices and arrangements from the standpoint of the interests and objectives of the Free World trading partners. This is, of course, a limited objective since an evaluation of the full impact of East-West trade would require economic considerations far beyond the terms of reference of this study.

The study begins with a brief review of the structure and organization of Sino-Soviet bloc trade, followed by a chapter on Free World and bloc motives for negotiating bilateral trade and payments agreements. Chapters III and IV, which form the bulk of this monograph, are devoted to a description of the financial and other commercial practices employed in East-West trade, with special emphasis on the negotiation, nature, and operation of the trade and payments agreements. A statistical analysis of the trade under some 240 agreements is also given in Chapter IV. In Chapter V, we have sought to characterize the experience of Free World countries in trading under agreements with the Sino-Soviet bloc. This review is based in large part upon unpublished case studies covering the motivation, negotiating problems, and operating experience under bilateral agreements of selected Free World countries and bloc countries. The final chapter

¹ Sino-Soviet bloc countries comprise the following: USSR; Soviet European Satellites, which include Albania, Bulgaria, Czechoslovakia, Soviet Zone of Germany, Hungary, Poland, and Rumania; China (since 1949), which includes Mainland China, Manchuria, Inner Mongolia, and Tibet; Outer Mongolia; North Korea (beginning 1951); and North Vietnam (beginning 1955). Free World includes all other countries.

summarizes the major conclusions and presents an overall evaluation of the operation of the East-West bilateral arrangements.

SOURCES OF INFORMATION

Information on Sino-Soviet bloc trade and payments agreements with Free World countries has been obtained almost exclusively from non-Soviet sources. The Soviet bloc countries have only recently let down some of their bars to dissemination of statistical information, and analytical studies from that side are virtually non-existent. A modicum of information is available in Soviet propaganda pieces, but the reliability of such sources is small save for presenting *avowed* objectives of the agreements signed by bloc countries.

Information on bilateral agreements and trade practices from the Free World side is also limited. Little has been published of an analytical nature and even information concerning the provisions of the agreements is often classified or unavailable outside of government circles. We attempted to overcome these hurdles by talking at length with persons in the United States government and with officials of some foreign governments, thus obtaining a "non-official" picture from those having firsthand information. These discussions gave us many leads and helped us to interpret some of the data which we have been able to uncover.

Much of the information presented in this study came from a gleaning of the unclassified files of the Department of Commerce, whose officials were most helpful and gave unstintingly of their time. Officials of the State Department provided us with a complete set of agreements (abstracted) between Free World nations and members of the Sino-Soviet bloc. We have also drawn heavily upon articles in the domestic and foreign press. Some of the information which we were able to obtain cannot be considered as "verified." In several instances, information found in one source was contradicted by later information on the same subject. Despite considerable checking, we cannot be sure that all that has been recorded here is correct, but we believe the errors are not such as to invalidate any of our conclusions or seriously to alter our analysis.

I. THE STRUCTURE OF EAST-WEST TRADE

THE volume and character of trade between the Sino-Soviet bloc and the Free World have been determined primarily by the national economic and political security policies of the trading partners, and to only a limited degree by free market forces. All of the foreign trade on the bloc side and most of the trade with the bloc on the Free World side is subject to government controls. Controls on the Free World side range from security restrictions on exports of certain goods to the bloc or to certain bloc members,¹ to licensing and quota controls on all trade with bloc countries.

PRE-WORLD WAR II

Soviet trade relations and those of the countries under Russian domination have undergone several major shifts since World War I, reflecting basic changes in Soviet economic and political policies and objectives. During the interwar period Soviet policy emphasized internal self-sufficiency, and Russia limited her foreign trade to that necessary to achieve her basic development goals. Both imports and exports during the interwar period were well below the 1913 levels.²

During her first Five-Year Plan (1928-1932), Russia placed large orders for machine tools and other heavy industrial equipment in the United States and Germany. Technical excellence rather than reciprocal commercial advantage tended to be the predominant consideration.³ Russia's imports of industrial raw materials were largely imported from traditional sources and not under bilateral agreements.

In contrast to the period following World War II, Russia's interwar trade was largely multilateral in character and she made relatively little effort to use her trade as a bargaining weapon for creating economic or political advantage. Russia had trade deficits in most of the years between 1925 and 1932; these were covered by gold sales, by drawing down currency reserves, and by short-term commercial credits from abroad. After 1932 Russia's imports were sharply reduced and her trade position reversed, so that she was able to repay most of her commercial

¹ The United States government prohibits all trade and financial transactions with North Korea and Mainland China.

² During the interwar period, Soviet exports never exceeded a half billion dollars annually as compared with \$780 million in 1917, and imports never rose over \$570 million as compared with \$707 million in 1913. See *Foreign Commerce Yearbook*, U.S. Department of Commerce, 1939, p. 125.

³ A. M. Baykov, *Soviet Foreign Trade*, Princeton University Press, Princeton, N.J., 1946, pp. 73-74.

indebtedness by 1935.⁴ By 1938 Russia's trade was approximately balanced at about a third of a billion dollars (see Table 1) as compared with exports and imports of more than double this amount in 1930.

In contrast to the widespread bilateralism practiced by other Central and Eastern European countries, Russia negotiated but few clearing agreements. She was a partner to only three agreements in 1936 and five in 1939.⁵ In 1937 only 18 per cent of Russia's imports and 9 per cent of her exports were financed through clearing agreements. In contrast, Bulgaria financed 88 per cent of her imports through clearing agreements in 1937; Czechoslovakia, 29 per cent; Germany, 53 per cent; Hungary, 60 per cent; Italy, 46 per cent; the Netherlands, 23 per cent; Rumania, 75 per cent; Sweden, 24 per cent; Switzerland, 36 per cent; Turkey, 72 per cent; and Yugoslavia, 61 per cent.

THE EARLY POSTWAR PERIOD, 1947-1951

Following World War II, the trade of Eastern Europe came under Russian control. Before the war, trade between Russia and Eastern Europe had been almost negligible, and among these countries themselves relatively small, but Russian postwar policy was directed toward increasing trade within the Soviet bloc at the expense of satellite trade with the rest of the world. By 1950 about one-third of Eastern Europe's trade was with the USSR and intra-Soviet bloc trade represented about two-thirds of the total trade of this area.

Following World War II, trade between Western Europe and the Soviet bloc rose slowly. By 1948 Soviet bloc exports to Western Europe were only 31 per cent of the 1938 volume and imports from Western Europe were but 59 per cent of the 1938 volume. Czechoslovakian and Polish exports to Western Europe were substantially larger, relative to 1938, than was the case with Russian exports. In fact, these countries achieved fairly substantial surpluses in their trade with Western Europe in 1948, a portion of which were received in sterling available for making purchases of raw materials in the outer sterling area.

By 1949 the Soviet bloc's trade surplus with Western Europe had disappeared. During the next three years both exports and imports (by volume) with Western Europe declined (see Table 3). This was caused

⁴ Soviet indebtedness reached 1.4 billion rubles in 1931 (about a quarter of a billion dollars), mainly in the form of short- and medium-term credits for the purchase of goods. See Harry Schwartz, *Russia's Soviet Economy*, Prentice-Hall, New York, 1954, p. 589.

⁵ See Margaret S. Gordon, *Barriers to World Trade*, Macmillan, New York, 1941, p. 131. In contrast, Bulgaria was a party to 13 clearing agreements in 1936; Czechoslovakia, 10; Germany, 28; Hungary, 12; Rumania, 17; Turkey, 18; and Yugoslavia, 11. (*Ibid.*, pp. 130-131.)

Table 1
 Merchandise Trade of Major Free World Areas
 with Sino-Soviet Bloc, USSR, European Satellites, and Communist China
 1938, 1948, 1952-1956 (millions of dollars)*

Year	Imports				Exports			
	From Sino-Soviet bloc ¹	From USSR	From European satellites	From Communist China	To Sino-Soviet bloc	To USSR	To European satellites	To Communist China
a. United States and Canada								
1938 ²	129.1	26.9 ^a	51.0	51.2	192.3	75.3 ^b	65.5	54.5
1948	242.4	86.9	31.3	124.2	444.5	28.1	113.9	302.5
1952	76.0 ^c	19.2	27.8	25.9	1.7	—	1.7	—
1953	51.7 ^c	11.7	29.6	1.7	2.3	—	2.3	—
1954	54.9 ^c	12.5	33.7	1.9	12.1	5.2	6.8	.1
1955	73.2 ^c	17.5	42.9	3.4	19.0	3.0	15.0	1.0
1956	88.5 ^c	25.4	50.0	6.0	76.3	28.6	45.2	2.5
b. Europe³								
1938	1,146.0	312.7 ^a	732.3	101.0	859.8	227.7 ^b	544.3	87.8
1948	1,268.4	338.9	860.2	69.3	1,011.6 ^d	313.6 ^d	616.1	81.9
1952	1,076.6	383.7	635.2	57.7	972.6 ^e	386.7 ^e	535.3	50.6
1953	1,103.7	332.6	642.1	129.0	983.3	336.3	546.2	100.8
1954	1,237.2 ^f	414.4	722.4	100.3	1,193.7	405.4	698.8	89.5
1955	1,624.8 ^f	536.0	956.4	128.2	1,378.3	425.6	841.5	112.2
1956	1,949.5 ^g	666.0	1,116.8	165.7	1,774.5	619.5	960.5	194.5
c. Latin America⁴								
1938	21.2	.4	20.6	.2	22.0	1.2	19.3	1.5
1948	33.1	.6	31.4	1.1	75.7	1.7	70.8	3.2
1952	25.1	—	24.8	.3	20.8	—	20.8	—
1953	26.8	—	26.8	—	37.8	12.4	24.5	.9
1954	98.9	36.7	62.2	—	133.8	57.2	72.8	3.8
1955	145.5	32.3	113.2	—	180.2	71.4	102.8	6.0
1956	118.6	29.9	87.6	1.1	106.7	30.4	74.7	1.6

(Continued on next page)

Table 1 (Continued)

Year	Imports				Exports			
	From Sino-Soviet bloc ¹	From USSR	From European satellites	From Communist China	To Sino-Soviet bloc	To USSR	To European satellites	To Communist China
<i>d. Far East⁵</i>								
1938	275.6	1.9 ^a	14.1	259.6	439.5	5.1	14.0	420.4
1948	271.0	16.8	18.4	235.8	237.9	80.6	27.2	130.1
1952	298.9	11.1	22.1	265.7 ^h	297.0	29.7	55.4	211.9
1953	320.4	11.1	26.2	283.1 ^h	206.5	8.2	30.4	167.9
1954	284.0 ⁱ	5.9	30.8	247.2	218.4 ⁱ	9.3	31.4	177.7
1955	389.1	10.0	54.7	362.2 ^h	254.8	12.9	77.4	164.5
1956	535.5	38.7	64.0	424.8 ^h	305.9	50.0	63.6	192.3
<i>e. Near East and Africa⁶</i>								
1938	72.5	24.1	43.4	5.0	35.7	15.4	19.1	1.2
1948	108.3	48.7	46.7	12.9	97.7	63.9	31.5	2.3
1952	105.6	55.2	43.2	7.2	117.9	65.3	43.7	8.9
1953	89.7	23.4	55.7	11.6	76.9	32.0	34.3	10.6
1954	98.3	27.5	57.7	13.1	113.6	53.1	47.8	12.7
1955	123.1	28.4	72.6	22.1	170.6	65.5	79.2	25.9
1956	175.1	43.1	98.0	34.0	193.5	42.8	123.3	27.4
<i>f. Oceania⁷</i>								
1938	9.0	.8	4.9	3.3	17.3	4.5 ^a	10.3	2.5
1948	23.8	.2	14.6	9.0	59.6	34.5	17.8	7.3
1952	16.3	1.3	10.8	4.2	18.9	—	18.3	.6
1953	12.6	1.8	6.0	4.8	73.3	33.1	34.9	5.3
1954	15.3	1.9	8.8	4.6	73.2	40.5	29.5	3.2
1955	16.2	2.2	8.8	5.2	57.8	6.4	44.7	6.7
1956	16.8	1.4	10.0	5.4	57.6	5.7	41.4	10.5
<i>g. All areas—Year totals¹</i>								
1938	1,653.4	366.8	866.3	420.3	1,596.6	329.2	672.5	567.9
1948	1,947.0	492.1	1,002.6	452.3	1,927.0	522.4	877.3	527.3
1952	1,598.5	470.5	763.9	361.0	1,428.9	481.7	675.2	272.0
1953	1,604.9	380.6	786.4	430.2	1,380.1	422.0	672.6	285.5
1954	1,788.6	498.9	915.6	367.1	1,744.8	570.9	887.1	287.0
1955	2,371.9	626.4	1,248.6	521.1	2,060.7	584.8	1,160.6	316.3
1956	2,884.0	804.5	1,426.4	637.0	2,514.5	777.0	1,292.1	428.8

^a Includes imports from Estonia, Latvia, and Lithuania.

^b Includes exports to Estonia, Latvia, and Lithuania.

^c Includes imports from Outer Mongolia, North Korea, and North Vietnam.

^d For Finland, includes reparations delivered to USSR valued at \$84.9 million.

^e For Finland, includes reparations delivered to USSR valued at \$35.7 million from January 1952 to September 1952, when reparations deliveries were terminated.

^f Includes imports from Outer Mongolia, North Korea, and North Vietnam by the Federal Republic of Germany.

^g Includes imports from Outer Mongolia, North Korea, and North Vietnam by Belgium-Luxembourg, and the Federal Republic of Germany.

^h In the case of Taiwan, represents goods of Communist Chinese origin imported from Hong Kong.

ⁱ 1954 data relate to Indochina, which included Vietnam, Laos, and Cambodia. For Japan, includes imports from Outer Mongolia.

^j Totals differ by small amounts from those given in Table 2 because of the inclusion in Table 1 of the trade of countries not covered in the area categories given in Table 2.

^k The Sino-Soviet bloc comprises the following: Soviet European satellites, which include Albania, Bulgaria, Czechoslovakia, Soviet Zone of Germany, Hungary, Poland, and Rumania; USSR, including Estonia, Latvia, and Lithuania; Outer Mongolia; North Korea, beginning 1951; North Vietnam, beginning 1955; and China, for which data since 1949 refer (as

far as possible) to Mainland China, Manchuria, Inner Mongolia, and Tibet.

² The 1938 data are not comparable with those for later years for many reasons. Most important are the lack of information about trade with that part of Germany known today as the Soviet Zone and lack of uniform definitions for "China." No adjustments have been made in original data except as indicated.

³ Europe: Data include trade of Belgium and Luxembourg, Denmark, France, Federal Republic of Germany, Greece, Italy (including Trieste), Netherlands, Norway, Portugal, Turkey, United Kingdom, Austria, Finland, Iceland, Sweden, Switzerland, and Yugoslavia.

⁴ Latin America: Data include trade of Argentina, Brazil, Cuba, and Uruguay.

⁵ Far East: Data include trade of Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya, Pakistan, and Taiwan.

⁶ Near East and Africa: Data include trade of Egypt, Gold Coast, Iran, Israel, Lebanon, French Morocco, Nigeria, Syria, and Union of South Africa.

⁷ Oceania: Data include trade of Australia and New Zealand.

* Source: *The Strategic Trade Control System, 1948-1956*, Ninth Semiannual Report to Congress under the Mutual Defense Assistance Control Act of 1951, Washington, D.C., 1957, pp. 94-107. *East-West Trade Developments, 1956-1957*, Tenth Semiannual Report to Congress under the Mutual Defense Assistance Control Act of 1951, Washington, D.C., 1958, pp. 52-55.

Table 2
Total Free World Trade and Free World Trade with Sino-Soviet Bloc,
Annually 1947-1956 and January-June 1957*

(millions of dollars)

Period Covered	Total to world	Sino-Soviet bloc as per cent of world	Total Sino-Soviet bloc	European Soviet bloc	European satellites	USSR	Communist China
Free World exports							
Year 1947	48,567	4.1	2,005.7	1,333.5	856.5	477.0	672.2
Year 1948	53,784	3.7	1,968.5	1,434.2	900.7	533.5	534.3
Year 1949	55,131	3.0	1,666.7	1,342.6	914.2	428.4	324.1
Year 1950	56,480	2.7	1,544.8	1,092.7	791.6	301.1	452.1
Year 1951	76,501	2.2	1,688.5	1,242.3	854.8	387.5	446.2
Year 1952	73,778	1.9	1,438.2	1,165.7	682.4	483.3	272.5
Year 1953	74,757	1.9	1,388.8	1,101.4	677.9	423.5	287.4
Year 1954	77,542	2.3	1,764.2	1,470.2	896.7	573.5	294.0
Year 1955	84,148	2.5	2,074.5	1,759.9	1,158.5	599.4	316.6
Year 1956	93,557	2.7	2,535.6 ^a	2,102.1	1,319.0	783.1	433.4
Jan.-June 1957 (prel.)	50,228	2.9	1,468.5 ^a	1,218.1	714.1	504.0	247.3
Free World imports							
Year 1947	53,327	2.7	1,424.7	1,006.8	732.9	273.9	417.9
Year 1948	59,935	2.4	2,008.0	1,519.7	1,026.0	493.7	488.3
Year 1949	60,030	2.0	1,796.8	1,370.6	1,089.9	280.7	426.2
Year 1950	59,191	2.9	1,727.0	1,192.3	940.0	252.3	534.7
Year 1951	81,372	2.3	1,883.0 ^a	1,358.1	967.5	390.6	524.7
Year 1952	80,114	2.0	1,633.9 ^a	1,262.9	794.6	468.3	367.9
Year 1953	76,396	2.1	1,631.1 ^a	1,189.7	807.9	381.8	432.7
Year 1954	79,513	2.3	1,835.6 ^a	1,453.2	952.7	500.5	375.4
Year 1955	88,898	2.7	2,418.4 ^a	1,914.4	1,281.5	632.9	494.4
Year 1956	97,971	3.0	2,943.4 ^a	2,284.0	1,470.1	813.9	643.3
Jan.-June 1957 (prel.)	53,926	2.9	1,567.9 ^a	1,232.2	747.6	484.6	321.4

^a Includes trade with Outer Mongolia, North Korea, and North Vietnam, where available.

* Source: *East-West Trade Developments, 1956-1957*, Tenth Semiannual Report to Congress under the Mutual Defense Assistance Act of 1951, Washington, D.C., 1958, Table 1, p. 50.

Source for world totals: International Monetary Fund, *International Financial Statistics*, Washington, D.C.

partly by the low level of cereal production in Eastern Europe and partly by a shift of Eastern European trade to the USSR. While Western Europe's trade was expanding, both within Western Europe and outside of Europe, the Soviet bloc's trade with the outside world was contracting. Between 1948 and 1952, Sino-Soviet bloc exports to the Free World declined by over \$350 million and imports by more than \$500 million. (See Table 2.)

Soviet bloc trade with non-European countries (other than Communist China) also decreased sharply between 1948 and 1951; well over

Table 3
Indexes of Volume of Trade Between Eastern and
Western Europe, 1938, 1949, 1950, 1952, 1954, 1955, and 1956

(1950 = 100)

Year	<i>Imports into Western Europe</i>	<i>Exports from Western Europe</i>
1938	305	205
1949	111	103
1950	100	100
1952	85	91
1954	107	129
1955	134	137
1956	153	161

Source: United Nations, *Economic Bulletin for Europe*, Geneva, August 1957, p. 35; August 1956, p. 43; and August 1955, p. 35.

half of this trade was with the outer sterling area. The Soviet bloc countries had a substantial trade deficit with the outer sterling area and other primary commodity-producing areas, including Latin America. Trade with non-European countries (excluding Mainland China) was relatively small; imports averaged \$340 million in 1950-1951 and exports \$225 million for the same period. In volume terms this was less than half of the bloc's trade with these countries in 1938.⁶ Soviet bloc exports to the United States were \$113 million in 1948 but declined to \$40 million in 1952; United States exports to the Soviet bloc fell from \$122 million in 1948 to only \$1 million in 1952.

During 1948-1952, Communist China increased its trade with Eastern Europe more than fivefold. China's trade with the Free World declined sharply, especially after China's entrance into the Korean War and the imposition of the United Nations' embargo on the export of strategic materials. China's trade with countries outside the Soviet bloc was very largely with the sterling area countries of the Far East, particularly Hong Kong, Malaya, Pakistan, India, and Ceylon.

POSTWAR TRADE, 1953-1956

In 1948, trade between the Free World and the Sino-Soviet bloc was approximately balanced at about \$2 billion each way, but the value declined thereafter to a low in 1953 of less than \$1.4 billion for Free World exports and \$1.6 billion for Free World imports. Since 1953, however, trade between the two areas has been rising steadily, so that in 1956 Free World exports to the Sino-Soviet bloc were \$2.5 billion and imports were \$2.9 billion (see Table 1).

⁶ United Nations, *Economic Bulletin for Europe*, Geneva, November 1952, p. 37.