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ECONOMIC INTELLIGENCE REPORT

**CURRENT FOREIGN EXCHANGE PROBLEMS
OF THE EUROPEAN SATELLITES**



CIA/RR 120

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CENTRAL INTELLIGENCE AGENCY

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(ORR Project 42.1610)

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CURRENT FOREIGN EXCHANGE PROBLEMS
OF THE EUROPEAN SATELLITES*

Summary and Conclusions

The minimum deficit on trade and shipping account of the European Satellites with the Free World in 1953-55 is estimated at US \$370 million.** Of this total deficit, the Satellite deficit on trade and shipping account (including clandestine imports) with Western countries totaled \$288 million; a debit for items not reflected in Free World trade statistics totaled \$82 million. To date, the varied expedients used by the European Satellites to save or earn foreign exchange have proved ineffective as long-range solutions of their foreign exchange problems, the only satisfactory solution being to produce and export a larger number of products which are fully competitive in world markets.

The size of the deficit on trade and shipping account of the European Satellites with the Free World fluctuated during 1953-55, and its size varied among the individual Satellites. The Satellite deficit on trade and shipping account with the Free World in 1955 (\$83 million) was more acute than in 1953 (\$58 million) but not so high as in 1954 (\$148 million). Commodity trade balances for the individual Satellites suggest that the foreign exchange deficits of Hungary and East Germany were the most acute of the Satellites during 1953-55; Czechoslovakia appears to have had the smallest deficit, and the position of the other Satellites appears to have been between these extremes.

Satellite foreign exchange deficits with Western countries accumulated during much of the early postwar period as well as during 1953-55, and in 1956 the economic situation of many of the European Satellites had become critical, necessitating recent Soviet credits, debt cancellations, and other economic concessions. Between January 1956 and March 1957 the USSR granted new credits to the European Satellites totaling more than \$1,015 million, \$158 million of which was in gold or convertible currencies and the balance in commodities.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 November 1957.

** Dollar values are given in terms of current US dollars throughout this report.

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The fundamental causes of the current economic difficulties, financial and real, of the European Satellites lie in their postwar economic development. The internal postwar economic changes which have taken place in the European Satellites have adversely affected their ability to earn sufficient foreign exchange to pay for needed imports from the West. Rapid postwar industrialization, coupled with modest resource bases and the diversion of productive resources from agriculture to industry, reduced the over-all capacity of the Satellites to export even as it increased the demand for imports. In some instances the Satellites have been unable to obtain needed supplies within the Bloc to support their programs for industrial expansion, and, for a variety of reasons, the demand for Western goods and services has exceeded the supply of acceptable Satellite exports. Foreign exchange shortages of varying magnitudes among individual Satellites have followed.

Each of the Satellites has been forced to adopt a series of short-term expedients to alleviate its foreign exchange shortage. The aim of some of these expedients is to reduce the immediate need for earnings in hard currency, and the aim of other expedients is to increase earnings in hard currency. Subsidization of exports to permit sales to Western countries at competitive prices and reliance on credit have been the most important means by which the Satellites have sought solutions to the problem.

The varied expedients have proved inadequate to solve the foreign exchange shortages. The possibility exists of some relief as a result of recent Soviet and Western loans, the decrease in Soviet demands on the economies of the Satellites, and the expansion of barter trade (avoiding the foreign exchange problem).

The only fully satisfactory solution is to produce a greater quantity of products which are fully competitive in world markets. This goal is clearly recognized and constantly reiterated in pronouncements by the Satellites. A further improvement is needed in the export position of the Satellites if they are to find a satisfactory solution to their foreign exchange shortages.

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I. Current Foreign Exchange Shortages in the European Satellites.

A. Magnitude of the European Satellite Trade and Shipping
Deficit with the Free World, 1953-55.

1. Satellite Trade and Shipping Balances.

An analysis of available data on the trade and shipping balances of the Satellites with the Free World during 1953-55 lends support to repeated official statements* about a serious shortage of Western exchange in the European Satellites.** The Soviet loans granted to the European Satellites in 1956*** -- especially those granted before the recent outbreaks in Hungary and Poland -- indicate that these foreign exchange deficits were critical.

The minimum deficit on trade and shipping account of the European Satellites with the Free World in 1953-55 is shown in Table 1.**** The estimated balance on trade and shipping account of the European Satellites with the Free World in 1953-55 is shown in Table 2.†

The difference between total payments and total receipts with the Free World for commodity trade and transport alone for the years 1953 through 1955 is estimated at a minimum of about \$370 million. The estimate is derived by adjusting the commodity trade statistics of Western trading partners for various inadequacies.

The indebtedness of the European Satellites to Western countries in many cases accumulated during the years before 1953. The European Satellites have nevertheless been able to obtain credits to finance imports during the period since 1953, largely because of their promptness in effecting repayment of loans at maturity dates.†† 2/

* Various official statements appear to indicate that Hungarian and Rumanian balance-of-payments deficits with Western countries have been chronic over a number of years and that Polish and Czechoslovak deficits may have become a greater problem in 1955 and 1956 than in previous years. 1/ [redacted]

** The minimum net deficit on Satellite trade and shipping account is estimated to have been \$370 million during 1953-55 (see Table 1).

*** See III, A, 1, a, (2), below.

**** Table 1 follows on p. 4.

† Table 2 follows on p. 5.

†† Continued on p. 6.

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Table 1

Computation of the Estimated Minimum Payments Deficit
on Trade and Shipping Account
of the European Satellites with the Free World a/
1953-55

	Million Current US \$
Net balance on trade and shipping account <u>b/</u>	- <u>288.2</u>
Adjustments for items not adequately re- flected in Free World trade statistics (net)	- <u>191.7</u>
Multilateral clearing arrangements with Finland	-150.0
Sales of European Satellite goods to non- Bloc countries by the USSR <u>c/</u>	- 8.7
Direct exports for repayment of debts <u>c/</u>	- 33.0
Adjustments for China trade (net)	<u>110.0</u>
Western goods transshipped to Communist China by Poland	75.0
Chinese products reexported by the Satellites to Western countries	35.0
Adjusted net balance	- <u>369.9</u>

- a. For an explanation of items in Table 1, see 2, below.
b. From Table 2, p. 5, below.
c. Partial estimate. Data are not available indicating the total amount represented by these items.

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Table 2

Computation of the Estimated Balance
 on Trade and Shipping Account
 of the European Satellites with the Free World a/
 1953-55

	Million Current US \$		
	<u>1953</u>	<u>1954</u>	<u>1955</u>
Recorded imports from the Free World, f.o.b. Free World ports			
US and Canada	2.2	6.7	15.0
UK	40.8	56.4	52.7
Other sterling area	68.6	57.9	79.2
Continental Western Europe	502.0	638.0	783.2
Latin America	25.0	75.3	103.5
Other Asia and Africa	39.1	62.1	120.8
 Total	 <u>677.7</u>	 <u>896.4</u>	 <u>1,154.4</u>
Recorded exports to the Free World, f.o.b. Satellite ports			
US and Canada	29.7	33.7	42.9
UK	83.6	78.8	104.5
Other sterling area	34.5	43.5	58.2
Continental Western Europe	488.7	565.7	748.3
Latin America	26.8	62.4	104.8
Other Asia and Africa	54.9	65.4	85.5
 Total	 <u>718.2</u>	 <u>849.5</u>	 <u>1,144.2</u>
Balance on recorded trade, f.o.b.	<u>40.5</u>	- <u>46.9</u>	- <u>10.2</u>
Clandestine imports from the Free World	-60.0	- 48.0	-18.0 <u>b/</u>
Balance on shipping account	-38.4	- 52.6	-54.6
 Balance on trade and shipping	 <u>-57.9</u>	 <u>-147.5</u>	 <u>-82.8</u>

a. 3/. Because of rounding, figures may not add to totals.

b. Incomplete, including estimated copper imports only.

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2. Additional Factors Affecting Satellite Trade and Shipping Balances with the Free World.

For several reasons the net deficit on trade and shipping account derived from the trade data of Western partners understates the true magnitude of the payments difficulties of the Satellites. The net effect of these various adjustments cannot be determined quantitatively, principally because data on the total value of Satellite goods exported to Western countries on Soviet account and on the total value of direct Satellite exports of commodities to repay indebtedness cannot be ascertained. A minimum estimate, however, of the adjustments indicates that the minimum Satellite deficit on trade and shipping account with the Free World during 1953-55 totaled \$370 million, or an average minimum deficit of \$123 million annually (see Table 1*).

a. Multilateral Clearing Arrangements with Finland.

A major factor leading to the conclusion that the estimate is an understatement of these difficulties arises in connection with Satellite-Finnish trade. Each of the Satellites except Bulgaria and Hungary** (since 1954) has a multilateral clearing arrangement with Finland and the USSR. The surpluses arising from favorable Satellite trade balances with Finland do not accrue as foreign exchange earnings to those Satellites having multilateral arrangements but are paid for by shipments of goods from the USSR. During 1953-55 this cumulative favorable balance amounted to \$150 million. 4/ No provision for multilateral settlement was made in the Finnish-Polish and Finnish - East German trade agreements for 1957. 5/

b. Sales of European Satellite Goods to Non-Bloc Countries by the USSR.

In many cases, moreover, Satellite goods are purchased by the USSR and sold to Western countries. Many such transactions appear in trade statistics of the West as Satellite exports because most Western countries report trade by country of origin. The foreign exchange received for these commodities (or the credit in East-West clearing accounts) accrues to the USSR rather than to the Satellites. In 1954 and 1955, for example, Italy recorded imports from the Satellites*** valued at \$8.7 million which were carried in the Italian-Soviet clearing

* P. 4, above.

** Albanian-Finnish trade is negligible.

*** Resale of Bulgarian and Rumanian products by the USSR to Italy was involved.

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account. Furthermore, much of Rumania's oil is exported to the West on Soviet account. 6/ For payments purposes, therefore, trade statistics of the Free World in such cases overstate the export earnings of the Satellites in the Free World.

c. Direct Exports for Repayment of Debts.

In addition, a certain portion of Satellite commodity exports to Western Europe is marked for repayment of debts arising from nationalized property or the effects of the war and therefore is not available for financing current imports. A rough estimate of Polish coal exported in direct payment for long-term indebtedness is \$33 million during 1953-55.* 7/ Polish debt payments in coal in 1956 are estimated to have been \$11 million and in 1957 will rise to \$23.6 million. 8/

d. China Trade.

Conversely, there are at least two types of transactions in the recording of which trade statistics of the Free World overstate the size of the payments difficulties of the Satellites -- the case of Western goods transshipped to Communist China by Poland and the case of Chinese products reexported by the Satellites to Western countries. The commodities shown in the first case are often recorded in Western trade statistics as exports to Poland, but because the Chinese provide the foreign exchange for such purchases from Western countries, the imports do not represent an expenditure of Polish foreign exchange. A rough estimate of the value of Western goods shipped by Poland to China during 1953-55 approximates \$75 million. On the other hand, Chinese products reexported by the Satellites to Western countries constitute a source of foreign exchange for the Satellites. In part these receipts are not reflected in Western trade statistics as Satellite exports, because in some cases China is identified as the country of origin. Such shipments during 1953-55 probably approximated \$35 million.

B. Factors Other Than Trade and Shipping Balances.

The trade and shipping balance is undoubtedly the most important item in the balance of payments of each Satellite with Western countries, and the deficit in payments arising from the

* Assuming that the annual level of coal exports by Poland in direct payment of debts during 1953-55 was the same as in 1956.

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adverse trade and shipping balance constitutes the largest drain upon the foreign exchange reserves of the Satellites. Some qualitative judgments may, however, be made on the other items in the balance of payments as they affect foreign exchange reserves. Although it is impossible to estimate the magnitudes involved, it seems certain that, at least through 1956, payments on indebtedness by Satellites exceeded receipts from foreign remittances and tourism.

1. Payments on Indebtedness to Western Countries.

The cost of servicing outstanding indebtedness to Western countries -- that is, interest and amortization payments on long-term loans, and interest payments on short-term commercial borrowing to finance imports -- represents a considerable drain on the foreign exchange reserves of some countries. Incomplete data on terms of loans granted by Western countries to the Satellites -- especially short-term commercial financing -- preclude estimates of the amounts of foreign exchange required to service the foreign indebtedness of the Satellites.

2. Omitted Receipts of Foreign Currency.

a. Gold Sales.

Available gold has been used by the Satellites both for settlement of obligations to Western countries and as security for Western loans. Available evidence suggests that the sale of gold reserves to liquidate trade deficits of the Satellites with Western countries was more characteristic of the period 1946-52; since that time, gold has occasionally been sold in the West, but available gold has been utilized mainly as security for Western credits. 9/

b. Foreign Remittances.

Until recently, foreign remittances to residents of Eastern Europe were probably small. Recent efforts to stimulate foreign remittances include an agreement by Hungary to purchase US dollars from Hungarian nationals at a rate higher than the official rate in effect in October 1956* and the establishment by Poland of facilities in the US for transmission of US funds to be converted into goods in Poland. 10/ New exchange rates for the zloty came into

* This case was in settlement of an estate; the US Government prohibited the transfer of inheritances to individuals in the Satellites at the official exchange rate then in effect.

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effect in February 1957 in Poland which converted foreign remittances and other types of foreign exchange transactions (excluding commodity trade) into Polish currency at the rate of 24 zlotys per dollar. 11/ The purpose of these new rates is to increase foreign exchange receipts and to reduce expenditures of foreign exchange for certain items.

c. Tourism.

The Satellites have put into effect various measures to promote visits of Westerners, thereby increasing foreign exchange receipts. Czechoslovakia, Poland, and Hungary, among others, have made provision for the exchange of foreign currencies at rates more favorable to Westerners than the official exchange rates.

C. Foreign Exchange Deficits of Individual European Satellites.

The magnitude of the foreign exchange deficit has differed among the various Satellites during 1953-55. The estimated balances in foreign trade on the commodity account alone of the individual European Satellites with Western countries in 1953-55 are shown in Table 3.* These figures suggest that Hungary and East Germany have the greatest deficit in trade, Albania and Bulgaria a modest deficit, Poland and Rumania a small surplus, and Czechoslovakia a moderate surplus in trade with Western countries.

Hungary, which appears on the basis of the figures in Table 3 to have the most acute foreign exchange deficit, is reported to have amassed a debt of nearly \$229 million with Western countries by September 1955. 12/ With holdings in foreign exchange virtually non-existent and a sizable fraction of current exports committed to meeting payments on past indebtedness, 90 percent of all Hungarian business with Western countries was reported in September 1955 to be on the basis of 6, 8, or 12 months' credit. 13/ At the outbreak of the revolt in October 1956, Hungarian indebtedness to the West had been reported at about \$200 million.

Table 3 shows that Bulgaria had a very small deficit and Rumania a moderate surplus in commodity trade with Western countries

* Table 3 follows on p. 10. One should not, however, overstress the apparent balances of the Satellites with the Free World on commodity account alone without taking into consideration the factors which further affect the foreign exchange position of each Satellite with regard to Western countries; these factors have been discussed above.

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Table 3

Estimated Commodity Trade of the European Satellites
with the Free World a/
1953-55

Million Current US \$

	Albania			Bulgaria			Czechoslovakia		
	Total Exports, F.O.B. Bloc Ports	Total Imports, F.O.B. Free World Ports	Balance	Total Exports, F.O.B. Bloc Ports	Total Imports, F.O.B. Free World Ports	Balance	Total Exports, F.O.B. Bloc Ports	Total Imports, F.O.B. Free World Ports	Balance
1953	0.1	0.2	- 0.1	25.9	28.6	- 2.7	181.8	135.6	46.2
1954	0.1	0.2	- 0.1	26.4	20.8	5.6	211.6	186.1	25.5
1955	0.3	0.7	- 0.4	21.9	26.0	- 4.1	305.5	261.8	43.7
	East Germany b/			Hungary			Poland		
1953	151.1	159.4	- 8.3	59.0	81.5	-22.5	242.9	209.5	33.4
1954	212.2	254.2	-42.0	80.3	122.6	-42.3	241.0	247.2	- 6.2
1955	263.1	272.1	- 9.0	128.6	189.9	-61.3	319.6	326.3	- 6.7
	Rumania								
1953	57.4	63.0	- 5.6						
1954	78.0	65.4	12.6						
1955	105.1	77.8	27.3						

a. Based on Appendix A.

b. Not all Western countries report trade with East Germany.

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during 1953-55. Petroleum products and wood in Rumania and tobacco in Bulgaria appear to be the Satellite commodities most subject to resale to Western countries by the USSR, however, and it is certain that trade statistics of the Free World in such cases overstate the export earnings of Bulgaria and Rumania.* 15/

The figures in Table 3 show that Poland has a moderate, and Czechoslovakia a fairly substantial, surplus in commodity trade with Western countries. The figures for Polish exports in Table 3 doubtless include some direct exports for repayment of debts. Either official Czechoslovak complaints have overemphasized the gravity of the foreign exchange shortage or there are unknown factors which affect the Czechoslovak balance of payments with Western countries. In both Poland and Czechoslovakia, foreign exchange difficulties nevertheless have been considered serious enough to warrant administrative measures to save or earn foreign exchange. Representatives of a Polish export monopoly, for example, were reportedly instructed in April 1955 to buy only where they could obtain goods on credit even if this practice entailed acceptance of commodities of inferior quality; in September 1956, Premier Cyrankiewicz underlined the necessity of obtaining credit from non-Bloc purchasers of Polish goods. 16/ Shortages of Western exchange -- and particularly pounds sterling -- are reported to have restricted Czechoslovak purchases almost exclusively to strategic materials early in 1955. 17/ In mid-1956, this shortage of foreign exchange was reported still to exist in Czechoslovakia; presumably the export-import monopolies have had great difficulty in obtaining foreign exchange for purchases, even when needed to procure raw materials from Western countries. 18/

The countries which have recently been provided Western currency loans from the USSR or China (Hungary, East Germany, and Poland) provide another indication of the Satellites most in need of foreign exchange. Hungary has received \$60 million in free currency from the USSR and \$25 million from China since October 1956; East Germany received \$85 million in free currency from the USSR in January 1957; and Poland, in September 1956, received \$12.5 million in gold from the USSR.**

* See A, 2, b, above.
** See pp. 20-23, below.

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D. Patterns of the Postwar Trade of the Satellites.

1. Through 1955.

Until 1953 the expansion of the trade of the European Satellites was largely with other countries of the Soviet Bloc rather than with Western countries; since 1953, however, the trade of the Satellites with Western countries has assumed increasing importance.*

The annual Satellite deficit on trade and shipping account with Western countries rose from \$58 million in 1953 to \$148 million in 1954 but fell to \$83 million in 1955. Despite this improvement in the 1955 trade and shipping balance of the Satellites with Western countries compared with the 1954 balance, the European Satellites have been unable to raise exports to non-Bloc countries to a level high enough to pay for all imports, and there are indications that the net drain on the foreign exchange reserves of the Satellites continued in 1956.

The increase in the trade of the Satellites with Western countries in 1955 was partly owing to the failure of the USSR to supply the growing Satellite demands for certain raw materials and Soviet failure to carry through contracts for purchases of certain Satellite products. This development at least encouraged, and probably necessitated, increased Satellite trade with Western countries -- both with the industrially developed countries of Western Europe and with Western producers of raw materials.

Decreased Soviet-Satellite trade in several important commodities was noted in 1955. During the 1955-56 crop year, Soviet exports of major agricultural commodities to the Satellites declined; Soviet exports of steel, cotton, and iron ore to the Satellites fell in 1955, necessitating development of new Western sources of supply. 19/ Conversely, Soviet purchases of such items as Czechoslovak steel products, Czechoslovak food-processing machinery, Hungarian textiles, and Polish railroad equipment declined in 1955, and attempts were made to sell these surplus commodities in the West. 20/

* See Table 2, p. 5, above. In 1955, however, nearly three-fourths of the trade of the Satellites was with countries of the Soviet Bloc.

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2. 1956 to Early 1957.

Although complete figures are not yet available for 1956, provisional estimates suggest that the trade of the Satellites with Western countries continued to rise while Satellite-Soviet trade showed mixed trends. 21/ During the early part of 1956, Satellite-Soviet trade continued at the low level of 1955, but in the latter part of 1956 it appears to have increased.

Soviet deliveries of grain and raw materials to the European Satellites continued to lag during the early part of 1956, largely because of difficulties encountered by the Satellites in financing imports from the USSR. In the past an import surplus from the USSR could be maintained by drawing on Soviet credits; as these credits had in large part been utilized by early 1956, and in some cases repayments were under way, a Satellite export surplus would have been required. In addition, some of the Satellites were obligated to repay the USSR for the latter's share in the mixed Soviet-Satellite enterprises which had been liquidated. Finally, the Satellites probably found it difficult to expand their exports to the USSR sufficiently to maintain a high level of imports because (a) some raw materials normally exported by the Satellites to the USSR were in short supply, and (b) in some cases there continued to be little Soviet demand for available Satellite commodity exports. 22/

Since the latter part of 1956, Satellite-Soviet trade appears to have been rising. This is partly because of increased Soviet grain shipments made possible by two good harvests and partly because of increased Soviet shipments of raw materials. Credit arrangements granted the European Satellites by the USSR which include new credits, cancellation of some old debts, and postponement of repayment on some debts* have also made possible an increased level of trade. Finally, the USSR has recently placed additional orders for consumer goods as well as equipment in the Satellites. These developments point to a considerable increase in 1957 Soviet-Satellite trade; Satellite - Free World trade is also expected to increase in 1957. 23/

II. Causes of Current Foreign Exchange Shortages.

The shortage of foreign exchange in Eastern Europe is the financial reflection of a shortage of goods. The fundamental causes of the

* See pp. 20-23, below.

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current economic difficulties of the European Satellites, financial and real, are to be found in the postwar economic development of the Satellites. Although in the early postwar period the pattern of foreign trade consisted largely of an exchange of Satellite exports of food and raw materials for manufactured goods, rapid industrialization of the Satellites changed this trade pattern markedly. The rapid industrialization programs of the Satellites, coupled with modest resource bases and the diversion of productive resources from agriculture to industry, increased the demand of the Satellites for food and industrial raw materials while reducing the capacity to export these goods. The Satellites have, in fact, become net importers of many agricultural commodities. Meanwhile, exports to the West of manufactured goods from newly expanded industries have in many cases been increased only slowly, for a number of reasons -- late delivery dates, preference of the Free World for goods of established suppliers, unsatisfactory performance due to poor quality, and, in some cases, the initial difficulties encountered by any country in the establishment of new outlets or the expansion of existing ones. Thus, although by 1955 the Satellites had come to rely heavily on exports of manufactured goods to finance imports of food and raw materials from the West, the demand for imports still outran the supply of marketable exports.

The foreign exchange shortage can also be traced in part to the artificially high official values given to Soviet Bloc currencies in terms of Western currencies. The distorted exchange rates by themselves would not tend directly to increase imports from and depress exports to the West, because of the degree to which foreign trade is planned and controlled in Bloc societies; still, assuming that Bloc currencies are more overvalued in relation to the West in regard to Bloc foreign trade prices (and evidence indicates that this assumption is realistic), the same result would be produced indirectly. In planning the financing of imports and exports, the amounts of price-equalization receipts, or payments generated by the difference between domestic and foreign prices, are also planned. ^{24/} In order to surpass the financial plan and to achieve above-plan savings, enterprise managers would have the incentive to buy where the enterprise's price-equalization payments to the budget would be largest and sell where price-equalization receipts would be smallest -- that is, buy in the West and sell in the Bloc.

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Other causes of the foreign exchange shortage of the European Satellites stem from certain disadvantages inherent in Bloc trade.* One restraint on Satellite trade with the West was imposed by gearing of the rate and nature of industrial expansion to Bloc, especially Soviet, needs, and in some cases the rate of industrial expansion proposed was clearly beyond the nation's ability to obtain adequate supplies of raw materials within the Sino-Soviet Bloc. Nevertheless, the Satellites were forced to supply the USSR (and to a lesser extent other Satellites) with their most acceptable exports and thus were limited in their ability to purchase raw materials from the Free World. Furthermore, the necessity in East Germany, Hungary, Rumania, and Bulgaria for providing the USSR with unrequited exports in the form of payments for the former Soviet share of joint companies also tends to absorb the most marketable export goods.**

III. Attempted Solutions of the Foreign Exchange Shortage.

A. Measures Adopted.

The measures taken by the European Satellites in order to alleviate their foreign exchange shortages fall into two broad categories -- those which reduce the need for earnings in hard currency and those which increase earnings of Western exchange. Methods of reducing the need for earnings in hard currency include attempts to procure credits, to rely on barter, and to arrange payment for services in goods rather than foreign exchange. The Satellites have attempted to increase earnings in hard currency by selling products to Western countries at below competitors' prices as well as through resale to non-Bloc countries of commodities purchased for local currencies.

* Trade with Soviet Bloc countries has, however, in some respects been beneficial to the Satellites. In the early stages of the industrial development of the European Satellites, trade within shielded markets characterized by insulated price systems served to protect industrial development. The recent move toward economic specialization within the Bloc, moreover, is likely to promote increasing industrial efficiency.

** In the past, reparations payments were a form of unrequited exports.

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1. Reduction of the Need for Earnings in Hard Currency.

a. Credits.

Credits, obtained from both Bloc and Western sources, are extended in a variety of forms -- "swing" credits extended under trade agreements, intergovernmental loans,* and loans extended by private firms and banks (sometimes government-guaranteed) to Satellite enterprises. Credits obtained in Western countries have normally been of short- or medium-term duration, but some loans obtained from the USSR provide for repayment over a 10-year period. Conditions of repayment have varied considerably; repayments are made in commodities and through pledges of future receipts from exports as well as in gold or foreign exchange.

(1) From the West.

"Swing" credits extended under most trade agreements are an important means of financing trade with the Free World and in essence represent a short-term, interest-free loan to the Bloc. Although data are incomplete on the extent to which the Satellites have exceeded these swing limits, they have done so in many cases.** Nevertheless, increases in swing limits have been effected under certain agreements. In 1955, for example, the Hungarian-Turkish, Czechoslovak-Lebanese, and Polish-Egyptian swing limits were increased. 26/

During the past 2 years a number of inter-governmental loans have been made available by the West to finance commodity purchases by the Satellites in the respective lending countries. Belgian loans amounting to \$3 million and \$2 million, respectively, have been extended to Poland and Hungary for use in purchasing consumer goods. 27/ Similarly, a \$10-million West German loan was extended to Poland for 4 years to finance the purchase of capital goods. 28/ During 1956, Poland received a \$28.5-million credit for industrial equipment from the French government repayable

* In some cases, Soviet and Chinese loans to the Satellites have been in Western currencies or gold (see p. 11, above).

** Since December 1955, for example, the Satellites have exceeded swing limits in the following agreements: Hungarian-Israeli; Hungarian-Egyptian; East German - West German; Polish-Swedish; Rumanian - West German; and agreements of all the European Satellites with Indonesia (July 1956). 25/

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in 9 years and a \$4-million credit for diesel engines from a private Swiss firm repayable in 3 years. 29/ Upon the completion of US-Polish economic negotiations on 7 June 1957, agreements had been signed for the extension of a \$30-million credit to Poland and for the sale of \$18.9 million worth of cotton, fats, and oils for Polish currencies. A supplemental agreement for the sale of an additional \$46.1 million worth of US wheat and cotton was drawn up, and was signed on 14 August 1957. 30/ A number of Western-government guarantees of private bank loans have been made available to finance Bloc purchases of specified commodities. Finally, loans without government guarantees, obtained from private Western traders and banks, have reportedly accounted for a sizable fraction of the commercial indebtedness of the Satellites.

In general, direct intergovernmental loans and those guaranteed by foreign governments have borne more moderate interest rates than have private loans. The deposit of gold in West European banks as security for private commercial credit normally makes it possible to obtain such loans at reasonable rates as well. The interest rate for the \$13.8-million wheat credits to Poland guaranteed by the Export Credit Insurance Corporation of Canada is only 1 percent per year; the interest rate for 50,000 tons of wheat sold to the Polish government by the Australian government was 3 3/4 percent per year. 31/ Interest rates on private loans have been much higher -- ranging from 10 percent for a loan to Poland to 18 percent for some loans to Hungary. 32/

The constant necessity of obtaining new short-term loans to finance current commodity purchases tended, until the end of 1955, to keep interest rates high. It appears, however, that more recent financing may have been done on slightly improved terms; the longer credit periods and lower interest rates which have been obtained are partly a result of Satellite promptness in effecting repayment at maturity dates. 33/

(2) From the USSR.

In 1956 and early 1957* the USSR announced sizable

* In 1955 a \$2.5-million loan was granted Hungary by the USSR in US dollars, and the original repayment date has since been extended for a full year. 34/ In the spring of 1955 the USSR arranged a credit for 30 million Swiss francs from the Union Bank of Switzerland for Rumania's use in making purchases under the Rumanian-Swiss trade agreement. 35/

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credits to be granted to Bulgaria, East Germany, Hungary, Poland, and Rumania; the large amounts of these credits* are indicative of the precarious economic situation which existed in many of the European Satellites, as regards both their foreign exchange position and their need for all types of commodities. Except for a loan to East Germany in 1953 of \$180 million, these were the first sizable grants by the USSR to the Satellites since 1950. Loans announced by the USSR since early 1956 totaled about \$1,015.5 million -- \$157.5 million in gold or convertible currencies, and the balance in commodities.** Soviet loans and grants will therefore help to alleviate a number of the economic problems of the Satellites. The variety of goods to be made available -- consumer goods, raw materials, agricultural products, and plant and machinery -- will not only alleviate the most pressing Satellite shortages but in some instances will obviate the necessity for obtaining these goods elsewhere, possibly in Western markets. The gold or foreign exchange to be provided by the USSR should assist the Satellites in purchasing additional commodities from Western markets. In addition, the payments position of East Germany, Rumania, Poland, and Hungary in regard to the USSR has been improved by cancellation of and/or postponement of repayments on indebtedness to the USSR (see Table 4*).

The effect of the recent Polish and Hungarian uprisings upon this situation cannot at present be ascertained. The amount of damage done to industrial plants and the degree to which foreign trade will be dislocated are unknown.

In most cases the Satellites have found repayment terms of Soviet credits more lenient than for credits obtained in the West. Repayment of Soviet loans is to be effected in goods over a period ranging from 2 to 10 years at a 2-percent interest rate (see Table 4***).

b. Barter Arrangements.

The need for Western currency can also be reduced by relying as much as possible on barter arrangements, which allow the direct exchange of one commodity for another without the use of money.

* Soviet credits to the European Satellites from January 1956 to March 1957 are shown in Table 4. Table 4 follows on p. 20.

** In addition, Hungary received \$25 million in goods and \$25 million in free currency from Communist China. 36/

*** P. 20, below.

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Foreign exchange as a financial problem does not exist in intra-Bloc trade, because intra-Bloc trade agreements call for balanced commodity exchanges in any given year and any imbalances arising are settled by goods deliveries or an extension of credit.*

Bilateral barter transactions have been and are important in East-West trade. Although bilateral commodity balancing alleviates the financial problem, however, it introduces another complexity -- the need to match the import needs and export capabilities of the countries involved. As a result, although bilateral barter arrangements are still the most characteristic type today, multilateral settlements including Western countries are becoming increasingly widespread. Hungary has been especially active in attempting to promote multilateral exchanges; individual multilateral barter transactions were implemented between Japan, Hungary, and Israel late in 1955, and between Japan, Hungary, and Italy early in 1956. 37/

c. Attempts to Arrange Payments for Services in Commodities.

The Satellites have attempted to save foreign exchange by arranging payment in commodities rather than foreign exchange for services purchased from the Free World. This practice may be considered a logical extension of the intra-Bloc system whereby noncommercial settlements are included as part of clearing accounts. In January 1956, for example, Hungary proposed that a Western firm accept Hungarian products in payment for services rendered. 38/ In November 1955, Czechoslovakia made an unsuccessful attempt to reach such an agreement with Italy. 39/

2. Increase of Earnings in Hard Currency.

Clearly preferable -- from the Bloc's point of view -- to reducing the use of foreign exchange would be an immediate increase in earnings in hard currency beyond that necessary to pay for increased imports. As long, however, as Satellite industrial products remain**

* It is probable that intra-Bloc payments for shipping services are partly in Western exchange because certain expenses (tolls, port fees, and the like) are incurred in Western exchange.

** Continued on p. 24.

Table 4

Soviet Credits to the European Satellites
January 1956 - March 1957 a/

			Million Current US \$
<u>Satellite</u>	<u>Date Signed</u>	<u>Amount of Credit</u> ^{b/}	<u>Provision</u>
Bulgaria	February 1956	92.5	Credit of \$92.5 million during 1956-57, \$75 million of which is to finance a program of agricultural development and \$17.5 million for Soviet technical assistance and equipment in construction of two fertilizer plants. Interest rate 2 percent. To be repaid in goods, primarily through Bulgarian exports of agricultural products during a 10-year period.
	March 1957	50	Credit granted to provide Soviet machinery, industrial equipment, and technical aid.
East Germany	July 1956	173	Economic benefits totaling \$1.9 billion between 1957 and 1960, including a grant of free currency for purchases in world markets, long-term credits, and reduction of East German payment for Soviet occupation costs. The commodity credit of \$173 million is to be repaid in 10 years at a 2-percent interest rate. \$85 million in free currency was granted in January 1957.
	January 1957	85	

a. 40/

b. Excluding cancellation or postponement of debt.

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Table 4

Soviet Credits to the European Satellites
January 1956 - March 1957
(Continued)

			Million Current US \$
<u>Satellite</u>	<u>Date Signed</u>	<u>Amount of Credit</u>	<u>Provision</u>
Poland	September 1956	25	\$25 million, half in gold and half in raw materials, granted in 1956. To be repaid in Polish goods in equal installments during 1957-60 at 2-percent interest; repayment may have been canceled.
	November 1956	275	The second loan to Poland provided for \$175 million for delivery of goods to Poland during 1958-59, 1.4 million tons of grain valued at \$100 million to be delivered in 1957, and cancellation of Polish debts to the USSR amounting to \$525 million. The commodity loan is to be repaid during 1963-65, the grain loan during 1961-62.
Hungary	October 1956	25	\$25 million to be granted in 1957 -- \$10 million in Western foreign exchange; \$15 million in industrial products and raw materials. Repayment is to be in Hungarian products during 1960-65 at an interest rate of 2 percent per year.
	March 1957	187.5	A new Soviet credit granted in March provided that in 1957 Hungary was to receive the following credits: \$137.5 million worth of commodities

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Table 4

Soviet Credits to the European Satellites
January 1956 - March 1957
(Continued)

			Million Current US \$
Satellite	Date Signed	Amount of Credit	Provision
Hungary (Continued)			(excluding \$6 million previously granted and not accounted for above) and \$50 million in free currency. In addition, debts to the value of \$37.5 million were deferred, and Hungary was freed from paying \$85 million owed as payment for the Soviet share of joint Soviet-Hungarian companies. The credits are to be repaid in goods over a 10-year period beginning in 1961 at an interest rate of 2 percent per year.
Rumania	December 1956	102.5	Reduction by 4.3 billion lei (more than \$800 million) of the amount to be paid for the Soviet interest in the liquidated Sovroms. Credits as follows: 450,000 tons of wheat and 60,000 tons of forage valued at \$35 million to be delivered in the first half of 1957 and industrial credits amounting to 270 million rubles (\$67.5 million) for equipment for the construction of industrial plants. Postponement of Rumanian payments due during 1957-59 on existing long-term credits from the USSR.

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Table 4

Soviet Credits to the European Satellites
January 1956 - March 1957
(Continued)

Million Current US \$

<u>Satellite</u>	<u>Date Signed</u>	<u>Amount of Credit</u>	
Rumania (Continued)			The agricultural loans are to be repaid either in grain or in other products over 3 years beginning in 1959. The loan for equipment is to be repaid in goods over a 10-year period.
Total credits b/		<u>1,015.5</u>	

b. Excluding cancellation or postponement of debt.

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less than fully competitive in world markets* and the import needs of the Satellites are so great, this solution is difficult to achieve.

a. Reduction of Prices by the Satellites.

Exporters in the Satellites have frequently made sales at prices considerably below competitors' prices in order to obtain orders in hard-currency areas. Competition exists both among Satellites and with Western countries for these markets. An example of Satellite efforts to obtain construction contracts by making low bids was a request made in July 1955 by the East German export monopoly DIA Invest-Export to its Egyptian representative to forward copies of competitors' bids on machinery and equipment for installations for the express purpose of enabling Invest-Export to undercut those bids. 42/ Czechoslovak automobiles were to be sold to Japan in late 1955 priced at only one-half the price of comparable German and British automobiles. 43/

In many instances, sales must be made below the cost of production and only slightly above the cost of the imported raw materials necessary to the manufacture of a given item.** Some examples of Satellite willingness to make sales at prices below costs of production are the following:

- (1) Sales of Czechoslovak automobiles in West Germany and Austria in early 1956. 44/
- (2) Offers of East German blankets to South Africa in late 1955 at prices covering little more than the raw materials in them. 45/
- (3) Consideration by the Hungarian government, in September 1955, of the sale of bauxite and aluminum hydroxide to Western countries at about one-half the cost price. 46/

* Czechoslovak and East German difficulties during 1956 in building stable outlets for industrial and engineering products in the highly competitive West European markets reportedly led them to expand their sales to less well developed countries. 41/

** The foreign exchange shortage is so acute that the Satellites are forced to consider the foreign exchange component of total cost.

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b. Resale of Commodities Purchased for Soft Currencies.

The Satellites have also attempted to obtain Western currencies through the resale to Western countries of commodities purchased for soft currencies. Foreign exchange earnings from re-exports of Chinese Communist products to Western countries have been mentioned.* A rather novel example of an attempt both to earn foreign exchange and to liquidate a debt to Hungary occurred in October 1955: Hungary attempted to act as a broker for Turkey in obtaining Western buyers for Turkish products, at the same time settling a Turkish "swing" debit to Hungary which the Turks were unable to settle. Hungarian trade representatives offered to find Western buyers for Turkish products and to accept payment in Western exchange at prices substantially lower than those credited to Turkey in the Turkish-Hungarian clearing account. 47/

B. Effectiveness of Measures Adopted.

The varied expedients cited above at best have been of limited utility and, taken together, have been inadequate to solve the foreign exchange shortages which have confronted the European Satellites. In addition, many of these devices are expensive in real terms and in some cases have merely postponed settlement by prolonging or increasing indebtedness and have added heavy interest charges which must ultimately be met in foreign exchange.

Where it has been possible to save hard currency by substituting satisfactory Bloc sources of supply, arranging payment in commodities rather than foreign exchange, reselling commodities purchased for local currencies, or acquiring through barter goods otherwise obtainable only with foreign exchange, the adverse repercussions on the Satellite economies have probably been unimportant. These devices, however, have provided only a partial solution to the foreign exchange problem.

The other expedients -- subsidization of exports in order to sell products at competitive prices and reliance on credit -- have been most widely used to date and have proved costly to the Satellites. Subsidization of exports constitutes a burden upon the budgets of the countries concerned. The excessive reliance on credit in trade with

* Commodity-shunting has been mentioned (p. 7, above) as another method of saving foreign exchange; the purpose of resale to Western countries of commodities purchased for soft currencies is to earn foreign exchange.

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the Free World results in heavy interest payments.* Unless the Satellites are able to increase markedly their foreign exchange receipts through a significantly larger increase in exports than in imports, further loans will aggravate and merely postpone the payments problem.

From a long-run point of view, the only fully satisfactory solution to the chronic shortage of foreign exchange is to produce increased quantities of products which are fully competitive in world markets. This goal is clearly recognized and repeatedly underscored in official Satellite pronouncements. During the past year, mounting emphasis has been placed upon the need for increased quantities and improved quality of export goods, wider selection, improved sales techniques, and more reliable delivery dates. The sizable increase in Satellite exports in 1955 that resulted from these measures as well as from price cutting was balanced by a large increase in imports. According to statements of the Satellites, it appears that increased exports have not been sizable enough to preclude the Satellites' doing without certain vitally needed imports. Until the export situation is further improved, it seems inevitable that the European Satellites will continue to improvise a variety of short-run expedients for meeting their most pressing import needs from the West.

* This is especially true of Hungary, much of whose indebtedness to Western countries is short term and therefore at higher interest rates than long-term credits.

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APPENDIX A

TRADE BALANCE OF THE EUROPEAN SATELLITES WITH THE FREE WORLD
BY GEOGRAPHIC REGION*
1953-55

Table 5

Million Current US \$					
<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Albania	US and Canada	0.1	Negligible	0.1
1954			Negligible		
1955			0.1		
1953		UK		Negligible	
1954				Negligible	
1955				Negligible	
1953		Other sterling area			
1954			Negligible		
1955			Negligible		
1953		Continental Western Europe	Negligible	0.1	-0.1
1954			0.1	0.2	-0.1
1955			0.2	0.7	-0.5
1953		Latin America		Negligible	
1954			Negligible	Negligible	
1955			Negligible	Negligible	
1953		Other Asia and Africa		Negligible	
1954					
1955			Negligible		
1953 Total			0.1	0.2	-0.1
1954 Total			0.1	0.2	-0.1
1955 Total			0.3	0.7	-0.4

* 48/. Because of rounding, figures may not add to totals.

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Table 5
 (Continued)

<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Bulgaria	US and Canada	0.4	Negligible	0.4
1954			0.3	Negligible	0.3
1955			0.4	0.1	0.3
1953		UK	1.8	2.2	-0.4
1954			1.4	3.3	-1.9
1955			0.9	3.5	-2.6
1953		Other sterling area	0.2	1.0	-0.8
1954			0.1	0.3	-0.2
1955			0.1	1.6	-1.5
1953		Continental Western Europe	20.4	23.2	-2.8
1954			23.0	16.4	6.6
1955			18.6	19.2	-0.6
1953		Latin America	Negligible	Negligible	
1954			Negligible		
1955			Negligible	Negligible	
1953		Other Asia and Africa	3.1	2.1	1.0
1954			1.7	0.7	1.0
1955			1.9	1.4	0.5
1953 Total			25.9	28.6	-2.7
1954 Total			26.4	20.8	5.6
1955 Total			21.9	26.0	-4.1

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Table 5
(Continued)

Million Current US \$

<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Czecho- slovakia	US and Canada	4.9	0.2	4.7
1954			4.9	1.3	3.6
1955			6.7	3.2	3.5
1953		UK	18.9	5.7	13.2
1954			16.2	8.5	7.7
1955			10.6	10.0	0.6
1953		Other sterling area	21.9	29.4	-7.5
1954			25.5	17.7	-7.8
1955			31.9	28.8	-3.1
1953		Continental Western Europe	102.5	77.2	25.3
1954			109.7	106.5	3.2
1955			167.2	127.0	40.2
1953		Latin America	14.3	10.4	3.9
1954			25.9	26.0	-0.1
1955			50.9	43.9	7.0
1953		Other Asia and Africa	19.4	12.7	6.7
1954			29.4	26.1	3.3
1955			38.1	48.9	-10.8
1953	Total		181.8	135.6	46.2
1954	Total		211.6	186.1	25.5
1955	Total		305.5	261.8	43.7

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Table 5
(Continued)

Million Current US \$					
<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Hungary	US and Canada	1.9	0.1	1.8
1954			1.6	2.5	-0.9
1955			2.1	1.0	1.1
1953		UK	0.1	3.5	-3.4
1954			1.0	5.8	-4.8
1955			5.7	8.5	-2.8
1953		Other sterling area	4.1	3.3	0.8
1954			4.8	1.7	3.1
1955			4.6	0.8	3.8
1953		Continental Western Europe	40.3	65.0	-24.7
1954			56.8	90.8	-34.4
1955			88.0	148.5	-60.5
1953		Latin America	3.5	2.4	1.1
1954			7.4	12.3	-4.9
1955			14.6	11.7	2.9
1953		Other Asia and Africa	9.1	7.1	2.0
1954			8.8	9.5	-0.7
1955			13.6	19.3	-5.7
1953	Total		59.0	81.5	-22.5
1954	Total		80.3	122.6	-42.3
1955	Total		128.6	189.9	-61.3

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Table 5
(Continued)

Million Current US \$					
<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	East				
	Germany	US and Canada	7.6	1.1	6.5
1954			4.5	0.6	3.9
1955			6.0	2.7	3.3
1953		UK	2.9	1.9	1.0
1954			4.2	5.9	-1.7
1955			6.1	2.8	3.3
1953		Other sterling area	2.6	2.2	0.4
1954			5.7	1.5	4.2
1955			7.5	2.9	4.6
1953		Continental Western Europe	133.0	151.1	-18.1
1954			190.6	241.3	-50.7
1955			235.8	254.4	-18.6
1953		Latin America			
1954				0.2	-0.2
1955			0.5	2.0	-1.5
1953		Other Asia and Africa	5.1	3.1	2.0
1954			7.2	4.6	2.6
1955			7.1	7.4	-0.3
1953	Total		151.1	159.4	-8.3
1954	Total		212.2	254.2	-42.0
1955	Total		263.1	272.1	-9.0

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Table 5
(Continued)

Million Current US \$					
<u>Year</u>	<u>Satellite</u>	<u>Geographic Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Poland	US and Canada	14.5	0.8	13.7
1954			22.0	2.2	19.8
1955			27.2	7.4	19.8
1953		UK	56.5	19.6	36.9
1954			50.6	25.5	25.1
1955			72.6	19.5	53.1
1953		Other sterling area	5.1	31.9	-26.8
1954			5.8	36.1	-30.3
1955			9.5	43.8	-34.3
1953		Continental Western Europe	152.3	134.9	17.4
1954			128.0	141.6	-13.6
1955			165.5	182.5	-17.0
1953		Latin America	6.4	10.1	-3.7
1954			23.4	29.1	-5.7
1955			35.5	43.0	-7.5
1953		Other Asia and Africa	8.0	12.2	-4.2
1954			11.3	12.6	-1.3
1955			9.3	30.2	-20.9
1953	Total		242.9	209.5	33.4
1954	Total		241.0	247.2	-6.2
1955	Total		319.6	326.3	-6.7

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Table 5
(Continued)

Million Current US \$					
<u>Year</u>	<u>Satellite</u>	<u>Region</u>	<u>Exports, F.O.B. Bloc Ports</u>	<u>Imports, F.O.B. Free World Ports</u>	<u>Trade Balance</u>
1953	Rumania	US and Canada	0.4	0.1	0.3
1954			0.4	0.1	0.3
1955			0.3	0.6	-0.3
1953		UK	3.5	7.8	-4.3
1954			5.4	7.3	-1.9
1955			8.6	8.4	0.2
1953		Other sterling area	0.6	0.8	-0.2
1954			1.6	0.5	1.1
1955			4.5	1.2	3.3
1953		Continental Western Europe	40.2	50.4	-10.2
1954			57.6	41.2	16.4
1955			73.0	51.0	22.0
1953		Latin America	2.6	2.1	0.5
1954			5.7	7.6	-1.9
1955			3.3	2.9	0.4
1953		Other Asia and Africa	10.1	1.8	8.3
1954			7.2	8.7	1.5
1955			15.5	13.7	1.8
1953	Total		57.4	63.0	-5.6
1954	Total		78.0	65.4	12.6
1955	Total		105.1	77.8	27.3

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APPENDIX B

METHODOLOGY

Table 1* utilizes the net balance of the Satellites on trade and shipping with the Free World from Table 2** as a starting point. Adjustments are made for discrepancies between Western trade statistics and the actual foreign exchange position of the European Satellites. The factors which would increase the Satellite deficit in foreign exchange -- multilateral clearing arrangements with Finland, sales of European Satellite goods to non-Bloc countries by the USSR, and direct exports for repayments of debts -- constitute the second item in this table. The final item, "adjustments for China trade," includes adjustments made for Western goods transported to China via Poland and for Chinese goods resold in the West by the European Satellites.

Table 2 contains estimated data on the balances of the European Satellites on trade and shipping with the Free World in 1953, 1954, and 1955. US Department of Commerce figures showing Free World trade with the European Satellites during 1953-55 were adjusted by use of the data derived from Table 6 in EIC-R-11 in order to ascertain shipping costs. Satellite imports f.o.b. (Free World ports) were multiplied by the following figures to obtain European Satellite imports c.i.f. (Bloc ports): US and Canada, 113.64; UK, 109.89; continental Western Europe, 105.26; other sterling area, 116.28; other Asia and Africa, 114.94; and Latin America, 114.94. European Satellite exports c.i.f. (Free World ports) were multiplied by the following figures to obtain European Satellite exports f.o.b. (Bloc ports): US and Canada, no change (f.o.b. in Commerce figures); UK, 88; continental Western Europe, 90; other sterling area, 87; other Asia and Africa, 84; and Latin America, 88. For Table 2, the tables showing Satellite imports and exports without freight were used to obtain a recorded trade balance.

The balance on shipping account of the European Satellites was estimated as follows. Because the total shipping charges on trade between the European Satellites and the Free World were paid partly by the European Satellites and partly by the Free World and because Poland carries

* P. 4, above.

** P. 5, above.

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much of the oceanborne cargo of the European Satellites, it was necessary to make a number of calculations to arrive at a European Satellite balance on its shipping account with the Free World. Total charges were ascertained by taking the difference between exports, c.i.f., and exports, f.o.b., and between imports, c.i.f., and imports, f.o.b. Then for each of the six Western regions in Table 2, an assumption was made based on experience during the years 1953-55 as to the percentage of Polish-Satellite trade which moved on Bloc bottoms or rails and the percentage transported by Western transport facilities. In that manner, shipping receipts and expenditures for Poland and for the other Satellites were ascertained. The receipts and expenditures for Poland and the other Satellites were combined to obtain the balance on shipping account for each of the 3 years shown in Table 2.

Tables 3* and 5** show foreign trade balances on commodity account (without shipping) of individual European Satellites with the Free World during 1953-55. Table 5 gives more geographic detail than Table 3, which shows only total trade with Western countries. Both tables are based on trade data of the Free World. Although Western statistics are in some cases incomplete and create a problem of making adjustments for shipping, they constitute the only source that can be utilized which will give the trade of each Satellite with the West for the entire 3-year period.

* P. 10, above.

** P. 27, above.

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