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ECONOMIC INTELLIGENCE REPORT

**THE BALANCE OF PAYMENTS
OF THE SOVIET BLOC AND COMMUNIST CHINA
WITH THE FREE WORLD
1948-53**



EIC-R-11

11 July 1955

Prepared Jointly by IAC and Other US Government Agencies

ECONOMIC INTELLIGENCE COMMITTEE

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FOREWORD

This report was prepared by the EIC Subcommittee on International Trade and Finance on the basis of contributions from the Departments of State and Commerce, the Federal Reserve Board, and the Central Intelligence Agency. The study was undertaken in order to meet a need for organized information on the balance of international payments of the Soviet Bloc and Communist China with the Free World, no systematic study on this subject having previously been available. It should be noted that most balance of payments data are essentially estimates. The data used in this report are the best currently obtainable, but in some instances they are quite fragmentary and lead to only approximate results. These results are useful, however, in that they indicate the general orders of magnitude of the variables involved. It was possible to resolve only partially a number of important problems related to the balance of payments of the Soviet Bloc and Communist China with the Free World. It is hoped that further research will provide the basis for a more complete and reliable study on this subject.

This report was reviewed and concurred in by the EIC representatives of the IAC agencies; of the Departments of the Treasury, Defense, and Commerce; and of the Federal Reserve Board and the Foreign Operations Administration.

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THE BALANCE OF PAYMENTS OF THE SOVIET BLOC
AND COMMUNIST CHINA WITH THE FREE WORLD
1948-53

Summary

1. This report presents the results of a study which attempted to construct balance of payments accounts for the Soviet Bloc* and Communist China** with the Free World for the period 1948 through 1953.*** A summary of the major balance of payments accounts so constructed is given in Table 1.****

2. Merchandise trade***** has been the largest factor affecting the foreign accounts of the Soviet Bloc and Communist China with the Free World. Total Bloc exports to Free World countries declined from approximately \$1.6 billion in 1948 to approximately \$1.4 billion per year in 1952 and 1953. Three-quarters or more of these exports -- over \$1 billion per year in 1952 and 1953 -- originated in the Soviet Bloc countries. Bloc imports also declined over the period from approximately \$1.9 billion in 1948 to approximately \$1.4 billion per year in 1952 and 1953. The decline in the physical volume of trade was greater than these value figures may suggest, since prices rose over the period considered.

3. The decline in Bloc-Free World trade since 1948 was accompanied by a sharp rise in intra-Bloc trade, associated with a concerted Bloc program of reorienting Satellite and Chinese trade. There was, however, a temporary rise in trade with the Free World in 1951, largely as a result of the stockpiling activities and price rises associated with the outbreak of hostilities in Korea.

* As used herein, the Soviet Bloc includes the USSR, Poland, East Germany, Czechoslovakia, Hungary, Rumania, Bulgaria, and Albania.

** Some 1948-49 data on pre-Communist China are included in this report for comparative purposes.

*** The data on the Soviet Bloc and on Communist China are developed and for the most part presented separately because of the difficulties involved in making much of the relevant material comparable. However, combined trade and shipping accounts for the Soviet Bloc and Communist China are presented.

**** Table 1 follows on p. 2.

***** All references to trade in this report, unless otherwise indicated, are to recorded trade (see Appendix C, p. 51) as distinguished from unrecorded trade.

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Table 1

Summary of Major Accounts in Soviet Bloc
and Communist China Balance of Payments with the Free World
1948 and 1950-53

	Million US \$				
	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Soviet Bloc and Communist China <u>a</u> /* (Trade and shipping accounts)					
Exports, f.o.b. (Bloc ports)	1,640	1,475	1,514	1,369	1,380
Imports, f.o.b. (Free World ports)	-1,936	-1,474	-1,659	-1,373	-1,365
Balance on trade	<u>-296</u>	<u>1</u>	<u>-145</u>	<u>-4</u>	<u>15</u>
Balance on shipping	-89	-51	-76	-35	-40
Balance on trade and shipping	<u>-385</u>	<u>-50</u>	<u>-221</u>	<u>-39</u>	<u>-25</u>
Soviet Bloc <u>b</u> /					
Balance on trade	-88	-6	-42	-37	-44
Balance on shipping	-53	-30	-40	-22	-24
Balance on trade and shipping	<u>-141</u>	<u>-36</u>	<u>-82</u>	<u>-59</u>	<u>-68</u>
Balance of capital movements and transfers	167	46	79	67	4
Net changes in gold and foreign exchange holdings	23	105	125	102	171
Errors and omissions	-49	-115	-122	-110	-107

* Footnotes for Table 1 follow on p. 3.

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Table 1

Summary of Major Accounts in Soviet Bloc
and Communist China Balance of Payments with the Free World
1948 and 1950-53
(Continued)

	Million US \$				
	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Communist China					
Balance on trade <u>c/</u>	-208	7	-103	33	59
Balance on shipping <u>c/</u>	-36	-21	-36	-13	-16
Balance on trade and shipping	<u>-244</u>	<u>-14</u>	<u>-139</u>	<u>20</u>	<u>43</u>
Unrecorded imports <u>d/</u>	Negligible	Negligible	-86	-70	-93
Receipts covering above <u>e/</u>	244 <u>f/</u>	14	225	50	50

a. See Table 5, p. 17, below.

b. See Table 2, p. 6, below.

c. See Table 3, p. 12, below.

d. See pp. 13 and 48, below.

e. Principally remittances from overseas Chinese, utilization of foreign exchange holdings, and proceeds of unrecorded exports.

f. Includes \$212 million of official grant aid to pre-Communist China.

4. Soviet Bloc and Communist China trade with the Free World has been more or less in balance during the post-World War II period. The Bloc has had small but continuing deficits on shipping account, with both gross payments and receipts and net deficits on this account small in relation to the trade account.

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5. The largest known capital movements and transfers to the Soviet Bloc consisted of Finnish reparations and payments for German claims to the USSR, which amounted to \$96 million in 1948 and totaled approximately \$300 million for the period 1948 through 1952, when they were completed; private remittances from the US which totaled approximately \$150 million during 1948-53; and deliveries to the USSR under the Swedish loan of 1946, which totaled approximately \$110 million during the period of the study. Other capital movements were extremely small. With virtually no "invisible" earnings available from such items as tourism and shipping services any Bloc import balances not covered by capital imports would have had to be financed by the use of gold reserves, since foreign exchange holdings seem to have been limited. The USSR, which has by far the largest gold reserves in the Bloc, seems to have sold only minor quantities of gold to the Free World during the period from the end of World War II to 1953. From 1949 to 1952 the European Satellites sold gold at a rate which averaged somewhat less than \$100 million per year. In 1953, large quantities of gold were placed on Free World markets by the USSR, sales amounting to perhaps \$150 million. Preliminary data indicate a volume of sales by the USSR of about \$125 million in 1954.

6. The errors and omissions residuals in the Soviet Bloc accounts indicate an excess of estimated receipts over estimated payments of \$100 million to \$125 million per year after 1949. Errors of significance relative to the size of these residuals may be involved in almost all of the major items indicated, but it is believed that such errors may be at least in part offsetting. A major item in the omissions is unrecorded trade (not to be identified with illegal trade*).

7. Communist China incurred deficits on trade and shipping account (including unrecorded trade) in each year of the period covered. The foreign exchange receipts used to finance these deficits were obtained primarily from remittances from overseas Chinese, utilization of foreign exchange holdings, and the proceeds of unrecorded exports (largely opium).

* See p. 41, below.

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I. Balance of Payments of the Soviet Bloc with the Free World.

1. The major items in the balance of payments of the Soviet Bloc with the Free World for the period 1948 through 1953 are summarized in Table 2.* During this period the value of commodity exports of the Soviet Bloc declined from approximately \$1.4 billion in 1948 to under \$1.1 billion in 1953. There was a moderate increase to approximately \$1.2 billion in 1951. During 1952 and 1953, exports amounted to somewhat less than \$1.1 billion per year.

2. Imports have followed a generally similar movement, declining from an annual level of \$1.4 billion to \$1.5 billion in 1948-49 to an annual level of \$1.1 billion to \$1.2 billion from 1950 through 1953. Fluctuations in imports were somewhat greater than fluctuations in exports. Imports declined to approximately the level of exports in 1950, rose more than exports during the general post-Korean scramble for imports in 1951, and declined about as much as exports during 1952 and 1953. It should be noted that these data are in value terms and because of price changes during the period do not imply equivalent quantity changes.

3. The decline in the trade of the Soviet Bloc with the Free World -- both imports and exports -- from 1948-49 to 1950-53 was accompanied by an increase in intra-Bloc trade associated with the Bloc policy of economic integration and reorientation of trade toward Bloc partners. Bloc trade with the Free World during the 1950-53 period was approximately in balance. The average annual trade deficit during this period was about \$35 million compared to \$120 million during 1948-49.

4. The estimated deficit on shipping account has not varied greatly over the period 1948-53. The over-all trade and shipping accounts show approximately the same movement toward balance as do the trade data. The deficits were reduced from an average of almost \$70 million in 1948-49 to approximately \$35 million in 1950 and an average of nearly \$70 million during 1951 through 1953.

5. During the 1948-53 period the Soviet Bloc obtained foreign exchange through long-term capital transactions, unilateral transfers, short-term credits, and gold sales which enabled it to maintain deficits on current account (that is, import surpluses). The decline in the**

* Table 2 follows on p. 6.

** Continued on p. 8.

Table 2

Balance of Payments of the Soviet Bloc with the Free World
1948-53

	Million US \$ a/*					
	1948	1949	1950	1951	1952	1953
Exports, f.o.b. (Bloc ports)	1,392	1,302	1,075	1,197	1,099	1,058
Imports, f.o.b. (Free World ports)	-1,480 b/	-1,445	-1,081	-1,239	-1,136	-1,102
Balance on trade	-88	-143	-6	-42	-37	-44
Shipping receipts	51	40	35	50	40	34
Shipping payments	-104	-86	-65	-90	-62	-58
Balance on shipping	-53	-46	-30	-40	-22	-24
Balance on trade and shipping	-141	-189	-36	-82	-59	-68
Capital movements and transfers (net)						
Finnish reparations and former German claims	96	77	35	54	36	0
Swedish deliveries under 1946 loan agreement	16	13	15	29	33	2
Private remittances from the US	51	29	15	18	14	17
Czechoslovak drawing on the International Monetary Fund	6					
Compensation payments for nationalized properties			-16	-19	-13	-12
Polish repayment of Swedish loan, 1945 (net)	-2	-5	-3	-3	-3	-3
Balance of capital movements and transfers	167	114	46	72	67	4

* Footnotes for Table 2 follow on p. 7.

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Table 2
 Balance of Payments of the Soviet Bloc with the Free World
 1948-53
 (Continued)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Changes in gold and foreign exchange holdings						
Changes in US dollar balances	52	11	6	7	1	1
Changes in continental European balances	-46	12	19	18	26	12
Changes in other balances c/	17 d/		-17 d/		-10	1
Changes in US currency holdings	0	1		100	-1	10
Sales of gold		100 e/	97		86	147
Net change in gold and foreign exchange holdings	<u>23</u>	<u>124</u>	<u>105</u>	<u>125</u>	<u>102</u>	<u>171</u>
Errors and omissions	-49	-49	-115	-122	-110	-107

a. Data for the most part were converted from original currency units to US dollar equivalents on the basis of rates published by the International Monetary Fund. Where these were not available, rates based on information from the countries involved were used.

b. Minus sign (-) indicates an outflow of funds; no sign, which is in effect a plus sign, indicates a source of funds. In case of gold and foreign exchange holdings, no sign indicates sales of gold by the Soviet Bloc, a reduction in foreign assets, or an increase in liabilities to foreign countries; minus sign indicates the opposite in each case.

c. Does not include sterling balances. See par. 8, p. 9, below.

d. Argentina had a commercial surplus of \$17 million with Rumania in 1948. This Rumanian debt was repaid by a gold shipment in late 1950.

e. Data on the volume of gold sales in 1949 are tenuous.

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size of the annual current account deficits during the period was accompanied by a decline in receipts on capital account resulting from the following factors:

a. The reduction in Finnish payments for reparations and former German claims from an average of about \$87 million a year in 1948-49 to an average of \$42 million a year in 1950-52 and their cessation after 1952.

b. The virtual cessation of deliveries under the Swedish-Soviet loan agreement after 1952.

c. An apparent depletion of foreign exchange holdings and increase in short-term liabilities to foreigners (usually taking the form of deficit positions on clearing account).

d. The reduction in private remittances from the US from \$51 million in 1948 to an average yearly rate of \$15 million in 1950-53.

6. Net receipts on capital account declined from \$167 million in 1948 to \$46 million in 1950. They amounted to a mere \$4 million in 1953. Of the decrease of \$121 million from 1948 to 1950, \$61 million was accounted for by the decline in Finnish payments for reparations and for former German claims transferred to the USSR, and \$36 million by the reduction in remittances from the US. Net receipts on capital account rose \$21 million from 1950 to 1952 but reached only 40 percent of their 1948 level. The increase was due mainly to an increase in deliveries under the Swedish loan. Compensation payments for properties nationalized by the Satellites began in 1950 but were small. The end of Finnish reparations and of deliveries under the Swedish loan explains the near-disappearance of Soviet Bloc receipts on capital account in 1953.

7. On the basis of the estimates indicated in Table 2,* receipts on capital account provided slightly more than enough financing to cover the current account deficits in 1948, 1950, and 1952 and to finance virtually the whole of the deficit in 1951. During 1949 they financed approximately 60 percent of the deficit. In 1953, however, their contribution to financing the deficit was negligible. In all years of the period covered, reductions in US dollar and continental European foreign exchange holdings provided additional financing to the Soviet Bloc. The data suggest that in 1948 Bloc transactions were

* P. 6, above.

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carried out in such a manner as to reduce the Bloc's US balances by about \$50 million and to increase balances in continental Western Europe, particularly Belgium, by approximately the same amount. From 1949 through 1953, however, there seems to have been a steady reduction of known balances in the US and in Europe totaling somewhat more than \$100 million. Soviet gold sales at the end of 1953 may have been made at least in part for the purpose of replenishing working foreign exchange balances drawn down as a result of a general balance of payments stringency.

8. Changes in the Soviet Bloc's sterling balances are not considered explicitly in this report. Even though the Bloc maintains sizable sterling balances for use as working capital in foreign trade operations, there is reason to believe that variations in the Soviet Bloc's sterling balances were of little importance over this period.

9. Gold sales of about \$100 million per year in 1950-52 and \$150 million in 1953 have been reported. Preliminary data indicate a volume of sales of about \$125 million in 1954. On the evidence of the available data, there appear to have been no gold sales by the Soviet Bloc in 1948, but sales of about \$100 million may have been made in 1949.

10. The errors and omissions items in the Soviet Bloc foreign accounts are residuals which result from the fact that total receipts of foreign exchange and total payments as calculated in this report are not equal. The values of these residuals indicate that total calculated receipts were greater than total calculated payments by about \$50 million per year in 1948 and 1949 and by \$100 million to \$125 million per year in 1950 through 1953. A major omission in the available data that accounts at least in part for these differences is unrecorded trade in which a net import balance almost certainly obtained, at least during the later years of the period under study. Other omissions in the available data include changes in sterling balances, in some clearing balances with Western European and Latin American countries, and in Swiss franc balances; net payments for services (including those for diplomatic missions) other than shipping; and net payments or receipts of foreign exchange by the Soviet enterprises* in Austria. The residuals are affected not only by omissions but also by errors in the estimates of listed items. Such errors may have been fairly large

* Known as Upravleniye Sovetskaya Imushtchestva v Avstrii (USIA), or Administration of Soviet Property in Austria.

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relative to the size of the residuals, particularly in the shipping account and gold sales estimates. In the case of gold sales, it is estimated that there is a probable range of error of \pm \$30 million per year in 1952 and 1953 and somewhat more than this in 1949. Trade data derived indirectly from the reports of Free World trading partners are subject to error, and errors may also have developed in the process of converting these trade data denominated in foreign currencies to US dollar equivalents. Some errors were also involved, in all probability, in arriving at our shipping account estimates.

11. It has been suggested that the values of the errors and omissions residuals might be used as estimates of Soviet Bloc payments abroad for unrecorded trade including illegal imports of strategic goods* and of Bloc payments for Communist activities in the Free World.** Such an interpretation, however, should not be made. The errors involved in the "recorded" balance of payments items, from which the residuals were derived, could be so large relative to the residuals that the values of the residuals as such cannot be used as precise estimates of any specific variable or variables. It appears, however, that the accounting of total Bloc earnings and uses of Free World foreign exchange in this report does indicate, in an approximate manner, the general order of magnitude of the volume of Free World financial resources which have been available to the Bloc for financing unrecorded transactions* with the Free World. It is hoped that in future studies a more precise estimate of the magnitude of these resources can be made, using as a basis the known "recorded" items and the appropriate ranges of error involved.

II. Balance of Payments of Communist China with the Free World.

1. Historically, China has incurred large deficits on trade and services account, which deficits before the Communist regime were financed largely by personal and institutional remittances from overseas Chinese. The same basic pattern appears to have continued under the Chinese Communist regime in its balance of payments with the Free World.

* Unrecorded trade is not to be identified with illegal trade.
See p. 41, below.

** Not to be identified with Communist expenditures abroad financed by contributions, earnings, and the like, obtained from Free World sources, which expenditures involve no financial transfers from the Soviet Bloc to the Free World.

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2. In 1946-48, Chinese exports to the Free World averaged about \$250 million per year, and imports averaged slightly above \$820 million, although they declined sharply over this period to a low of approximately \$460 million in 1948.* The import surpluses during this period were financed largely by governmental grants and loans (mainly UNRRA grant assistance and US grant and loan assistance), which averaged \$370 million per year, and by private remittances, which averaged \$115 million, leaving a balance averaging \$84 million, which was financed by the sale of foreign securities and short-term foreign assets.

3. Data for 1949 are not available. The balance of payments of Communist China since 1949 shows important differences from the earlier period. These have, in general, reflected the cessation of official grant and loan assistance; a downward movement of remittances, particularly institutional remittances; and the virtual nonexistence of official gold and foreign exchange reserves which could be drawn upon.

4. In 1950, Communist China had a small export surplus which was the result of an increase in exports of 60 percent above the 1946-48 average level and a reduction in imports of 14 percent from the 1948 level and of over 50 percent from the 1946-48 average level.

5. In 1951, China incurred a deficit on recorded trade account of approximately \$100 million, which was the result of a 20-percent drop in exports from the 1950 level. In 1952 this deficit position was replaced by a trade surplus as a result of a 50-percent drop in imports following the coming into effect of Western export controls in June 1951. In 1953, both exports and imports increased slightly over 1952 to \$322 million and \$263 million, respectively. The surplus on trade and shipping was approximately \$40 million. A summary of the trade and shipping accounts of continental China with the Free World for 1948 and 1950-53 is given in Table 3.**

6. Services other than shipping are believed to be a minor item in the Chinese Communist balance of payments. It is believed that they involve net payments or receipts of no more than a few million dollars per year.

* See International Monetary Fund, Balance of Payments Yearbook, 1948, U.

** Table 3 follows on p. 12.

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Table 3

Balance of Trade and Shipping of Communist China with the Free World
1948 and 1950-53

	Million US \$ ^{a/}					Cumulative
	1948	1950	1951	1952	1953	1950-53
Exports, f.o.b. (Bloc ports)	248 ^{b/}	400	317	270	322	1,309
Imports, f.o.b. (Free World ports)	-456 ^{b/}	-393	-420	-237	-263	-1,313
Balance on trade	-208	7	-103	33	59	-4
Shipping ^{c/}	-36	-21	-36	-13	-16	-86
Balance on trade and shipping	-244	-14	-139	20	43	-90

a. Data for the most part were converted from original currency units to US dollar equivalents on the basis of rates published by the International Monetary Fund. Where these were not available, rates based on information from the countries involved were used. In the case of Hong Kong data, however, free market rates were used.

b. Total trade of China. Trade with Soviet Bloc in 1948, however, was exceedingly small. In effect, therefore, these figures represent trade with the Free World. The import figure includes \$212 million in official grant aid.

c. China has no oceangoing merchant marine of consequence and, therefore, no earnings on shipping account with the Free World. This item represents Chinese payments for shipping on imports from the Free World, all of which were assumed to have been carried by Free World shipping. (See Appendix B, p. 43, below.)

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7. Western security controls on exports to Communist China were first imposed after the Korean attack in 1950 and did not become effective until 1951. It can be assumed that unrecorded imports in 1950 were small. Given the fact of a small export surplus in 1950, the bulk of remittances in that year were probably added to the meager foreign exchange reserves. Unrecorded imports became significant in 1951, amounting to approximately \$86 million in that year. They continued at about the same level in 1952 and 1953, when they amounted to approximately \$70 million and \$93 million, respectively. The cumulative total of unrecorded imports for 1951 through 1953 is thus estimated at approximately \$250 million.* Unrecorded imports are not the same as illegal imports.** The estimates indicated for unrecorded imports should not, therefore, be used as estimates of illegal imports.

8. No separate estimates for shipping charges on unrecorded imports were made. The major portion of unrecorded imports into China involved transshipments from Western Europe via Gdynia. Charges on shipments from Gdynia moving on Bloc vessels would not be relevant to this report. Available information does not permit an estimate of shipping charges. Such shipping charges are, however, considered to have been small relative to total payments.

9. Communist China incurred deficits on trade and shipping account (including unrecorded trade) in each year of the period covered. The foreign exchange receipts used to finance these deficits were obtained primarily from remittances from overseas Chinese, utilization of foreign exchange holdings, and the proceeds of unrecorded exports (largely opium). The totals of receipts covering these deficits are residual balances, but the remittances are based on independent estimates. It is believed that foreign exchange was available to cover the deficits on trade and shipping account amounting to \$244 million and \$14 million in 1948 and 1950, as indicated in Table 1.*** For the period 1951 through 1953, Communist China incurred a cumulative deficit on recorded trade and shipping account of approximately \$75 million. As indicated in paragraph 7, above, unrecorded imports during the same period of 1951 through 1953 have been estimated at \$250 million. The total deficit on recorded trade and

* These estimates of unrecorded trade were obtained from National Intelligence Survey 39, China, Section 65 on "Trade and Finance," May 1954, pp. 56-57, S.

** See p. 41, below.

*** P. 2, above.

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shipping and unrecorded trade during 1951 through 1953 thus amounted to \$325 million. It is believed that foreign exchange was available to the Chinese Communists in sufficient volume to cover this deficit of \$325 million over the 3-year period, but little is known regarding annual availabilities of foreign exchange.*

10. The major uses of foreign exchange by Communist China in payments to the Free World for unrecorded imports and to cover its deficit on recorded trade and shipping account and the probable sources, on a cumulative basis for 1951 through 1953, are summarized in Table 4.

Table 4

Major Uses of Foreign Exchange by Communist China
in Payments to the Free World and Probable Sources
Cumulative 1951 through 1953

		Million US \$	
Uses		Sources	
Deficit on recorded trade and shipping	75	Remittances	200
Unrecorded imports	250	Other sources of foreign exchange	125
Total uses	<u>325</u>	Total sources	<u>325</u>

The estimate indicated for total sources is not an estimate of all sources of foreign exchange available to the Chinese Communists in this period but rather represents sources believed to have been drawn upon to finance the payments indicated for trade and shipping. Additional sources may have been available to the Chinese and may have been used

* Thus the receipts data indicated in the bottom line of Table 1 (p. 3, above) for the years 1951, 1952, and 1953 represent only an arbitrary distribution of the \$325 million figure indicated.

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by them to make transfers to the Soviet Bloc* to accumulate reserves and/or to finance a possible deficit with the Free World on other than trade and shipping accounts.

11. The Chinese Communists had virtually no gold and foreign exchange holdings at the beginning of 1950, all official reserves having been sent abroad previously by the Nationalist government. Remittances from overseas Chinese constituted the principal source of funds used to finance the deficits on recorded and unrecorded trade and shipping. Estimates of remittances to China during this period vary widely. Most estimates for 1951 cluster around \$100 million. Recent reports indicate a marked fall in 1952 and 1953 to perhaps \$50 million per year or less. The principal other sources of foreign exchange available to the Chinese Communists are believed to have been from the sale of Hong Kong and US currency which formerly circulated on mainland China, the use of foreign exchange balances accumulated in 1950, and the proceeds of unrecorded exports (principally opium).

12. Up to 50 million US dollars in Hong Kong currency is believed to have been circulating in South China during 1950. In addition, probably several million dollars of US currency previously spent by US troops in China remained in private hoards. It is known that the Communist government made vigorous attempts to collect these privately held foreign currencies. The Chinese Communists earned a balance of payments surplus during 1950 which probably permitted an accumulation of foreign exchange reserves of somewhat over \$50 million. Part of these reserves may have been drawn upon during the 1951-53 period. During this period, attempts were also made to draw gold and silver out of private hoards: \$15 million per year may have been sold in Macao and Hong Kong. Estimates of Chinese Communist receipts from opium sales as such are not available, but some part of the remittances indicated in Table 4** is thought to have been in payment for opium exports.

13. There was a substantial capital flight from Communist China in 1950 and 1951, but this is not considered in this report, primarily because of the unavailability of appropriate data. In any event, it is believed to have taken the form of a reduction of private hoards of specie and foreign currencies, so that its effect on Communist China's balances of payments probably was indirect and small.

* Transfers of foreign exchange to other members of the Soviet Bloc are believed to have taken place. However, no good estimates of the amounts involved are available.

** P. 14, above.

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14. In summary, the Chinese Communists earned a surplus on recorded trade and shipping accounts in 1952 and 1953, reversing their deficit position of 1950 and 1951. Despite a decline in remittances over the period, they also were able to finance a significant value of unrecorded trade from 1951 through 1953.

III. Balance of Trade and Shipping of the Soviet Bloc and Communist China with the Free World.

1. In general, this report deals separately with the foreign accounts of the Soviet Bloc on the one hand and of Communist China on the other. However, combined trade and shipping accounts for each year of the period except 1949, for which year data on China's trade are not available, were constructed in order to permit the drawing of conclusions regarding changes in trade between the Free World and the Soviet Bloc and Communist China.* These combined trade and shipping accounts are shown in Table 5.** The balance of payments accounts other than trade and shipping of the Soviet Bloc and Communist China were not combined, because it was not possible to make estimates of Chinese Communist capital account receipts and expenditures or of changes in Chinese foreign exchange holdings comparable to those made for the Soviet Bloc.

2. Exports of the Bloc to the Free World show a downward trend from about \$1.6 billion in 1948 to about \$1.4 billion in 1952 and 1953. Imports, including those of Nationalist China financed through official grant and loan aid in 1948, show a steeper downward trend from about \$1.9 billion in 1948 to about \$1.4 billion in 1952 and 1953.

3. Trade of the Soviet Bloc and Communist China resulted in annual trade surpluses or deficits of less than \$20 million in 1950, 1952, and 1953. In 1951 there was a deficit of \$145 million. It may be noted that most of the total Bloc deficits in 1948 and 1951 were accounted for by Communist China's deficits. In 1952, Communist China's surplus reduced the Bloc deficit to \$4 million, and in 1953 China's surplus more than offset the Soviet Bloc's deficit. As a consequence, the Bloc as a whole in 1953 had a surplus on trade account.

* It will be remembered that China was not a member of the Bloc in 1948 and 1949.

** Table 5 follows on p. 17.

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Table 5

Combined Trade and Shipping Accounts of the Soviet Bloc
and Communist China with the Free World a/*
1948 and 1950-53

	Million US \$				
	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Exports, f.o.b. (Bloc ports)					
Soviet Bloc	1,392	1,075	1,197	1,099	1,058
China	248	400	317	270	322
Total	<u>1,640</u>	<u>1,475</u>	<u>1,514</u>	<u>1,369</u>	<u>1,380</u>
Imports, f.o.b. (Free World ports)					
Soviet Bloc	-1,480	-1,081	-1,239	-1,136	-1,102
China	-456 b/	-393	-420	-237	-263
Total	<u>-1,936 b/</u>	<u>-1,474</u>	<u>-1,659</u>	<u>-1,373</u>	<u>-1,365</u>
Balance on trade					
Soviet Bloc	-88	-6	-42	-37	-44
China	-208 b/	7	-103	33	59
Total	<u>-296 b/</u>	<u>1</u>	<u>-145</u>	<u>-4</u>	<u>15</u>

* Footnotes for Table 5 follow on p. 18.

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Table 5

Combined Trade and Shipping Accounts of the Soviet Bloc
and Communist China with the Free World a/
1948 and 1950-53
(Continued)

	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Receipts from shipping					
Soviet Bloc	51	35	50	40	34
China	0	0	0	0	0
Total	<u>51</u>	<u>35</u>	<u>50</u>	<u>40</u>	<u>34</u>
Payments on shipping					
Soviet Bloc	-104	-65	-90	-62	-58
China	-36	-21	-36	-13	-16
Total	<u>-140</u>	<u>-86</u>	<u>-126</u>	<u>-75</u>	<u>-74</u>
Balance on shipping					
Soviet Bloc	-53	-30	-40	-22	-24
China	-36	-21	-36	-13	-16
Total	<u>-89</u>	<u>-51</u>	<u>-76</u>	<u>-35</u>	<u>-40</u>
Balance on trade and shipping					
Soviet Bloc	-141	-36	-82	-59	-68
China	-244 b/	-14	-139	20	43
Total	<u>-385 b/</u>	<u>-50</u>	<u>-221</u>	<u>-39</u>	<u>-25</u>

a. Data from Tables 2 and 3, pp. 6 and 12 respectively, above.

b. Includes \$212 million of official grant aid.

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4. Bloc payments on shipping account ranged from approximately \$125 million in 1951 to about \$75 million in 1953. Bloc earnings averaged approximately \$40 million per year in this same period. These receipts were earned primarily by the merchant marines of the USSR and of Poland, these two Bloc countries alone having sizable merchant marines. The deficit on shipping account in Bloc-Free World trade is estimated at between approximately \$35 million and \$90 million per year for the period of the report.

5. Taking both trade and shipping accounts into consideration, the Bloc as a whole from 1950 onward incurred deficits of less than \$100 million per year except in 1951, when the deficit amounted to over \$200 million.

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APPENDIX A

METHODOLOGY INVOLVED IN ARRIVING AT SOVIET BLOC BALANCE OF PAYMENTS

1. As is indicated in Appendix C, Soviet Bloc exports are generally recorded as Free World trading partner imports c.i.f. the Free World country involved, and Bloc imports are generally recorded as Free World trading partner exports f.o.b. the Free World country involved. As a consequence, recorded trade data on Bloc-Free World trade overstate Bloc receipts and understate Bloc payments. In order to make the appropriate adjustments, it was necessary to estimate total shipping charges on Bloc-Free World trade and the portions of those charges which were earned by the Free World on the one hand and the Bloc on the other.

2. In estimating total shipping charges, the regional distribution of Soviet Bloc-Free World trade was an important consideration. Estimates of the percentages represented by ocean shipping costs of the total delivered (c.i.f.) values of goods imported by various Free World countries or groups of countries from other Free World countries or groups of countries during the period January-September 1949 and calendar year 1950 were obtained from a study of the International Bank for Reconstruction and Development (IBRD).* In the present report, it was assumed that the cost of moving goods -- measured as a percentage of c.i.f. values -- between a specified region of the Free World and the Soviet Bloc in 1949-50 was the same as that of moving goods between that region and a Free World area or areas adjacent to the Soviet Bloc (for example, Scandinavia or Turkey). This assumption requires for its validity that the average value per ton of goods moving in Bloc-Free World trade and the cost of shipping per ton in this trade be the same as in the trade between the Free World regions specified and the Free World areas indicated adjacent to the Bloc. An examination of the trade moving between the specified Free World regions and the indicated Free World areas adjacent to the Bloc on the one hand, and of trade between those regions and the Bloc on the other, disclosed that the assumption is a reasonable one, except in the case of Bloc trade with continental Western Europe.

* International Bank for Reconstruction and Development, Economic Department, The Shipping Account in the World Balance of Payments, 27 May 52, U.

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3. In the case of this Soviet Bloc trade with continental Western Europe -- which averaged over 60 percent of total Soviet Bloc trade with the Free World during the 1948-53 period -- imports and exports are carried partly by sea and partly by rail, and many of the imports involved are high-value, low-weight commodities. The IBRD study results, which were based on ocean shipping costs, were not appropriate for the purpose of determining the shipping costs involved in this trade. An examination of the shipping costs of leading commodities in this trade indicated that these costs averaged approximately 10 percent of the c.i.f. value of Bloc exports and 5 percent of Bloc imports. The higher figure for Bloc exports than for imports is the result of the higher proportion of bulky raw materials in Bloc export trade. The figures of 10 percent and 5 percent of c.i.f. value were used in arriving at estimates of the total shipping costs involved in trade between the Soviet Bloc and continental Western Europe.

4. The costs of shipping goods, measured as percentages of c.i.f. values during the period 1949-50, used in computing total shipping costs on Soviet Bloc trade are given in Table 6.

Table 6

Estimated Shipping Costs as Percentages of C.I.F. Values
in Soviet Bloc Trade a/
1949-50

Trade of the Soviet Bloc With:	Percent	
	Soviet Bloc Exports	Soviet Bloc Imports
US and Canada	12 <u>b/</u>	12 <u>b/</u>
UK	12 <u>c/</u>	9 <u>d/</u>
Continental Western Europe	10 <u>e/</u>	5 <u>d/</u>
Other sterling areas	13 <u>f/</u>	14 <u>g/</u>
Other Asian and African areas	16 <u>h/</u>	13 <u>i/</u>
Latin America	12 <u>b/</u>	13 <u>j/</u>

a. International Bank for Reconstruction and Development, Economic Department, op. cit.

b. Where no data on freight payments were available, an average figure of 12 percent of total c.i.f. import values was used, as was done in the source cited.

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Table 6

Estimated Shipping Costs as Percentages of C.I.F. Values
in Soviet Bloc Trade a/
1949-50
(Continued)

-
- c. Average of ratios of shipping costs to total c.i.f. values of imports by the UK from Finland and Yugoslavia.
- d. Average of ratios of shipping costs to total c.i.f. values on imports by Norway, Sweden, Turkey, and Greece from (in each case) all other OEEC countries. (The OEEC countries are as follows: Austria, Belgium, Denmark, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the UK.) The UK and continental Western Europe were included in the single category of "OEEC Countries" in the IBRD study on shipping costs. The 9-percent figure for the ratio of shipping costs to total c.i.f. values on imports by Norway, Sweden, Turkey, and Greece (as representative of Soviet Bloc ports) from the other OEEC countries was considered appropriate for Bloc imports from the UK, but not for those from continental Western Europe, as indicated in paragraph 3, above. This 9-percent figure was considered appropriate in the case of Bloc imports from the UK, because Bloc-UK trade, unlike Bloc-continental Western European trade, is carried almost entirely by sea, so that the results of the IBRD study, based on ocean shipping costs, are relevant, and the distances involved in the two trade flows are comparable.
- e. Independent estimates (not based on IBRD study) arrived at as indicated on p. 22, above.
- f. Average of ratios of shipping costs to total c.i.f. values on imports by India, Ceylon, and Burma from Finland.
- g. Average of ratios of shipping costs to total c.i.f. values of imports by Greece, Turkey, Norway, and Sweden from India, Ceylon, Australia, and other nonparticipating (in OEEC) sterling areas.
- h. Ratio of shipping costs to total c.i.f. values on imports by non-sterling Middle East from Finland.
- i. Average of ratios of shipping costs to total c.i.f. values on imports by Greece and Turkey from nonsterling Middle East, UK dependent overseas territories, and other OEEC-country dependent overseas territories.
- j. Average ratio of shipping costs to c.i.f. values of imports by OEEC countries from Latin America.

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5. Shipping costs in the years 1948 and 1951-53 were not the same proportion of c.i.f. values as in 1949-50, data for which are indicated in Table 6,* because shipping rates in the period under study did not move at the same times or in the same degree as did the prices of the commodities traded. It was necessary, therefore, to make an adjustment for shipping rate changes over the period in order to arrive at appropriate estimates of total shipping costs for each year of the period other than 1949 and 1950. This adjustment did not have to take into account the entire change in shipping rates but only such changes as were greater than or less than the changes in commodity prices. The adjustment was made in the following manner. First, a preliminary estimate of shipping costs was obtained by multiplying the recorded trade data indicated in Part I of Table 7** by the appropriate figure representing shipping costs as a percentage of total value from Table 6.*** The resulting estimate of shipping costs was then adjusted by multiplying it by our index of the ratio of shipping rates to world prices for the appropriate year,**** indicated in Table 8.***** This resulted in estimates of total shipping costs for Soviet Bloc imports and exports for each year of the period under study. The total shipping costs thus obtained are indicated in Table 9.***** These total shipping costs were also used to calculate c.i.f. import values from the

* P. 22, above.

** Table 7 follows on p. 26, below.

*** The cost of shipping is, of course, a larger percentage of f.o.b. than of c.i.f. values. If shipping costs are 9 percent of c.i.f. values, for example, they are 10 percent of f.o.b. values. In making the adjustment indicated for Bloc exports, based on Free World c.i.f. values, the percentages indicated in Table 6 were used directly. For Bloc imports, which are based on Free World f.o.b. values, the procedure used was as follows: The percentages indicated in Table 6 were subtracted from 100 percent, and the reciprocals of these differences were multiplied by the f.o.b. values to give the total c.i.f. values. The differences between the f.o.b. and c.i.f. values represent shipping costs.

**** This adjustment was not applied to the shipping costs on trade between the Soviet Bloc and continental Western Europe. A large portion of this trade moved by rail. Rail freight rates are typically "sticky" prices, whereas seaborne shipping rates were quite volatile during this period. It was assumed that the movements in these two categories of shipping rates more or less offset each other and that as a result the adjustment was not required.

***** Table 8 follows on p. 28, below.

***** Table 9 follows on p. 29, below.

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recorded f.o.b. import values, and f.o.b. export values from the recorded c.i.f. export values. These data are shown in Part II of Table 7, and Table 7 thus shows Bloc imports and exports valued f.o.b. (the totals here are the same as those in Table 2*) and valued c.i.f. The differences in each case represent shipping costs.**

6. The total shipping charges on trade between the Soviet Bloc and the Free World (shown in Table 9) were, of course, paid for partly by the Bloc and partly by the Free World. In allocating these costs between the Soviet Bloc and the Free World, it was assumed that in trade with countries other than those of continental Western Europe, one-half of Soviet and of Polish trade with the Free World moved on Bloc vessels (only the USSR and Poland among Bloc countries have sizable merchant marines); that trade with the Free World of the European Satellites other than Poland all moved on Free World vessels; that Bloc vessels did not carry goods moving between Free World ports; and that Free World vessels did not carry goods moving in intra-Bloc trade. In allocating shipping charges on Bloc trade with continental Western Europe, it was assumed that 25 percent of this trade moved on Bloc facilities and 75 percent on Free World facilities.

7. These assumptions were based on incomplete information and are regarded as no more than reasonable approximations of the true variables involved. Each of the assumptions indicated taken by itself is not necessarily valid. For example, the assumption that Free World vessels were not used in intra-Soviet Bloc trade is not wholly correct. The countries of the Soviet Bloc charter some Free World vessels for use in intra-Bloc trade. The utilization of Bloc vessels by the Free World in non-Bloc trade is much less common. It is considered on the basis of all available information that the Soviet Bloc incurs a deficit on shipping account with the Free World. The assumptions indicated above used in allocating shipping costs as between the Bloc and the Free World reflect the apparent tendency of the Bloc to employ Free World shipping facilities in order to ease the strain on its own limited***

* P. 6, above.

** The difference between the c.i.f. and f.o.b. values for a given volume of exports or imports is made up of total shipping costs, including freight charges, port disbursements, and insurance charges. Insurance charges are typically a small part of total shipping costs. No explicit consideration was given to insurance costs in the IBRD study cited above or in this report. It is believed that the resulting error is a minor one.

*** Continued on p. 28.

Table 7

Soviet Bloc Imports and Exports by Regions
F.O.B. and C.I.F. Values a/*
1948-53

	Million US \$					
	1948	1949	1950	1951	1952	1953
I. Recorded trade values						
A. Bloc imports, f.o.b. (Free World ports)						
US and Canada	142	68	31	3	2	2
UK	120	131	87	112	143	75
Other sterling areas	181	186	152	203	111	129
Continental Western Europe	848	918	694	789	757	796
Latin America	93	64	63	42	21	32
Other Asian and African areas	96	78	54	90	102	67
Total	<u>1,480</u>	<u>1,445</u>	<u>1,081</u>	<u>1,239</u>	<u>1,136</u>	<u>1,102</u>
B. Bloc exports, c.i.f. (Free World ports)						
US and Canada	138	84	98	83	53	47
UK	210	149	177	266	235	207
Other sterling areas	79	97	68	101	52	45
Continental Western Europe	1,023	996	729	763	774	768
Latin America	37	44	50	58	28	25
Other Asian and African areas	93	92	87	108	93	92
Total	<u>1,580</u>	<u>1,462</u>	<u>1,209</u>	<u>1,379</u>	<u>1,235</u>	<u>1,184</u>

* Footnote for Table 7 follows on p. 27.

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Table 7

Soviet Bloc Imports and Exports by Regions
F.O.B. and C.I.F. Values a/
1948-53
(Continued)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
II. Calculated trade values						
A. Bloc imports, c.i.f. (Bloc ports)						
US and Canada	165	77	35	4	2	3
UK	134	144	96	127	157	82
Other sterling areas	217	216	177	247	129	148
Continental Western Europe	893	966	731	830	797	838
Latin America	110	74	72	51	25	36
Other Asian and African areas	113	90	62	108	117	77
Total	<u>1,632</u>	<u>1,567</u>	<u>1,173</u>	<u>1,367</u>	<u>1,227</u>	<u>1,184</u>
B. Bloc exports, f.o.b. (Bloc ports)						
US and Canada	118	74	87	70	47	42
UK	180	131	156	223	207	184
Other sterling areas	66	85	59	83	45	40
Continental Western Europe	921	896	656	687	697	691
Latin America	32	39	44	48	25	22
Other Asian and African areas	75	77	73	85	78	78
Total	<u>1,392</u>	<u>1,302</u>	<u>1,075</u>	<u>1,197</u>	<u>1,099</u>	<u>1,058</u>

a. Totals are rounded.

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transport facilities. It is believed that the errors involved in making the several assumptions indicated tend to be offsetting and that taken together on balance they provide an appropriate basis for the division of total shipping costs on Bloc trade with the Free World into Bloc payments on the one hand and receipts on the other.

Table 8

Shipping Rate and World Price Movements
1948-53 a/

	1949-50 = 100		
	(1)	(2)	(3)
	<u>Shipping Rate Index <u>b/</u></u>	<u>Index of Average of World Export and Import Prices</u>	<u>Index of Ratio of Shipping Rates to World Prices <u>c/</u></u>
1948	133	110	121
1949-50 <u>d/</u>	100	100	100
1951	159	118	135
1952	114	115	99
1953	94	102	92

a. International Monetary Fund, International Financial Statistics, various issues, 1950-54, Washington, D.C. U.

b. Average of shipping rates for Norwegian, Swedish, Danish, and UK tramp steamers.

c. Column 1 divided by column 2.

d. January-August (that is, pre-devaluation) period only for 1949.

8. In order to allocate total shipping costs on Soviet Bloc-Free World seaborne trade as between Bloc payments and Bloc receipts, it was necessary to compute the percentage that combined Soviet and Polish import and export trade with the major regions of the Free World other than continental Western Europe constituted of total Soviet Bloc import and export trade with those regions, in each of the years from 1948 through 1953. The resulting percentages are shown in Table 10.*

* Table 10 follows on p. 30.

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Table 9

Estimated Shipping Costs in the Trade of the Soviet Bloc with the Free World
1948-53

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Million US \$						
Cost of shipping Soviet Bloc exports to:						
US and Canada	19.5	10.1	11.8	12.8	6.3	5.2
UK	30.5	17.9	21.2	43.2	27.9	22.8
Other sterling areas	12.2	12.7	8.6	17.3	6.7	5.4
Continental Western Europe	102.3	99.6	72.8	76.3	77.4	76.8
Latin America	5.4	5.3	6.0	9.3	3.3	2.7
Other Asian and African areas	18.0	14.7	13.9	23.4	14.7	13.5
Total a/	<u>187.9</u>	<u>160.3</u>	<u>134.3</u>	<u>182.3</u>	<u>136.3</u>	<u>126.4</u>
Cost of shipping Soviet Bloc imports from:						
US and Canada	23.4	9.2	4.2	0.7	0.2	0.3
UK	14.4	13.0	8.6	15.0	14.0	6.8
Other sterling areas	35.7	30.3	24.8	44.6	17.9	19.3
Continental Western Europe	44.6	48.3	36.5	41.5	40.0	41.9
Latin America	16.8	9.6	9.4	8.5	3.1	4.4
Other Asian and African areas	17.4	11.7	8.1	18.1	15.1	9.3
Total a/	<u>152.3</u>	<u>122.1</u>	<u>91.6</u>	<u>128.4</u>	<u>90.3</u>	<u>82.0</u>

a. Totals are rounded.

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9. Soviet Bloc earnings on shipping account for each year of the period covered were obtained by multiplying one-half of the USSR's and Poland's combined percentage of Soviet Bloc exports to the Free World exclusive of those to continental Western Europe by the estimated total cost of shipping those exports and adding one-fourth of the cost of shipping Bloc exports to continental Western Europe. Bloc payments were obtained by multiplying the percentage of total imports from Free World areas exclusive of imports from continental Western Europe purchased by the Satellites other than Poland by the estimated total cost of shipping those imports, adding one-half of the USSR's and Poland's combined share of the total cost of shipping those imports, and adding three-fourths of the cost of shipping Bloc imports from continental Western Europe. The resulting data are shown in Table 11.*

10. It would be desirable, of course, to have an estimate of the Soviet Bloc shipping account obtained in a more direct manner than that explained above. The assumptions on which the shipping account was constructed are at best only partially valid and the results no more than approximations, but they are the best available at this time. It is hoped that more information on Bloc shipping earnings and payments will become available in the future and that a more accurate shipping account in the Soviet Bloc balance of payments with the Free World can be constructed at such time as a new report on this subject is prepared.

11. The items included under the Capital Movements and Transfers heading in Table 2,** are not complete, but all available information on this subject has been compiled and presented. Data on private remittances from the US were taken from US Department of Commerce balance of payments data. Data concerning Finnish reparations payments*** and payments for German claims and data concerning Polish repayments of the 1945 Swedish loan were obtained from the International Monetary Fund, Balance of Payments Yearbook 1947-53. Czech drawing on the International Monetary Fund was obtained from the International Monetary Fund, International Financial Statistics.****

* Table 11 follows on p. 32.

** P. 6, above.

*** The financial counterpart of reparations payments from Finland to the USSR, which have been added to the statistics of Finnish exports to the USSR, were used in arriving at total Free World exports to the USSR in this report (these reparations payments ceased at the end of 1952).

**** International Monetary Fund, International Financial Statistics, Washington, D.C., Sep 54, vol 7, p. 11.

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Table 11

Estimated Shipping Account in the Balance of Payments
of the Soviet Bloc with the Free World
1948-53

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
	Million US \$					
Soviet Bloc earnings on shipping account						
US and Canada	7.3	3.0	3.4	3.6	2.0	1.6
UK	10.6	6.3	9.0	18.4	12.4	9.6
Other sterling areas	1.9	2.9	1.2	2.5	0.7	0.7
Continental Western Europe	25.6	24.9	18.2	19.1	19.4	19.2
Latin America	0.4	0.2	0.3	0.7	0.4	0.3
Other Asian and African areas	5.3	2.7	3.1	5.2	4.6	2.7
Total a/	<u>51.1</u>	<u>40.0</u>	<u>35.2</u>	<u>49.5</u>	<u>39.5</u>	<u>34.1</u>
Soviet Bloc payments on shipping account						
US and Canada	16.0	7.0	3.4	0.6	0.2	0.2
UK	9.9	9.1	5.5	9.2	8.0	4.4
Other sterling areas	20.9	17.3	14.8	27.0	11.3	12.6
Continental Western Europe	33.4	36.2	27.4	31.1	30.0	31.4
Latin America	12.9	7.5	8.4	7.5	2.8	2.9
Other Asian and African areas	11.2	8.7	5.5	14.2	10.0	6.7
Total a/	<u>104.4</u>	<u>85.8</u>	<u>64.9</u>	<u>89.6</u>	<u>62.3</u>	<u>58.2</u>

a. Totals are rounded.

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Data on Swedish deliveries to the USSR under the 1946 loan agreement are presented in some detail in Table 12. Data on compensation payments for nationalized properties are presented in Table 13.*

Table 12

Swedish Deliveries to the USSR
under the Loan Agreement of 1946 a/
1948-54

	<u>Cumulative</u>		<u>Deliveries during the Year</u>	
	<u>to the Beginning of the Year</u>			
	<u>Million</u>		<u>Million</u>	
	<u>Swedish Crowns</u>	<u>Swedish Crowns</u>	<u>US Dollars</u> ^{b/}	
1948	43	56	15.6	
1949	99	53	13.1	
1950	152	77	14.9	
1951	229	150	29.0	
1952	379	171	33.0	
1953	550 <u>c/</u>	12	2.3	
1954	562			

a. International Monetary Fund, Balance of Payments Yearbook, 1947-53, Washington, D.C., Sep 1954, vol 5, U.

b. Converted at prevailing official exchange rates.

c. The Swedish government reported that the cumulative amount of credit which had been extended to the USSR at the end of 1952 was 555 million kroner. The reported deliveries above total 550 million kroner.

Presumably the difference of 5 million kroner is due to the lag between deliveries and charges against the credit account.

* Table 13 follows on p. 34.

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Table 13

Compensation Payments for Nationalized Properties
 Made by the Soviet Bloc to Western European Countries a/*
 1950-53

	Million US \$				
	<u>1950</u> <u>b</u> /	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1950-1953</u>
Switzerland					
Czechoslovakia	7.5	1.0	1.0	1.0	10.5
Hungary	2.3	0.6	0.6	0.6	4.1
Rumania		6.4	0.9	0.9	8.2
Total	<u>9.8</u>	<u>8.0</u>	<u>2.5</u>	<u>2.5</u>	<u>22.8</u>
France					
Czechoslovakia	0.5	0.6	0.5	0.5	2.1
Hungary			0.2		0.2
Poland		3.0	3.0	3.0	9.0
Total	<u>0.5</u>	<u>3.6</u>	<u>3.7</u>	<u>3.5</u>	<u>11.3</u>
UK					
Czechoslovakia	3.7	3.7	3.8	3.8	15.0
Sweden					
Hungary <u>c</u> /		0.5	0.5	0.5	1.5
Poland	1.8	3.6	2.6	2.6	10.6
Total	<u>1.8</u>	<u>4.1</u>	<u>3.1</u>	<u>3.1</u>	<u>12.1</u>
Totals <u>d</u> /	<u>15.8</u>	<u>19.4</u>	<u>13.1</u>	<u>12.9</u>	<u>61.2</u>

* Footnotes for Table 13 follow on p. 35.

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Table 13

Compensation Payments for Nationalized Properties
Made by the Soviet Bloc to Western European Countries a/
1950-53
(Continued)

- a. Commerce, Office of International Trade, European Division; State, IR-5976.2, East-West Trade and Trade Agreements, France, Poland, p. 15, 6 Sep 53, S. Payments included in the table are: (1) specific payments known or believed to have been made, and (2) equal periodic payments at the rate required to meet the total amount required by an agreement when such an agreement was known or believed to be operative.
- b. There were no known compensation payments before 1950.
- c. Includes payments for claims other than nationalized properties.
- d. Table excludes probable official compensation to the Netherlands, for which no information was available, and direct compensation to private firms.

12. Data on changes in gold and foreign exchange holdings were obtained from a number of sources. Changes in foreign-held US dollars balances were obtained from the Federal Reserve Board, Federal Reserve Bulletin. Only the USSR was covered for 1948-50. Thereafter Poland, Czechoslovakia, and Rumania were also covered. Changes in continental European balances are elaborated in Table 14.* The item "changes in other balances" includes an increase of \$17 million in 1948 in Rumania's indebtedness to Argentina, and a decrease of the same amount in 1950, when a reported gold shipment by Rumania to Argentina is believed to have repaid the 1948 debt. This shipment was included in the data on gold sales. Gold sales data, as estimated on the basis of intelligence reports, are presented in Table 15.** Changes in US currency holdings were based on Federal Reserve data.

13. There may be significant errors in the several estimates, which errors affect the errors and omissions residuals. The probable range of error appears to be largest in the case of the shipping account and gold sales estimates. The probable range of error in the gold sales***

- * Table 14 follows on p. 36.
** Table 15 follows on p. 40.
*** Continued on p. 40.

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Table 14

Selected Data on Known Changes in the Foreign Exchange Holdings
of the Soviet Bloc a/*
1948-53

	1948	1949	1950	1951	1952	1953
Net increase or decrease in Bloc indebtedness to b/:						
Western Europe						
Belgium (total indebtedness)	-34.4	17.4	-2.7	-5.2	4.4	1.2
Denmark (total indebtedness)	-11.1	-4.3	2.8	-1.0	10.3	11.7 c/
Norway (short-term commercial indebtedness)	-3.0	-5.0	-4.0	14.0	1.0	N.A.
Switzerland (total indebtedness)	2.3	4.0	0.2	-3.4	-3.0	N.A.
France c/	N.A.	N.A.	1.7	-0.8	0.2	1.4
West Germany c/	N.A.	N.A.	20.8	-6.4	1.9	-2.1
Finland c/	N.A.	N.A.	N.A.	12.2	19.6	-10.6
Italy c/	N.A.	N.A.	N.A.	8.3	-8.2	18.1
Austria c/	N.A.	N.A.	N.A.	N.A.	N.A.	-6.2
Sweden c/	N.A.	N.A.	N.A.	N.A.	N.A.	2.1
Turkey	N.A.	N.A.	N.A.	N.A.	N.A.	-3.4
Total Western Europe	-46.2	12.1	18.8	17.7	26.2	12.2
Other countries						
Argentina c/	17.0	N.A.	-17.0	N.A.	-9.6	N.A.
Egypt	N.A.	N.A.	N.A.	N.A.	N.A.	1.2
Total other countries	17.0	N.A.	-17.0	N.A.	-9.6	1.2
Total known changes	-29.2	12.1	1.8	17.7	16.6	13.3

* Footnotes for Table 14 follow on p. 37.

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Table 14

Selected Data on Known Changes in the Foreign Exchange Holdings
of the Soviet Bloc a/
1948-53
(Continued)

- a. Data on changes in the Soviet Bloc's sterling balances are not available. However, there is reason to believe that variations in these balances were of little importance over the period covered. The table does not show the net changes in short-term balances, but rather summarizes all available information on the subject.
- b. A negative sign indicates a decrease in Soviet Bloc indebtedness to Free World countries; no sign, an increase in indebtedness. From a balance of payments point of view, an increase in indebtedness is a source of foreign exchange.
- c. Clearing accounts only.

Sources:

- Belgium: Institut Belgo-Luxembourgeois da Change. This source gives the yearly change in indebtedness to Belgium of the principal Soviet Bloc countries.
- Denmark: Statistical Department, Statistiske Arborg. This source gives the yearly change in indebtedness to Denmark of the countries of Eastern Europe, which include Yugoslavia. Also State, Copenhagen, Dsp no 347, 7 Oct 52, C. Ibid., no 722, 14 Jan 54, C.
- Norway: Norwegian Central Bureau of Statistics, Statistiske Meldinger. This source gives changes in short-term commercial balances with selected Bloc countries (Czechoslovakia and the USSR in 1948-1949 and these two countries plus Poland in 1950-1951).
- Switzerland: Banque Nationale Suisse, Zurich, Bulletin Mensuel. This source gives the yearly change in indebtedness to Switzerland of all important Soviet Bloc countries.

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Table 14

Selected Data on Known Changes in the Foreign Exchange Holdings
of the Soviet Bloc a/
1948-53
(Continued)

<u>France:</u>	MSA monthly despatches giving balances on clearing agreements between France and Soviet Bloc countries, C.
<u>West Germany:</u>	Annual Report of Bank Deutsche Laender, 1952, and monthly reports during 1952-53. This source gives the changes in West Germany's clearing balance with Soviet Bloc countries during 1952. State, HICOG, Germany, Bonn, Dsp no WDR-22 gives this information for the years 1950 and 1951, U.
<u>Finland:</u>	International Monetary Fund, 1953 Consultations, Finland, C. Also, State, Helsinki, Dsp no 424, 7 Jan 54, S.
<u>Italy:</u>	State, Rome, Dsp no 1837, 22 Mar 54, U/OFF USE. <u>Ibid.</u> , Dsp no 2255, 19 May 54, U/OFF USE.
<u>Austria:</u>	State, Vienna, Dsp no 354, 3 Sep 53, C. <u>Ibid.</u> , no 293, 21 Aug 53, C. <u>Ibid.</u> , no 1058, 22 Jan 54, U.
<u>Sweden:</u>	State, Stockholm, Dsp no 197, 17 Aug 53, S. <u>Ibid.</u> , no 1135, 3 May 54, S.

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Table 14

Selected Data on Known Changes in the Foreign Exchange Holdings
of the Soviet Bloc a/
1948-53
(Continued)

Turkey:

State, Ankara, Dsp no 29, 13 Nov 52, C.
Ibid., no 284, 8 Dec 53, C.

Argentina:

State, Buenos Aires, Dsp no 673, 25 Nov 52, U.
Ibid., no 193, 28 Aug 53, C.
Ibid., no 588, 7 Nov 52, U.

EGYPT:

State, Cairo, Dsp no 1653, 17 Feb 53, C.
Ibid., no 1166, 12 Nov 53, U/OFF USE.

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Table 15

Soviet Bloc Sales of Gold to the West a/
1950-53

Million US \$				
<u>Year</u>		<u>Firm Data</u>	<u>Less Firm Data</u>	<u>Total</u>
1950	January-June	8.0	44.9	52.9
	July-December	18.4	25.5	43.9
	Total	<u>26.4</u>	<u>70.4</u>	<u>96.8</u>
1951	January-June	63.8	17.9	81.7
	July-December	15.7	2.6	18.3
	Total	<u>79.5</u>	<u>20.5</u>	<u>100.0</u>
1952	January-June	24.0	21.2	45.2
	July-December	22.4	18.0	40.4
	Total	<u>46.4</u>	<u>39.2</u>	<u>85.6</u>
1953	January-June	25.5	3.8	29.3
	July-December	81.7	36.5	118.2
	Total	<u>107.2</u>	<u>40.3</u>	<u>147.5</u>

a. CIA/ORR.

figures for 1952 and 1953 may be as high as \pm \$30 million per year and somewhat higher than this for 1949. Trade statistics in the nature of the case are not wholly reliable and are subject to some error. In addition to such errors in the estimates, omissions in payments data resulted because information on some variables was so limited that no estimates of these variables were attempted.

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For example, data on Soviet Bloc sterling balances, on clearing balances in some Western European and Latin American countries, on Swiss franc balances, on net payments for services other than shipping, and on foreign exchange earnings and payments by the Soviet enterprises in Austria were limited or nonexistent. Generally these items were small and in part at least offsetting. It is believed that on balance the errors and omissions are not so large as to affect significantly the results of this study.

14. Unrecorded trade should be distinguished carefully from illegal or clandestine trade. The difference may be clarified by the following illustrations:

a. A shipment of ball bearings loaded on a ship and ostensibly consigned to a Free World port is offloaded at a Soviet Bloc port because the ship receives new instructions while at sea. This shipment is illegal (clandestine) because it violates export controls. It is also unrecorded, since trade statistics do not show the bearings as destined for a Bloc country.

b. If the same transaction involved butter rather than ball bearings, the transaction would not be illegal, since butter is not on the export control lists. It would still be unrecorded, however, because it would not appear in the recorded statistics of Soviet Bloc-Free World trade.

c. Transactions may be unrecorded in Soviet Bloc-Free World trade in cases where say Country A reports exports to another Free World Country B, where Country B transships these commodities to the Bloc, and where Country A reports exports on the basis of immediate rather than of ultimate destination.

d. If owing to a failure of export control procedures, a shipment of ball bearings actually receives the necessary export licenses and leaves a Free World country with invoices indicating a Soviet Bloc destination, the transaction will appear (that is, is recorded) in Soviet Bloc-Free World trade statistics but will still be illegal or clandestine. A variation of this case would be one where goods on the control list are actually exported to the Bloc as a result of misleading or false invoices.

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APPENDIX B

METHODOLOGY INVOLVED IN ARRIVING AT COMMUNIST CHINA'S BALANCE
OF PAYMENTS

1. The data on recorded trade for 1948 used in determining China's balance of payments accounts are included in this report for purposes of comparison. They were taken from the International Monetary Fund, Balance of Payments Yearbook for 1948. The data for 1950 were taken from the State Department, A New Estimate of Communist China's Foreign Trade in 1950.^{*} These data were derived from Chinese Communist news sources. The data on recorded trade for the period 1951 through 1953 were obtained from the Department of Commerce.^{**} They were derived from Free World statistics of trade with Communist China and were adjusted for shipping time lags, double counting of Chinese exports through Hong Kong, and double counting of Chinese imports through Switzerland.

2. Communist China's exports to the Free World in the period 1951 through 1953 were converted to an f.o.b. basis by deducting the estimated costs of shipping to Free World ports from the trade data, after the adjustments indicated above had been made. No such conversion was necessary for the 1948 and 1950 data, since they were given on an f.o.b. basis. No conversion was required for the data on Communist China's imports for the period 1951 through 1953, since they were derived from Free World trade statistics and were already expressed on an f.o.b. Free World ports basis. Data on imports for 1948 and 1950 which were on a c.i.f. basis were converted to an f.o.b. basis in the manner explained below.

3. Costs of shipping Chinese exports have been estimated at 15 percent of c.i.f. values on shipments to Western European and Western Hemisphere ports and at 5 percent of c.i.f. values on shipments to other ports during 1952. Costs of shipping Chinese imports have been estimated at 10 percent of f.o.b. values on shipments from Western European and Western Hemisphere ports and at 5 percent of f.o.b.

^{*} State, IR-5677, 19 Nov 51, C.

^{**} See Appendix C.

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values on shipments from all other ports during 1952.* The relatively smaller shipping costs on Chinese imports from distant ports than on Chinese exports to distant ports are the result of the lesser importance of low-value bulk items in imports than in exports. In arriving at preliminary estimates of total shipping costs on Chinese trade with the Free World, the percentages indicated above for 1952 -- which seemed appropriate for the purposes of this report -- were applied to the statistics on trade between Communist China and the Free World for the years 1951 through 1953. The preliminary estimates for 1951 and 1953 were then adjusted to take into account differential changes in shipping rates and in unit values of trade, as compared with 1952.** This adjustment was made by multiplying the preliminary estimates by the index of the ratio of shipping rates to world prices given in Table 8*** shifted to a 1952 base (that is, with the value of the index for 1952 equal to 100), for the appropriate year.**** The estimated shipping costs on imports for 1948 were taken from the Balance of Payments Yearbook for 1948. The figure for these costs (in Table 16*****) includes a small element made up of charges other than shipping costs, which could not be separated out. Estimated shipping costs on imports for 1950 were calculated on the assumption that the over-all ratio of preliminary estimated shipping costs to the total f.o.b. value of imports in 1951 could appropriately be applied to the total f.o.b. value of imports in 1950. The resulting preliminary estimated shipping costs for 1950 so obtained were then adjusted in the manner described for the 1951 and

* These percentages of trade data in value terms have been used in a number of intelligence studies to arrive at estimated shipping costs and to adjust trade data from an f.o.b. to a c.i.f. basis, or vice versa. The import shipping adjustments involved were used, for example, in State, IR 6129, Chinese Communist Imports From Non-Communist Countries Rose in the Third Quarter of 1952, 22 Dec 52, S; and the import and export adjustments involved were used in arriving at the data in the tables on trade in NIS 39, China, Section 65, op. cit., p. 115-116.

** The same sort of adjustment was made in arriving at estimated total shipping costs on Soviet Bloc trade with the Free World. See Appendix A, par 5, p. 24, above.

*** P. 28, above.

**** An alternative method of estimating total shipping costs on trade between Communist China and the Free World, based on The Shipping Account in the World Balance of Payments, op. cit., gave almost exactly the same values as resulted from the method used.

***** Table 16 follows on p. 45.

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1953 preliminary shipping costs. The preliminary and adjusted estimates of total shipping costs on trade between Communist China and the Free World for the period covered are indicated in Table 16.

Table 16

Adjustments for Estimated Shipping Costs in Recorded Trade of Communist China with the Free World
1948, 1950-53

	Million US \$				
	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>
Exports, c.i.f. (Free World ports)			356	290	350
Estimated shipping costs, preliminary			-28	-20	-30
Estimated shipping costs, adjusted			-39	-20	-28
Exports, f.o.b. (Chinese ports)	248 a/	400	317	270	322
Imports, f.o.b. (Free World ports)	456 a/	393	420	237	263
Estimated shipping costs, preliminary			26	13	17
Estimated shipping costs, adjusted	36 b/	21	36	13	16
Imports, c.i.f. (Chinese ports)	492 a/	414	456	250	279

a. Total trade of China. Trade with the Soviet Bloc in 1948, however, was exceedingly small. In effect, therefore, these figures represent trade with the Free World. The import figure includes \$212 million (f.o.b. Free World ports) in official grant aid.

b. Includes some services other than shipping.

4. Communist China's exports for the years 1951 through 1953 -- as originally derived on a c.i.f. Free World ports basis -- and imports -- as originally derived on an f.o.b. Free World ports basis -- are indicated in Table 16. By subtracting the estimated shipping costs described in the paragraph above from the export data on a c.i.f. basis,

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the indicated export values f.o.b. Chinese ports were obtained; and by adding the estimated shipping costs to the import data on an f.o.b. basis, the indicated import values c.i.f. were obtained. The data indicated for 1948 and 1950 were obtained as explained above. Export and import values f.o.b., shipping account balances, and the balances of trade and shipping for the years 1948 and 1950 through 1953 and cumulated for 1950 through 1953 are shown in Table 3.*

5. Shipping costs were high on both exports and imports in 1951, amounting to about \$40 million on exports and \$35 million on imports, because of the large volume of trade and the inflated post-Korea shipping rates of that year. During 1951-53, shipping costs fell by about 50 percent on exports and 60 percent on imports because of a decline in the volume of trade, an even greater decline in shipping rates, and a large reduction in (long-distance) trade with the US. Imports direct from the US in this period were completely cut off as a result of US trade controls.

6. The allocation of total shipping costs on trade between Communist China and the Free World was made on the basis of the following considerations. China has no oceangoing merchant marine of consequence and therefore no earnings on shipping in trade with the Free World. China's exports to the Free World are typically sold on an f.o.b. Chinese ports basis, with the Free World importers paying shipping costs. China's imports from the Free World are carried primarily on Free World vessels. As a consequence, it was considered that Communist China in the period under consideration had no receipts from the Free World on shipping accounts and that her payments to the Free World shipping services were equal to the costs of transporting her imports from Free World to Chinese ports.

7. The estimates of Chinese Communist net balances on shipping account (equals payments on shipping of imports) indicated in Table 3 were arrived at without giving explicit consideration to the following factors:

a. A number of Free World vessels were engaged in Chinese coastal trade during the period of this study. No allowance was made for Free World earnings on the charter of these vessels.

* P. 12, above.

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b. During part of the period covered, some Free World vessels were employed in carrying Chinese imports from the Soviet Bloc. Chinese payments for the services of these vessels were not included in the calculations of payments to the Free World.

c. Some Chinese small craft are used in trade between South China and Hong Kong, but they are few in number in relation to the Hong Kong craft engaged in this trade. The earnings of these Chinese small craft are minor and are not taken account of in this report.*

8. Payments for the services of Free World vessels engaged in trade between China and the rest of the Soviet Bloc are of some consequence and represent a more significant omission than that of earnings of small craft in the South China-Hong Kong trade. Many of the Free World vessels used in trade between China and the rest of the Bloc are under charter, and some volume of Chinese imports from the Soviet Bloc moves under space contracts on Free World ships.

9. The employment of Free World vessels in Chinese Communist coastal trade is also of some consequence. Detailed analyses of tonnages in China trade carried on Free World vessels were made in various intelligence studies, but no estimate has been made of the monetary payments by the Bloc for these services. The absence of such an estimate represents a gap in our current knowledge. It is thought that as a result of the several factors indicated, payments by China to the Free World for shipping services may be understated by perhaps as much as \$10 million per year. However, in view of the fact that the amounts involved are not very large, and in view of the serious problems involved in attempting precise estimates, no allowance for these items was attempted in these calculations.

10. No specific estimates of shipping charges on unrecorded imports were made. Most unrecorded imports into Communist China involved transshipments from Western Europe via Gdynia. Charges on shipments moving

* There is some evidence that in 1952 Soviet ships carried rubber from Ceylon and cotton from Pakistan to Communist China. The costs of the shipping services involved should really be subtracted from the Chinese deficit on shipping account, as calculated, since they did not involve payments to the Free World. However, in view of the fact that the amount involved is uncertain and in any case quite small (probably less than \$1 million), no account is taken of it in our calculations.

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on Bloc vessels are, of course, not relevant to this report. Available information does not permit an estimate of shipping charges on unrecorded imports which may have moved on Free World vessels. Such shipping charges are, however, considered to have been small, relative to total payments.

11. Unrecorded imports into Communist China became significant in 1951, when they totaled \$86 million. They remained at this level in 1952 and 1953, when they amounted to \$70 million and \$93 million, respectively. The total of unrecorded imports for the period 1951 through 1953 is thus estimated at approximately \$250 million. These estimates of unrecorded trade were not arrived at as residuals after all other calculations had been made, as was done in calculating the balance of payments of the Soviet Bloc with the Free World. In arriving at balance of payments account for Communist China, the estimates of the magnitude of unrecorded trade were taken from Section 65 on "Trade and Finance" of National Intelligence Survey 39 on China.

12. Information on remittances from overseas Chinese is extremely sparse and estimates of their magnitude vary widely. The given estimates of slightly more than \$100 million in 1951 and somewhat less than \$50 million per year in 1952 and 1953 represent the best judgment available as to their magnitude.

13. Remittances during the late 1930's may have exceeded \$200 million per year, of which about \$40 million were private remittances from the US. World War II cut off most remittances, and remittance channels appear to have been disorganized until 1948. Estimates for 1948 seem to indicate a total of about \$80 million to \$120 million, of which perhaps a third were institutional remittances.

14. The Chinese Communist regime has made very strong attempts to increase remittances by means of propaganda, improvements in financial channels, and, in some cases, blackmail. Political and economic conditions in mainland China have, however, led to a virtual cessation of institutional remittances and probably have inhibited overseas Chinese from sending more than subsistence money to their families in China. The reluctance of overseas Chinese to send money to Communist China appears to have been growing during 1952 and 1953. Western controls do not appear to have been an important deterrent except in the case of the US and possibly the Philippines and Formosa.

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15. The only official statistics on remittances to Communist China are from Malaya and Thailand. Remittances through official channels in Malaya are given as \$12 million in 1951 and as \$9 million in 1952, and from Thailand as \$4.5 million in 1951 and about \$1 million in 1952. These figures, however, certainly understate actual remittances, as the local Chinese often use small remittance brokers in preference to banks. For example, the US Embassy in Bangkok estimated remittances from Thailand at \$12 million in 1951 and \$10 million in 1952.*

16. Of the 8 million to 10 million Chinese living in Southeast Asia, 60 to 70 percent are in Malaya and Thailand. Remittances from other Southeast Asian countries are generally illegal, and there are no quantitative estimates of them. However, Chinese residents of Indonesia, Indochina, Burma, the Philippines, and Taiwan must have remitted at least several million dollars a year.

17. The 2 million Chinese in Hong Kong are a recent (largely post-World War II) and probably large source of remittances. There are many estimates of remittances from Hong Kong ranging from \$20 million to \$180 million a year. These, however, include remittances from Southeast Asia which are channeled through Hong Kong.

18. There are no remittances from the US to Communist China through official channels. Part of the \$4 million to \$6 million of US remittances to Hong Kong may find their way to Communist China. US currency may also be sent by mail, or in other covert ways.

19. Total remittances to Communist China of about \$100 million in 1951 would imply an average remittance of slightly less than \$10 per overseas Chinese, or of \$40, if 1 out of 4 overseas Chinese is a remitter. It is estimated that total remittances of \$100 million in 1951 might be broken down as follows: Malaya, \$30 million; Thailand, \$10 million; other Southeast Asia, \$20 million; Hong Kong (direct), \$30 million; US and other, \$10 million. There is no estimate for remittances by geographical area for 1952 and 1953.

* State, Bangkok, Dsp 144, 19 Aug 52, C.

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APPENDIX C

NOTE ON SOVIET BLOC AND COMMUNIST CHINA TRADE DATA

1. The Bloc trade data on which this report is based are unadjusted data representing the combined trade in value terms of the Free World with the countries of the Soviet Bloc and Communist China, compiled by the Department of Commerce from official published and unpublished reports of the Free World countries engaged in trade with the Bloc. These Commerce compilations include statistics for all countries whose exports to or imports from the Bloc amounted to \$1 million or more in any year between 1947 and 1953. Values originally expressed in foreign currency units were converted to US dollar equivalents on the basis of rates published by the International Monetary Fund (generally prevailing official exchange rates). Where these were not available, rates based on information from the countries involved were used. Hong Kong data, converted by Commerce to US dollar equivalents on the basis of rates published by the International Monetary Fund, were recalculated on the basis of prevailing free market rates.

2. Data from the Department of Commerce compilations were added to arrive at totals of reported Free World trade with the Bloc countries, individually and as a group. Inconsistencies in the trade statistics as reported by the various countries result from the following factors:

a. In the official trade statistics of most of the countries included in the compilations, exports are valued f.o.b. frontier or port of shipment of exporting country. Exceptions are Canada and the Union of South Africa, which report f.o.b. inland point of shipment, and the US and the Anglo-Egyptian Sudan (through 1952), which report on a free alongside ship (f.a.s.*) basis.

b. Most of the countries included in the compilations value imports on a c.i.f. basis in their trade statistics except the following which value imports f.o.b. country of export: Australia, Canada, Cuba, Northern Rhodesia, the Philippines, Southern Rhodesia, South West Africa,

* F.a.s. basis data have been treated as f.o.b. data. The differences resulting from this treatment are minor.

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the Union of South Africa, Venezuela, and the US. New Zealand reported on approximately a c.i.f. basis in 1948-51 and thereafter on the basis of current domestic values of goods in the exporting countries.

c. General trade figures (exports including re-exports and general imports) are used, where available. However, about half of the countries included report on a special trade basis (domestic exports and imports for consumption). Transshipment and transit trade are excluded from all data, except that Hong Kong statistics include goods moving in transit through that country.

d. The reporting practices of Free World countries vary as to the inclusion of gold, silver, and currency. The trade data have not been adjusted to exclude any gold or silver which countries may have included in the value of their trade with the Soviet Bloc. Up until 1953, only very small amounts of such items could be identified. In 1953 the value of these items increased but was still small in relation to total Free World trade with the Soviet Bloc.

e. The value of trade with the Soviet Zone of Germany is greater by an unknown amount than that indicated in the Department of Commerce compilations because trade with the Soviet Zone has not continuously been reported separately from that with Western Germany during the 1948-53 period. However, all major countries trading with the Soviet Bloc were reporting trade with the Soviet Zone separately by 1953. The unreported trade with the Soviet Zone may have been substantial during the 1948-50 period but probably had become relatively small by 1953.

f. China data, as far as possible, refer to mainland China, including Manchuria, Inner Mongolia, and Tibet. There are a substantial number of exceptions to this rule, the major one being the inclusion of Taiwan (Formosa) in the definition of "China" by a number of European countries. The other important exception is that Switzerland defines "China" to include mainland China, Hong Kong, Taiwan, and Macao. It is known that a large part of Switzerland's exports to "China" are re-exported from Hong Kong to other Southeast Asian countries.

g. There is an unknown amount of double counting in the totals shown for Free World trade with Communist China because of trade moving through Hong Kong, which may be counted both by the original country of origin or destination and by Hong Kong. This duplication is believed to be much greater for Free World imports than for Free World exports.

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h. The total values shown for Bloc trade are also understated by the amount of transactions omitted because of difficulties in recording or compilation. Smuggling is always omitted; and postal shipments, trade between contiguous areas, and the like are frequently omitted in the official sources.

3. The net effect of these inconsistencies on the over-all values shown for trade between the Free World and the Bloc countries is thought to be quite minor, with three exceptions -- the double counting of trade through Hong Kong; the valuation of US, Canadian, and certain sterling area country imports on an f.o.b. rather than a c.i.f. basis; and the incomplete reporting of trade with the Soviet Zone of Germany in earlier years. Adjustments were made in this report for the inter-zonal portion of trade with the Soviet Zone of Germany in the earlier years* and for the first two factors indicated.

* The limited information available warranted no further adjustment on this account.

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