PUBLIC AS OF JANUARY 1, 2009

L.5.2.
CONFIDENTIAL

RFD. 123

Board of Governors of the Federal Reserve System
Division of Research and Statistics
International Sections

REVIEW OF FOREIGN DEVELOPMENTS

October 11, 1949

Country Notes on Recent Currency Adjustments. . . . . .19 pages

Introduction 1

OEEC Countries (Austria, Benelux countries, Denmark, France, Western Germany, Greece, Italy, Norway, Portugal, Sweden, Switzerland, Turkey) 2

Eastern Europe (General, Finland). 10

Middle East and Africa (Egypt, Ethiopia, Iran, Iraq, Israel, Syria and Lebanon, South Africa) 10

Far East (India and Pakistan, Japan, Thailand) . . . 13

Canada 15

Latin America (General, Argentina, Uruguay). 16

U. S. Imports and Exports in the First Half of 1949 . . 9 pages
By Gretchen Fowler

This review is intended primarily for internal circulation and should in no case be cited or quoted. It consists of personal and informal contributions by the authors, which in many cases represent tentative analyses of the subject considered.

CONFIDENTIAL

October 11, 1949

COUNTRY NOTES ON RECENT CURRENCY ADJUSTMENTS

Introduction

The following notes attempt to give brief preliminary accounts of the principal technical changes and economic issues that have resulted, in various countries, from the widespread recent currency adjustments. While coverage is necessarily incomplete, several countries whose failure to devalue seemed likely to raise significant problems, have been included in the survey. The United Kingdom, on the other hand, has been omitted because it appeared impossible to do justice to its post-devaluation problems within the framework of this article.

In general, an effort has been made to develop the specific questions raised in the individual countries by the exchange rate changes. As early as three weeks after sterling devaluation the variety of national experiences is striking. Possibly the best illustration of the constructive and destructive potentialities of the current monetary moves is given by the opposition between their beneficial effects in speeding up the achievement of the Benelux Union and, on the other hand, the serious economic rift that has developed between India and Pakistan, as a consequence of Pakistan's refusal to devalue.

Another lesson that can already be learned is the failure of the national economies to conform to any one preconceived pattern of reactions. Thus, while devaluation was generally advocated as a means of freeing economies from controls and of eliminating or diminishing discrimination against the dollar, we find that Sweden is contemplating a series of new controls and subsidies in order to minimize the effect of devaluation upon its cost of living index while South Africa has followed up devaluation of its currency by sharply increased discrimination against dollar goods.

Taking a broad view of the policies adopted by most countries during and immediately after the exchange rate adjustments it appears that two considerations have been and are uppermost in most governments' minds: First, the prevention of inflationary developments as a result of devaluation; second, the preservation of the competitive position of exports. The former consideration which for a long time had been the main obstacle to devaluation, was finally overcome by the latter, but it still is powerful; it dominated post-devaluation preoccupations in many devaluing countries and induced several not to devalue or to devalue less than sterling. In addition, the substantial size of sterling devaluation led several countries to seek the best of both worlds through an intermediate devaluation which would improve their competitive position in dollar markets and at the same time make for cheaper sterling area imports.

Many countries were glad to seize the opportunity offered by sterling devaluation to take a step which they had recognized as overdue but had been reluctant to take in isolation; others that wished to continue the importation of capital, showed some concern about a drastic devaluation curing their particular dollar shortage at the expense of economic development.

With the probable exception of Pakistan, it is difficult at this writing to point to a case in which the decision taken by an individual country was either a mistake for that country itself or a damaging blow to others; it is gratifying to find that months of discussion in and outside the Fund had produced at least a climate of opinion in which approximately right decisions were taken, or proposed to the Fund, by the national governments. On the other hand, it is somewhat ironical to point out that the only case of a national government being prevented from doing exactly what it wanted to do, is not that of a Fund member, but that of Germany - apparently nothing less than defeat in a major war will lead to a clear cut curtailment of monetary sovereignty. (Hirschman)

OEEC Countries

Austria

The Austrian Government has so far refused to change the country's official exchange rate of 10 cents per schilling or its actual exchange practices.[1] The reason officially given for this attitude was the imminence of general elections, pending which the Government had to act merely as a caretaker administration without inaugurating new policies and no legislative changes could be enacted.

Representatives of the Government who attended the meeting of the Bank and Fund in September agreed, however, to revise the present system immediately after the election which took place on October 9. The Austrian currency is scheduled to be devalued officially by about 30 per cent. Since this devaluation will be insufficient, the actual rates for most imports and exports will be determined by a "private clearing" system under National Bank supervision, whereby exporters will sell to licensed importers all or part of their export proceeds at fluctuating rates. Only imports of essential foodstuffs, mainly financed by ECA allocations, will be permitted to come in at the new official rate, in order to minimize the effect of the devaluation upon the cost of living.

There is still some difference of opinion as to the details of the new system. The Austrians wish to retain a system of multiple rates for exports and for imports (other than of essential foodstuffs). This would be done by varying the fraction of export proceeds which exporters would be permitted to sell to importers at the "market" rate as against the fraction which they would be compelled to deliver to the National Bank at the official rate, and by a similar device for the acquisition of import "devisen". Such a solution obviously would retain many disadvantages of the present system.

In any case, the devaluation probably will make necessary a change in the recently-concluded wage-price agreement in order to prevent real income of workers from being again reduced. Moreover, it will create some difficulties for the clearing arrangements between Austria and the Eastern European countries, some of which are based upon fixed prices of import and export goods. On the other hand, it may restore the control of the National Bank over foreign exchange receipts and thereby alleviate Austria's foreign exchange problems. (Furth)

[1] See this Review, September 13, 1949.

Benelux countries

Following the devaluation of sterling, the Belgian and Luxembourg francs were reduced in value by 12.3 per cent and the Dutch guilder was devalued by 30.2 per cent. 1/ The resulting 20 per cent depreciation of the guilder against the currencies of Belgium and Luxembourg is expected to hasten achievement of the Benelux Economic Union.

The three countries have just announced that import controls will be lifted on items covering a substantial amount of their mutual trade. Since Belgium has applied few restrictions to imports from the Netherlands (except to some agricultural products) it is mainly the latter which has now reduced controls. It is apparently anticipated that the higher guilder cost of Belgian exports will prevent these measures of decontrol from increasing Dutch purchases, while the lower franc cost of Dutch exports will help to increase sales in Belgium-Luxembourg.

Full economic union is scheduled to be established by July 1, 1950. If now the Dutch deficit with Belgium-Luxembourg can be reduced to a size which can be financed by Belgian credits and, perhaps, by Dutch earnings of non-dollar currencies, a major obstacle to achievement of the Union will have been removed. While the Benelux Union will continue to have a dollar problem, the three countries together will probably be better able to attack that problem than each of them individually. (Solomon)

Denmark

Denmark followed sterling devaluation and reduced the dollar-krona rate from Kr. 4.81 to Kr. 6.92. As is the case in other Scandinavian countries, speculation concerning domestic programs dominates policy discussions. Like its neighbors, Denmark has an automatic cost of living provision in collective bargaining contracts. At this writing, however, there has been no agreement between labor and Government on the precise policy to be followed. The Government has limited itself to a statement of assurance that it would "scrutinize all tendencies towards price increases."

Labor interests are pressing for a re-introduction of wartime price control, but the Government is thus far reluctant to make such a move. To date the only positive action taken has been a decree of the Commerce Minister prohibiting price increases on any goods bought before devaluation. This measure was no doubt prompted by the large current volume of inventories.

As a result of devaluation, it is likely that Denmark will experience difficulty in maintaining export prices of agriculture products for the United Kingdom market. The production of these commodities involves a raw material input in the form of coarse grains and feeding stuffs imported from the dollar area, whose cost increases in proportion to the increase in their price in terms of Danish kroner. This increased outlay for imported raw materials means a tendency for the prices of butter, bacon, and eggs to increase. The export of these commodities to the United Kingdom, however, is currently conducted in

1/ The reason for choosing 30.2 rather than 30.5 per cent as the devaluation ratio is probably to be found in the desire of the Dutch authorities to define the guilder in terms of an integral number (132) of guilders per ounce of gold.

accordance with long term agreements negotiated earlier this year, the terms of which provide for both the quantities to be taken and the prices. The latter may be renegotiated periodically, but provision is made that the extent of adjustment may not exceed 7 1/2 per cent either way. The recent currency adjustments will make it difficult for Denmark to maintain these export commitments without loss. (Gekker)

France

The fall of the Queuille government shortly after devaluation serves as a reminder that, in spite of the passing of the international sellers' market, devaluation can still be seriously upsetting for the economic and political stability of individual countries. Devaluation came at a singularly inopportune moment in France. For the first time since the success of the stabilization policies adopted toward the end of 1948, retail prices had started to rise in August and September after having fallen over 11 per cent from December 1948 to July 1949. This renewed price rise, amounting to 4 per cent between July and September, is largely attributed to the summer drought. In addition, sentiment for wage increases has been increasing among the labor unions which had been promised more drastic price reductions than had actually taken place. In this politically loaded situation, devaluation led to an immediate sharpening of pre-existing conflicts because of the anticipation of further price increases that was immediately aroused in a country with a 30-year experience of inflation and devaluation.

Technically, France took the occasion of the exchange adjustment to unify its system of exchange rates. Previous to the devaluation financial and "invisible" transactions in certain "hard" currencies (U.S. dollar, Belgian and Swiss francs and Portuguese escudo) were effected at the "free market" exchange rate (330 francs per dollar just before devaluation) and commercial transactions in all currencies were at the equivalent of the average of the "free market" rate and the official rate (214 francs per dollar). Now all transactions in all currencies will occur at the equivalent of the "free market" rate for the dollar, which at present is 350 francs per dollar. Thus, as concerns commercial transactions with the "hard" currency countries and <u>all</u> tranactions with other countries the franc has depreciated from 272 to 350 francs per dollar or by 22.2 per cent. For purposes of financial and "invisible" transactions with the hard currency countries, the depreciation of the franc amounted to only 5.7 per cent.

Exporters now sell the entire proceeds of their exports to the United States, Switzerland, Belgium and Portugal on the "free market" whereas previously they sold half the proceeds on the "free market" and half to the exchange authorities at the official rate. The proceeds of exports to other areas are sold to the exchange authorities at a rate based on the "free market" dollar rate and the official exchange rate of the particular currency in terms of dollars. The same procedure holds for imports.

The French exchange rate remains a flexible rate in the sense that the authorities can permit it to fluctuate at any time by altering the volume of exchange permits granted in relation to the supply of dollars on the "free market", or by direct purchases or sales on the "free market." Since the rate is flexible, France still does not have an official par value approved by the International Monetary Fund. (Solomon)

Western Germany

The German mark has been devalued by approximately 20.6 per cent, from 30 cents to 23.8095 cents. The new exchange rate -- which for unknown reasons is still called a "conversion factor" in Allied statements -- is identical with the rate that prevailed before 1914 and again between 1923 and 1933.

In connection with the approvaly of the devaluation, the Allied High Commission has ordered the German authorities to discontinue all existing discriminatory practices in international trade by the end of the year. This order affects primarily the present differential between the export price (averaging 50 marks) and the domestic price (averaging 30 - 40 marks) of Ruhr coal. In the meantime, any adjustment of the coal price to the new exchange rate must not increase the existing differential. In other words, if the Germans wish to raise the export price of the Ruhr coal in marks to keep the dollar price unchanged, they must raise the domestic price by not less than the same amount.

Originally, the Germans wanted to devalue their currency by 30 per cent since they believed that the old rate represented a serious overvaluation of the mark. The British and especially the French felt, however, that the competitive position of Western German industry was too strong, mainly in view of the low price of coal and the low level of wages, to permit a devaluation by the full amount. In fact, Western German exports have progressed quite satisfactorily even under the old rate. A large part of German exports is going to countries like France, Italy and Belgium which have devalued by similar or smaller percentages, and the German price system still is flexible enough to permit any change needed to counterbalance the 10 per cent differential created by the devaluation of sterling in favor of British competitors. Moreover, Western German imports have been at a relatively low level for a great part of the year and some of Germany's largest suppliers fear that excessive devaluation would completely stop the importation of all but the most "essential" goods.

In view of the size of food imports into Western Germany, devaluation will deeply affect the cost of living unless the Germans reestablish the system of subsidies, which they had to abolish a few months ago. In order to minimize such an effect and at the same time to avoid the disruption of the German budget by subsidies, it may be necessary to permit the use of counterpart funds for keeping down the domestic price of essential foodstuffs imported by means of ECA and GARIOA allocations.

The price of coal has posed another problem, in view of the required equalization of export and domestic quotations. A rise in the domestic coal price to the full amount corresponding to the present dollar export price would have meant an increase by 50 - 100 per cent and would have deeply affected the domestic price level and the cost of living as well as the competitive position of Western Germany's heavy industry and thereby its exports of finished goods. For the time being, it has been decided to leave present mark prices unchanged, both for export and domestic use; this means a reduction of the dollar price of coal exports by 20 per cent. German coal will now be far less expensive than British and Polish coal, and this development may force a general decline in the dollar price of coal. It may also call for a downward adjustment of the drawing rights granted by Western Germany to its European trading partners, and in that case would not mean a drain of Germany's resources. (Furth)

Greece

Following the announcement of the devaluation of the pound sterling, the Greek Government, after agreement with the Greek Currency Commission, the ECA Mission, and the International Monetary Fund, announced new parities for the drachma of 15,000 to the dollar and 42,000 to the pound sterling. The new rates, effective September 22, correspond closely to the rates which for some time have prevailed in the free market. They constitute a depreciation of the so-called effective (i.e., official plus certificate) rate by 33 1/3 per cent against the dollar and by 23.8 per cent against the pound sterling. The disparity which hitherto prevailed in the cross rates has been eliminated. The system of foreign-exchange certificates by which the exchange rates have been controlled since October 1947 will be continued for the time being, with a corresponding adjustment in the price of sterling certificates.

The Government believes that the devaluation will improve the prospects of exports, particularly to dollar markets. However, it is apparently not expected that export prices will reflect in all cases the extent of the currency change, and the possibility of taking steps to capture windfall profits is being debated. As regards the effect on local prices, the Government will subsidize the importation of essential foodstuffs, fuel, and certain raw materials to such an extent as to maintain domestic prices unchanged. It will also endeavor to avert a price rise in domestically produced essential commodities by "removing every pretext for higher wages and salaries".

Since the presence or absence of inflationary pressure in the country has been largely a matter of confidence in the regime, it is of some consequence that the reception accorded the devaluation by financial circles has been favorable. Sales of gold by the Bank of Greece which were at first substantial have declined more recently and gold and dollars have reportedly been resold to the Bank of Greece. The open market rate for dollars in the first week after the devaluation remained steady at just above the newly-established rate. A restriction credit policy is having some effect on speculative operations in general. (Maroney)

Italy

In Italy the cross-rate problem has emerged again, but with the opposite sign. Up to October 1948, sterling was quoted in the Italian "free" market at a discount vis-a-vis the dollar. Now, however, the problem arises because various groups in Italy characterize the present rate as too low; they want the pound to be quoted at a premium above 2.80 times the dollar/lira rate.

In 1948, after considerable pressure on the part of Great Britain, it was decided that sterling quotations on the free market would be discontinued and that the lira-sterling rate would be calculated by multiplying the current rate for the dollar by the official dollar-pound rate of 4.03. At the rate of 575 lire per dollar this resulted in a sterling rate of 2317 lire for the pound-sterling up to the recent devaluation. After the devaluation of sterling, Italy

let the dollar rate depreciate to about 634 lire per dollar. With the new pound-dollar rate this results in approximately 1775 lire per pound-sterling, i.e. in a 23.4 per cent depreciation of sterling in terms of the Italian lira. This depreciation may be injurious to exporters of fruits and vegetables who rely heavily on the British market and to various lines of Italian industries (such as textiles) that compete with British industries in sterling area and other markets. There will, therefore, doubtless be pressures by a number of interests in favor of a further depreciation of the lira vis-a-vis the pound.

At the same time, however, a similar depreciation vis-a-vis the dollar appears undesirable because of the well-known difficulties experienced by Italy in absorbing the full amount of ECA aid without concurrent accumulation of reserves. Further appreciation of the dollar would, for instance, interpose new obstacles to the current efforts of Italian industry to modernize itself through imports of American equipment.

An obvious possible solution of this dilemma would be for the monetary authorities to leave the value of the dollar unchanged while inducing a rise in the value of the pound after free market quotations for the pound are resumed. This would put the pound at a premium vis-a-vis the dollar in the Italian market and could induce commodity arbitrage operations (exports of Italian goods to the dollar area via the U.K. or imports of dollar area goods destined for the U.K. via Italy) that would result in dollar losses for Italy. It is, therefore, unlikely that the British would have reason to object to an Italian move of this kind on either prestige or material grounds. These considerations, however, should make the Italians hesitate this time to move toward the reintroduction of a disorderly pound-dollar cross-rate. Moreover, a temporary overvaluation of the lira vis-a-vis the pound would not necessarily be an evil for the Italian economy as a whole in view of Italy's considerable accumulation of sterling balances during the past year.

Technically, the Italian exchange rate system has not been changed except that the official dollar rate will be determined from now on by the closing free market quotation of the preceding working day, rather than, as heretofore, by the average quotation of the preceding month. According to the existing monetary law, fluctuations in the free market are permissible only within the range from 350 to 650 lire per dollar. In the absence of new legislation, there is therefore a narrow limit to any further downward movement of the lira vis-a-vis the dollar. (Hirschman)

Norway

As in Sweden, a major concern in Norway is over the possible repercussions of the recent devaluation on the cost of living index. Present wage agreements provide that contracts may be newly negotiated if the cost of living index reaches 165.6 on February 15, 1950. At present there is a leeway of 5.9 index points, or 3.5 per cent, before the limit is reached.

A preliminary study of the effects of exchange rate changes on the index has just been made by the Norwegian government. The study is based on the assumptions (a) that there will be no changes in prices of goods in countries

exporting to Norway and (b) that no shifts in sources of supply planned in the latest revised import program will be made. The calculations show an increase in the index of 7.9 points, which will be exceeded in practice since the above price assumption is clearly unrealistic. As in Sweden, the government may resort to subsidies to counteract the effect of devaluation on the cost of living. (Gekker)

Portugal

In spite of the considerable decline in its gold and dollar holdings Portugal has decided to devalue by only 13.1 per cent vis-a-vis the dollar, thus appreciating its currency by 25 per cent vis-a-vis the pound. One reason for the relatively moderate degree of devaluation may have been the accumulation of sterling resulting from a favorable balance of payments with the sterling area. In spite of a heavy trade deficit with the United Kingdom, Portugal has been a net earner of sterling, largely as a result of non-commercial transactions between Portuguese colonies and South Africa: a large sterling drain results from remittances of colonial labor employed in South African gold mines and from port and railway services rendered in the colonies to the United Kingdom and South Africa.

Portugal's reluctance to devalue as much as sterling may also be due to the desire not to increase unduly the local currency cost of the development program which Portugal hopes to finance through dollar loans. (Hinrichs)

Sweden

Discussion following devaluation of the Swedish krona by 30.5 per cent centers around the adoption of appropriate domestic policies to safeguard the cost of living from an increase due to the rise in import costs. The Government and the Trade Unions Federation have tentatively agreed on continuance of the present wage stabilization program. For its part, the Government has promised measures to hold won living costs by cutting consumption taxes and import duties and perhaps by increased subsidies. According to a current Swedish estimate, the expense of keeping the cost level unchanged should not exceed Kr. 150 million, to be covered by reductions in the ordinary budget surplus for fiscal 1949/1950, now estimated at Kr. 700 million. An increase in the cost of some imports is considered inevitable, but the Swedish Government is optimistic regarding its ability to hold down aggregate living costs. The situation is somewhat precarious inasmuch as at present a 2 per cent increase in the cost of living index would entitle some 200,000 state employees to an additional 8 per cent of base pay. Such an increase, might in turn cause 1,5000,000 wage earners to reject a wage freeze and thus endanger the stabilization program.

Another current problem concerns the effect of devaluation upon prospect for a revival of pulp and paper exports to the United States. Inasmuch as export interests had been pressing for a readjustment of the currency, the recent decision to maintain dollar prices for pulp unchanged may seem inconsistent with the previously expressed desire for a more favorable krona-dollar rate of exchange. The decision to keep dollar prices for pulp at their pre-devaluation level means a gain of 44 per cent per unit of export, in terms of Swedish kronor. The

increased returns in local currency serve to re-establish cost-profit ratios, earlier adversely affected through successive price reductions enforced by overwhelming American and Canadian competition. On the other hand, the decision taken may be a trade tactic, in view of the fact that the market for pulp has lately been rising. Under these conditions, Swedish exporters may not care to initiate price reductions, but may prefer to await possible price moves by American and Canadian suppliers. (Gekker)

Switzerland

Switzerland is the only country in Western Europe that has not devalued its currency. However, the Swiss National Bank decided shortly after sterling devaluation to buy all dollars at the official rate, thus putting an end to the "finance dollar" market in which the dollar was quoted at a discount of approximately 7 per cent below the official rate of 4.315 francs for $1. Previously, holders of dollar assets wishing to convert them into francs had to resort to this market since the National Bank was not willing to convert them at the official rate for fear of inflationary developments within Switzerland. The new move, therefore, is equivalent to a 7 per cent devaluation of the Swiss franc for capital transactions with the dollar area.

It is clear that the Swiss authorities will be concerned in the immediate future not with an excessive inflow of funds from abroad, but with speculation against their ability to hold the franc at its present parity. Within limits, an outflow of funds will be welcome to the Swiss authorities which recently resorted to a policy of sterilizing gold through special issues of government securities in order to counteract the excessive liquidity of the money market.

Technically the Swiss franc is impregnable since Switzerland's gold and dollar reserves stand at an all-time high of over $2 billions. Nevertheless, the ultimate fate of the Swiss currency will depend on Switzerland's ability to maintain the positions of its vital export and tourist trades. (Hirschman)

Turkey

Turkey has decided not to change the par value of the lira. However, the country will probably be subjected to devaluation pressure because of the importance of exports to countries with devalued currencies. The Turkish press has pointed out that approximately 35 per cent of exports are sold against payment in sterling and that the United Kingdom is the biggest customer for nuts, raisins, dried figs, mohair, oil seeds, and other important goods. Now that the external purchasing power of the pound has been lowered, the selling prices of these exports will have to be adjusted. On the other hand, almost 50 per cent of imports come from sterling sources and the sterling devaluation may bring about a reduction in the price of these goods and therefore of the price and cost level in general. The inconclusive results of the devaluation of the Turkish currency in 1946 by 36 per cent in the effective rate may be a reason for the present cautious attitude. (Maroney)

Eastern Europe 1/

General

The USSR and the other Communist-dominated countries of Eastern Europe have not revised the official rates of exchange for their currencies with relation to the dollar. As a rule, these rates seriously overvalue the respective currencies, but state monopolies of foreign trade enable these countries to disregard the profitability of individual transactions and to resort to subsidies when necessary. Although readjustment to more realistic rates would have made sense from the point of view of rational planning of foreign trade, they can no doubt continue to carry on in the same manner as heretofore, spurning official devaluation for reasons of political prestige and for propaganda value. It may be added that the devaluation of Western European currencies may bring about some shift in the terms of trade in favor of Eastern Europe. (Grossman)

Finland

Finland, which had already devalued the markka by 15 per cent in July because of its unfavorable competitive position with respect to its principal exports, has devalued again by 30.5 per cent -- a total devaluation of 41 per cent since mid-year. The second action came as no surprise, as the bulk of Finnish trade is with Western Europe, especially with the United Kingdom, and as its chief competitors, the Scandinavian countries, did, or were expected to, align their currencies with the new value of the pound sterling. However, all dollar clearing arrangements with Eastern European countries (except Czechoslovaki and Argentina are being maintained at the old dollar rate. These arrangements cover trade agreements of a barter nature, with prices probably expressed in dollar terms for purposes of reciprocal clearing. The reason for this exception would seem to be to forestall windfall profits on exports to these countries, and to prevent a rise in the markka price of imports from these countries. There would be no marked interest in stimulating exports to these destinations by making them more profitable in markka terms, for no convertible currency is to be earned from such exports, and the quantities are rigidly fixed by the barter agreements. (Grossman)

Middle East and Africa

Egypt

Egypt has devalued by the same proportion as the pound sterling - i.e., 30.5 per cent - to $2.87 from $4.13. The preponderance of sterling in the nation's foreign exchange assets, and the dependence of the economy on cotton exports to the United Kingdom, made such action inevitable. Piaster quotations for various cotton grades have risen after devaluation by from 6 to 13 per cent.

Very little information is available on the local reaction except with regard to gold prices which, immediately after the change, rose 13 per cent,

1/ For a fuller treatment see this Review, September 27, 1949.

from 4.5 E £ to 5.1 E £ per sovereign. It is interesting to note that this is far less than would correspond to the ratio of depreciation; in terms of the official dollar rate the price of the gold sovereign thus dropped in the Cairo market by about 22 per cent. It may be surmised that the spread between the official and black market rates for the dollar has similarly narrowed. (Maroney)

Ethiopia

Ethiopia has decided not to change the par value of the Ethiopian dollar at this time. This decision has evoked surprise in view of sizeable sterling balances and the importance of the sterling area in the country's trade. Following announcement of sterling devaluation exchange control was instituted providing for the surrender of 100 per cent of all soft currency and of 25 per cent of U. S., Canadian, Belgian and Swiss currency proceeds. After December 23, the latter ratio will also be raised to 100 per cent. (Maroney)

Iran

Iran has decided to change neither the official par value nor the effective dollar rate of the rial. The main source of Iran's foreign exchange receipts, i.e. oil royalties, is payable in sterling but is computed at the London gold price. Similarly the sterling exchange sold to the Bank Melli by the Anglo-Iranian Oil Company to cover expenditures in Iran, will be increased by about 44 per cent. In addition, sterling balances deriving from oil production and export are guaranteed against sterling depreciation. On balance, these gains will far exceed the rise in the country's sterling expenditures for imports and there was therefore little reason to follow sterling devaluation. However, the position of the minor exports, e.g. rugs, is prejudiced by the maintenance of the exchange at the present figure.

Some observers feel that the restoration of Britain's competitive position through sterling devaluation may result in that country's taking part in Iran's seven-year development plan, which involves various projects now being planned with American technical aid. (Maroney)

Iraq

Traditional currency and trade ties to sterling made Iraq follow the United Kingdom's action. Recent economic difficulties may have contributed to the decision. The impasse in petroleum exports to Haifa has shut off a large part of the normal revenue from oil, and export markets for agricultural produce have been weakening.

Oil royalties, although payable in sterling, are computed at the price of gold in London. Oil exports, which normally account for 50 per cent of total exports, will therefore yield far higher returns in sterling. On the other hand, the general price level is expected to rise as the result of the increase in import prices. In the sensitive Baghdad market, local prices of processed goods had risen by 10 to 15 per cent within a few days after devaluation. (Maroney)

Israel

Israel has devalued its currency to the new rate adopted for sterling. The change affects mainly exports because imports and financial transactions with non-sterling-area countries, have been made at the rates of three dollars to the Israeli pound since the new state was established. The devaluation thus reduced the latter rates by only 6.7 per cent. With an important part of exports directed to the sterling area, and with national foreign exchange assets consisting chiefly of sterling, the country had no alternative but to go along with the United Kingdom's action. (Maroney)

Syria and Lebanon

Syria and Lebanon have decided to maintain the parities of their currencies. The two countries are doing a large transit and arbitrage trade in gold and transit dues from petroleum pipelines are computed in gold; these factors reduce the vulnerability of the two economies to sterling devaluation. Nevertheless, certain weaknesses may be expected to develop. Agricultural exports have to compete with nearby devaluing countries, particularly Palestine, and quotations for wool have already declined, because of the change in sterling. The tourist trade may also be affected if the local rates remain unchanged.

The note issue of the two countries is backed largely by balances of French francs, guaranteed both ways against a change in the franc-sterling, rather than in the franc-dollar ratio. Since sterling was devalued more than the French franc the guarantee will mean a payment to France by Syria and Lebanon whose note coverage will therefore be somewhat reduced. (Maroney)

South Africa

The rise in the local price of gold resulting from the 30.5 per cent devaluation of the South African pound will stimulate the expansion of gold production and will thereby improve the country's balance of payments position. In spite of this fact and of the sharp increase in dollar prices resulting from devaluation a new control scheme for raw material imports, announced on September was sharply discriminatory against hard currency areas. Under the scheme "universal" import licenses (which can be used anywhere, including hard currency areas) will be issued to the value of 50 per cent of the current allocation of hard currency imports while "restricted" or soft currency import licenses will be issued to the full value of the current allocation. This action may be a bargaining move of South Africa's in its efforts to obtain a resumption of capital inflow. (Katz)

Far East

India and Pakistan

The division of the Indian subcontinent was accentuated after sterling devaluation when Pakistan decided not to devalue its rupee, while the Indian rupee was devalued in step with the pound sterling. The decision will have sharp political effects. It will heighten the tension between the two dominions and it will place the Indian Government in a difficult position vis-a-vis domestic critics of India's devaluation.

So far as economic considerations are concerned, Pakistan's decision was based on the fact that its balance of payments was favorable during 1948-49, particularly in the earlier part of this period. In view of the 30 per cent drop in raw jute prices in the harvesting months of July-September, this favorable balance may prove to have been temporary. Pakistan had an export surplus with hard currency areas. Its deficit with soft currency areas other than India was offset, more or less, by an excess of jute and other exports to India over imports from India, and by a net movement of capital from India to Pakistan. (One factor in the capital flow has been Pakistan's obstruction of property sales by refugees leaving Pakistan for India.) Other considerations influencing Pakistan's decision presumably included the desire to avoid inflationary repercussions and the aim of reducing the fiscal burden, in local currency terms, of government debt payments due to India and of service on the development loans that Pakistan hopes to obtain in the future.

The prevailing opinion in India is that Pakistan's action was politically motivated and was intended to raise Pakistan's international prestige. Strong resentment is felt because of the price-raising effects in India. The Reserve Bank of India has announced that it will not quote a rate for the Pakistan rupee. In each country the other is charged with violating their agreement to consult before making a change in the India-Pakistan parity.

Apprehensions exist that each dominion will place new obstacles in the way of trade with the other, both by a suspension of open general licenses for imports from the other and -- in the case of India -- by making use of new powers to control exports of coal and steel. Moreover, jute mills in India, wishing to utilize the Indian devaluation to regain a larger place for burlap in world markets, will undoubtedly delay their purchases from Pakistan, in the effort to force down the Indian rupee cost of raw jute.

It seems probable that, in the absence of official quotations, free or black markets for the exchange of Indian and Pakistan rupee funds will develop in which the Pakistan rupee will probably be valued below parity. Since prices of goods moving across the border and capital values such as the price of land will hardly adjust immediately to the new ratio established between the two currencies, considerable arbitrage and speculation can be expected to develop. (Hersey)

Japan

No change has been made in the yen-dollar rate. Before the present uniform rate of 360 yen to the dollar was established in April 1949, cotton textiles had been priced for export sale at the least depreciated of any of the numerous conversion factors then used. Since cotton textile exporting has been highly profitable at the 360 rate, Japan should have no difficulty in meeting competition in sterling area markets, despite the appreciation of the yen against sterling currencies.

Large increases in Japanese exports -- chiefly to Asian markets -- of machinery and metal products, chemicals and other industrial products, have been regarded as essential for a future balancing of Japan's international accounts. The prospects for early and rapid growth of such exports have not been bright and have probably been affected adversely by sterling devaluation. On the other hand, internal stabilization will probably be easier at the existing yen parity. (Hersey)

Thailand

The government of Thailand on September 27 announced a new official exchange rate of 12.50 baht to $1, a devaluation of 20 per cent. This results in a 14 per cent appreciation vis-a-vis sterling; the new sterling rate is 35 baht to the pound, as compared to 40 baht before the British and Thai devaluations.

An interesting indication of the extent to which sterling devaluation from $4.03 to $2.80 has wiped out old disparities between official and free cross-rates in the Far East is given by the behavior of the sterling-dollar cross-rate in the Bangkok free market -- closely linked to the Hongkong and Singapore markets -- which has only fallen from $3.00 to $2.65. Free market rates -- recently 21.50 baht to the dollar and 57 baht to the pound, as compared with 21 and 63 before the sterling devaluation -- continue to apply to all Thailand commercial imports, minor exports, and private financial transactions.

The official rate affects three major export products -- 100 per cent of rice, 50 per cent of tin, and 20 per cent of rubber export proceeds must be surrendered at the official rate. For imports, the official rate applies only to petroleum and government requirements. Thailand's action thus appears calculated to preserve stability in the domestic prices of its chief exports.

The combined result of the 20.6 per cent official depreciation and of the recent slight depreciation against the dollar in the free market is an effective depreciation (against the dollar) of about 9 per cent for tin exports and about 4 1/2 per cent for rubber. This gives some support to local prices for these commodities in the face of weakening world markets.

Rice exports, which are the mainstay of Thailand's favorable balance of payments, are sold chiefly for sterling currencies. Although the supply and

demand situation in the Far East is beginning to improve, rice exporting countries have obtained very high prices. Thailand has countered the potentially inflationary effects of its large exports at high world prices by using an official exchange rate which, if applied to other commodities generally, would greatly overvalue the baht. In addition, there is a special tax on exported rice. Thailand can hardly hope to maintain its present dollar export price for rice. The government does expect, however, to get a somewhat higher price in terms of sterling and the 14 per cent appreciation against sterling is being used to justify such a raising of the export price. If this increase in sterling proceeds is obtained, the surtax and the domestic price of export rice will both be kept practically unchanged. (Hersey)

Canada

The 9.1 per cent devaluation of the Canadian dollar was designed primarily to reduce demand for American imports. After considerable improvement in 1948 with a resulting $496 million increase in reserves the worsening in Canada's current balance with the United States led to a reduction in reserves from U.S. $1,067 million at the end of March to U.S. $977 million on June 30 and a further decline is expected to be revealed by the end of September figure.

The appreciation of the Canadian dollar against the sterling area and most European currencies should improve their trade balance with Canada, the outlook for heavier purchases from the U.K. being particularly favorable. The problem of a trade surplus with Europe which cannot be applied to meet the payments deficit with the U.S. will nevertheless persist as Canada's fundamental balance of payments difficulty. The recent permission given to the United Kingdom to use ECA dollars for the purchase of Canadian wheat is therefore of decisive help to Canada as well as to the United Kingdom.

Subsidies to the gold-mining industry will be reduced by the full amount of the increase of the Canadian dollar price of gold resulting from devaluation in 1950 and the Canadian Government has announced its intention to eliminate these payments by 1951. (Katz)

Latin America

General

The Latin American countries, with the exception of Argentina and Uruguay, have not so far readjusted their exchange rates following the widespread devaluation of other currencies. Countries the bulk of whose trade is carried on with the United States (primarily those in the Caribbean region) are little affected by the devaluation; they may possibly enjoy some reduction in prices of imported manufactures. Many Latin American countries apparently feel that the dollar prices of their export commodities will not generally suffer substantial declines. If this view is correct, a devaluation applying to all foreign transactions would probably be unnecessary since it would merely serve to increase the already high profits of the export trade.

In some countries - Argentina is the primary example - domestic inflation reached a point where it was becoming increasingly difficult to secure a level of exports to the dollar area sufficient to maintain indispensable imports from that area. Even prior to the general devaluation of currencies, several of the Latin American countries, including Mexico, Chile, and Colombia, had taken action to provide incentives to greater exports either by general devaluation or by the granting of more favorable rates to specific export commodities. The persistence of inflationary pressures has, however, made most Latin American countries avoid any general devaluation so long as dollar receipts are fairly well maintained and import controls and penalty exchange rates are sufficiently effective in preventing severe balance-of-payments deficits.

In some respects the devaluation of other currencies may promote better balance in the international accounts of the Latin American republics, particularly those having a basically strong trade position relative to the soft currency area and a weak trade position relative to the dollar area. An appreciation of the Latin American currencies in terms of soft currencies will in itself tend to shift some Latin American imports of manufactured goods from the dollar area to the soft currency area, and to shift some Latin American exports from the soft currency area to the dollar area. This desired shift - which so far was sought mainly by direct controls in many countries - will occur as a result of the European devaluations whether or not the Latin American currencies are devalued. The feasibility of shifting exports may be severely limited, however; furthermore, where export commodities are competing on a substantial scale with exports of countries that have devalued, adjustment of specific buying rates may be necessary to maintain the flow of exports.

Conflicting considerations relating to the appropriateness of devaluation are present in the case of several countries, Brazil being perhaps the best illustration. Brazilian exports of such products, as cotton, cocoa, sugar and rice, are in competition with exports from countries which have devalued, and may already be hampered by rising costs of production in Brazil. Brazil has not brought its domestic inflation under control and has had considerable difficulty in limiting imports through direct controls. On the other hand, the

major Brazilian export, coffee, is currently enjoying an excellent market free of competition from areas which have devalued. Brazil, furthermore, tends to have a generally favorable trade balance with those countries which have devalued and an unfavorable balance with those countries which have not devalued.

(Alter)

Argentina

Argentina generally readjusted its exchange rates following the widespread devaluation of other currencies. After suspending all exchange operations for two weeks, Argentina announced on October 1 a whole series of adjustments in its multiple exchange rate system which, with some important exceptions, maintain the prior sterling-peso relationship and represent at least a 30.5 per cent devaluation of the peso in terms of dollars. Although full information is not yet available, it would appear that some commodity exports would not only reap the benefits of devaluation but would also gain from shifts to more favorable rate classifications. On the other hand, the following table shows that some important basic export commodities and certain essential imports will be transacted at the pre-existing dollar-peso rate. In the free market for non-trade transactions, the value of the peso depreciated by 23 per cent in terms of sterling and by 46 per cent in terms of the dollar.

One of the most notable characteristics of the new exchange rate system is the fact that, while generally serving to promote exports and to discourage imports (particularly to and from those areas which have not devalued), it provides for the maintenance of the old dollar-peso rate and an appreciation of the peso in terms of sterling for certain types of trade transactions. The special character of these transactions should be noted. Most basic agricultural export commodities which have not been given a more favorable dollar rate are commodities which are purchased in Argentina by IAPI, the State trading corporation, and then sold, often under the terms of trade agreements, principally to those countries which have already devalued. The new, less favorable, exchange rates applicable to receipts from these exports to areas which devalued need not discourage the exportation of such commodities since the State determines the peso price at which such commodities shall be purchased from producers and negotiates with foreign buyers the export price. Likewise, the competitive position of exports of these commodities to areas which have not devalued can be maintained by an administrative reduction in the price. It would appear, therefore, that the new sterling-peso rate for basic export commodities will serve primarily as an occasion for an Argentine request to the British that the sterling price of meat under the Anglo-Argentine Trade Agreement be re-negotiated. The establishment of a more favorable sterling-peso rate for the purchase of certain essential imports (such as fuels) from the sterling area will encourage the importation of some important commodities included in the Anglo-Argentine Trade Agreement.

The Argentine authorities have also announced that they plan to reestablish an auction market in which exchange will be sold for the imports of certain commodities, presumably luxury goods. In recent years the auction market, although in existence on paper, was inactive.

Exchange Rates	Prior to Oct. 1; Pesos per:		After Oct 1; Pesos per:		Percentage change in peso in terms of: */	
	Dollar	Sterling	Dollar	Sterling	Dollar	Sterling
Buying						
Special	5.000	20.15	7.1964	20.15	- 30.5	no change
Preferential "B"	3.9801	16.04	5.7286	16.04	- 30.5	no change
Preferential "A"			4.8321	13.53	- 17.6	+ 18.6
Basic	3.3582	13.53	3.3582	9.40	no change	+ 43.9
Free	4.7975	19.32	9.000	25.20	- 46.7	- 23.4
Selling						
Preferential "A"	3.7313	15.04	3.7313	10.45	no change	+ 43.9
Preferential "B"			5.3714	15.04	- 30.5	no change
Basic	4.2289	17.04	6.0857	17.04	- 30.5	no change
Auction	4.9350	19.89	to be determined		to be determined	
Free	4.8025	19.35	9.020	25.26	- 46.7	- 23.4

*/ Minus sign (-) signifies depreciation of the peso; plus sign (+), appreciation. Shifts of commodities from one assigned rate to another further affect percentage changes.

Partial list of items to be transacted at new rate:

Buying Rates

(1) Special: leather, salted meats, ground bones, fresh fruits, tripe, gelatin, stearin, tungoil, tungsten, and mica.
(2) Preferential "B": combed wool, cheese, butter, casein, powdered milk, quebracho extract, pork, eggs, pulses, sharkliver oil.
(3) Preferential "A": wool, hides, vegetable oil, oilcakes, tallow, meat extract, some prepared meats.
(4) Basic: beef, mutton, wheat, corn, barley, rye, oilseeds.
(5) Free: receipts from all non-trade transactions.

Selling Rates

(1) Preferential "A": coal, coke, petroleum and by-products.
(2) Preferential "B": probably raw materials, articles of popular consumption.
(3) Basic: articles the import of which is considered less essential.
(4) Auction: when established will probably be for permissible luxury goods.
(5) Free: remittances for all non-trade transactions.

It is difficult to determine what effect the devaluation of the free market rate, which is applicable to non-trade transactions, will have on the importation of new foreign capital. The increase in peso return per unit of foreign currency may provide the incentive for such an inflow, although the exchange losses and restrictions suffered by foreign companies now operating in Argentina on their remittances abroad, may operate in the opposite direction. (Alter, Gillis)

Uruguay

Uruguay, following the Argentine announcement of a change in exchange rates, introduced a series of changes in its own multiple exchange rate system. The new system involves no change in the pre-existing dollar-peso rate for basic exports (meat, wool, linseed, and wheat). With respect to other exports, rates more favorable to exporters have been established. These new rates, depending upon the commodity to which they apply, represent a devaluation of the peso in terms of the dollar from 4.5 to 27.7 per cent. On the import side, the pre-existing dollar rate applies to about 80 per cent of the commodities imported while a new penalty rate, devaluing the peso by about 30 per cent in terms of the dollar, will apply to the remaining non-essential imports. An official free market for non-trade transactions is being retained.

The new exchange rate system eliminates some of the rates formerly in effect on exports, but generally increases the spread between the lowest and highest rates applicable both to exports and imports. Retention of the basic export rate apparently reflects Uruguay's expectations that sterling prices for the four commodities covered by that rate will be adjusted upward under bilateral agreements. In contrast to Argentina, Uruguay did not provide a more favorable rate for raw wool exports, which have in recent years accounted for nearly 40 per cent of Uruguay's total exports. Although Uruguay has not suffered from domestic inflation to the same extent as Argentina, it is by no means clear that the present rate for wool can be maintained. The favorable new export rate of 2.35 pesos per dollar, which applies to wool and leather manufactures and other minor goods, reflects the intention of the Uruguayan Government to maintain and encourage industries based on native materials. It is apparently in this area where the Uruguayan authorities feared an adverse effect following the Argentine and European devaluations. The new penalty rate applied to non-essential imports will help to limit the import demand which is also kept in check by various direct restrictions. (Alter, Gillis)

CONFIDENTIAL October 11, 1949

U. S. IMPORTS AND EXPORTS IN THE FIRST HALF OF 1949 Gretchen H. Fowler

United States foreign trade in the second quarter of 1949 reflected a continuation of the trends noted in the first quarter: - (1) continued expansion of exports, marking increases for each succeeding quarter over the low level reached in the third quarter of 1948, and (2) a sharp decline in imports, bringing the second quarter 1949 total below both the first quarter total and the total for the second quarter of 1948. Trade totals for the second quarter of 1949 show exports at the highest level since the fourth quarter of 1947, and imports at their lowest level since the fourth quarter of 1947.

The expansion in exports was caused by the impact of increased E.C.A. spending, aided by foreign liquidation of gold and dollar reserves. The reduction in imports is disappointing, and is due, in part, to the continued decline in United States business activity during the second quarter, accompanied by domestic price decreases. Measured by the Federal Reserve Board's index (seasonally adjusted), industrial production in the United States fell by 3.1 per cent in the first quarter 1949, compared with the fourth quarter 1948. In the second quarter 1949, industrial production fell by 7.4 per cent from the preceding quarter. This decline in business activity contributed to the levelling off of imports in the first half of the year and will probably affect imports well into the third quarter. Another factor in the import decline was the anticipation of devaluation of the British pound. Renewed interest in sterling purchases since devaluation shows that buyers anticipated this move, and deferred purchases until the announcement was made.

United States exports in the first half of 1949 were $6,618 million, rising one per cent above exports for January-June 1948, but recording a 17 per cent decline from the very high level of $7,955 million reached in the first six months of 1947. United States imports, on the other hand, declined to $3,391 million in the first six months of 1949, or to four per cent below the January-June 1948 level of $3,520 million, but remained 19 per cent above imports during the first half of 1947 of $2,861 million. Therefore, the export surplus for January-June 1949 increased to $3,227 million, six per cent above the excess for the same period in 1948 of $3,031 million, but 37 per cent below the very high level of $5,094 million reached in the first six months of 1947. The decline in imports clearly affected exports in July and August when exports were sharply cut.

Despite the very small rise in the value of exports in 1949 over 1948, the volume, as measured by the Department of Commerce index, rose by seven per cent, whereas unit value declined six per cent. On the other hand, the volume of imports declined by three per cent during the first half of 1949 from the corresponding period of 1948, while unit values declined by only one per cent. Unit values, which were on a plateau during almost all of 1948 and the first quarter of 1949, declined abruptly in the second quarter of 1949. In July the unit value index (1923-25=100) was 123, a decline of eight per cent from the high

of 133 recorded in January and February 1949. This decline in import prices thus approached the 10 per cent decline in export prices from their peak, which was reached in the third quarter of 1948. This trend to more favorable terms of trade for the United States may be accelerated by the effects of the recent devaluations.

Trade by Area

United States exports rose to all areas except South America and Africa in the first six months of 1949, compared with the like period in 1948. Tightened import controls caused the declines for South America and Africa. The Union of South Africa late in 1948 instituted stringent restrictions against imports from the dollar areas. Larger shipments to Asia reflect rises in exports to Japan, Indonesia, India, and Pakistan, more than offsetting the sizeable decline in exports to China and British Malaya. Canada purchased $112 million more American goods in 1949 than in 1948 (import restrictions were gradually relaxed this year), offsetting decreases in trade with the other North American countries. Of the ERP countries, the United Kingdom, Italy, and Denmark have received substantially more American goods in 1949 than in 1948, but exports to France, Greece, and Sweden declined. Poland and the U.S.S.R. recorded further declines in 1949.

Imports from North America, mainly Canada and Cuba, increased, but this is the only area for which this is true. Asia shipped only a little less, with increases for Indonesia, Kuwait, and Japan being offset by decreases for British Malaya, the Philippines, Afghanistan, India, and Pakistan. The declines in imports from Europe were due mainly to smaller shipments from the United Kingdom, Sweden, and the U.S.S.R. South American exports to the United States declined, due to the drop in shipments from Argentina, and, to a lesser extent, from Uruguay and Brazil. (See Tables VI and VII at the end of this article for detailed country changes in U. S. trade.)

The following table shows the degree of change in United States trade between the first six months of 1949 and the like period in 1948 for continents and special trading areas. This shows that sterling area imports from the United States increased seven per cent, a sizeable change in view of various limits set on this trade by empire agreements to cut trade with the dollar area, whereas this area exported 14 per cent less to the United States, thereby increasing their trade deficit vis-a-vis the United States by 62 per cent.

Table I

United States Exports and Imports, by Areas
January-June, 1948 and 1949

Area	Exports			Imports		
	1948	1949	Per cent change	1948	1949	Per cent change
	(In millions of dollars)			(In millions of dollars)		
E.R.P. countries (including Turkey	2,200	2,289	+4	468	443	-5
Other Europe	117	87	-26	94	64	-31
Europe (excluding Turkey)	2,265	2,336	+3	537	473	-12
North America	1,687	1,725	+2	1,220	1,289	+6
South America	1,047	885	-15	796	713	-10
Asia	1,074	1,202	+12	672	666	-1
Australia	75	104	+37	82	73	-11
Africa	405	350	-14	206	176	-15
Total	6,552	6,600	+1	3,512	3,390	-4
Sterling Area	997	1,066	+7	727	626	-14

E.R.P. Countries

Table II shows the considerable drop in the share held by imports from the 17 E.R.P. nations in total U. S. imports during the second quarter of 1949. The progress noted in the first quarter of the year for many of the countries was wiped out, carrying all but the Netherlands, Turkey, Germany, and Greece below the levels attained in 1948, and some, notably the United Kingdom, Sweden, Iceland, Denmark, Ireland, and Portugal, below the very low levels of 1947.

Table II

United States: Imports from 17 E.R.P. Countries, Quarterly
(In millions of dollars)

	Quarterly Average				First Quarter 1949	Second Quarter 1949
	1938	1946	1947	1948		
Imports from 17 E.R.P. countries	120	170	174	242	250	190
Total U.S. imports	490	1,227	1,433	1,774	1,789	1,601
Per cent	24.5	13.8	12.2	13.7	14.0	11.9
By country:						
United Kingdom	30	39	51	73	68	44
Belgium and Luxembourg	10	19	15	23	37	19
France	14	16	12	18	18	13
Italy	10	17	11	24	20	14
Netherlands	8	6	7	11	12	15
Sweden	11	12	23	23	12	11
Switzerland	6	25	21	26	24	21
Turkey	5	17	14	13	14	20
8 other countries	27	19	21	31	44	32

Trade by Commodity

Commodity exports in the first half of 1949 show an increase in largely ECA-financed shipments of raw cotton, corn, and wheat. Foreign purchases of crude materials and crude foodstuffs caused these two groups to rise from 19 per cent of total United States exports in the first half of 1948 to 27 per cent in the like period of 1949. Manufactured foodstuffs and finished manufactures, on the other hand, were 61 per cent of total exports in 1949, compared with 69 per cent for the first six months of 1948. 1949 shipments of wheat flour, merchant vessels, cotton manufactures, electrical machinery, trucks, and passenger cars were well below the 1948 levels, which themselves had already been cut back sharply from 1947.

There was little change in the relative importance of categories of imports in 1949, except for the continued decline in the crude materials group. Crude materials imports showed sharp declines in 1949 compared with 1948, chiefly

in wool, oilseeds, hides and skins, and furs. This resulted from declining demand in the United States, induced partly by business conditions and partly by continued high import prices. At the same time, there occurred substantial increases in nonferrous ores and crude petroleum receipts. The semimanufactures category showed a decrease compared with 1948, due mainly to declines in wood pulp and sawed boards. (See Tables IV and V at the end of this article for detailed changes in commodity composition of U. S. trade in 1949 as compared with 1948 and 1947.)

The following table gives the relative importance of the five commodity classifications in total U. S. trade for 1947, 1948, and 1949.

Table III

United States: Distribution of Exports and Imports
by Economic Classes
January-June, 1947 to 1949
(In per cent)

Economic Class	Exports			Imports		
	1947	1948	1949	1947	1948	1949
Crude materials	11	10	16	33	31	29
Crude foodstuffs	8	9	11	18	18	19
Manufactured foodstuffs	12	11	8	11	10	11
Semimanufactures	11	12	12	21	23	22
Finished manufactures	58	58	53	17	18	19
Total	100	100	100	100	100	100

Table IV

United States Exports of Selected Commodities
January through June
(In millions of dollars)

Class and Commodity	1949		Increase or decrease (-) as compared with: 1948		1947	
1. Crude Materials	1,015.4		358.7		154.2	
Cotton, unmanufactured		523.6		303.3		217.4
Tobacco, unmanufactured		92.5		11.6		-53.4
Coal		192.4		-25.5		-66.5
2. Crude Foodstuffs	744.5		176.7		90.9	
Wheat		472.0		59.5		235.0
Vegetables, fresh and dried		31.0		-17.3		-38.7
Corn		112.9		102.7		-98.3
3. Semimanufactures	771.1		15.7		-97.4	
Iron and steel semimanufactures		203.5		31.7		-13.0
4. Manufactured Foodstuffs	517.2		-193.1		-427.4	
Fruits, dried and evaporated		14.0		-27.0		-16.4
Dried eggs		3.2		-23.2		-35.2
Meat products		24.6		-3.1		-73.2
Wheat flour		108.5		-148.3		-252.7
5. Finished Manufactures	3,486.1		-313.1		-1039.8	
Agricultural machinery and implements		238.3		41.7		87.5
Industrial machinery		708.4		24.3		39.7
Steel mill manufactures		215.6		35.2		31.0
Motor fuel and gasoline		90.1		29.2		22.0
Iron and steel advanced manufactures		102.7		-11.6		-29.2
Wool manufactures		8.2		-8.1		-36.5
Electrical machinery and apparatus		239.1		-41.6		-40.2
Passenger cars (new)		116.8		-27.0		-49.5
Rubber manufactures		56.2		-11.3		-57.4
Rayon, nylon, and other synthetic textile manufactures		93.4		-16.6		-66.0
Motor trucks and busses		136.2		-39.7		-95.5
Cotton manufactures		191.6		-62.9		-211.5
Merchant vessels		75.2		-128.1		-320.2
Total	6,534.2		45.0		-1,319.6	

Table V

United States Imports of Selected Commodities
January through June
(In millions of dollars)

Class and Commodity	1949	Increase or decrease (-) as compared with: 1948	1947
1. Finished Manufactures	639.7	21.3	172.6
Newsprint	217.7	21.3	60.7
Machinery and vehicles	81.0	9.1	47.3
Burlaps	56.1	-7.2	13.6
Cotton manufactures	22.2	1.4	10.1
Non-commercial imports	31.2	-13.6	5.3
2. Semimanufactures	729.9	-50.7	136.8
Tin	65.8	20.8	62.5
Copper	99.6	13.1	42.7
Gas and fuel oil	57.2	-9.3	15.6
Fertilizers and materials	28.4	3.4	11.7
Nickel and alloys	34.0	5.5	11.5
Sawed boards, planks, deals, etc.	49.3	-21.5	5.3
Diamonds, cut but not set	15.8	-11.7	-2.7
Wood pulp	90.3	-58.7	-17.3
Expressed oils, inedible	19.4	-14.4	-50.0
3. Crude Foodstuffs	644.2	11.0	129.1
Coffee	365.6	11.5	68.0
Cattle, except for breeding	20.9	14.0	17.6
Cocoa or cacao beans	80.3	-35.7	2.4
4. Manufactured Foodstuffs	379.0	37.1	62.6
Meat products	28.3	1.0	20.9
Cane sugar	209.5	53.9	1.9
5. Crude Materials	953.5	-126.4	40.0
Crude petroleum	170.7	45.7	93.9
Nonferrous ores	132.9	67.1	89.3
Jute and jute butts	21.3	4.6	17.0
Diamonds, for industrial use	7.1	-10.7	2.9
Diamonds, rough, uncut	9.7	-12.8	.9
Undressed furs	52.2	-31.6	-2.0
Hides and skins	34.7	-33.1	-6.1
Cotton, unmanufactured	5.4	-2.6	-12.2
Tobacco, unmanufactured	37.2	-2.0	-22.7
Wool, unmanufactured	96.4	-82.2	-26.6
Oilseeds	46.0	-42.8	-33.7
Crude rubber	131.3	-14.2	-73.8
Total	3,346.2	-107.9	541.0

Table VI

United States Exports to Selected Countries
January through June
(In millions of dollars)

Continent and Country	1949	Increase or decrease (-) as compared with:	
		1948	1947
1. Asia	1,201.9	128.1	-14.1
Japan	249.1	114.9	73.3
Indonesia	79.2	37.3	14.8
British Malaya	23.1	-28.4	-4.9
India and Pakistan	201.9	46.2	-29.6
China	67.3	-85.8	-168.7
2. Australia and Oceania	103.6	28.2	-34.0
3. Africa	349.9	-54.7	-63.2
Union of South Africa	153.9	-89.2	-55.9
4. North America	1,724.5	37.1	-194.5
Canada	1,030.2	112.0	-12.7
Republic of Panama	36.5	-15.5	-28.6
Cuba	191.2	-42.1	-53.8
Mexico	253.9	-12.4	-70.8
5. South America	884.6	-161.9	-334.5
Venezuela	289.9	35.6	75.1
Chile	75.4	33.3	9.4
Uruguay	21.2	-11.0	-29.2
Brazil	238.0	-25.9	-116.2
Argentina	61.2	-199.2	-252.0
6. Europe	2,335.5	70.9	-715.1
Germany	443.8	-7.9	157.6
Austria	87.3	12.7	42.5
Italy (including Trieste)	312.6	69.4	20.0
Denmark and Faroe Islands	51.5	30.7	4.6
Greece	69.0	-37.5	-20.8
Czechoslovakia	9.6	-4.8	-26.1
Netherlands	153.8	2.0	-39.1
Poland	13.2	-19.2	-53.6
Belgium and Luxembourg	159.6	6.9	-77.0
U.S.S.R.	5.9	-19.2	-85.9
France	324.2	-45.2	-134.4
Sweden	44.0	-26.4	-180.2
United Kingdom	391.3	77.4	-220.5
17 E.R.P. countries	2,288.7	88.6	-514.2
Total	6,600.4	48.2	-1,355.0

Table VII

United States Imports from Selected Countries
January through June
(In millions of dollars)

Continent and Country	1949	Increase or decrease (-) as compared with: 1948	1947
1. North America	1,288.9	69.1	224.7
Canada	739.8	57.0	228.3
Curacao	53.0	-9.4	15.6
El Salvador	33.5	6.7	11.4
Cuba	218.1	20.2	-43.0
2. South America	713.0	-82.8	112.8
Venezuela	132.7	-4.7	48.1
Chile	100.3	5.2	45.4
Brazil	233.1	-13.9	28.4
Bolivia	23.7	5.0	13.8
Uruguay	25.0	-19.2	8.6
Argentina	49.0	-62.2	-40.5
3. Asia	665.7	-6.0	94.0
Indonesia	60.3	31.5	39.1
India and Pakistan	150.8	-13.5	26.5
Japan	42.1	16.6	26.4
Siam	26.3	1.9	22.0
Republic of the Philippines	105.5	-19.2	19.6
Kuwait	19.3	19.3	19.3
Saudi Arabia	13.1	8.9	13.1
Afghanistan	9.6	-14.8	7.8
China	54.4	-2.1	-16.3
British Malaya	105.4	-29.2	-67.1
4. Europe	473.2	-63.4	92.5
Belgium and Luxembourg	55.8	14.8	28.5
Germany	27.1	16.6	25.0
Netherlands	27.6	12.1	17.9
Italy (including Trieste)	37.3	-6.6	15.8
Norway	20.6	7.9	10.9
United Kingdom	112.0	-35.8	10.9
Finland	12.0	-11.1	1.0
Sweden	23.7	-32.2	-10.9
U.S.S.R.	19.3	-17.1	-13.2
5. Africa	176.0	-30.1	32.4
Gold Coast	37.1	-10.2	12.9
Union of South Africa	50.3	-15.9	12.6
6. Australia and Oceania	73.0	-8.8	-27.8
Australia	61.7	-4.1	-20.9
17 E.R.P. countries	442.8	-24.7	104.2
Total	3,389.8	-122.2	528.6