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REVIEW OF FOREIGN DEVELOPMENTS

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War-time Financial and Property Controls

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On April 10, 1940, when Germany invaded Denmark and Norway, the President of the United States issued an Executive Order freezing the dollar assets of those two countries and their nationals. Similar action was taken at the time of each further aggression until, on June 14, 1941, the freezing controls were extended to Germany and Italy, and to the remainder of Continental Europe.[1] On July 26, 1941, when Japan overran Indo-China, the Control was invoked against Japan. At the same time, freezing control was extended to China at the specific request of Generalissimo Chiang Kai-shek in order to assist China in the control of its economy and in order to prevent Japan from using the occupied areas in China as a loophole for evading freezing control.

On December 18, 1941, the First War Powers Act, 1941, was approved, which amended section 5 (b) of the Trading with the Enemy Act, under which the freezing control orders had been issued. This Act amplified the powers contained in the previous legislation, giving the President broader authority over all foreign-owned property, including the power to vest such property. After the enactment of this Act, a large number of Axis business enterprises were closed down and compelled to liquidate, and some of the largest ones were vested in the Alien Property Custodian.

1/ The Union of Soviet Socialist Republics was also declared a blocked country at this time, but when she was invaded by Germany, Russia was effectively lifted out of the Control.

At its inception, Foreign Funds Control had as its primary purpose the protection of the assets within the United States of invaded countries in order to prevent their falling into the hands of invaders and in order to protect American institutions from possible adverse claims. As the international crisis deepened, and as the scope of the Control was widened to include more and more countries, it soon became apparent that the Control was a sharp and valuable weapon of economic warfare with which telling blows could be struck at the Axis powers.

By depriving the Axis nations of the use of the dollar assets of countries which they invaded and of the means through which to acquire other dollar assets, the Control greatly impaired the ability of those nations to finance propaganda, sabotage and other subversive activities in the United States and other areas of strategic importance to this country. Moreover, in denying to the Axis powers the use of commercial and financial facilities of the United States, the enemy was forced to resort to less effective means of carrying out transactions and in many cases was forced to abandon such activities. By controlling and regulating business enterprises in which the enemy wielded an influence, the Control destroyed the nerve centers for Axis activities.

The Control was not confined to the regulation of banking and financial transactions alone and the far-reaching character of the freezing program was dramatically demonstrated in numerous economic fields. Control operations in the securities and currency fields deprived the Axis nations of the fruits of conquest by preventing the disposal in this country of looted securities and currency. In the trade and commercial field, the Control was an important instrument of this government for regulating all exports and imports between the United States and a large portion of the world. The stringency with which it operated was demonstrated in the complete stoppage of all trade with Japan even prior to the outbreak of the war. The freezing program in the trade field was implemented by the promulgation of The Proclaimed List of Certain Blocked Nationals.

In the business enterprise field, wide authority was exercised to eliminate dangerous Axis influences. Around 3,000 business enterprises were operated within the United States under license. The blocked enterprises were required to provide detailed information regarding their organization, capital structure, officers and directors, relationships with other companies, nature of operations and principal customers. From information obtained from all sources concerning Axis-owned or dominated enterprises, more stringent forms of control were exercised by subjecting some enterprises to rigid supervision, by requiring the dismissal of a number of executives and employees, by compelling the liquidation of many enterprises, and by vesting the capital stock of large enterprises owned or controlled by Axis nationals. Since a number of these business enterprises had been used as a base of operations to carry out plans to control production, to hold markets in the Hemisphere, to support fifth-column movements, and to weld our post-war economy to Axis plans, the forms of control thus exercised were of inestimable value in the war on the economic front.

Foreign-owned assets in the United States

With a view to implementing the freezing controls, regulations were issued providing for a census of all foreign-owned property subject to the jurisdiction of the United States. Tens of thousands of banks, corporations, and individuals in this country were required to file, on Form TFR-300, reports giving detailed information with respect to foreign-owned assets and the owners.

As a result of the census, the magnitude of the foreign stake in this country has become fully known for the first time. About $12,739 million of assets--deposits in American banks, investments in United States securities and enterprises, interests in estates and trusts, and many other types of property--were owned by foreign individuals and organizations as of June 14, 1941 (see table below). The dollar assets in the United States of persons located in countries affected by the freezing controls amounted to $5,985 million.1/

Value of Foreign-owned United States Assets by Geographic Areas of Reported Address of the Owners, and by Principal Types of Assets, as of June 14, 1941

(In millions of dollars)

Geographic areas (of reported address)	Total	Bullion, 1/ currency and deposits	Domestic securities	Real property	Interests in estates and trusts	Foreign controlled 2/ enterprises	Other assets
Canada and Newfoundland	1,742.8	429.9	542.9	16.5	34.5	529.8	189.2
South America	672.9	304.7	100.1	1.3	9.2	61.4	196.2
Central America and Mexico	385.3	153.4	89.9	8.1	9.4	39.1	85.4
West Indies and Bermuda	306.4	93.0	102.5	2.0	21.6	22.3	65.0
Europe	8,127.6	2,342.8	1,697.1	87.8	757.6	1,569.4	1,672.9
Africa	162.5	65.4	16.3	1.7	10.0	9.4	59.8
Asia	1,257.3	824.5	140.8	5.8	12.6	74.2	199.5
Oceania	68.2	34.0	7.8	0.5	3.5	5.3	17.1
Unknown	15.7	1.1	1.8	1.2	8.9	1.7	1.0
Total, all areas	12,738.7	4,248.8	2,699.1	124.8	867.3	2,312.6	2,486.1

Source: "Census of Foreign-owned Assets in the United States," U. S. Treasury Department.

1/ Excluding gold held under earmark for foreign account by the Federal Reserve Bank of New York, which amounted to $1,916,000,000.

2/ For statistical purposes only, control was determined on the basis of the ownership of 25 per cent or more of the voting stock of corporations and analogous interests in partnerships and other organizations.

1/ If gold and foreign security holdings in the United States of the Governments, central banks, and nationals of those countries were included, the total of blocked assets would be raised to $7,955 million.

The census also revealed the widespread character of foreign interests in the United States. For example, more than 132,000 foreign individuals had assets in this country valued at nearly $2,600 million, and 23,000 foreign corporations held property valued at about $8 billion. Thousands of persons had assets amounting to less than $5,000. While the foreign interests in American corporations were large in value, it can be stated definitely that they did not represent control over any large segments of the industry of this country.

The information filed on Form TFR-300 was greatly needed in the administration of the freezing controls. It enabled Foreign Funds Control to determine in advance the importance of proposed measures of controls and the nature of the administrative problems involved. As useful as they were during the last half of 1941, the data immediately became vital in many of the economic warfare activities of this Government after Pearl Harbor. Now that the war is over, the TFR-300 data facilitate planning by Government agencies for the unfreezing of the assets included within the scope of the controls.

Lifting of freezing controls

Shortly after liberation, a rapid relaxation of the freezing controls took place with respect to countries of the United Nations which had been occupied by the Axis--such as France, Belgium, Holland, Norway, and Denmark. Control was immediately relaxed on the dollar balances of the governments and central banks, restrictions were removed on financial communication and general licenses were issued authorizing current trade transactions with Belgium and France. On October 4, 1945, a broad unfreezing license was issued with respect to France and a similar one was issued for Belgium on November 19. In addition to removing all controls with respect to new transactions, these licenses authorized the unblocking of assets held in the United States by persons and institutions in both countries upon the certification of the French and Belgian Governments that the funds were the property of their nationals. By insisting upon certification, we placed upon the Government of the liberated country the primary responsibility for protecting the interests of its own nationals in their frozen assets in this country, and also of ensuring that no assets were released which had been held by persons or firms in the liberated countries as cloaks for our enemies. On December 7, 1945, a somewhat broader license (No. 95) was issued to supplant the individual licenses previously issued for France and Belgium and at the same time the unfreezing of Norwegian and Finnish assets was announced. Dutch assets were released on February 13, 1946, by amending General License No. 95. On the basis of the Treasury census (TFR 300), $2,505 million of blocked assets had been released after the Dutch defrosting had been announced as shown in the following table:

Value of Foreign-owned United States Assets by Selected Countries
By Principal Types of Assets, as of June 14, 1941

(In millions of dollars)

Country	Total	Bullion 1/, currency and deposits	Domestic securities	Real property	Interests in estates and trusts	Foreign controlled 2/ enterprises	Other assets
France	1,040.5	516.4	186.4	10.0	122.2	99.6	105.9
Belgium	312.7	128.1	34.9	0.5	6.2	82.9	60.1
Norway	154.7	104.5	11.3	0.3	3.0	5.0	30.6
Finland	20.3	8.6	0.6	3/	0.3	3.8	7.0
Netherlands	976.8	205.4	319.8	1.2	13.1	336.0	101.3
	2,505.0	963.0	553.0	12.0	144.8	527.3	304.9

1/ Excluding gold held under earmark for foreign account by the Federal Reserve Bank of New York.
2/ For statistical purposes only, control was determined on the basis of the ownership of 25 per cent or more of the voting stock.
3/ Less than $50,000.

Under General License No. 94, a sweeping relaxation of the freezing control went into effect on December 7, 1945. Thereafter, all countries except Portugal, Spain, Sweden, Switzerland, Liechtenstein, Tangier, and, of course, Germany and Japan were to be treated in practically all respects as non-blocked countries. All controls were removed over current transactions and normal financial and commercial relations with these countries could be immediately resumed. However, existing blocked accounts of persons within the licensed countries were not freed by this license. Controls over existing blocked accounts of persons within the licensed countries remain in effect in order to ensure that camouflaged enemy assets are not released. Blocked Italian, Bulgarian, Hungarian, and Rumanian property is in a separate category because of the declaration of war by the United States against these countries.

Defrosting of Swiss assets

The principal countries remaining to be dealt with in the defrosting program are the neutrals--Portugal, Spain, Sweden, and Switzerland. The United States Treasury insists that these countries cannot be accorded the privileges being made available to other countries until they have taken effective action to search out, immobilize, and control all enemy assets within their jurisdiction, and until a satisfactory solution has been reached concerning the disposition of these enemy assets.

Since Swiss assets in this country were by far the largest of any of the neutral countries, an attempt was made in February and March 1945 to facilitate the solution of this problem in the course of negotiations conducted with them by representatives of the French, British, and United States Governments. As a result of these negotiations, the Swiss agreed to freeze German assets within Switzerland held by persons located in Axis and Axis-occupied countries. The census taken for this purpose disclosed the existence of some $250 million of such assets but this figure was criticized by the Allied Governments as being far below the actual size of the assets. The Allies also criticized the methods employed in taking the census, since only nominal penalties for evasion were applied and only 25,000 returns were actually made. In addition, evidence was reportedly discovered in Germany indicating that immediately after the departure from Switzerland of the Allied representatives, and less than a month prior to V-E Day, the Swiss Government, as a result of negotiations with representatives of the Nazi Government, agreed to take measures on behalf of Germany tending to nullify the commitments which they had just given to the Allies. Under these circumstances, it is not hard to understand why the problem of unfreezing Swiss assets in this country has been so difficult. The Treasury census of June 1941 lists total Swiss assets in this country as $1,211 million.

While the frozen Swiss assets in this country are not directly involved in the four-power negotiations which commenced in Washington on March 18, 1946, among Switzerland and the Allied Governments of France, Great Britain, and the United States on treatment of German assets in Switzerland, it is recognized by all parties that the existence of these Swiss funds gives the United States Government a strong bargaining weapon in the current negotiations. The Swiss representative in the present negotiations, Mr. Walter Stucki, assured the representatives of the other Governments of the willingness of his Government to "co-operate" if due recognition was given to the rights of property holders under international law. He conceded that with a billion to a billion and a half dollars under foreign funds control "economic pressures" could be employed to force Switzerland to turn over German assets held there. He attributed the failure of earlier negotiations to unblock Swiss assets here to a lack of understanding between the United States and the Swiss Governments. The Chief of the United States delegation, Randolph Paul, told Mr. Stucki that the United States had no desire to continue frozen funds controls any longer than "necessary" and that this Government hopes that these may be terminated at an early date.

At the root of the controversy over disposition of the Swiss-held German assets is the question as to the legality in Switzerland of an Allied Control Council vesting decree issued in Germany on October 30, 1945. By this decree, the Allied Council transferred to itself title to all external German assets. The Allied position is that this decree has the same legal standing as a German decree since the Allied powers exercise German sovereign rights as a result of the German surrender and that because of these rights the Council has full authority, under international law, to dispose of the assets of German nationals in Switzerland. Mr. Stucki, the Swiss representative, contends that the decree did not apply to Germans outside of Germany, or to their property and hence the Swiss are legally obliged to protect property legally acquired in Switzerland. The Swiss spokesman said that if a solution to the problem could be developed which took into consideration these elements of international law his Government stands ready to co-operate in the disposition of these assets.

Anglo-Swiss Monetary Agreement

Rosa Ernst

After prolonged negotiations between Great Britain and Switzerland, a monetary agreement was signed on March 12 between the two countries. The agreement becomes effective immediately. Financial circles in both countries seem to be greatly pleased over the successful conclusion of these negotiations.

According to the terms of the accord, the contract is to run until March 1949. However, it may be terminated any time by either party after three months' notice. The pact allows some flexibility since provision is made for adjustments according to circumstances and for a review if either of the two contracting parties should change its monetary policy in such a manner as to affect the agreement. Through close cooperation between the Swiss National Bank and the Bank of England, it is expected that all technical questions arising out of the pact will be settled to mutual satisfaction. In any event, a review is contemplated within a year after the date of its coming into force.

For purposes of this agreement, the official rate of exchange between the Swiss franc and the pound sterling has been set at 17.35 francs = 1 pound sterling. By mutual consent, the Swiss National Bank and the Bank of England may fix the maximum spread between the buying and the selling rates to be used for transactions under the terms of this contract. This rate of 17.35 francs compares with an average rate for December 1945 of 17.395 and for the year 1945 of 17.307, while the yearly averages for 1943 and 1944 were 17.299 and 17.313 Swiss francs per pound sterling, respectively.

The agreement specifies that the Bank of England shall sell sterling to the Swiss National Bank against Swiss francs at the official rate of exchange up to a maximum of 86,750,000 Swiss francs, or against gold in case this maximum has been reached. On the other hand, the Swiss National Bank shall sell Swiss francs to the Bank of England against sterling at the same official rate up to a maximum of 5,000,000 pounds, or against gold in case the balance at the Bank of England for account of the Swiss National Bank has reached that amount. Each bank is to maintain with the other bank a minimum balance at all times, the amount of which is not stated in the agreement but is left to the discretion of the two banks.

It has been consistently and repeatedly reported in the American and the British press that the total credit granted to Great Britain by Switzerland is around 15 million pounds or about 260 million Swiss francs. The text of the agreement, however, clearly stipulates the amounts as being 5,000,000 pounds or 86,750,000 Swiss francs. On the other hand, the agreement does embody a clause which authorizes the Swiss National Bank to sell to the Bank of England

Swiss francs over and above the stipulated limit of 5 million pounds.[1/] No limit to these additional credits is stated in the accord, but it is understood that they will not exceed 10 million pounds. This would then be in agreement with a total credit of 15 million pounds or 260 million Swiss francs as reported in the press. The granting of such a comparatively large credit to Great Britain signifies a departure from the policy pursued by the Swiss authorities during the past years when they were quite reluctant to hold large amounts of sterling.

The agreement also provides that neither contracting party will use the other's funds to purchase a third currency without the consent of the other party, and that both will take steps to prevent unauthorized transfers of capital funds between the sterling area and Switzerland. For purposes of this agreement, the sterling area is to have the meaning assigned to it from time to time by the exchange control regulations in force in the United Kingdom, and the term Switzerland is to include the Swiss Confederation and the Principality of Liechtenstein.

Since the United Kingdom is expected to develop an import balance in its trade with Switzerland, the value of the agreement to the British is obvious; knowledge of related developments indicates that Switzerland will also gain substantial advantages. One immediate gain is the fact that beginning April 1 British tourists will be allowed to take with them larger amounts of sterling for travel abroad, and since British tourists for a number of years have shown a preference for travel in Switzerland, that country will have an opportunity to recapture at least part of her pre-war tourist trade which constituted a most important factor in the Swiss economy.

Possibly the chief long-range advantage for Switzerland lies in the fact that this accord will reopen export markets in the sterling area, particularly overseas markets which were lost during the war both because of transportation difficulties and because sterling currency with which to buy Swiss francs to pay for imports from Switzerland was not made available to these areas by the British authorities. At present, of course, and in the immediate post-war years, Switzerland will have no difficulties in exporting consumer goods of which there is a great scarcity in almost every country. However, Swiss authorities undoubtedly feel that early reestablishment of the country's trade connections with British Empire areas is a worthwhile accomplishment in view of the traditional importance of these nations in Swiss foreign trade.

1/ The paragraph in question reads as follows:

"(2) The National Bank of Switzerland .... shall sell Swiss francs to the Bank of England ....

(a) against sterling to be credited at the official rate to the National Bank of Switzerland's No. 1 Account with the Bank of England, provided that the balance standing to the credit of that Account is not thereby increased above a maximum of £5 million, plus such additional sum as may be determined by the Contracting Governments in the light of the estimated balance of payments between the sterling area and Switzerland, ..."

Azerbaijan and Iran's Gold and Ruble Balances in Russia A.R.B.

A recent report that the U.S.S.R. may make available for the use of the autonomous government of Azerbaijan part of the gold and ruble balances held in Moscow in favor of the Iranian government, is of interest for drawing attention for the first time to the financial side of the problems arising from the independence movement in this northwestern province of Iran.1/ There is no official information about the amount of gold and ruble balances that accumulated in Moscow over the war years as a result of imports from Iran and expenditures by Russia in her zone of occupation. But the value of earmarked gold is reported to be about $20 million. This figure may be taken to represent 60 per cent of Iran's total claims in Russia in accordance with the financial agreement of 1943 between the two countries which stipulated that the creditor nation would be entitled to receive 60 per cent of its balances in earmarked gold. The ruble balance would in that case amount to $13 million, and the total of gold and rubles to $33 million.

It may be asked how Azerbaijan's share in these assets might be determined. A possible solution would be to base a determination on the extent of Azerbaijan's direct contribution to the building up of these resources. There should be no difficulty in determining the value of exports from Azerbaijan to Russia or the amount of Russian expenditures in that area during the occupation period. But these may not truly represent the extent of Azerbaijan's real contribution. Azerbaijan is considered to be one of the richest agricultural areas in Iran. The volume of its trade with the other provinces is larger than that with foreign countries. By supplying neighboring provinces with agricultural produce which they themselves could raise only at great disadvantage, Azerbaijan has made it possible for some of the provinces to specialize in export products and to maintain the volume of their exports during the war years. In this way, it might be argued, Azerbaijan contributed in an indirect manner to the accumulation of gold and foreign exchange reserves abroad, including those in the U.S.S.R., at the cost of a fall in the real income of the Azerbaijan people.

Population is another standard which could be used in determining Azerbaijan's share in these assets. Azerbaijan has a population of 1.5 million, or one-tenth of the population of Iran. On the basis of this ratio, it could be claimed that the province would be entitled to receive $2 million in gold and $1.3 million in rubles, probably a larger sum that it could expect to obtain as a result of its contributions alone.

It is recognized that the solution of this problem is not so urgent or important as is that of the major problems requiring the immediate attention of Iran and the U.S.S.R. But that it may become a delicate issue between the two countries in the future cannot be ignored, in view of the report that Russia may act unilaterally in assigning to Azerbaijan a share of the funds in her custody.

1/ Azerbaijan declared its autonomy on November 19, 1945. The new government has received recognition so far only from Russia.

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Pre-War Trade Between Russia and Eastern Europe

Alexander Gerschenkron and Toni Giese

Recent Russian policies have drawn a good deal of attention to the problem of future economic relations between Russia and the countries located in what has come to be called the Russian zone of influence in Eastern Europe. Structural changes which have been produced by the war and its aftermath in Russia and elsewhere, including the changed role of Germany within the pattern of Europe's trade, have in many respects created a new situation. There are therefore narrow limits to what may be gleaned from a review of past trade relations between Russia and the countries of the zone. Still such a review may not be without usefulness for an appraisal of postwar developments in the region concerned.

The attached table shows annual averages for the inter-war trade of the eight countries located in the Russian zone in Eastern Europe. The ninth country, Albania, has been excluded because of the insignificance of its foreign trading relations. The table reveals (1) the total trading importance of individual countries in relation to the total trade of the "zone," (2) the trading weight of the zone in the total trade of Europe (excluding Russia), and (3) the extent to which these countries traded with Russia. The trade figures of the three Baltic countries (Estonia, Latvia, Lithuania) have been added to the Russian trade figures. This, however, does not imply an expectation that the recent incorporation of these three countries into the U.S.S.R. will leave the structure of their foreign economic relations undisturbed.

The table discloses two outstanding characteristics. First, the total trade of the "zone" amounted to a considerable proportion of Europe's total trade. On the average for the whole period zone imports equalled 10.4 per cent and zone exports 12.7 per cent of Europe's imports and exports, respectively. These percentages proved rather stable and were maintained throughout the whole period 1924-1938. Secondly, the trade of the zone with Russia (including the Baltic States) was very small, imports from Russia amounting to 1.1 per cent of the total imports of the zone, and exports to Russia amounting to 2 per cent of the total exports of the zone. Exclusion of the imports from the three Baltic countries would reduce the share of imports from Russia in total zone imports to .9 per cent. The comparable figure for exports would be 1.4 per cent.

It should be recognized, however, that the zone, with regard to trade with Russia, consisted of two very different groups. Four countries (Finland, Poland, Czechoslovakia, and Austria) accounted for 96 per cent of the zone's imports from Russia, and for 99 per cent of the zone's exports to Russia. In other words, trade between Russia and the remaining four countries (Hungary, Yugoslavia, Bulgaria, and Rumania) was either non-existent or negligible.

Nevertheless, even if we disregard the four countries last mentioned, the aggregate share of imports from Russia into Finland, Poland, Czechoslovakia, and Austria in the total imports of these countries amounts to no more than 1.5 per cent. The corresponding percentage for exports would be 2.9. Exclusion of the Baltic States would reduce the preceding figures to 1.1 and 2 per cent, respectively.

With regard to the individual countries of the zone, Finland shows on an annual average the relatively largest ratio of 3.7 per cent between imports from Russia and total imports. The ratio of exports to Russia to total exports is highest in the case of Czechoslovakia--4.7 per cent. Exclusion of the Baltic States gives Finland the highest ratio both for imports (2.9 per cent) and exports (2.4 per cent). Thus the conclusion is justified that trade with Russia played a very minor role in the total trade of the zone.

Nor did trade with the zone bulk large in aggregate Russian trade as may be shown by the following figures:

	Imports into Russia from[1/] the zone as percentage of total Russian imports	Exports from Russia to[1/] the zone as percentage of total Russian exports
1924-28	5.76	3.24
1929-33	6.25	4.28
1934-38	3.85	3.94
1924-38	5.81	3.85

1/ Trade of the Baltic States is not included in this computation. The above figures must be taken as approximations only. In all likelihood, they tend to underestimate the share of the zone in Russian imports, and to overestimate the share of the zone in Russian exports.

It may be noted that Russia's trade with the zone reached a peak in 1929-1933 when Russia's trade was at its inter-war maximum. Between 1929-1933 and 1934-1938, Russia's average annual imports fell from 677.1 million dollars to 233.7 million dollars; the corresponding export figures were 636.7 million dollars and 296.6 million dollars. This drop affected the zone more than the rest of Russia's trading partners. It is also worth noting that the zone's share in Russian imports was much more severely affected than its share in Russian exports. As is shown by the following table the zone in 1924-1928 had an annual average export surplus to Russia of 31.2 million dollars; in 1929-1933, the export surplus still amounted to 27.3 million. But in 1934-1938 an import surplus of 3.1 million dollars appeared.

Deficits (-) and Surpluses (+) in Trade with Russia
(Annual averages in millions of post-1933 dollars)

	1924-28	1929-33	1934-38	1924-38
Finland	+ 2.9	+ .7	-3.2	+ .3
Poland	+12.8	+17.9	- .4	+10.0
Czechoslovakia	+ 9.8	+ 5.2	+ .8	+ 5.6
Austria	+ 5.7	+ 3.5	- .3	+ 3.0
Total	+31.2	+27.3	-3.1	+18.9

From 1933 on, Russia began to experience an export surplus in its overall balance of trade. This was achieved primarily by changing the ratio of exports to imports in trade with Germany, Northern Europe, and the northern countries of the zone. With regard to the latter, it should be recalled that in the 'twenties and early 'thirties Russia purchased considerable amounts of industrial goods from Austria, Czechoslovakia, and Poland. In the later years, other and better sources of supply became available while Russian import needs became much less urgent.

In conclusion, it may be said that the absence or near-absence of trade with Russia on the part of one-half of the zone (Hungary, Yugoslavia, Bulgaria, and Rumania) was to some extent the result of hostile political relations between these countries and Russia. In the absence of such hostility, some trade--although a relatively small volume--undoubtedly would have developed as early as the 'twenties. The chances are, however, that in the latter part of the 'thirties trade would have increased further as a result of the **increasing** industrialization of Russia's exports. A considerable increase in Russia's post-war trade with Hungary and the Balkan part of the zone should have been expected. If industrialization in Russia should proceed at its pre-war pace, the presumption is that the complementarity of Russia and the southern part of the zone would continue to grow.

This complementarity is much less evident in relation to the northern part of the zone. The pre-war trade data would seem to indicate that a large Russian trade with the northern countries of the zone could develop on economic grounds only if the aggregate volume of Russia's trade were to reach much higher levels than was the case in the inter-war period. Much, of course, will depend on the development of Germany's trade. As shown in the following table, Germany took 17.5 per cent of all exports of the zone in 1935, while more than one-fifth of the total imports of the zone came from Germany.

Germany in the Foreign Trade of the Zone, 1935[1/]
(In millions of post-1933 dollars)

	1	2	3	4	5	6
	Total Exports	Total Imports	Exports to Germany	Imports from Germany	3 as percentage of 1	4 as percentage of 2
Finland	136	116	13	24	9.5	20.6
Poland	175	163	28	23	16.0	14.1
Czechoslovakia	309	281	50	63	16.1	22.4
Austria	169	227	26	38	15.3	16.7
Hungary	133	118	33	27	24.8	22.8
Yugoslavia	93	83	17	14	18.3	16.8
Bulgaria	40	37	19	20	47.5	54.0
Rumania	146	97	25	23	17.1	23.7
Total	1,201	1,122	211	232	17.5	20.7

1/ In 1935, the German trade drive in the Balkans was still in an early stage. With the exception of the data for Bulgaria, whose trade is the smallest of all zone countries, the percentages shown in the table convey a fair picture of Germany's position in the trade of the zone.

Should trade between the zone and Germany remain small for a long period, a larger volume of trade between Russia and the zone would follow logically. This is true for the northern as well as the southern part of the zone. With regard to the latter (Hungary and the Balkans), it would be particularly inadvisable, for this and the previously stated reasons, to regard any and every increase of trade with Russia as evidence of Russia's economic penetration. Such an increase would in all likelihood take place if trade of these countries with Russia were determined exclusively by comparative cost considerations. Nor should this necessarily be conceived in static terms. It is easy to think of a pattern of industrialization of the Balkans which would fit into the Russian pattern of economic development. Development of light industries in the southern regions of the zone would probably create a basis for exchange of products of those industries against imports from Russia of machinery (particularly agricultural machinery), vehicles, and metals and minerals. For what has so far become known of the Russian Five Year Plan suggests that the lag of light industry behind heavy industry will remain typical of the Russian economy at least for the next decade. Even now the Russians are known to use to the full the limited textile-producing capacity of the zone. Russian deliveries of cotton for processing abroad have been an important feature of trade relations between Russia and several zone countries since the liberation.

On the other hand, however, there is little certainty as yet that Russia will confine its economic relations with the countries of the zone to what is economically profitable from the latter's point of view. On the contrary, it seems, especially with regard to the southern half of the zone, that Russia aims at developing a volume of trade considerably in excess of what would be expected if Russia were to abstain from such vigorous policies as have been adumbrated in her agreements of economic collaboration with Hungary and Rumania.

RUSSIAN ZONE OF INFLUENCE IN EASTERN EUROPE

ANNUAL AVERAGE VALUE OF FOREIGN TRADE IN SELECTED PERIODS
(In millions of post-1933 dollars)

		Total Imports 1/				Total Exports 2/				Imports from Russia and the Baltic States 3/				Exports to Russia and the Baltic States 4/			
		1924-28	1929-33	1934-38	1924-38	1924-28	1929-33	1934-38	1924-38	1924-28	1929-33	1934-38	1924-38	1924-28	1929-33	1934-38	1924-38
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Finland	A	258	170	148	192	245	186	164	198	9.6	6.3	5.8	7.1	12.5	7.0	2.6	7.4
	B	8.0%	7.8%	11.6%	8.6%	8.4%	8.8%,	12.1%	9.3%	3.7%	3.7%	3.9%	3.7%	5.1%	3.8%	1.6%	3.7%
Poland	A	496	323	198	339	440	348	201	330	6.0 5/	7.2	3.5	5.6	18.8 5/	25.1	3.1	15.6
	B	15.4%	15.0%	15.5%	15.3%	15.1%	16.4%	14.9%	15.5%	1.2%	2.2%	1.8%	1.7%	4.3%	7.2%	1.5%	4.7%
Czechoslovakia	A	860	607	308	592	950	644	342	645	6.7	11.5	5.3	7.9	16.5	16.7	6.1	13.5
	B	26.6%	28.1%	24.1%	26.6%	32.6%	30.4%	25.3%	30.3%	.8%	1.9%	1.7%	1.3%	1.7%	2.6%	1.8%	2.1%
Austria	A	732	491	239	487	468	316	176	320	3.6	4.7	1.6	3.3	9.3	8.2	1.3	6.3
	B	22.8%	22.8%	18.7%	21.9%	16.1%	14.9%	13.0%	15.0%	.5%	1.0%	.7%	.7%	2.0%	2.6%	.7%	2.0%
Hungary	A	295	181	123	200	236	192	146	191	.5	.3	.3	.3	.4	.4	.4	.4
	B	9.1%	8.4%	9.6%	9.0%	8.2%	9.1%	10.8%	9.0%	.17%	.17%	.2%	.15%	.17%	.2%	.3%	.2%
Yugoslavia	A	221	144	97	154	215	148	109	157	.1	.1	.1	.1	.2	-	-	.1
	B	6.8%	6.7%	7.6%	6.9%	7.4%	7.0%	8.0%	7.4%	-	.07%	.1%	.06%	.1%	-	-	.06%
Bulgaria	A	79	57	44	60	71	60	49	60	.3	.2	-	.1	.1	-	-	-
	B	2.4%	2.6%	3.4%	2.8%	2.4%	2.8%	3.6%	2.8%	.4%	.4%	-	.2%	.1%	-	-	-
Rumania	A	287	185	121	198	286	224	166	226	.3	.6	.2	.3	-	.3	.3	.2
	B	8.9%	8.6%	9.5%	8.9%	9.8%	10.6%	12.3%	10.7%	.1%	.3%	.17%	.15%	-	.1%	.18%	.1%
Russian Zone	A	3,228	2,158	1,279	2,222	2,911	2,119	1,353	2,128	27.3	31.1	17.4	25.0	57.8	58.6	13.9	43.5
	B	100%	100%	100%	100%	100%	100%	100%	100%	.8%	1.4%	1.4%	1.1%	2.0%	2.8%	1.0%	2.0%
Europe		29,511	21,521	12,951	21,328	23,166	17,167	9,980	16,771								
Zone Trade as Percentage of Europe's Trade		10.9%	10.0%	9.9%	10.4%	12.6%	12.3%	13.6%	12.7%								

1/ Line A = absolute import figures; line B = country imports as percentage of total "Zone" imports.
2/ Line A = absolute export figures; line B = country exports as percentage of total "Zone" exports.
3/ Line A = absolute import figures; line B = imports from Russia and the Baltic States as percentage of country total imports.
4/ Line A = absolute export figures; line B = exports to Russia and the Baltic States as percentage of country total exports.
5/ Because adequate data for the year 1924 are not available, a four-year average (1925-28) has been used for Polish trade with the Baltic States.

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