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REVIEW OF FOREIGN DEVELOPMENTS

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U.S. BALANCE OF PAYMENTS OUTLOOK FOR 1948

Florence Jaffy and Frank Tamagna

This note presents tentative estimates of the amount of financing available to foreign countries for imports of goods and services from the United States in 1948. It will be remembered that in November 1947 the Harriman Report estimated total payments by foreign countries to the United States in 1948 at \$18.1 billion; the Report assumed the financing of the "full (dollar) trade deficit of CEEC countries" including a U.S. Treasury contribution to this effect of \$5.75 billion. Since the publication of that Report, changes in the U.S. program for foreign aid and price and other developments here and abroad would seem to call for reconsideration of the balance of payments position of the United States. The conclusion drawn from this note is that financing facilities available to foreign countries in 1948 for imports of goods and services from the United States may be estimated at \$20.1 billion.

U.S. Balance of Payments, 1947 and 1948Summary Table  
(In billions of dollars)

	<u>1947</u> (Actual)	<u>1948</u> (Estimated)
Proceeds from exports to U.S.	8.3	9.8
U.S. Government aid and loans	5.7	7.0
U.S. private aid and loans	1.4	1.2
International lending	.8	.5
Liquidation of gold and dollar assets	<u>4.5</u>	<u>1.6</u>
Total financing available	<u>20.7</u>	<u>20.1</u>
U.S. exports of goods and services	19.6	--
Errors and omissions	1.1	--
Surplus on current account	11.3	10.3

These estimates for 1948 are based on existing appropriations, and on appropriations requested or supported by government agencies. At the time of writing no final decision has been reached by Congress on the aggregate appropriation for foreign aid. Accordingly, no attempt has been made to take account of Congressional action which might alter the authorized amounts. The amount of \$20.1 billion represents a figure which U.S. exports (visible and invisible) may reach on the basis of financing facilities, but cannot be considered as a prediction of any actual figure. Should U.S. exports actually reach the figure of \$20.1 billion in 1948, they would be (in dollar value) about 500 million larger than in 1947. The U.S. export surplus, however, would be reduced from \$11.3 billion to \$10.3 billion, because of the more rapid increase of U.S. imports over exports.

Imposition of export controls may keep exports of goods considerably short of the maximum figure which financing facilities would allow, in which case, of the funds available for foreign aid, a larger part than has been estimated here may remain unspent, and foreign gold and dollar reserves may be drawn upon at a slower pace or even increase. It should be noted that during the first four months of 1948, U.S. exports showed a decline as compared to the same period of last year. In the first four months of this year recorded exports were running at an annual rate of \$13.3 billion, compared to an annual rate of \$14.3 billion during the same period last year. Because of the exhaustion of U.S. aid in the first quarter and the expectation of larger U.S. aid for the rest of the year, these figures are probably not indicative of the year as a whole and a rising trend of exports may be expected in the coming months.

The attached tables provide a breakdown of the various sources of financing of U.S. exports (Table I) and more detailed estimates of anticipated U.S. Government grants and loans (Table II) in 1948.<sup>1/</sup>

<sup>1/</sup> Somewhat similar estimates were made by the National City Bank in its Monthly Letter for April 1948. The Letter estimated the total amount of dollars available to foreign countries in 1948 at a smaller figure (\$18.3 billion), which is \$1.8 billion below the estimate contained in this paper. The discrepancy is accounted for by a number of differences in the individual estimates. The most important among them derives from the fact that the National City Bank did not attempt to estimate the extent of liquidation of gold and dollar assets by foreign countries.

A. Proceeds from Imports

On the basis of recorded general imports of \$2.3 billion in the first four months, the year's total merchandise imports may be estimated to be about \$7.3 billion, an increase of \$1.3 billion over 1947. As to invisible items, the prospect of larger payments on account of shipping and travel make a figure of \$2.3 billion appear reasonable, or about \$.2 billion more than last year. No change is anticipated in current payments on account of debt service, estimated at \$.2 billion.

B. Private Aid and Loans

The 1947 figure for private lending included \$245 million of net short-term credits and about \$490 million of long-term loans and investments. The short-term lending included advances by private commercial banks, loans on gold by the New York Federal Reserve Bank, and also loans made by the U.S. Stabilization Fund. The 1948 estimate of private loans assumes that there will be no net change in outstanding short-term lending, on the theory that new short-term loans made in 1947 were for the purpose of filling pipelines depleted during the war. Long-term private lending is assumed to continue at the same rate as last year, and the same assumption is made for private remittances.

C. International Lending

The International Bank had unused commitments, as of March 31, 1948, of \$94 million, and its disbursements during the first quarter amounted to \$102 million. Since new loans are not expected to be large, in view of the limitation of its dollar resources (\$573 million at the end of March 1948), an overall estimate of \$210-225 million seems reasonable.

The International Monetary Fund advanced \$132 million in the first quarter of 1948; the theoretical maximum drawing rights of eligible members would amount to about \$800 million for the rest of the year. Taking into account the Fund's now restrictive policies on dollar drawings by ERP and other member countries, net dollar drawings for the rest of 1948 may be placed at \$165 million only, making a total of about \$300 million for the year.

D. Liquidation of Foreign Assets

Foreign countries in 1948 might liquidate gold and dollar reserves and other foreign assets to the extent of \$1.6 billion, as compared with \$4.5 billion in 1947. The estimates of \$1.2 billion for sale of gold and \$0.4 billion for decline in dollar balances should be considered as interchangeable; i.e., the gold figure may be reduced to the extent that the dollar figure is increased, or vice versa. These estimates are the results of a country-by-country analysis, on the basis of the need, ability, and willingness of foreign countries to part with their gold and dollar resources in order to obtain additional essential imports. While a certain liquidation of foreign assets is to be expected, the figures themselves are extremely tentative, in view of the large arbitrary element which the estimates contain. Furthermore, the actual liquidation is a residual item which may be lower if imports from the United States are not available in the amount indicated by the total financing figure, or higher if greater availabilities or rising prices in the United States were to result in larger trade deficits for foreign countries.

E. Government Aid and Loans

There was available to foreign countries at the end of 1947 about \$3.2 billion<sup>1/</sup> of unutilized balances on existing grant and loan programs. Appropriations for new foreign assistance requested for fiscal 1948<sup>2/</sup> totaled about \$8.0 billion (including the full ERP authorization). The sum of unutilized balances on existing programs plus the pro-rated portion of requested appropriations applying to calendar 1948 (about \$5.4 billion) yields a possible total of about \$8.6 billion available to foreign countries during calendar 1948. Of this, it is here estimated that about \$7.1 billion may actually be spent. This would leave about \$1.5 billion still available at the beginning of calendar 1949.

Details of government aid and loans are presented in Table II, to which the following comments apply. Grants and loans are divided into three categories; those for which there are residual funds from appropriations made before 1948; new programs authorized by Congress for which requested appropriations are pending; and proposed new programs for which authorizations have been requested or supported by government agencies. All figures are on a net basis, i.e., allowance has been made for expected repayments.

1. Available Grants and Loans

It appears reasonable to assume that unutilized balances on grant programs outstanding as of December 31, 1947 (\$1,615 million) will be exhausted during the calendar year 1948. These figures, of course, should be viewed in conjunction with those under "authorized new grants or loans," in cases where there is a continuing program, such as relief in occupied areas, Greek-Turkish aid, Philippine war damage and rehabilitation, and the International Refugee Organization.

The Export-Import Bank estimate of \$575 million of net disbursements takes account of the fact that, although gross disbursements were \$825 million in 1947, they were only \$168 million in the first quarter of 1948. A country-by-country estimate of expected gross disbursements in 1948 yields a possible total of about \$625 million, to which may be added about \$15 million for disbursement from new authorizations. The total has been reduced by about 10 per cent to \$575 million, to account for repayments of outstanding loans.

2. Authorized New Grants and Loans

a. European Recovery Program

The probable rate of expenditure of ERP funds is a controversial matter. The existing estimates depend chiefly on expectations as to the manner in which the Administrator will exercise discretion in making funds available. It is assumed here that the full amounts authorized in the Foreign Assistance Act will be appropriated.

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<sup>1/</sup> Figures are those of the Commerce Department, International Economics Division, prepared on a balance of payments basis; they are somewhat lower than figures of the Commerce Clearing Office.

<sup>2/</sup> In some cases for the period April 1, 1948 - March 31, 1949; in other cases for the 15-month period ending June 30, 1949.

The estimate of expenditures for the April-June quarter is based on the ECA allocation of \$1,300 million, of which about \$1,000 million is to be available as grants and the remainder as loans. It is not expected that any significant amount will be spent in this quarter from loan funds. A certain lag is to be expected in the expenditure of grant funds, which will presumably be greater for that portion of the funds to be used for offshore purchases than for the portion to be spent in the United States. On the basis of the estimates presented in the E.R.P. Outline (December 1947), it is assumed that about \$2,000 million may be used for offshore procurement over a 12-month period, or \$500 million per quarter. On the basis of these considerations, it may be estimated that about \$300 million will be spent in the United States and about \$200 million offshore in this quarter.

The same grant-loan allocation is arbitrarily assumed to hold for the remaining two quarters of 1948 (i.e., \$1,000 million for grants and \$300 million for loans per quarter). It is assumed that expenditures from loan funds will start in the third quarter, with a small initial lag, while expenditures from grant funds will then reach the full quarterly rate of \$1,000 million (i.e., the initial lag in grant funds will be carried on unchanged), yielding a total expenditure figure of \$1,200 million for the third quarter of the year. For the fourth quarter, it is assumed that the full quarterly rate will be reached for both grant and loan expenditures (i.e., that the initial lag on both grant and loan expenditures will remain unchanged), yielding a total quarterly expenditure figure of \$1,300 million. The total expenditure for calendar 1948 may thus be estimated at \$3,000 million.

b. Other Authorized New Grants and Loans

The appropriation request for occupied areas originally amounted to \$1,250 million, and was intended for relief expenditures in Germany, Japan, and Korea. The request was later increased to \$1,400 million to cover a reconstruction program for Japan, Korea, and the Ryuku Islands. The figure of \$1,550 million shown in the table also includes a \$150 million supplemental appropriation request for the last quarter of fiscal 1948. It is estimated that about \$700 million of the total will be spent in 1948.

The figure for Philippine war damage and rehabilitation is based on an estimate of overall U.S. Government unilateral transfers to the Philippines in calendar 1948, under both existing and requested appropriations (but under existing programs only), of about \$200 million, of which about \$165 million represents war damage and rehabilitation and \$35 million veterans benefits. The figure of \$65 million assigned to "authorized new grants" for the Philippines is a residual, after deducting \$138 million available under existing appropriations from the overall estimate of \$200 million. No account has been taken of possible new veterans legislation, and Army and Navy current expenditures in the Philippines have been excluded on the ground that these do not represent unilateral transfers. They are included among payments for services rendered by foreigners.

In the case of Greek-Turkish aid, the heavy lag (of about six months) which has occurred in the expenditure of the 1947 appropriation has influenced the estimate for 1948. Assuming a similar lag, a figure of about \$75 million appears to be reasonable for expenditures under the new appropriation beginning April 3, 1948. It will be noted that \$305 million of old

funds remains available, so that a total expenditure of about \$380 million is estimated for the Greek-Turkish program as a whole for calendar 1948.

The authorization for China is divided into two portions: \$338 million will be used for economic reconstruction and \$125 million may be used for military and other purposes. Assuming a 50 per cent initial lag on the expenditure of both funds, it is estimated that about \$290 million may be spent in calendar 1948.

### 3. Proposed New Aid

The Army and the Agriculture Department have recently supported a Senate bill to set up a \$150 million "revolving fund" to finance imports of cotton, wool, hides, and other raw materials into occupied areas, for processing and resale for dollars. Assuming that the bill is passed, it seems likely that in the first half year of operation about half the total amount might be expended, while repayment will not begin until the following year.

Table I  
Sources of Financing of U.S. Exports  
(In billions of dollars)

	1947 (Actual figures)	1948 (Anticipated figures)
<u>Imports of Goods and Services</u>		
Goods (recorded and unrecorded)	6.0	7.3
Services rendered by foreigners	2.1	2.3
Income on investments	<u>.2</u>	<u>.2</u>
Total goods and services	<u>8.3</u>	<u>9.8</u>
<u>U.S. Private Aid and Loans</u>		
Personal and institutional remittances	.7	.7
Private lending	<u>.7</u> <sup>a/</sup>	<u>.5</u>
Total	<u>1.4</u>	<u>1.2</u>
<u>U.S. Government Aid and Loans</u>		
Grants for relief and rehabilitation	1.8	2.8
European Recovery Program		3.0
Drafts on U.S. Government Loans	<u>3.9</u>	<u>1.3</u>
Total	<u>5.7</u>	<u>7.0</u> <sup>b/</sup>
<u>International Lending</u>		
International Bank	.3	.2
International Monetary Fund	<u>.5</u>	<u>.3</u>
Total	<u>.8</u>	<u>.5</u>
<u>Liquidation of Foreign Assets</u>		
Gold - Sales from new production	( 2.8	.7
Sales from monetary reserves	(	.5
Dollar balances with banks	1.2	.4
Dollar balances with U.S. Government	.3	--
Long-term investments	<u>.2</u>	<u>--</u>
Total	<u>4.5</u>	<u>1.6</u>
<u>Total Financing Available</u>	<u>20.7</u>	<u>20.1</u>
<u>Exports of Goods and Services</u>		
Goods	16.0	16.8
Services to foreigners	2.6	2.3
Income from investments	<u>1.0</u>	<u>1.0</u>
Total goods and services	<u>19.6</u>	<u>20.1</u>
Errors and omissions	1.1	
Export surplus	11.3	10.3

Table II  
Anticipated U.S. Government Grants and  
Loans in 1948  
(In millions of dollars)

	<u>Unutilized</u> <u>Balances,<sup>a/</sup></u> <u>Dec. 31, 1947</u>	<u>Anticipated</u> <u>Expenditure,<sup>b/</sup></u> <u>Calendar 1948</u>
<u>Available Grants and Loans</u>		
UNRRA and post-UNRRA	105	105
Relief in occupied areas	500 <sup>c/</sup>	500
Greek-Turkish aid	305	305
Philippine war damage and rehabilitation	140	140
Interim aid	510	510
International Refugee Organization	<u>55</u>	<u>55</u>
	1,615	1,615
Export-Import Bank	1,030 <sup>d/</sup>	575 <sup>e/</sup>
U.K. loan	300	300
Surplus property and ship sales credits	<u>300</u>	<u>300</u>
	<u>1,630</u>	<u>1,175</u>
<u>Authorized New Grants and Loans</u>		
European Recovery Program	(Fiscal year approp. request)	
1947-48, fiscal year	1,300 <sup>f/</sup>	500 <sup>g/</sup>
1948-49, fiscal year	<u>4,000</u>	<u>2,500</u> <sup>h/</sup>
	5,300 <sup>i/</sup>	3,000
Relief in occupied areas	1,550 <sup>j/</sup>	700
Philippine war damage and rehabilitation	115	65 <sup>k/</sup>
New Greek-Turkish aid	275 <sup>l/</sup>	75 <sup>m/</sup>
Chinese aid and relief	465 <sup>n/</sup>	290 <sup>o/</sup>
Trieste	20 <sup>p/</sup>	10
International Refugee Organization	70	35
International Childrens Emergency Fund	<u>60</u> <sup>q/</sup>	<u>35</u>
	<u>2,555</u>	<u>1,210</u>
<u>Proposed New Aid</u>		
Revolving Fund for import of raw materials into occupied areas	<u>150</u>	<u>75</u>
Grand total	--	7,335



Footnotes to Tables

Table I

- a/ Includes about \$0.2 billion short-term lending. U.S. Stabilization Fund loans are included under private lending in Commerce data.
- b/ Figures do not add to this total because of rounding.

Table II

- a/ Figures are those shown in the Survey of Current Business for March 1948.
- b/ Since totals in this table are carried over to the balance of payments, figures are given on a net basis.
- c/ Not including \$150 million supplemental appropriation requested for fiscal 1948.
- d/ Exclusive of about \$500 million of uncommitted lending authority at December 31, 1947. Since that date the President has requested an increase in the lending power of the Export-Import Bank of \$500 million.
- e/ Gross disbursements estimated at \$640 million, consisting of \$625 million out of existing authorizations and \$15 million out of new. Figure includes disbursements by private banks at Export-Import Bank risk.
- f/ Allocation for second quarter 1948.
- g/ Assumes no expenditure of loan funds in April-June quarter.
- h/ Assumes unchanged lag in expenditure of grant funds, and initial lag in third quarter in expenditure of loan funds.
- i/ Authorized for period April 1, 1948 - March 30, 1949. The actual appropriation request is for \$4,245 million, but \$55 million has already been appropriated and the RFC was authorized to advance \$1 billion.
- j/ Includes \$150 million for Japanese-Korean reconstruction, and also a \$150 million supplemental appropriation requested for the last quarter of fiscal 1948.
- k/ Based on estimated total transfers to Philippines, under both old and new appropriations, of about \$200 million, of which \$165 million represents war damage and rehabilitation payments under the Tydings Act, and \$35 million veterans benefits under present programs.
- l/ No time limit given in Foreign Assistance Act.
- m/ Taking into account the six-month lag in spending the previous appropriation of \$400 million.
- n/ Authorized for period April 1, 1948 - March 30, 1949.
- o/ Assuming 50 per cent lag in expenditure during April-June 1948 quarter, carried over as a constant lag thereafter.
- p/ Authorized to June 30, 1949 (15-month period).
- q/ Available from April 1, 1948, to June 30, 1949.

BELGIAN GOLD AND DOLLAR RECEIPTS IN EUROPE

Robert W. Bean

The payments difficulties which currently beset intra-European trade are for many countries most striking in their relations with Belgium. Nearly all countries in Europe have found it necessary recently to tighten restrictions against imports from that source. Despite these efforts to restore the balance, there is evidence that the flow of European gold and dollars to Belgium continues to be surprisingly great. This gives rise to two problems: one of measurement, and the other of evaluation. How much dollar aid would be needed by the ERP countries to continue their present trade with Belgium? How valuable is this trade in terms of its contribution to European recovery? No adequate answers to these questions can be provided in this short paper, but a few preliminary observations may be made.

On April 28, 1948, the Brussels financial press<sup>1/</sup> contained the following statement of Belgium's gold and dollar receipts in 1947 from countries outside the dollar area:

	<u>Millions of dollars</u>
United Kingdom	274.1
France	55.5
Netherlands	31.0
Other	<u>24.5</u>
	385.1

A large part of the \$274 million received from the United Kingdom was obtained under the Anglo-Belgian transferability agreement, in force during February-August 1947, in exchange for sterling earned from other countries. Among these were Norway, France, and a number of countries of Western Europe; but several important sources, e.g., Egypt and Palestine, were outside the ERP area. Although Belgium's import surplus of \$10 million from the United Kingdom was more than offset by current earnings from investments and tourist receipts, it is possible that Belgium also was able to transfer into dollars a considerable amount of sterling balances which had been held by Belgian nationals. In short, by no means all of the \$274 million represented current Belgian earnings of sterling from the ERP countries. Nor is it likely that the \$25 million derived from "other" countries, as shown in the table, came entirely from Europe. Current

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1/ Agence Economique et Financiere.

payments by the ERP countries alone, then, did not account for the whole \$385 million received by Belgium in 1947.<sup>1/</sup> A much smaller figure is indicated by the available estimates of Belgium's 1947 balance of payments.

Elsewhere in the present issue of this Review there is presented a table showing each ERP country's estimate of its 1947 balance of payments with the rest of the ERP area. Belgium's surplus on current account is shown there as only \$81 million. Is this a figure which might be accepted as a measure of the dollars needed annually by ERP countries to settle their current deficits with Belgium? There are not sufficient data available to provide an answer to this question, but it is difficult to believe that the difference between \$81 million and \$385 million could be explained entirely as net capital movements from other ERP countries plus Belgium's total net receipts from countries outside the ERP and dollar areas. A much closer examination of the data by the OEEC would surely be a worthwhile undertaking.

<sup>1/</sup> Further partial evidence of the strength of Belgium's position in Europe may be found in data on its gold holdings and transactions. Although providing only an incomplete picture, the development by quarters is sufficiently interesting to warrant their being presented here.

Belgium: Gold Transactions and  
Changes in Gold Reserves  
(In millions of dollars)

	Gold sales to the United States	Gold contri- bution to the International Monetary Fund	Change in gold reserves	Net gold receipts from other areas
<u>1947</u>				
First quarter	48	56	-102	+2
Second quarter	12		+10	+22
Third quarter	13		+7	+20
Fourth quarter	<u>150</u>		<u>-53</u>	<u>+97</u>
	223	56	-138	+141
<u>1948</u>				
First quarter	53		-6	+47

The final column in the table is derived from the other three, and includes receipts from new production in the Belgian Congo (\$11 million in 1947, not all of which, however, went to Belgium). This column would also reflect gold transactions with countries outside the ERP area. During 1947 Belgium developed a trade surplus of about \$15 million with the Union of South Africa, and this may have been settled in gold. For the most part, however, Belgium's net gold receipts in 1947 from "other areas" appear to have come from the ERP countries, primarily the United Kingdom, the Netherlands, France, and possibly also from Portugal and the Scandinavian states.

Belgian exports to other ERP countries and their dependencies in 1947 amounted to about \$1,080 million, or 17 per cent of all ERP intertrade. All but \$99 million was matched by Belgian imports from the same area. What would be the effect of an attempt by the ERP countries to eliminate their balance of payments deficits with Belgium by cutting imports? One could possibly pick out Belgian exports to these countries equal in value to the amount of their deficits and consisting of commodities which might be regarded as not indispensable. The recent report of the Economic Commission for Europe speaks of "the emphasis in Europe's postwar trade on products of a luxury or semiessential nature", and mentions "automobiles...wines and spirits, wools, silk, and rayon textiles of the more expensive varieties, cosmetics, artificial jewelry, and some of the costlier foodstuffs and confectionary."<sup>1/</sup> But it can scarcely be said of Belgium's exports that the emphasis is on products of this nature. The table below lists important categories of Belgian exports to its major ERP trading partners in 1947.

Belgian Exports to Other ERP Countries in 1947  
(In millions of dollars)

Importing country	Total	Iron and steel	Textiles and fibers	Non-ferrous metals	Machinery and equipment	Coal and derivatives	Vehicles	Other
Netherlands	179	47	19	8	20		7	78
France	174	9	15	30	20	16		84
United Kingdom	138	8	34	20				76
Switzerland	104	41	5	3		8	3	44
Sweden	77	23	18		3	3		30
Denmark	49	16	12	2	2			17
Norway	46	16	11	2	2			15
Italy	46	3		4		13		26
	813	163	114	69	47	40	10	370

Of those commodities specified in the table, amounting altogether to 55 per cent of all Belgian exports to other ERP countries in 1947, only certain textiles and some vehicles might fall into the category of nonessentials, and the remaining 45 per cent not specified were by no means all of a luxury character. Belgium thus has many counters to use for bargaining in trade discussions, which probably enable it to make tie-in arrangements for marketing its less essential goods. Moreover, nonessentials are frequently traded against nonessentials, and the effect of taking less Belgian lace might very well be loss of the Belgian market for liqueurs, thereby doing nothing to reduce the deficit. Elimination of luxury trade on both sides would still leave Belgium with an export surplus, for Belgium generally has more essential goods to offer than have its trading partners in Europe. It should be remembered that the countries which have been compelled to make large gold and dollar transfers to Belgium could have sacrificed their trade with Belgium in order to make larger purchases in the United States. The extent to which they have been willing to forego imports from the Western Hemisphere in order to make dollar purchases in Belgium is itself an indication of the essentiality of that trade.

<sup>1/</sup> A Survey of the Economic Situation and Prospects of Europe, Geneva, 1948.

PAYMENTS AND TRADE BETWEEN ERP COUNTRIES IN 1947

Albert O. Hirschman and  
Caroline Lichtenberg

The current payments difficulties in intra-European trade lend increased significance to a statistical review of the pertinent data for 1947. In this paper the available information is summarized and a few conclusions are suggested which may be relevant to present discussions.

I. Intra-European Balance of Payments

Table I summarizes the pattern of intra-European transactions on current account during 1947. The data in this table have been derived from national estimates and include transactions of the participating countries with the dependencies of other participating countries. As a rule, no data are included for the dependencies themselves. Therefore, the sums of debits and credits need not balance. Since, however, our statistics are still far from perfect, the residual item represents not only transactions of the dependencies but also errors and omissions in the other estimates.<sup>1/</sup>

The table shows that the total net deficits (or net surpluses) on trade account are small in relation to the total intertrade of the group. The ratio of the sum of the trade deficits (\$734 million) to total trade (\$6.5 billion) is only 11 per cent. The table does not show the gross debits and credits for invisibles, but since the aggregate net deficits including net invisibles is smaller than the aggregate trade deficits, the ratio of the net deficits on current account to the sum of transactions on current account must perforce be considerably smaller than the ratio for trade alone. The latter ratio (11 per cent) seems altogether normal, and in fact a little low, in comparison with similar ratios computed for world trade in the interwar period. It does not denote a marked state of imbalance and should not normally create insurmountable payments difficulties. The fact that such difficulties have emerged highlights the inadequacy of the present bilateral system of intra-European payments.

The most important creditors on intra-European account were Germany, Ireland, Belgium, and Italy. The Netherlands, Switzerland, Portugal, and the United Kingdom appear to have been the most important debtors. This pattern of debtor-creditor relationship clearly disproves the often expressed view that the typical intra-European debtors are the countries with the weakest balance of payments position in general.

II. Intertrade in Relation to Total Trade

Total intertrade of the ERP countries amounted in 1947 to approximately \$6 billion and possibly to as much as \$6.5 billion if trade of the dependencies is included.<sup>2/</sup> The following table reveals the importance of the intertrade of ERP countries (excluding their dependencies) in their total imports and exports.

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<sup>1/</sup> Details on the construction of all tables are given in the notes at the end of this paper.

<sup>2/</sup> Still excluding, however, trade between the dependencies and their respective mother countries.

	Total Intertrade <sup>a/</sup> (In billions of dollars)	Percentage Share of Intertrade	
		In total exports of ERP countries	In total imports of ERP countries
1938	4.7	51	38
1946	4.0	46	29
1947	6.0	46	30

<sup>a/</sup> Total intertrade represents total exports of ERP countries to each other (which of course equals total imports of ERP countries from each other).

At least half of the 50 per cent increase in intra-European trade from 1946 to 1947 may be ascribed to price increases. What increase in trade volume there was mainly reflects recovery from the low level of trade during the first half of 1946. Practically no progress appears to have been made since the last quarter of 1946 when total intertrade (excluding Germany) amounted at an annual rate to \$5.6 billion.<sup>1/</sup> In view of the increase in prices, this figure actually points to a decrease in trade volume in 1947 from the fourth quarter of 1946. Since dollar prices have roughly doubled since 1938, the 1947 volume of intertrade may be estimated at approximately two-thirds of prewar.

The percentage shares of intra-ERP trade in total imports and exports of all ERP countries were practically unchanged in 1947 with respect to 1946. Since the share in total ERP exports represented by exports to the United States declined from about 8 per cent in 1946 to 5.3 per cent in 1947, it must be concluded that a relative expansion of European exports toward overseas areas other than the United States took place in 1947. No similar shift occurred with respect to imports, the share of the United States remaining roughly stable at one-fourth of the total.

### III. Intertrade, Trade with the United States, and Total Trade of ERP Countries

Table II shows the comparative importance of intra-ERP trade and trade with the United States in total imports and exports of the individual ERP countries in 1947. Imports from the United States exceeded imports from other ERP countries for those countries which rely most heavily on aid from the United States, i.e., the United Kingdom, France, Italy, Germany, Greece, and Austria. On the export side the highest percentages of exports to the United States in total exports and in relation to exports to ERP countries was shown by those countries which remained neutral during the last war.

### IV. Bilateral Trade Relationships

Only trade data based on customs statistics are available for an analysis of bilateral relationships among the ERP countries in 1947. Tables III and IV present their imports from and exports to each other and bilateral trade balances, respectively. Preference has been given in general to export

<sup>1/</sup> Calculated in August 1947 in the Statistics Division of the International Monetary Fund.

statistics; statistics of the importing country, appropriately adjusted, have been used whenever export statistics were not available or were deemed unreliable. Discrepancies with the data in Table I are explained by the exclusion of the dependencies in Tables III and IV and by the difference in source (customs statistics in Tables III and IV vs. payments statistics in Table I).

In the absence of information on the magnitudes of bilateral transactions on invisible account, it is not possible to derive the actual pattern of payments among European countries. There is no attempt to integrate the data given here with the scattered information available on utilizations of reciprocal credits and gold or hard currency transfers during 1947. Aside from their intrinsic interest, Tables II and III allow us, however, to:

- (1) locate, at least roughly, the principal trouble spots in the pattern of intra-European payments, and
- (2) determine a potential pattern of offshore purchases within ERP countries which, while designed to finance a portion of net balances, would be related to the structure of bilateral balances and thereby result in a maximum economy in the use of the offshore purchase device.

The information given in Tables III and IV may conveniently be summarized in the form of frequency distributions.

Frequency Distribution of Bilateral  
Trade Balances

<u>Size of Balances</u> (Millions of dollars)	<u>Frequency</u>	<u>Aggregate Balances<sup>a/</sup></u>	
		<u>Millions of dollars</u>	<u>% of total</u>
0 - 1.9	47	40.0	3.3
2 - 4.9	20	57.8	4.7
5 - 9.9	22	163.9	13.4
10 - 19.9	12	170.0	13.9
20 - 29.9	8	191.5	15.7
30 - 49.9	6	238.6	19.5
50 - 100	5	361.3	29.5
Total	120	1,223.1	100.0

<sup>a/</sup> Bilateral balances are added regardless of sign; their sum is therefore equal to one-half of the sum of Columns (2) and (3) of Table V.

The 11 bilateral trade balances above \$30 million account for approximately one-half of gross bilateral balances and the 19 balances above 20 million make up almost two-thirds of the total. Among these 19 balances, the United Kingdom and Belgium are involved six times, Switzerland five times, and France, Italy, Germany, and Norway three times each.

It is of some interest to examine the relationship that exists between the volume of trade carried on bilaterally and the degree of imbalance in that trade. For this purpose our data have been grouped according to the size of the bilateral trade totals (imports plus exports), and the average trade values as well as the corresponding average trade balances have been computed for each frequency class. The results are shown in the following table.

Frequency Distribution According to Size  
of Bilateral Trade Totals

Size of trade (Millions of dollars)	Frequency (1)	Aggregate trade (2)	Aggregate trade balances (3)	Average trade <sup>a/</sup> (4)	Average balance <sup>b/</sup> (5)	Degree of imbalance <sup>c/</sup> (6)
		(Millions of dollars)				
0 - 9.9	51	152.5	69.9	3.0	1.4	46.7
10 - 19.9	17	259.5	92.1	15.3	5.4	35.3
20 - 49.9	16	507.5	113.5	31.7	7.1	22.4
50 - 99.9	15	1,019.5	213.7	68.0	14.2	20.9
100 - 199.9	13	1,758.5	440.1	135.3	33.9	25.1
200 - 400	8	2,300.2	293.8	287.5	36.7	12.8
Total	120	5,997.7	1,223.1	50.0	10.2	20.4

<sup>a/</sup> Column (2) divided by column (1).

<sup>b/</sup> Column (3) divided by column (1).

<sup>c/</sup> Column (5) as percentage of column (4).

It is seen that, in absolute terms, a larger volume of bilateral trade is associated with larger trade balances as might well be expected (columns 4 and 5). Even within the present framework of trade relations it has proven impossible to conduct trade on a significant scale without the "cost" of an increased imbalance in absolute terms. In relative terms, however, the imbalance decreases rather than increases with expanding trade (column 6). With one exception the ratio decreases regularly. This again is not unexpected since insuperable problems of financing would be created if the ratio were to increase. The high degree of imbalance characterizing the bilateral relationships among countries trading but little with each other does, however, come as something of a surprise. The explanation is probably that, since the absolute amounts and hence the financing problems are small, no determined effort is made to bring about a greater degree of bilateral balance.

#### V. Bilateralism, Multilateralism, and Net Balances

Table VI shows the intertrade of ERP countries subdivided into the categories "bilaterally compensable trade", "multilaterally compensable trade", and "net balances". The following figures show the comparative importance of the three categories of intertrade for 1938, 1946, and 1947.<sup>1/</sup>

<sup>1/</sup> Data for 1938 and 1946 are taken from A. O. Hirschman, "Trade Structure of the Marshall Plan Countries", Board of Governors of the Federal Reserve System, August 1947.



	<u>Bilaterally compensable trade</u>	<u>Multilaterally compensable trade</u>	<u>Net trade balances</u>
	(In per cent of total trade)		
1938	82	7	11
1946	69	10	21
1947	80	9	11

The return in 1947 to the prewar pattern is striking. The net balances have actually decreased not only in percentage, but in absolute terms. The most important single cause for this change is the decrease in the export surplus of the United Kingdom, from \$630 million in 1946 to \$268 million in 1947 (almost one-half of which is due to trade with Ireland). As can be seen from Table I, the United Kingdom reverted in 1947 to its traditional position as a net debtor on intra-European account in spite of still substantial relief shipments to the Continent.

In the absence, at least for the largest part of the year, of inter-convertibility of European currencies, gross rather than net balances give a more nearly correct picture of the magnitude of the financing task that had to be faced in 1947. While multilaterally compensable trade, i.e., the difference between gross and net balances, has remained virtually unchanged between 1946 and 1947 in relation to total trade, it has increased from approximately one-third to almost one-half of the total gross balances. In view of these data, there can be little doubt that a mechanism for the automatic clearing of bilateral balances with opposite signs in the intertrade of the ERP countries would make a substantial contribution to the solution of the intra-European payments problem.

Table I  
Estimated Balances of Payments with Other ERP  
Countries in 1947  
(In millions of dollars)

Country	Imports	Exports	Merchandise Balance	Net Invisibles	Balance on Current Account
Austria	78.6	53.6	-25.0	-7.5	-32.5
Belgium-Luxembourg	980.0	1,079.0	+99.0	-18.0	+81.0
Denmark	338.3	348.3	+10.0	+25.1	+35.1
France	693.0	733.0	+40.0	-29.0	+11.0
Germany	202.0	319.0	+117.0	+11.3	+128.3
Greece	82.0	46.0	-36.0	-3.5	-39.5
Iceland	40.8	27.4	-13.4	-2.0	-15.4
Ireland	291.0	237.0	-54.0	+156.7	+102.7
Italy	336.5	406.5	+70.0	-2.2	+67.8
Netherlands	534.9	381.9	-153.0	--	-153.0
Norway	398.0	239.4	-158.6	+62.1	-96.5
Portugal	135.9	71.6	-64.3	-3.7	-68.0
Sweden	541.5	509.5	-32.0	+7.5	-24.5
Switzerland	576.8	379.3	-197.5	+75.0	-122.5
Turkey	120.7	145.8	+25.1	-17.5	+7.6
United Kingdom	1,112.3	1,329.9	+217.6	-274.4	-56.8
Errors and Omissions	--	155.1	+155.1	+20.1	+175.2
Total	6,462.3	6,462.3	--	--	--
Total Credits or Debits			733.8	357.8	608.7

For notes to this table, see below.

Table II  
 Intertrade, Trade with the United States, and  
 Total Trade of ERP Countries in 1947  
 (In millions of dollars)

Country	Imports				Total Imports	Exports				Total Exports
	From ERP Countries Millions of dollars	% of total imports	From the United States Millions of dollars	% of total imports		To ERP Countries Millions of dollars	% of total exports	To the United States Millions of dollars	% of total exports	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Austria	75.9	35.6	102.0	47.7	213.4	58.5	69.6	4.4	5.2	84.0
Belgium-	768.0	41.8	534.6	29.1	1,837.9	884.4	63.3	58.6	4.2	1,396.7
Luxembourg	301.7	58.0	77.9	15.0	520.4	339.8	72.3	5.1	1.1	470.2
Denmark	656.9	23.3	817.3	29.0	2,816.3	721.3	40.4	47.0	2.6	1,786.1
France	202.0	24.6	581.8	70.9	820.1	317.4	95.3	6.3	1.9	333.0
Germany	84.0	25.8	166.5	51.0	326.2	45.8	60.7	16.6	22.0	75.4
Greece	39.5	53.5	15.7	21.3	73.8	29.5	64.6	3.1	6.7	45.7
Iceland	291.2	73.0	88.8	22.3	398.7	157.4	97.4	2.8	1.7	161.6
Ireland	288.9	21.0	587.7	42.7	1,377.0	380.1	51.0	44.1	5.9	745.6
Italy	567.8	39.8	383.7	26.9	1,427.9	434.0	60.2	26.5	3.7	721.4
Netherlands	354.7	53.5	147.0	22.2	663.5	217.3	58.7	22.1	6.0	370.2
Norway	133.6	43.6	94.4	30.8	306.0	70.1	40.9	21.0	12.2	171.6
Portugal	507.1	38.6	397.7	30.3	1,312.9	505.7	56.8	92.6	10.4	890.7
Sweden	520.4	50.4	194.2	18.8	1,031.9	368.6	49.1	83.4	11.1	751.2
Switzerland	117.5	35.6	82.2	24.9	330.3	110.8	39.5	57.2	20.4	280.2
Turkey	1,088.5	16.5	1,113.5	16.9	6,587.7	1,357.0	28.4	205.1	4.3	4,779.2
United Kingdom	5,997.7	29.9	5,385.0	26.9	20,044.6	5,997.7	45.9	695.9	5.3	13,062.8
Total										

For notes to this table, see below.

Table III  
 Intertrade of ERP Countries in 1947  
 (In millions of U.S. dollars)

Exporting Country	Importing Country														Total Exports		
	Austria	Belgium-Lux.	Denmark	France	Germany	Greece	Iceland	Ireland	Italy	Netherlands	Norway	Portugal	Sweden	Switzerland		Turkey	Kingdom
Austria	-	2.1	.6	3.7	3.6	1.8	(-)	(-)	13.8	3.1	.1	.1	3.1	21.2	.8	4.5	58.5
Belgium-Lux.	3.6	-	48.8	174.3	15.9	10.4	1.2	10.6	45.6	179.5	46.1	19.6	77.5	104.0	9.1	138.2	884.4
Denmark	2.7	42.0	-	12.4	17.8	.7	3.6	1.9	16.5	12.6	26.0	3.3	43.5	36.2	.4	120.2	339.8
France	5.4	217.4	14.6	-	48.8	3.2	1.0	5.1	18.1	69.3	28.5	15.1	51.1	111.8	7.0	124.9	721.3
Germany	22.1	38.4	14.8	116.5	-	2.4	n.a.	n.a.	10.4	24.3	8.4	1.4	7.3	15.7	(-)	56.7	317.4
Greece	1.0	1.2	(-)	1.6	(-)	-	.7	.7	11.3	1.4	.8	(-)	1.2	1.6	.3	24.0	45.8
Iceland	(-)	.5	1.6	1.9	n.a.	2.0	-	.1	3.7	.9	.7	(-)	1.4	.1	(-)	16.5	29.5
Ireland	(-)	7.6	.1	.7	1.8	(-)	(-)	-	.1	4.0	.1	.1	.2	.9	(-)	141.8	157.4
Italy	8.0*	22.6*	13.6*	20.3*	2.0*	8.5*	2.0*	6.9*	-	25.1*	20.4*	2.6*	51.4*	67.4*	30.7*	98.6*	380.1*
Netherlands	3.7	110.2	10.6	51.3	9.8	1.9	1.2	10.6	20.4	-	24.8	7.5	46.6	41.2	3.8	90.4	434.0
Norway	1.6	19.7	27.8	23.2	4.0	2.4	.9	1.9	12.1	18.7	-	9.0	38.9	3.6	.4	53.1	217.3
Portugal	(-)	16.8	1.9	4.1	.5	n.a.	.1*	2.8	1.8	6.4	2.6	-	4.5	2.8	.5*	26.3	70.1
Sweden	1.6	59.5	37.7	51.1	5.1	5.4	4.8	7.7	25.7	54.0	67.9	11.4	-	29.5	7.9	136.4	505.7
Switzerland	9.1	71.4	15.4	69.7	5.1	2.6	.6	1.8	48.9	35.7	4.3	15.6	51.0	-	10.1	27.3	368.6
Turkey	.3	10.4	.5	10.1	(-)	9.7	n.a.	1.5	23.6	1.9	1.1	(-)	5.8	8.7	-	36.6	110.8
United Kingdom	16.2	148.1	108.7	116.0	87.6	33.0	23.4	239.6	36.9	130.9	122.9	47.9	123.6	75.7	46.5	-	1,357.0
Total Imports	75.9	768.0	301.7	656.3	202.0	84.0	39.5	291.2	288.9	567.8	354.7	133.6	507.1	520.4	117.5	1,088.5	5,997.7

For notes to this table see below.

Table IV  
Bilateral Trade Balances in Intertrade of ERP Countries in 1947  
(In millions of U.S. dollars)

Trade Balances of Trading Partners	Trade Balances															
	Austria	Belgium- Lux.	Denmark	France	Germany	Greece	Iceland	Ireland	Italy	Nether- lands	Norway	Portugal	Sweden	Switzer- land	Turkey	United Kingdom
Austria	-	+1.5	+2.1	+1.7	+18.5	-8	(-)	(-)	-5.8	+6	+1.5	-1	-1.5	-12.1	+1	+11.7
Belgium-Lux.	-1.5	-	-6.8	+43.1	+22.5	-9.2	-6	-3.0	-23.0	-69.3	-26.4	-2.8	-18.0	-32.6	+1.3	+9.9
Denmark	-2.1	+6.8	-	+2.2	-3.0	-7	-2.0	-1.8	+2.1	-2.0	+1.8	-1.4	-5.8	-20.8	+1	-11.5
France	-1.7	-43.1	-2.2	-	+67.7	-1.6	+9	-4.4	+2.2	-18.0	-5.3	-11.0	(-)	-42.1	+3.1	-8.9
Germany	-18.5	-22.5	+3.0	-67.7	-	-2.4	(-)	+1.8	-8.4	-14.5	-4.4	-9	-2.2	-10.6	(-)	+31.9
Greece	+8	+9.2	+7	+1.6	+2.4	-	+1.3	-7	+5	+1.6	(-)	+4.2	+1.0	+9.4	+9.0	+9.0
Iceland	(-)	+6	+2.0	-9	(-)	-1.3	-	-1	+3	+2	+1	+3.4	+5	(-)	+6.9	+6.9
Ireland	(-)	+3.0	+1.8	+4.4	-1.8	+7	+1	-	+6.8	+6.6	+1.8	+2.7	+7.5	+9	+1.5	+97.8
Italy	+5.8	+23.0	-2.1	-2.2	+8.4	+2.8	+1.7	-6.8	-	-4.7	-8.3	-8	-25.7	-18.5	-7.1	-56.7
Netherlands	-6	+69.3	+2.0	+18.0	+14.5	-5	-3	+4.7	-	-6.1	-1.1	-1.1	+7.4	-5.5	-1.9	+40.5
Norway	-1.5	+26.4	-1.8	+5.3	+4.4	-1.6	-2	+8.3	+6.1	-	-6.4	+7	+29.0	+7	+69.8	+69.8
Portugal	+1	+2.8	+1.4	+11.0	+9	(-)	-1	-2.7	+8	+1.1	+6.4	-	+6.9	+12.8	-5	+22.6
Sweden	+1.5	+18.0	+5.8	(-)	+2.2	-4.2	-3.4	-7.5	+25.7	-7.4	-29.0	-6.9	-	+21.5	-2.1	-12.8
Switzerland	+12.1	+32.6	+20.8	+42.1	+10.6	-1.0	-5	-9	+18.5	+5.5	-7	-12.8	-21.5	-	-1.4	+48.4
Turkey	-1	-1.3	-1	-3.1	(-)	-9.4	(-)	-1.5	+7.1	+1.9	-7	+5	+2.1	+1.4	-	+9.9
United Kingdom	-11.7	-9.9	+11.5	+8.9	-31.9	-9.0	-6.9	-97.8	+56.7	-40.5	-69.8	-22.6	+12.8	-48.4	-9.9	-
Net Balance	-17.4	+116.4	+38.1	+64.4	+115.4	-38.2	-10.0	-133.8	+91.2	-133.8	-137.4	-63.5	-1.4	-151.8	-6.7	+268.5

For notes to this table see below.

Table V  
Bilateralism, Multilateralism, and Net Balances  
in the Intertrade of ERP Countries  
(In millions of dollars)

<u>Country</u>	<u>Bilaterally</u> <u>Compensable</u> <u>Trade</u>	<u>Multilaterally</u> <u>Compensable</u> <u>Trade</u>	<u>Net</u> <u>Balances</u>	<u>Total</u> <u>Trade</u>
	(1)	(2)	(3)	(4)
Austria	76.4	40.6	(-) 17.4	134.4
Belgium-Luxembourg	1,382.4	153.6	(+) 116.4	1,652.4
Denmark	577.4	26.0	(+) 38.1	641.5
France	1,166.0	147.8	(+) 64.4	1,378.2
Germany	330.6	73.4	(+) 115.4	519.4
Greece	84.6	7.0	(-) 38.2	129.8
Iceland	51.0	8.0	(-) 10.0	69.0
Ireland	311.2	3.6	(-) 133.8	448.6
Italy	494.4	83.4	(+) 91.2	669.0
Netherlands	822.8	45.2	(-) 133.8	1,001.8
Norway	408.0	26.6	(-) 137.4	572.0
Portugal	133.6	6.6	(-) 63.5	203.7
Sweden	864.8	146.6	(-) 1.4	1,012.8
Switzerland	659.6	77.6	(-) 151.8	889.0
Turkey	189.2	32.4	(-) 6.7	228.3
United Kingdom	1,997.2	179.8	(+) 268.5	2,445.5
All Countries	9,549.2	1,058.2	1,388.0	11,995.4
Total Intertrade	4,774.6	529.1	694.0	5,997.7

For notes to this table, see below.

Note to Table I

The figures in this table are based on information from the ERP countries, and are in general based on data collected by the national exchange control authorities.

Balance on Current Account. The United Kingdom follows the practice of including as a debit on the payments side of its current account an offset to its relief shipments (cost of Germany, UNRRA, etc.) which actually should be offset (as is current practice in the U.S. balance of payments) in the capital account. Accordingly, an amount of \$140 million corresponding to these shipments has been deducted from the net debit balance given by the United Kingdom as incurred with the other participating countries. The data include transactions with the dependencies of other participating countries, but no reliable data are available for the transactions of the U.K. and Dutch dependencies with other participants. Data for the French dependencies (for which only a net balance is available) have been excluded. The missing \$175.2 million by which total net debit balances exceed total net credit balances can therefore in part be explained by the net surplus of the dependencies with the participants (other than their mother countries).

Trade Data. Addition of total imports and total exports (both on an f.o.b. basis) reveals an excess of the former over the latter of approximately \$300 million. A portion of this largely spurious discrepancy could be eliminated by adjustments on the basis of customs statistics. These adjustments have been offset by corresponding changes in the net invisible accounts so as to leave unchanged the net current account balance of individual countries as reported. The rationale underlying this adjustment method is the assumption that estimates of net outgo or income are likely to be more reliable than estimates of the individual items leading up to the net position.

Note to Table II

Imports. Imports from ERP countries are taken from Table III, in which the data are based on export statistics (see note to Table III). Imports from the United States are official U.S. statistics, and include imports under foreign aid programs. Total imports are therefore derived as the sum of (1) imports from ERP countries according to export statistics of other ERP countries; (2) imports from the United States according to the export statistics of the United States; and (3) imports from all other countries according to import statistics, but diminished by 10 per cent so as to place all figures on an approximate f.o.b. basis.

Exports. Exports to ERP countries are those shown in Table III. Exports to the United States are taken from U.S. import statistics. Total exports are based on official customs statistics adjusted for this substitution.

U.S. statistics have been given preference over European statistics because the latter often omit relief shipments.

Note to Table III

Figures marked by an asterisk are derived from official import statistics decreased by 10 per cent. All other figures are based on official export statistics. All German trade figures are F.R.B. estimates, excluding the Soviet zone, based on reports of the occupying powers and statistics of Germany's trade partners. Official exchange rates were used throughout for conversion into dollars. The sign (-) indicates that trade amounted to less than \$50,000.

Note to Table IV

This table is derived from Table III. All signs refer to credit or debit positions of countries shown in column headings.

Note to Table V

For the method of dividing trade into the three categories of (1) bilaterally compensable trade, (2) multilaterally compensable trade, and (3) net balances, cf. League of Nations, Review of World Trade, 1935 (Geneva, 1936), p. 65.

Minus and plus signs in column (3) refer to import and export surpluses, respectively. Summation is made regardless of sign.

The figures for "Total Intertrade" are one-half of those for "All Countries"; the latter figures contain twice the amount of the actual flow of trade since every movement of goods is recorded in both imports and exports.