

The East-West Balance of Payments Tangle

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IN THE palmy days of multi-lateral trade and currency convertibility there was a more or less clear-cut pattern of world trade. Europe obtained its industrial materials from Asian and African sources which were paid for by finished goods, investment funds and shipping services. United States also purchased its materials from these sources but the payment for these was settled triangularly through Europe which used to run up an import surplus with the States. There was a net outflow of dollars to the under-developed countries which moved back to their origin through Europe. Europe and the other parts of Eastern hemisphere commanded the greatest share of world's trade.

The picture has changed considerably as a result of the recent war. The world-wide shortage of dollars is the result of a situation in which the United States is exporting commodities and funds in a much larger measure than the rest of the world. Consequently, balance of payments of the rest of the world have got into a jam. Free convertibility cannot be allowed, flow of funds has to be restricted to the minimum, freedom of trade must be hemmed in on all sides by quotas and licenses.

Howsoever unpalatable, these are the facts, and they have to be accepted. The question is, is Europe and the rest of the world pulling itself out of the pit of dollar deficits? If so, how far and how rapidly? It is obviously impossible to do without American goods and Kinds in a world which has not yet recovered to its feet

from war devastation. Yet America may buy more raw materials and semi-finished commodities from Asia and Africa, and these would be paid off by means of the finished goods from Europe. That however, is not so simple; (North) Americans buy their materials from Latin America, Europe would not be able to cater to the needs of industrialising Asia and Africa. Dollar shortage is, therefore, likely to continue though on a diminishing scale.

Let us contrast the balance of payments of 1948 with that of 1938. The Table below sets out the balance of payments of eight trading areas for the two years. As will be seen, Europe as a whole (inclusive of U.S.S.R.) has nearly trebled its payments deficit from two to six thousand million dollars, while U.S.A. and Canada have as much as sextupled their surpluses from one thousand to nearly six thousand million dollars. Asia ran up a deficit of 766 million in the place of a surplus of 25 million during 1938. The African deficit has mounted from 92 to 440 million. Thus we see how all the leading areas with the exception of Latin America (mostly in the dollar zone) have come in for payment deficits with the United States and Canada.

Now turn to question, how are the non-dollar countries trying to heave themselves out of the debtors' morass? One wishes one could answer the question adequately. But that does not seem to be possible. Neither Asia nor Africa possess any public record of their annual balance of payments position. No doubt the In-

ternational Monetary Fund or the Department of Economic Affairs of the U. N. may have built up reliable estimates in this respect, but these are not available for popular scrutiny. The only source of public knowledge is the *Economic survey of Europe in 1947 and 1948*. The Survey Report for the latter year shows a substantial reduction in deficit—of two thousand million dollars—was obtained in 1948 over the previous year. This was mainly achieved on merchandise account. Intra-European trade was also developed and registered an increase of over 200 million dollars. But greater obstacles are being felt in this respect because of difficulties of currency convertibility and the pursuit of sectional policies. The Organisation of European Economic Co-operation strove to promote intra-European trade, but it is seen to be bi-lateral rather than multi-lateral in pattern. Currency convertibility cannot be restored, especially for the sterling, because the sterling reserves have been depleted and any further drain would put them in serious peril. This is adequately sustained by this week's crisis of the sterling of which the British Chancellor of Exchequer spoke in Parliament the other day.

Though slowly and painfully, economic co-operation between European countries is progressing apace. If the 1948 rate of recovery is maintained in 1949, European dependence on the dollar areas may be relatively diminished. Yet the prospect of this coming through must not be exaggerated. Already hi-lateral bargaining has been pushed far enough by Euro-

pean countries and the scope for further extension does not seem to be much. However Europe-Asia-Africa trade relationship does not seem to have been explored satisfactorily. In that direction there is perhaps greater hope for dollar-indebted countries.

The Table appended holds out scarcely any hope that the overwhelming dependence of the rest of the world on the dollar area can be *considerably* reduced: In 1950, perhaps in 1951, the rest of the world looks like remaining dollar-hungry. The pre-war pattern

of world trade is not likely to be replaced in the near future. But if an organisation of Asian Economic Co-operation is set up, it may as well try and bring Europe and Asia more fruitfully together for bringing about a more balanced international division of labour.

1938 AND 1948 WORLD BALANCE OF PAYMENT

(Millions of Dollars in current f.o.b. prices)

(Surplus + ; Deficit --)

Trading Area	Year	Eastern European Countries (i)	USSR	Rest of Europe (ii)	U.S.A. & Canada	Latin America	Oceania	Africa	Asia	Net Surplus (+) or Deficit (-)
		1								
1. Eastern European Countries (a)	1938		+ 7	+ 208	- 27	- 5	- 9	..	+ 3	+ 177
	1948		- 60	+ 240	- 83	- 3	- 20	- 39	- 9	+ 26
2. U.S.S.R.	1938	- 7		+ 103	- 53	- 4	- 7	+ 2	+ 3	+ 37
	1948	+ 60		+ 187	+ 56	..	- 23	- 12	- 45	+ 223
3. Rest of Europe (b)	1938	-208	-103		- 966	- 390	-254	+ 96	-219	-2044
	1948	-240	-187		-3928	-1451	-508	+138	- 17	-6193
4. U.S.A. & Canada	1938	+ 27	+ 53	+ 966		+ 82	+112	+ 92	- 35	+1297
	1948	+ 33	+ 56	+3928		+ 784	- 37	+440	+766	+5908
5. Latin America	1938	+ 5	+ 4	+ 390	- 82		+ 1	+ 27	- 53	+ 292
	1948	+ 3	..	+1451	- 784		(d)	(d)	(d)	+ 670 (c)
6. Oceania	1938	+ 9	+ 7	+ 254	- 112	- 1		- 6	- 41	+ 122
	1948	+ 20	+ 23	+ 508	+ 37	(d)		(d)	(d)	+ 588 (c)
7. Africa	1938	..	- 2	- 96	- 92	- 27	- 6		-113	- 336
		+ 39	+ 12	- 138	- 440	(d)	(d)		(d)	- 527 (c)
8. Asia	1938	- 3	- 3	+ 219	+ 35	+ 53	+ 41	+113		+ 455
		+ 9	+ 45(c)	+ 17	- 766	(d)	(d)	(d)		- 695

NOTES: (a) Including Czechoslovakia, Poland, Rumania, Hungary, Yugoslavia and Bulgaria.

(b) Including United Kingdom, Iceland, Eire; France, Netherlands, Belgium, Luxemburg, Switzerland; Italy, Greece, Spain, Portugal, Turkey; Denmark, Sweden, Norway, Finland; Germany and Austria.

(c) Exports of U.S.S.R. to Asia not known. \$45m. are all imports into the Soviet Union.

(d) Not known.

(e) Approximate only, because of (d).

(Source: **Economic Survey of Europe in 1948: U.N. Department of Economic Affairs, 1949**).