

As indicated on p. 480, the year 1937, when compared with 1929 (since in these two years industrial and trade conditions were active and price disparity was reduced to a minimum), offers an opportunity to consider the tendencies in world trade due to other influences. While space does not permit an exhaustive analysis of the circumstances which have determined the changes taking place, certain of the chief factors may be mentioned.

*The Tendency towards Bilateralism.*—The unrestricted trade of each country usually results in an export surplus with certain countries and an import surplus with other countries. In the early depression years the rather complicated structure of trade balances of this kind was seriously disturbed by the cessation of capital exports and other factors. A strong tendency to restrict triangular or multilateral trade and thus make international transactions (particularly merchandise trade) balance in each direction, has been one of the most outstanding factors in the commercial policy of numerous countries since 1931. As an equalization of the balances in certain directions entails a similar equalization in others, attempts to balance trade between two countries have sometimes had world-wide and unintentional effects.

*Increased Intra-Imperial Trade.*—The increase since 1929 in the United Kingdom's share in the imports as well as the exports of Australia, Canada, and New Zealand, and in the exports of India must be attributed largely to tariff preferences and other measures encouraging British intra-Commonwealth trade. Similarly, in the cases of France and Italy, the shares of overseas countries under their control in the total trade of those countries has increased, with a resultant decline in the share of such important trading countries as the United Kingdom and United States in the trade of France and Italy.

*Exchange Control and Clearing Agreements.*—Germany has to an increasing extent diverted her exports from industrial creditor countries to raw-material countries. One of her reasons for this has been to reserve her currency supply for the purchase of raw materials in bilateral exchange. Certain industrial creditor countries, which had endeavoured to safeguard a portion of the financial payments due to them by Germany through clearing agreements with that country, have found it necessary to restrict their exports to Germany. These exports were also curtailed by German measures taken to reduce imports of manufactured goods. The raw-material countries that have expanded their trade with Germany are principally those applying exchange control. The higher prices paid by Germany in exchange clearing have afforded a special inducement to exporters in those countries to dispose of their products in Germany but the necessity for importing German manufactured products in exchange has frequently proved uneconomical to them.

*Decline of International Specialization.*—International trade depends largely upon the relative advantage of the production of different types of goods in different countries. It has been frequently pointed out that protective measures aiming directly at the lessening of international specialization of production are likely to have an adverse effect upon the quantum of trade of the countries concerned and to affect the composition and geographical distribution of their trade. Less attention has been paid to the fact that measures merely interfering with the geographical distribution of trade also tend to reduce the international specialization of production. Countries with highly diversified production and exports have, as a rule, been able, without great difficulty, to adapt the geographical distribution of their trade to the influences of modern commercial policy. Countries whose production and exports are specialized in favour of one or a few articles have proved much more