

influence, the stimulating effect seems to have preponderated. But even to the extent that armament policies have not directly affected the terms of trade between industrial and non-industrial countries, it has probably contributed to the maintenance of a higher business activity within countries, in general, and has indirectly stimulated international trade.

*Formation of Economic Groups of Countries.*—The disintegration of world trade through the formation of economic groups reflects the measures of trade and currency control through which countries have endeavoured to avert the effect of the disturbances in their international account that became manifest during the early part of the trade depression. There has been a relative increase in trade between certain big industrial countries and such raw-material-producing countries as are bound to them by political ties or are otherwise dominated by their influence. In the first instance, trade has increased between mother countries and their dominions, colonies, and protectorates. But the relative increase in trade within these groups has been brought about not only by discriminatory measures but largely by the fact that the countries of each group have the same currency, or currencies, which have been linked to each other. The importance of monetary stability may be illustrated by the fact that, besides the British Commonwealth, other countries which are generally classed as belonging to the 'sterling bloc' have also increased their share in the trade of the United Kingdom.

As an illustration of the changes in trade that this procedure brought about, the trading percentages for the years 1929, 1935, and 1938 show the current trend. Imports of the United Kingdom from countries comprising her Empire were 30·2 p.c. of the total in 1929, 39 p.c. in 1935, and 41·9 p.c. in 1938. Similarly, imports from countries of the sterling bloc increased slightly from 12 p.c. in 1929 to 12·5 p.c. in 1935, and 12·8 p.c. in 1938. In 1929, 44·4 p.c. of exports from the United Kingdom went to Empire countries as compared with 47·6 p.c. in 1935, and 49·9 p.c. in 1938. Exports to countries of the sterling bloc made up 7·4 p.c. of total exports in 1929, 11·5 p.c. in 1935, and 11·7 p.c. in 1938.

The redistribution of trade is illustrated even more strikingly in the case of Japan. Between 1935 and 1938, the share in Japan's exports of countries falling within her special sphere of influence rose from 41 p.c. to 63 p.c. In the same period German exports to southeastern Europe and Latin America rose from 17 p.c. to 25 p.c. of the total.

The disorganization of the system of multilateral trade has led to difficulties in financing imports of primary products required by industrial countries. The non-industrial countries within the respective "empires" are indebted to their mother countries and normally have to meet the payments due by the aid of an excess of exports over imports. The production of these countries is highly specialized and their exports—and accordingly their surplus of exports—have a natural tendency to spread over a wide range of industrial countries besides those to which the debts are due. The transfer of the debt payment is rendered possible by an excess of exports of these raw-material-producing countries, either in their trade with the respective creditor countries or with countries that in their turn have an excess of exports to the creditor countries. Practically all important trading countries, irrespective of their political and geographical situation, are involved in this system of triangular and multilateral trade.

In 1938, the decline in the imports of several creditor countries, the deterioration in the terms of trade of agricultural countries and the resulting prominence given to