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INTELLIGENCE MEMORANDUM

RECENT TRENDS IN FINNISH-SOVIET TRADE

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CENTRAL INTELLIGENCE AGENCY

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FOREWORD

The purpose of this memorandum is to recount and analyze the post-war trends in Finnish-Soviet trade which have made Finland vulnerable to economic pressure by the USSR. The visit of President Kekkonen to the USSR on 22-24 January 1959 portends the resumption of normal Finnish-Soviet trade. Such a resumption, however, will not affect the conclusions of this memorandum.

This memorandum has been coordinated informally with the Office of Current Intelligence and with the Department of State.

- iii -

~~S E C R E T~~

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Historical Background, 1945-57	2
A. Reparations	2
B. Postwar Trade	5
C. Failure of Trilateralism	7
D. Devaluation of the Finnmark	9
II. Finnish-Soviet Trade, 1958	11
A. Ruble Balance	11
B. Corrective Measures	14
C. Economic Pressure	16
III. Finland Between East and West	18
A. East-West Trade Policy	18
B. Vulnerability of Finland to Soviet Economic Pressure	20

Appendixes

Appendix A. Statistical Tables	25
Appendix B. Source References	29

Tables

1. Commercial and Noncommercial Exports by Finland to the USSR, 1945-52	4
2. Commodity Composition of Exports and Reparations Deliveries by Finland, 1935-37, 1944-52, and 1955-57 . .	6
3. Commodity Trade of Finland with the USSR, 1954-56	8

	<u>Page</u>
4. Foreign Exchange Reserves of Finland, 1957 and 1958	12
5. Total Trade and Trade with the Sino-Soviet Bloc by Finland, Averages 1954-56	21
6. Dependence of Certain Sectors of Finnish Industry on Markets of the Sino-Soviet Bloc, 1956	23
7. Total Trade of Finland with the World and with the Sino-Soviet Bloc, 1950-57 and January-August 1958	26
8. Trade of Finland with the USSR, by Commodity Group, 1953-57	28

Charts

	<u>Following Page</u>
Figure 1. Foreign Trade of Finland, by Trading Areas, 1938 and 1950-57	6
Figure 2. Ruble Balances Held by the Bank of Finland, 1957-58	14

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RECENT TRENDS IN FINNISH-SOVIET TRADE*

Summary and Conclusions

On 4 December 1958 the coalition government of Prime Minister Fagerholm fell, a victim of Finland's vulnerability to Soviet economic pressure. The economic losses incurred by Finland in two wars with the USSR and Soviet insistence that Finland deliver reparations valued at more than US \$500 million, primarily in commodities not previously exported to any large extent by Finland, left Finland impoverished and vulnerable to Soviet economic encroachments.

The forced expansion of Finnish industry, primarily geared to deliveries of reparations, left Finland dependent on Soviet markets even after such deliveries had been completed. The serious post-Korean War decline in world demand for wood and wood products (over 80 percent of total Finnish exports), the inability of Finland to find suitable markets in the West for goods primarily fashioned to Soviet needs, and the general noncompetitive character of Finnish exports have made it imperative, in Finnish eyes, for Finland to retain its markets in the Sino-Soviet Bloc.

The dependence of Finland on the Soviet Bloc as a primary market for its industrial production, in turn, has engendered a substantial reliance on the Bloc as a source of supply. Faced with the prospect of increasing already large accumulations of inconvertible ruble balances, Finland has been obliged to import large quantities of goods from the Bloc. The bulk of Finland's import requirements for petroleum, coal, bread grains, sugar, fodder, fertilizers, and, to a lesser extent, for iron and steel, ferroalloys, and cotton now are supplied by the USSR and its Satellites.

That such close commercial ties with the Soviet Bloc constitute a latent danger to Finnish independence and make Finland vulnerable to Soviet pressure is evident both to Western observers and to the Finns themselves. There is little in the economics of the situation itself, however, which commits Finland irrevocably to such dependence. Principal Finnish imports from the Bloc presumably could be replaced by the Free World. In terms of Western supplies, annual Finnish requirements of such commodities as grain, oil, and coal are not very large. The

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 1 February 1959.

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crux of Finland's dependence on the Bloc, therefore, is almost exclusively in the field of exports and particularly of those exports that affect Finnish employment. Finland has made significant strides through devaluation and lowering costs of production toward increasing the ability of its metalworking and shipbuilding industries to compete in both domestic and foreign markets. The situation, however, remains a dangerous one for the Finns. There seems little question that if the USSR were suddenly to cut its trade ties with Finland and that if Western markets could again absorb the bulk of Finland's traditional exports, Finland could adjust to new patterns of production, consumption, and foreign trade with areas outside the Sino-Soviet Bloc. Emergency aid, in the form of loans, probably would be required during the transitional period to finance essential imports from the West which Finland currently obtains from the Bloc, to finance continuing production in industries which normally export to the Bloc in order to avoid any further increase in unemployment, and to finance the expansion and reconversion of those industries ultimately capable of competing in Western markets. The period of adjustment would be uncomfortable but, with Western support, would be possible economically, although perhaps difficult politically.

There is, of course, little reason to believe that the USSR would hesitate to attempt to scuttle the economy of Finland by a sudden curtailment of trade if, in Soviet opinion, Finnish behavior warranted such a drastic measure. Barring such a contingency, and the facts of geography militate against any Finnish repudiation of its policy of "friendly neutrality" toward the USSR, any more drastic Soviet action than a continuation of economic pressure, which succeeded in toppling the Fagerholm government, appears unlikely. Such action not only would serve to revive to the fullest the bitterness felt by most non-Communist Finns toward the USSR but also would ruin the much advertised Soviet picture of friendly coexistence between the Communist giant and its small capitalist neighbor.

I. Historical Background, 1945-57.

A. Reparations.

Involvement in two major conflicts between 1940 and 1945, coupled with the particularly stringent provisions of the peace treaty imposed by the USSR, left Finland impoverished and its foreign trade practically at a standstill. Finland was forced to cede to the USSR approximately 13 percent of its territory, including 11 percent of its

cultivated land; 432 plants which had contributed more than 10 percent of its total industrial production; 600 miles of railroad trackage, approximately 17 percent of the total; plants which in the prewar period had produced 32 percent of its hydroelectric power; and many valuable ports which had handled almost 20 percent of the prewar exports of Finland.

Especially hard hit were the woodworking plants that had produced the bulk of Finland's exports before World War II. Among the plants surrendered to the USSR were 65 sawmills and planing mills, which had produced 12 percent of the total output in 1938, and many other factories and plants, which had accounted for 26 percent of the chemical pulp, 15 percent of the plywood, 12 percent of the mechanical pulp, and 5 percent of the paper produced by Finland. It has been estimated officially that the economic loss in the ceded territories represented almost 13 percent of the natural resources of Finland before the war.

The difficulties that beset the already strained economy of Finland were increased by the reparations that were imposed by the armistice treaty of September 1944 and later confirmed by the peace treaty of 1947. Finland was obliged to pay war reparations in kind to the USSR amounting to US \$300 million (1938 dollars), payable within a 6-year period. Although subsequent agreements reduced the sum to \$226 million (1938 dollars) and extended the term of payment to 8 years, the Soviet demand that deliveries of reparations include many commodities previously produced and exported by Finland only in insignificant amounts forced an expanded output of these commodities. Aided by US and Swedish loans totaling US \$373 million, chiefly for investment in metalworking and shipbuilding industries, Finland was able to fulfill its reparations obligations, and by September 1952 the nation had delivered to the USSR commodities worth more than US \$500 million (current dollars). Finnish war reparations to the USSR in 1945-52 are shown in Table 1.**

Because more than one-half of all deliveries to the USSR were scheduled to consist of commodities not previously exported, Finland was forced to begin new lines of manufacture quickly, and production was reorganized to meet the demands for reparations. The major burden fell on the Finnish metalworking and shipbuilding industries; 35.3 percent of the total value of reparations was to consist of shipping of various types; 21.2 percent, of machinery and equipment; and 5.7 percent, of electric cable.

*

** Table 1 follows on p. 4.

Table 1

Commercial and Noncommercial Exports by Finland to the USSR a/
1945-52

Year	Noncommercial Exports						Total Exports (Million Current Finnmarks c/)	Percent of Total Exports	Total Exports (Million Current Finnmarks c/)
	Commercial Exports (Million Current Finnmarks c/)	German Credit Account b/ (Million Current Finnmarks c/)	Reparations		Total Noncommercial	Percent of Total Exports			
			Deliveries	Current					
1945	1,546	0	8,172	8,172	8,172	84	9,718		
1946	4,627	0	8,775	8,775	8,775	65	13,402		
1947	5,608	2,121	10,405	12,526	12,526	69	18,134		
1948	8,288	1,423	11,546	12,969	12,969	61	21,257		
1949	10,010	1,337	12,226	13,563	13,563	58	23,573		
1950	6,239	822	7,846	8,668	8,668	53	14,907		
1951	15,549	3	12,396	12,399	12,399	44	27,948		
1952	27,496	0	8,215	8,215	8,215	23	35,711		

a.

b. German assets transferred to the USSR which the latter claimed under the Potsdam Declaration of 1945. Finland passed a law in 1946 officially transferring these assets to the USSR.

c. At an exchange rate of 230 finnmars to US \$1. (see D, below).

As a result of the reparations requirements, the relative importance of the engineering and shipbuilding industries (including cable factories) was approximately doubled. Whereas before the war this sector had accounted for 15 percent of Finland's industrial labor force, 10 percent of industrial production, and less than 3 percent of exports, during the period 1953-56 these industries represented 29 percent of the labor force, 22 percent of industrial production, and 14 percent of exports. Meanwhile, the wood-processing industries declined in relative importance. In the prewar period, wood-processing industries accounted for 35 percent of the labor force, 40 percent of industrial production, and over 80 percent of exports. During the period 1953-56 the wood-based industries accounted for 23 percent of the labor force and 28 percent of industrial production, although they have retained their traditional share of about 80 percent of total Finnish exports.

The commodity composition of exports and reparations deliveries by Finland in 1935-37, 1944-52, and 1955-57 is shown in Table 2.* The figures, given in percentages of total values, indicate the magnitude of the modifications in the industrial structure of Finland required by the deliveries of reparations to the USSR. When deliveries of reparations ceased in 1952, these industries were barred effectively from sales in Western markets by their high-cost structure.** Finland had no practical alternative other than to market in the USSR or to collapse. The result was a series of trade agreements between the two countries by which the USSR agreed to take Finnish ships and other products most of which could not be sold in the Free World, and the Finns accepted in exchange whatever goods they could use or re-export to the West without too substantial a loss.

B. Postwar Trade

Once Finland was committed to the maintenance of close political relations with the USSR by the peace treaty of 1947 and the Finnish-Soviet Mutual Assistance Pact of 1948, closer economic ties with the USSR inevitably followed. The expansion of Finnish commercial exchanges with the USSR, which was the result in part of pressing needs for postwar reconstruction, the inaccessibility of Western sources of supply, and the heavy burden of reparations brought about important modifications in the direction and composition of Finnish foreign trade.

* Table 2 follows on p. 6.

** The cost of ship construction in the post-reparations period, for example, was estimated by a mission of the International Bank for Reconstruction and Development to Finland to be 30 to 40 percent above that of Western shipyards.

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Table 2
Commodity Composition
of Exports and Reparations Deliveries by Finland
1935-37, 1944-52, and 1955-57

	Percent of Total Value		
	<u>Total Exports</u> <u>1935-37</u>	<u>Reparations</u> <u>1944-52</u>	<u>Total Exports</u> <u>1955-57</u>
Wood and paper products	83.9	27.8	78.7
Metalworking products	2.8	72.2	14.1
Agricultural products	8.7		3.4
Other	4.6		3.8
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

The most striking feature of the postwar trade of Finland was the increasing prominence of the Sino-Soviet Bloc (see Figure 1*). In 1952, when minor quantities of reparations goods were still delivered to the USSR, the Sino-Soviet Bloc accounted for 22.5 percent of Finland's foreign trade. In 1953, during the post-Korean slump in the world market for pulp, paper, and other wood-based products, Finland's trade with the Sino-Soviet Bloc rose to an all-time record of 32.9 percent of the nation's total trade, whereas Finland's trade with the West dropped from 77.5 percent in 1952 to 67.1 percent. During the business recovery in 1954, trade with the West again increased, and the total share of the Sino-Soviet Bloc dropped to 28.0 percent. The distribution of Finland's foreign trade in percentages of its total trade for the period 1954-57 was as follows:

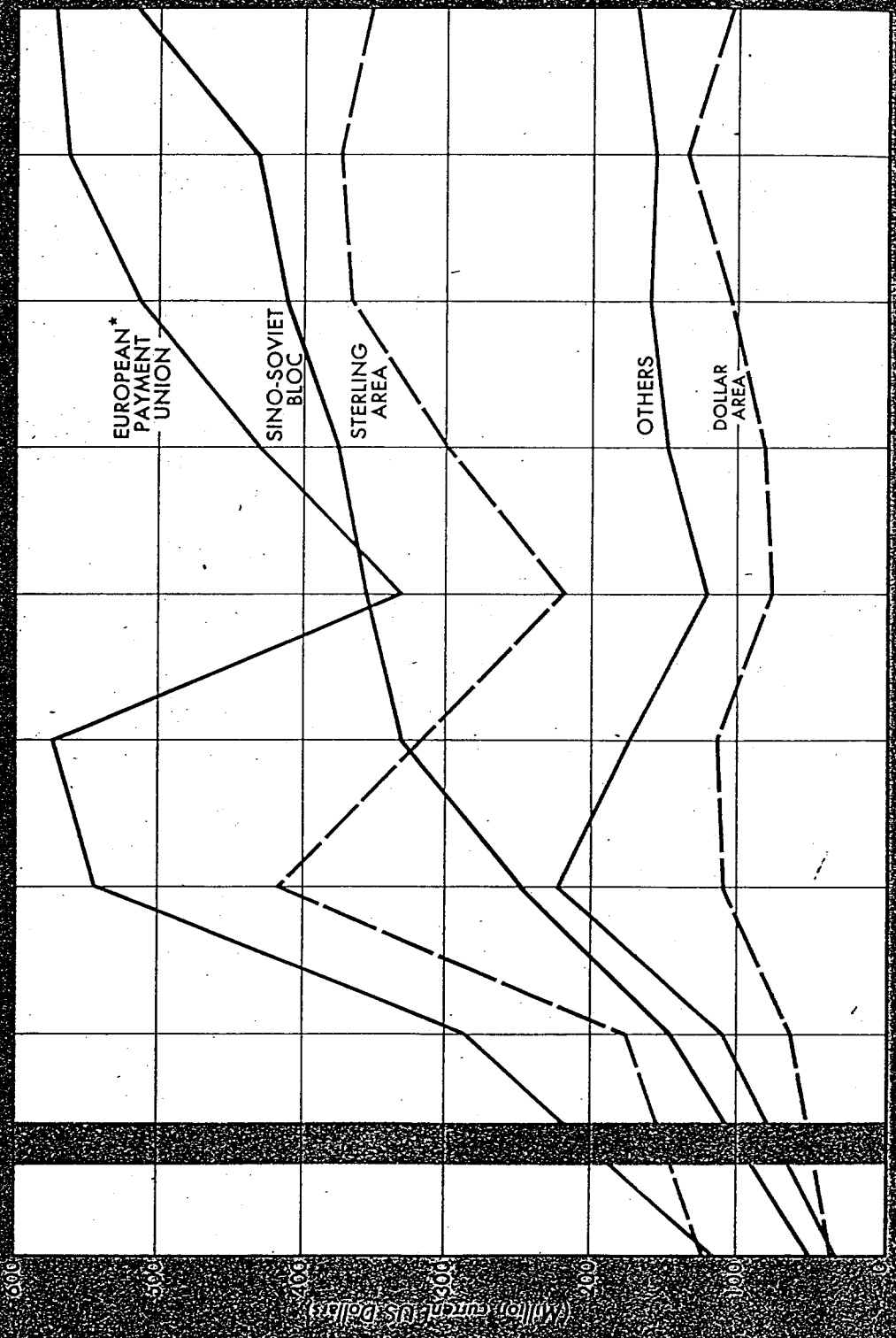
	Percent		
	<u>Imports</u>	<u>Exports</u>	<u>Total Trade</u>
USSR	13.6	19.3	16.4
Satellites and Communist China	14.1	8.2	11.2
Total	<u>27.7</u>	<u>27.5</u>	<u>27.6</u>
Free World	72.3	72.5	72.4
Grand total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

* Following p. 6.

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FOREIGN TRADE OF FINLAND, BY TRADING AREAS 1938 and 1950-57



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Paralleling the increase in value of Finnish-Soviet trade was a change in its commodity composition. For the first time in Finnish history, products of the greatly expanded shipbuilding and metal-working industries accounted for a significant share of Finnish commercial exports to the USSR. This change was confirmed first in a 5-year trade agreement concluded between the USSR and Finland in 1950 and again in July 1954, when a second 5-year agreement was concluded between these nations for the years 1956-60. In the latter period, ships were to account for 38 percent of the total value of Finnish exports to the USSR; products of the metalworking industry, 22 percent; and wood and paper products, 33.4 percent.

Finnish-Soviet trade was expected to show a steady increase in both directions during the 1956-60 period, with a scheduled annual surplus of Finnish exports valued at US \$40 million to be compensated for partly by trilateral deliveries from the European Satellites and partly by convertible currency supplied by the USSR. A ceiling of 60 million rubles* was established for the swing credit which could be accumulated by either nation. If exceeded, the sum was to be settled in gold, dollars, or some other mutually acceptable currency.

Table 3** illustrates the actual commodity composition of Finnish trade with the USSR for 1954, 1955, and 1956, the last year for which complete statistics on the commodity trade of Finland are available.

C. Failure of Trilateralism.

The development of trade between Finland and the USSR since the war has been accompanied by a chronic excess of Finnish exports which, for the period 1953-57, has averaged 160 million rubles (\$40 million) annually. Pursuant to the terms of the long-term agreement in 1950, the annual surplus of exports by Finland was to be settled each year by a cash payment of 40 million rubles by the USSR (in Western currencies), with the remaining 120 million rubles to be settled by triangular trading arrangements with Satellite countries. Between 1951 and 1956, Finnish trade imbalances were covered, in whole or in part, by a series of trilateral agreements which have included, at one time or another, each of the Satellites except Bulgaria and Albania.

* Rubles may be converted to finnmaks at the official Soviet-Finnish exchange rate of 12.58 rubles to 1,000 finnmaks. (See D, below, for a discussion of the finnmak-dollar exchange rates in effect before and after the devaluation of the finnmak in September 1957.)

** Table 3 follows on p. 8.

Table 3

Commodity Trade of Finland with the USSR: a/
1954-56

Commodity	1954		1955		1956	
	Million Current Finnmarks b/	Percent	Million Current Finnmarks b/	Percent	Million Current Finnmarks b/	Percent
Imports						
Mineral fuels and products	8,547.5	31.6	8,155.3	31.3	9,874.4	34.9
Iron and steel	3,121.7	11.5	2,318.1	8.9	3,255.6	11.5
Land vehicles	1,119.0	4.1	1,759.5	6.8	2,197.8	7.8
Cereals	4,171.8	15.4	5,140.6	19.7	4,662.8	16.5
Cotton and products	2,556.8	9.4	1,807.7	6.9	1,841.6	6.5
Sugar	2,502.1	9.2	2,861.6	11.0	2,385.4	8.4
Fodder	624.4	2.3	976.0	3.7	1,093.3	3.9
Fertilizers	1,433.3	5.3	1,255.0	4.8	1,144.2	4.0
Other	2,996.6	11.2	1,771.2	6.9	1,872.1	6.5
Total	27,073.2	100.0	26,045.0	100.0	28,327.2	100.0
Exports						
Wood and articles made of wood	9,926.7	29.4	6,015.1	19.0	5,070.9	14.8
Paper, cardboard, and products	4,564.3	13.5	4,719.8	14.9	6,942.2	20.3
Woodpulp	725.5	2.2	731.8	2.3	1,706.7	5.0
Watercraft	10,541.9	31.3	13,247.0	41.8	12,642.8	37.0
Nonelectrical machinery and parts	4,925.4	14.6	4,692.3	14.8	5,096.3	15.0
Copper and products	821.0	2.4	908.9	2.9	1,267.5	3.7
Electrical machinery and parts	521.5	1.5	315.6	1.0	265.1	0.8
Land vehicles	233.4	0.7	218.4	0.7	246.8	0.7
Other	1,460.4	4.4	868.6	2.6	924.1	2.7
Total	33,720.1	100.0	31,717.5	100.0	34,162.4	100.0

a.

b. At an exchange rate of 230 finnmaks to US \$1 (see D, below).

At the beginning of 1957, however, Poland and East Germany (who withdrew from the triangular trading system (leaving only Czechoslovakia an active participant) ostensibly on the grounds that these two countries needed Western currencies rather than rubles in payment for their exports.* This alteration of the trading system created a temporary problem for Finland, leaving it with an unsettled surplus of exports to the USSR valued at 65 million rubles under the annual agreement of 1957, even after the cash payment of 40 million rubles and the triangular trade with Czechoslovakia (amounting to some 10 million rubles) were taken into account. The problem was resolved during 1957 partly by increases in prices of imports from the USSR and partly by a supplementary trade protocol concluded in June, so that the comparatively small deliveries from Czechoslovakia plus the Soviet cash payments proved more than enough to settle the export surplus of Finland in 1957.

D. Devaluation of the Finnmark.

On 15 September 1957 the Bank of Finland, with the concurrence of the International Monetary Fund, altered the par value of the finmark (markka) from 230 to 320 finmarks to the US dollar. With exports declining and imports unabated, devaluation was viewed as an inevitable corrective measure for Finland's distorted balance of payments. For almost 2 years, internal inflationary pressures had created serious difficulties in payments. Inflation resulted in higher costs for traditional Finnish exports and, therefore, in declining sales abroad and a continuously increasing demand for imports. In the first half of 1957, purchases from abroad were running consistently about 25 percent higher than sales to foreign markets, and, at the end of June, gold and foreign exchange reserves were more than one-third lower than at the beginning of 1956. At the end of August the net foreign exchange holdings of the Bank of Finland totaled only US \$85 million, an amount barely sufficient to cover imports for 1 month.

It was thus clear that devaluation was necessary to adjust the value of the finmark to the new relations to prices and costs in the Western world. To meet the needs of the export industries only a modest devaluation would have been required, but, in so doing, the increase in the cost of imports in terms of domestic currency would not have been sufficiently high to permit a relaxation of quantitative restrictions on imports. On the other hand, a devaluation large enough

* The withdrawal of Poland from the triangular trading arrangement was a serious loss to Finland. Polish participation had enabled Finland to pay for most of its coal imports from Poland by exports to the USSR. Moreover, in 1957, Poland demanded payments in Western currencies for shipments of coal above 1 million tons, whereas in 1956 Poland agreed to supply Finland with 1.4 million tons of coal against ruble clearing.

to permit liberalization of most imports would have produced large profits for exporters. The difficulty was resolved when Finland devalued its currency by 39 percent and passed a law requiring exporters to pay a certain proportion of the increased receipts produced by devaluation to an account in the Bank of Finland.

The effects of the devaluation of currency on the development of Finland's foreign trade can be summarized briefly. First, there is little doubt that devaluation has, to some extent, strengthened the selling potential of Finland's export industry in international markets. It was hoped, however, that, by encouraging production for export, the devaluation also would accomplish a secondary objective -- that of alleviating the serious unemployment in the country. Although inflationary pressures usually are the result of full and overfull employment, the inflation in Finland had proceeded to the point where, by impairing the competitive position of the country, it had led to unemployment. The fact that the export volume has lagged behind the anticipated level (total export volume during the first half of 1958 was about 8 percent below a year earlier, and the volume of sawn timber and pulp exports fell by 21 and 18 percent, respectively) and has not had the desired effect on employment is attributable to the weakening of economic activity in general in Western Europe and the resultant lowered demand for the most important items exported by Finland.

Second, subsequent to the devaluation, Finland has gradually extended the list of goods exempted from import restrictions. In 1958 this list covered a selection of goods the imports of which accounted in the base year of 1954 for over 80 percent of Finland's total imports from Western Europe.

Third, the devaluation and subsequent abolition of import controls also have influenced the geographical distribution of total Finnish imports. According to data published by the Bank of Finland, the structure of imports has developed as follows :

	Percent			
	1956	1957	1957 January-June	1958 January-June
Sterling area	21.3	18.4	16.9	20.0
Other CEEC* countries	39.1	37.6	35.3	43.7
Sino-Soviet Bloc	25.0	30.6	31.6	23.9
US and Canada	6.7	5.7	7.5	6.0
South America	5.6	5.1	5.1	4.0
Other countries	2.3	2.6	3.6	2.4
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

* Organization for European Economic Cooperation.

In spite of the increase in the proportion of imports from the sterling area and OEEC countries during the first half of 1958 and the simultaneous contraction of imports from the Sino-Soviet Bloc, the strict import controls in the early part of 1957, especially from the sterling area and Western Europe, served to increase the proportion of imports from the Bloc in the total trade of Finland. Consequently, the liberalization of imports, in effect, has brought a return to normal. This situation can be seen when current imports from the Sino-Soviet Bloc are compared with those of 1956 when imports were relatively free.

Finally, a marked increase in foreign currency holdings has occurred in Finland since the devaluation. In September 1957, immediately after the devaluation, reserves of foreign currency totaled 20.8 billion finnmaks. One year later in September 1958, these reserves had reached a total of 55.7 billion finnmaks. However, as will be noted in Table 4,* the current composition of the reserves makes the improvement in the payment position far less favorable than would seem to be indicated by the increase in the net reserve. Gold reserves and convertible currency have remained at their former levels while bilateral balances with the Soviet Bloc grew by more than 17 billion finnmaks and other nontransferable bilateral balances, principally French francs, by 7.1 billion finnmaks. Indeed, currency of the Soviet Bloc comprises almost a quarter of Finland's total foreign exchange holdings and together with nontransferable currency of the European Payments Union (EPU), more than 40 percent. By comparison, the weakness of convertible and transferable currency reserves is striking.

II. Finnish-Soviet Trade, 1958.

A. Ruble Balance.

If there is one fundamental reason for Finland's chronic surplus of exports in trade with the USSR, it is simply the failure of the USSR to market in Finland enough goods of the types and qualities which Finland requires. To this basic problem, there has been added in 1958 a whole series of complicating factors which have led to a more acute imbalance and a greater accumulation of rubles. These factors include a change in the system of Soviet payment for Finnish ships, the business recession in Finland with a consequent reduction of effective Finnish demand for Soviet exports, increased competition from the West on the Finnish import market as a result of the import liberalization in September 1957, and the previously noted reduction of triangular trading arrangements.

* Table 4 follows on p. 12.

Table 4

Foreign Exchange Reserves of Finland a/
1957 and 1958

	Billion Finnmarks			
	1957		1958	
	June	September	December	March
Gold	34.1	7.8	7.8	7.8
Convertible currencies	41.3	16.0	17.8	16.1
Transferable EPU b/ currencies	9.3	3.2	3.9	5.1
Nontransferable EPU currencies	2.9	2.0	4.4	6.0
Eastern Bloc currencies	-13.9	-3.4	2.0	7.8
Other currencies	-7.8	-4.8	-2.0	-0.8
Total	65.9	20.8	33.9	42.0
				44.5
				7.8
				12.1
				5.5
				7.8
				12.5
				-1.2
				13.7
				-1.4
				55.7

a. European Payments Union.

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The precipitous growth of Finland's ruble balance in the clearing account, however, apparently stemmed less from the decline in purchases from the USSR as a result of the liberalization of Western imports or from the slowdown in the domestic economy than from a change in the system of Soviet payment for Finnish ships. Payments previously were made only on delivery. The Bank of Finland financed production, and payment entered the bilateral clearing account only when production was completed. Since 1 January 1958, however, a new system of progressive payments has been instituted, and all payments by the USSR for ships have been credited immediately to the clearing account in Finland's favor. Thus payments in full for ships delivered in 1958 under the old agreement and installment payments on ships ordered for delivery in 1959 and 1960 have tended to swell the Finnish credit in 1958.

The USSR thus far has indicated little appreciation of other factors contributing to Finland's ruble balance and has attributed an inordinate share of the blame for the shortfall in Finnish imports from the USSR to the effects of Finland's liberalization of imports from the West. Ostensibly oblivious to everything but the growing one-sided Western orientation of Finland's trade, Soviet publicists state that purchases by Finland from the USSR of oil, chemicals, iron, steel, automobiles, machinery, and other items have declined. It is noted that whereas imports of Soviet automobiles during the first 8 months of 1958 have declined to about one-fifth of the former level, imports of Western automobiles have increased 70 percent; that whereas Finland earlier had bought nearly all its crude oil from the USSR, large quantities are now bought from the West even though the quality of Soviet oil satisfied the requirements of the Finnish oil refinery and no free currency was required for its purchase; and, finally, that during the first 7 months of 1958 Finland's imports from West Germany have nearly doubled and imports from Sweden have increased 70 percent without a corresponding increase in exports from Finland.

Finland, on the other hand, has taken drastic measures to reduce the ruble surplus. Measures to balance trade have been made difficult by the existence of a recession in Finland, and the shortage of capital has made most efforts by the government to stimulate voluntary stockpiling and shifts of sources unavailing. The government has, however, instituted a stockpile program for raw materials amounting to some US \$31 million and has pressured the Western oil companies into accepting Soviet petroleum for two-thirds of Finnish crude oil imports. Also, purchases of coal and coke have shifted from Poland and the West to the USSR.

Finnish efforts have not been without some success. The rise and decline of the ruble balance held by the Bank of Finland are shown

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in Figure 2.* From a negative balance late in 1957, in July 1958 the balance had reached 186 million rubles, a figure more than 3 times the agreed swing limit of 60 million rubles. Partly as a result of such extensive purchases of raw materials for stockpile, however, the balance fell to 110 million rubles in October and to an estimated 90 million rubles in December. Finland's efforts in this direction, however, were frustrated by ultimate insistence of the USSR that it could no longer supply goods for stockpiling and that Finland take the "regular items" under the trade agreement. It has been pointed out that the need for such extensive purchases of raw materials for stockpiling was a result of the need to build up a stockpile of raw materials for the purpose of meeting the needs of the Finnish economy.

B. Corrective Measures.

As a result of the depressed demand in Finland for Soviet products, liberalization of imports from the West, advance Soviet payments on ship contracts, and reduced triangular arrangements, the balance of Finnish-Soviet trade moved rapidly from a ruble deficit for Finland in September 1957 to an excess in June 1958 of well over twice the agreed swing limit of 60 million rubles. In spite of the clearly temporary nature of this imbalance in the clearing account, the Finnish government understandably was concerned that it might lead to a renegotiation of trading arrangements with the USSR and ultimately to a curtailment of Soviet imports from Finland. Speculation in the press that Finland might receive payment from the USSR in gold or Western currencies was largely discounted by authoritative circles in view of the known reluctance of the USSR to settle its accounts in gold or hard currencies. A more likely Soviet response to the huge ruble deficit was deemed to be a severe curtailment of imports from Finland.

With the imbalance approaching record proportions, President Kekkonen of Finland visited the USSR late in May 1958 in an effort to arrive at corrective measures. The communiqué issued after the conference reported "agreements in principle" on four matters of economic concern, as follows:

1. It was observed with satisfaction in the discussion that the agreements concerning trade between Finland and the Soviet Union in the years 1951-55 and 1956-60 have been in accord with the interests of both countries and have permitted logical development in the exchange of goods which has been useful to the economic life of both countries. For the promotion of this favorable experience, the parties agreed to the basis of the initiative taken by the Finnish side, that a new agreement will be made for the years 1961-65 and that negotiations on it will be started in good time.

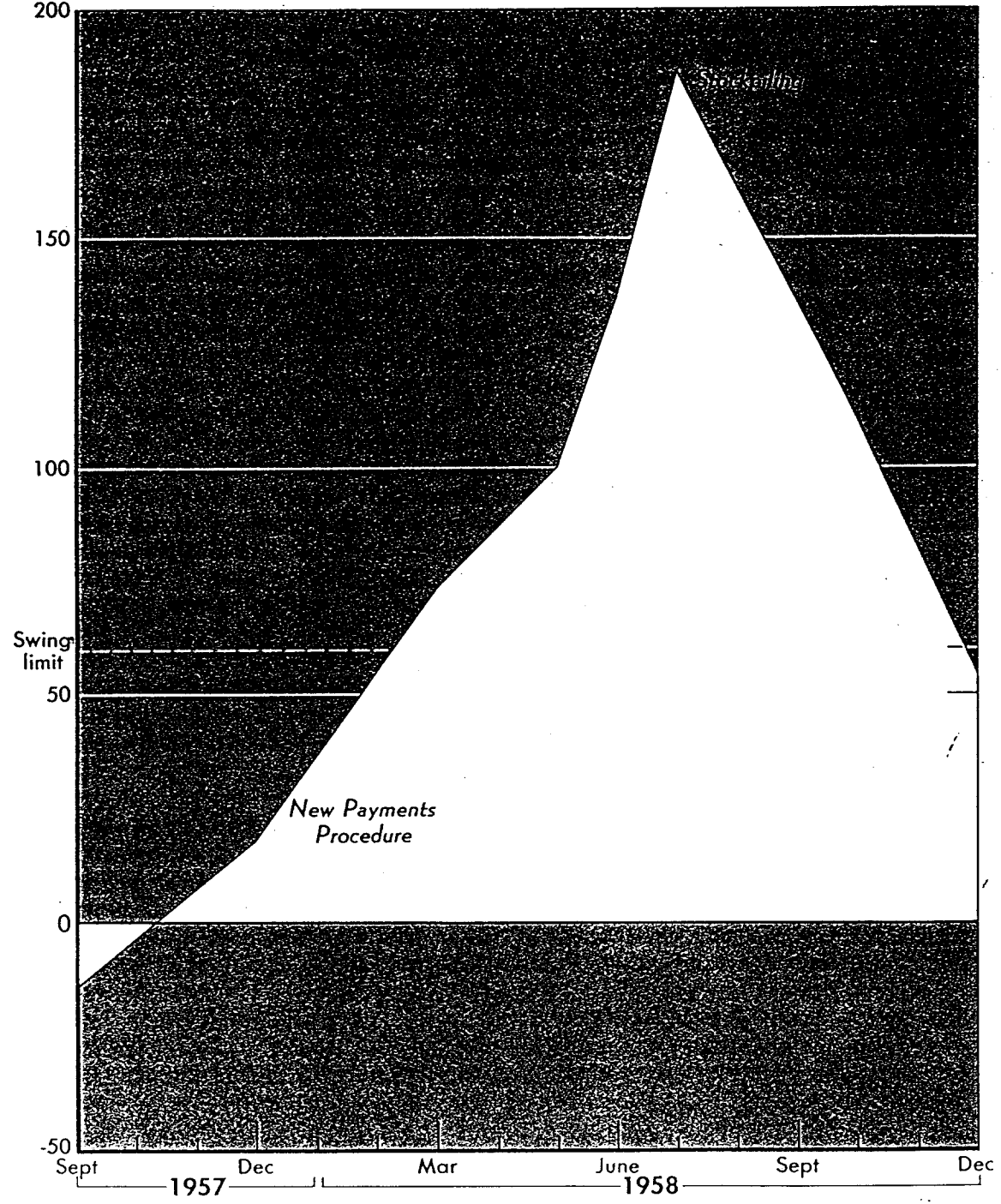
* Following p. 14.

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Figure 2

RUBLE BALANCES HELD BY THE BANK OF FINLAND, 1957-58

Millions of Rubles



~~SECRET~~

2. The Finnish side expressed the wish that the Soviet Union would grant Finland a long-term low interest loan of about 400 million to 500 million rubles. The Finnish side explained that the intention was to use this loan for further development of the productive capacity of Finnish economic life and for the security of employment, and that the loan would be used for goods suited to the purposes mentioned.

3. On a proposal made from the Finnish side the question of how Finland could best use the Saimaa Canal, which connects the Saimaa lake area with the Gulf of Finland, was also reviewed at these discussions. The Soviet side announced that, considering the good and friendly neighbor relations and the importance of the Canal to the Finnish economic life, the Soviet Union is prepared to agree to the use of the Canal by Finland for 50 years at conditions which are favorable to Finland, when each party at its own expense puts in condition and maintains the portion situated in its own territory. It was agreed that the parties will start negotiations as soon as possible for conclusion of an agreement giving Finland the right to free passage of cargoes through the Saimaa Canal. The parties also agreed that the appropriate Soviet economic organization and corresponding Finnish officials will make an agreement on the lease of a transloading and storage area for the Finnish authorities in Uras Vysotsky port.

4. Not mentioned in the communique but separately announced was the Soviet intention of buying from Finland some 12,000 metric tons of butter, apparently to be paid for in wheat.

In spite of a rather vigorous show of activity in the months immediately following the visit of President Kekkonen to the USSR and numerous indications before the new government took office that the officials wanted early action, it soon became evident that subsequent Soviet displeasure with domestic political developments in Finland would militate against any prompt Soviet implementation of the agreements. Because of the problem of imbalance of Finnish-Soviet trade and

the sensitivity of the USSR to the shortfall of Finnish imports following the liberalization of Finnish trade with the West, Finland proposed an early start for trade talks in 1959 and apparently also suggested that work be started at the same time on the next 5-year trade agreement (1960-65). The primary objective, as in the case of the projects for stockpiling raw materials authorized recently and the shift in procurement of oil, coal, and other commodities from the USSR, was to reassure the USSR that Finland was not, as asserted by the Finnish Communist press, "turning its back" on Soviet trade.

C. Economic Pressure.

Soviet economic pressure against Finland first became noticeable in October 1958, when the USSR ignored Finnish proposals for meetings to negotiate a trade protocol for 1959 and a new Finnish-Soviet Trade Agreement for 1960-65. Finland originally suggested 7 October 1958 as the date for the first meeting, having announced the composition of the Finnish negotiating delegation on 15 September 1958. After no reply or comment was received from Moscow as to the possibility of the talks beginning on 7 October, the date of 27 October was suggested. This proposal also was ignored by the USSR, although at the same time the Soviet press and radio, echoed by publications of the Communist Party in Finland, attacked the Finnish government for failing to negotiate with the USSR on a new trade agreement and for reducing its trade with the East in favor of an increase in trade with the West.

The Soviet failure to begin negotiations on a trade agreement was accompanied by Soviet inaction on several other matters in Finnish-Soviet economic relations. The USSR made no move to negotiate a proposed commodity credit of 400 million to 500 million rubles to Finland which had been discussed during President Kekkonen's visit to Moscow in May, in spite of the fact that Finland had appointed a commission to go to Moscow and put it into effect. The USSR similarly made no effort to continue negotiations on the use of the Saimaa Canal or to discuss an agreement on fishing rights near Virolshti and took no steps to follow through on plans for construction of a power dam in the USSR by a Finnish firm. The USSR canceled, at the last minute and without explanation, a visit of Finns who were to inspect Soviet steel equipment which had been scheduled for possible export to Finland under the expected ruble credit.

The first positive statement by the Soviet government that discriminatory economic action was to be taken against Finland was made on 6 November 1958, when the Soviet government reportedly told a Finnish delegation, which was in Moscow to discuss stockpiling arrangements, that the USSR could not supply the stockpiling items which Finland was

willing to take to reduce the ruble balance and that unless Finland were willing to take the "regular items" under the trade agreement, the USSR would have to reduce immediately its purchases from Finland.

As reports of the Soviet warning of 6 November 1958 began to appear in the Finnish press, Soviet criticism of the Finnish government -- for its trade policies, its alleged preference for trade with the West, its alleged interest in OEEC and the European Free Trade Area -- continued. This criticism was repeated by the Communist Party and its press in Finland, and at the same time other Finnish political parties, notably the Agrarian Party and one wing of the Social Democrats, began to criticize the government for its failure to deal successfully with the USSR.

On 28 November 1958 the USSR cut off all shipments of crude oil to Finland for the remainder of 1958. The official Soviet reason for stopping oil deliveries was that "orders should have been placed earlier." As a result of this Soviet move, Finland was forced to attempt, on an emergency basis, to obtain oil supplies for the remainder of the year from Western suppliers, whom Finland had turned down previously because of its effort to placate the USSR.

Late in November 1958 the Soviet Trade Representative in Helsinki sent letters to several important Finnish exporters canceling all orders "not yet boxed for delivery" which were scheduled for the remainder of the year and informed them of a delay in payments totaling 1.9 billion finnmaks (about US \$6 million), or approximately 5 percent of Finnish exports to the USSR in 1958. The heaviest burden fell on the metalworking industries, particularly shipbuilding, where progress payments to 1 billion finnmaks and delivery payments of 600 million finnmaks were being delayed. On 30 November, it was announced that, beginning on 21 December, two of Finland's major shipyards employing a total of 2,900 persons would be forced to close for 2 weeks as a result of the Soviet action.*

Soviet economic pressure was coordinated skillfully with political pressure by the Finnish Communist Party and with strong attacks by the Soviet press and radio on the government of Finland. The Finnish

* In mid-December the USSR resumed acceptance of deliveries of Finnish goods but has continued to withhold payment for these deliveries until 1959. The resumption of acceptances following the fall of the Fagerholm government may be presumed to reflect Moscow's belief that it has partially accomplished the objectives of its trade squeeze. The delay of payments may be intended to continue the pressure until a government satisfactory to the USSR is formed.

Communist Party staged demonstrations and made a formal interpellation in the Finnish Parliament concerning the failure of the government to solve the problem of unemployment and its inability to handle the problem of trade with the Soviet Bloc. Direct action was taken also by the Soviet Embassy in Helsinki which called in leaders of the various Finnish political parties and lectured them on the importance of being "cooperative." Leaders of the Social Democratic Party especially were criticized. This maneuver appeared to be an open attempt to create dissension among the various political parties, especially the Conservatives and the Social Democrats, and further to weaken the coalition government of Finland.

On 4 December 1958, almost 2 months after the day originally proposed by Finland for commencement of Finnish-Soviet trade negotiations, the government of Finland, under Premier Karl August Fagerholm, resigned from office.

III. Finland Between East and West.

A. East-West Trade Policy.

Finland's economic relationship with the Sino-Soviet Bloc is unique among countries of the Free World. A leading trade partner with the Bloc among Western countries, Finland has endeavored to maintain its Western orientation and to align its economy with the trading community of Western Europe (see Tables 7 and 8, Appendix A*). The devaluation of the finmark and the subsequent liberalization of imports from the West has enabled Finland to take some positive steps in the direction of strengthening its trade ties with Western Europe. At the same time, the geographic proximity of Finland to the USSR, its exposed political position, and the scope of its trade conducted with the Bloc have obliged the country to follow a circumspect policy in economic as well as political matters.

Before the development of the sharp imbalance of accounts during the first half of 1958, the government of Finland had made a formal inquiry regarding membership in OEEC. Finland considered it essential to participate in a meaningful European Free Trade Area as a means of protecting its markets in Western Europe, and the desire to enter OEEC has been motivated, at least in part, by a desire to participate in negotiations in the European Free Trade Area as early as possible. Finland became hesitant, however, as the imbalance of trade continued to grow and as Soviet displeasure increasingly manifested itself in bitter references to Finnish interest in OEEC and to the competition of recently liberalized Western goods as primary reasons for the weakened market in Finland for Soviet goods.

* Pp. 26 and 28, respectively, below.

Finland's large ruble surplus undoubtedly derived principally from Soviet payments against Finnish contracts, a decline in general economic activity in Finland,* and the virtual elimination of participation of a third country in Finnish-Soviet settlements. The USSR chose to attribute the large ruble surplus as almost exclusively the result of an increase in Finnish imports from the West as a result of liberalization of imports. Indeed, the Soviet government apparently regarded the inquiry of Finland concerning membership in the OEEC and the imbalance in trade seriously enough to warn Finland in March 1958 against any action that would result in lowering the level of Finnish-Soviet trade. Finland admittedly was fearful that the USSR would retaliate through reducing its imports from Finland -- a step that would disrupt many industries and seriously aggravate unemployment -- and has deemed it inappropriate to continue with plans to join OEEC.

Finland faces the problem of supporting its heavy metalworking industry (principally shipbuilding), which was built to supply war reparations, by orders from the Soviet Bloc. Moreover, Finland purchases from the Soviet Bloc many of its basic raw materials, a large portion of which can be paid for by export of goods often unsalable in Western markets. At the same time, Finland cannot help but view with increasing misgivings the potential weapon which its economic dependence has given the USSR.

With respect to East-West security controls, the position of the Finnish government is equally difficult. Because Finland is not a recipient of aid and does not participate in COCOM, cooperation is voluntary. The policy of the Finnish government generally has been to sell to the Soviet Bloc what it needs to sell in order to meet its essential requirements for imports and to maintain domestic industries. Within the limits which Finland regards as imposed by economic and political necessity, the government has cooperated with the controls of COCOM and of the Export Control Act of 1949 ("Battle Act") as far as possible. When the economic health of an industry is threatened, or when a denial

* Total production in Finland in the first 3 quarters of 1958 was 3.4 percent lower than in the first 3 quarters of 1957. The rate of decline has slowed gradually, however, and in the last quarter of 1958 output may be about the same as in the corresponding period in 1957, when it was substantially below that in the corresponding period of 1956. The volume of sales by wholesale trade in the third quarter of 1958 was 4 percent lower than in the third quarter of 1957, whereas the volume of retail trade was approximately the same as in 1957. At the middle of November 1958, 60,000 persons were registered as unemployed, 40 percent more than a year earlier. Peak unemployment is expected to reach 90,000 during 1958-59, or 15 percent more than the unemployment during the winter of 1957-58.

of a certain commodity proves an economic hardship to the country, Finland has tended to trade in the commodity in question unless it is of the highest strategic category. Thus the concern of Finland is understandable, both in its desire to avoid the acute economic dislocations that could result from a sudden curtailment of Soviet imports from Finland and in its desire to avoid giving the USSR the impression that liberalization of trade with the West, possible participation in OEEC, and cooperation with some Western security controls, indicate any deliberate move away from its postwar amicable economic and political relations with the USSR.

B. Vulnerability of Finland to Soviet Economic Pressure

With undisguised cynicism, a Soviet writer has succinctly characterized Finnish dependence on the USSR as follows:

That Finland stands to benefit from this trade [with the USSR] is obvious from the fact alone that her exports to the USSR include ships and engineering goods which she would have difficulty in selling in Western markets. Finnish purchases in the Soviet Union include a number of items which she would find it hard to obtain in other countries and goods obtainable elsewhere only for hard currency. Considering that Finland has a deficit in trade with the chief Western countries, this is a factor of no mean importance.

Indeed, the inability of Finland to market in the West the products of its high-cost industry, built to supply reparations, has engendered the dependence of the country on the Soviet Bloc both as a market for its exports and as a source of supply. The recent decline in world demand for wood and wood products (about 80 percent of all Finnish exports) and the consequent shortage of Western exchange have obliged Finland to purchase a larger share of such necessities as oil, coal, and grain from the Soviet Bloc in order to conserve scarce Western currencies for the purchase of needed manufactured goods. Moreover, persistent Soviet pressure to diminish Finland's large ruble accumulation by increasing purchases from the USSR has resulted in a significant share of Finland's current foreign trade being firmly and, on the whole, unavoidably -- wedded to the markets and products of the Soviet Bloc.

Table 5* illustrates the composition of Finnish trade with the world and the Sino-Soviet Bloc by commodity groups in averages for the

* Table 5 follows on p. 21.

Table 5

Total Trade and Trade with the Sino-Soviet Bloc by Finland a/
Averages 1954-56

Imports	Percent	
	Total Imports	Total from USSR Satellites and China
Mineral fuels and products	12.8	39.6
Iron and steel	10.7	15.4
Land vehicles (chiefly automotive)	7.7	12.2
Cereals	4.6	57.7
Coal and coke	7.0	12.7
Cotton and products	4.5	26.2
Sugar	1.9	78.0
Fertilizers	1.9	38.6
Fodder	1.3	40.4
Other	47.6	2.3
Total	100.0	15.5

Exports	Percent	
	Total Exports	Total to USSR Satellites and China
Wood and articles made of wood	36.7	11.2
Paper, cardboard, and products	22.8	13.7
Woodpulp	20.3	3.0
Watercraft	7.7	90.0
Nonelectrical machinery and parts	3.5	81.4
Copper and products	1.0	54.8
Electrical machinery and parts	0.4	50.4
Land vehicles (chiefly nonautomotive)	0.1	91.4
Other	7.5	8.8
Total	100.0	19.4

a.

period 1954-56. The first column indicates the relative importance in total Finnish imports and exports of the principal commodities traded with the Sino-Soviet Bloc. The second and third columns, respectively, indicate the Soviet and Sino-Satellite shares of each commodity listed.

As Table 5* indicates, principal Finnish imports from the Sino-Soviet Bloc consist of goods that usually are available from the Free World. In terms of Western supplies, annual Finnish requirements are not very large, and the sources of grain, oil, and coal in the Sino-Soviet Bloc presumably could be replaced by sources in the Free World. The crux of Finland's dependence on the economy of the Sino-Soviet Bloc, therefore, is almost exclusively in the field of exports and particularly of those exports that affect Finnish domestic employment. In this respect the sector of Finnish industry most vulnerable to Soviet pressure is shipbuilding, which provides employment for about 12,000 persons and sells the bulk of its production to the Sino-Soviet Bloc. Table 6** shows the extent to which certain sectors of industry depend on exports to the Sino-Soviet Bloc. Should markets of the Bloc be closed to these products, the sectors of industry affected probably would have to lay off between 15,000 and 20,000 workers, thereby intensifying an already critical unemployment situation in Finland.

Although the situation remains dangerous for Finland, there is little question that if the USSR suddenly were to cut its trade ties with Finland and if Western markets again would absorb the bulk of traditional Finnish exports, Finland could adjust to new patterns of production, consumption, and foreign trade with the Free World. Emergency aid, probably in the form of Western loans, would be required to tide Finland over the transitional period between the curtailment of Soviet trade and the time when the displaced Finnish trade could be oriented to the West. The need would relate first to financing essential imports (notably fuels) from the West which currently are obtained from the Soviet Bloc; second, to financing continuing production in those industries which normally export to the Soviet Bloc to avoid any further increase in unemployment; and, third, to financing an expansion and reconversion of those industries which, in the long run, are capable of competing in Western markets. The initial period of adjustment would be uncomfortable -- but, with Western support, would be possible economically, although perhaps difficult politically. The metalworking industry of Finland already sells the bulk of its output to the home market. If costs could be decreased measurably, or loans or subsidies arranged, projects such as the modernization of the overage merchant fleet*** and

* P. 21, above.

** Table 6 follows on p. 23.

*** The average age of Finnish ships is 23.1 years. The average age of steamships is 31.4 and of motor [footnote continued on p. 23]

Table 6

Dependence of Certain Sectors of Finnish Industry
on Markets of the Sino-Soviet Bloc

Industry Sector	Job Forces - (Million Finnmarks)	Total Sino-Soviet Bloc	Exports as a Percent of Gross Value	Exports as a Percent of Production
Shipbuilding	11,543	17,171.7	80.8	75.3
Cables (parts of cop- per and products)	1,592	6,968.2	17.9	17.1
Paper, cardboard, and products	18,696	65,046.1	68.9	15.1
Nonelectrical ma- chinery and parts	30,221	39,376.0	15.6	13.8
Wood goods (exclud- ing round and hewn timber)	44,544	62,435.6	63.1	10.4
Woodpulp	14,392	65,206.6	58.3	7.4
Electrical machinery and parts	12,268	14,751.0	4.2	2.1
Land vehicles	20,410	23,722.0	1.1	1.1

a.

vessels 13.8 years. To replace the overaged ships by new, modern, and efficient units would require large amounts of capital which Finnish shipowners simply do not possess. The Finns already have proposed to the US that a loan amounting to \$5 million to \$6 million be granted to Finland out of the finnmark funds of the US government accrued from the sales of surplus agricultural commodities. The loan would be used for financing the building in Finnish shipyards of vessels for Finnish ship-owners and of three fishing vessels for Iceland.

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repair of rolling stock alone presumably could provide ample employment for the nation's shipyards and metalworking industries for years to come. The anticipated increase in demand for pulp and paper in Western markets in the 1960's also would seem to justify current investment in the wood-processing industry, quite apart from the immediate increase in employment through construction and other projects necessitated by the industrial expansion.

There is, of course, little reason to believe that the USSR would hesitate to attempt to scuttle the industry of Finland by a sudden curtailment of trade, if, in Soviet opinion, Finnish behavior warranted such a drastic measure. Barring such a contingency, however -- and the facts of geography make it most unlikely that Finland will repudiate its policy of "friendly neutrality" toward the USSR -- any Soviet action more drastic than a continuation of economic pressure, which succeeded in toppling the Fagerholm government, appears to be unlikely. The USSR probably realizes that any more direct economic pressure on Finland, which the Finns deem inimical to Finnish national interest, is likely to result in a net political loss for the USSR and the Finnish Communist Party. It would serve not only to revive to its fullest extent the bitterness felt by most non-Communist Finns toward the USSR but also to ruin the much advertised Soviet picture of friendly coexistence between the Communist giant and its small capitalist neighbor.

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APPENDIX A

STATISTICAL TABLES

Table 7

Total Trade of Finland with the World and with the Sino-Soviet Bloc
1950-57 and January-August 1958

Year	Trade	Total to Bloc		Bulgaria		Czechoslovakia		East Germany		Hungary		Poland		Rumania		USSR		China	
		Million Current US \$	Percent of Total Value	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent
1950	Exports	392.0	20.7	0.2	0.3	2.6	3.2	1.0	1.3	1.2	1.4	8.8	10.9	2.2	2.7	64.8	79.8	0.3	0.4
	Imports	387.6	18.1	0.4	0.6	8.0	11.4	5.7	8.1	1.9	2.7	27.4	39.2	2.8	3.9	23.7	33.8	0.2	0.3
	Turnover	779.6	19.4	0.6	0.4	10.6	7.0	6.7	4.4	3.1	2.0	36.2	24.0	5.0	3.3	88.5	58.5	0.5	0.3
1951	Exports	866.5	17.1	0.2	0.1	4.5	3.0	1.8	1.2	2.2	1.5	16.6	11.2	1.0	0.7	121.5	81.9	0.8	0.5
	Imports	676.0	16.0	0.3	0.3	7.0	6.5	5.5	5.1	2.0	1.9	45.0	41.6	6.3	5.8	41.4	38.2	0.7	0.7
	Turnover	1,542.5	16.6	0.5	0.2	11.5	4.5	7.3	2.8	4.2	1.6	61.6	24.0	7.3	2.8	162.9	63.5	1.5	0.6
1952	Exports	717.6	25.6	0.4	0.2	2.4	1.3	2.9	1.6	1.6	0.9	14.4	7.8	0.3	0.1	155.3	84.5	6.6	3.6
	Imports	791.7	19.4	0.2	0.1	11.5	7.5	8.5	5.6	1.5	1.0	40.7	26.5	9.2	6.0	81.6	53.1	0.3	0.2
	Turnover	1,509.3	22.5	0.6	0.2	13.9	4.1	11.4	3.4	3.1	0.9	55.1	16.3	9.5	2.8	236.9	70.2	6.9	2.1
1953	Exports	572.0	31.3	0.8	0.4	3.6	2.0	8.0	4.5	3.0	1.7	12.3	6.9	0.7	0.4	145.5	81.1	5.4	3.0
	Imports	530.0	34.4	0.3	0.2	17.2	9.4	13.1	7.2	3.7	2.0	36.6	20.1	20.2	11.1	89.6	49.2	1.5	0.9
	Turnover	1,102.0	32.9	1.1	0.3	20.8	5.7	21.1	5.9	6.7	1.8	48.9	13.5	20.9	5.8	235.1	65.0	6.9	1.9
1954	Exports	681.0	27.9	0.5	0.3	4.5	2.4	11.8	6.2	3.5	1.8	14.6	7.7	2.3	1.2	146.4	77.0	6.6	3.5
	Imports	656.5	28.2	1.2	0.6	18.1	9.8	19.9	10.7	5.0	2.7	28.1	15.2	26.5	14.3	83.4	45.1	2.8	1.5
	Turnover	1,337.5	28.0	1.7	0.4	22.6	6.0	31.7	8.4	8.5	2.3	42.7	11.4	28.8	7.7	229.8	61.2	9.4	2.5
1955	Exports	788.1	25.8	0.6	0.3	8.1	4.0	17.2	8.6	5.8	2.9	15.7	7.7	5.2	2.5	137.9	67.9	12.5	6.1
	Imports	769.3	27.1	0.6	0.3	20.7	9.9	22.8	11.0	6.8	3.3	39.3	18.9	26.8	12.9	87.0	41.8	4.1	2.0
	Turnover	1,557.4	26.4	1.2	0.3	28.8	7.0	40.0	9.7	12.6	3.1	55.0	13.4	32.0	7.8	224.9	54.7	16.6	4.0

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Table 7
 Total Trade of Finland with the World and with the Sino-Soviet Bloc
 1950-57 and January-August 1958
 (Continued)

Year	Trade	Total to Bloc		Bulgaria		Czechoslovakia		East Germany		Hungary		Poland		Rumania		USSR		China	
		Million Current US \$	Percent of Total Value	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent
1956	Exports	774.0	27.3	0.7	0.3	9.7	4.6	16.9	8.0	7.0	3.3	17.5	8.3	3.6	1.7	148.5	70.2	7.5	3.5
	Imports	885.0	24.8	0.7	0.3	20.3	9.3	20.6	9.4	6.9	3.2	40.0	18.3	18.8	8.6	109.5	49.9	2.5	1.2
	Turnover	1,659.0	26.0	1.4	0.3	30.0	7.0	37.5	8.7	13.9	3.2	57.5	13.4	22.4	5.2	258.0	59.9	10.0	2.3
1957	Exports	838.0	28.8	0.4	0.2	12.9	5.3	16.0	6.6	7.2	3.0	28.6	11.9	7.2	3.0	163.0	67.4	6.3	2.6
	Imports	901.0	30.9	0.9	0.3	27.0	9.7	23.1	8.3	6.1	2.2	48.9	17.6	8.9	3.2	157.3	56.5	6.1	2.2
	Turnover	1,739.0	29.9	1.3	0.3	39.9	7.7	39.1	7.5	13.3	2.6	77.5	14.9	16.1	3.1	320.3	61.6	12.4	2.4
1958 Jan-Aug	Exports	479.4	27.0	0.5	0.4	7.4	5.7	10.5	8.1	3.0	2.3	13.8	10.7	1.6	1.2	86.9	67.1	5.8	4.5
	Imports	463.5	24.3	0.2	0.2	6.4	5.6	8.1	7.2	1.8	1.6	12.7	11.3	3.8	3.3	77.1	68.3	2.8	2.4
	Turnover	942.9	25.7	0.7	0.3	13.8	5.7	18.6	7.7	4.8	2.0	26.5	10.9	5.4	2.2	164.0	67.6	8.6	3.6

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Table 8

Trade of Finland with the USSR, by Commodity Group a/
1953-57

Commodity Group	1953		1954		1955		1956		1957	
	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent	Million Current US \$	Percent
Imports										
Food, beverages, tobacco, fats and oils	60.8	67.8	35.2	42.2	37.2	42.8	35.9	32.8	45.8	29.1
Crude materials, fuels, lubricants and related materials	16.2	18.1	24.3	29.1	28.2	32.4	44.1	40.3	76.0	48.3
Machinery and trans- port equipment	2.3	2.6	5.2	6.2	8.0	9.2	10.3	9.4	9.4	6.0
Other goods	10.3	11.5	23.7	22.4	13.5	15.5	19.2	17.5	26.2	16.7
Total	89.6	100.0	83.4	100.0	87.0	100.0	109.5	100.0	157.3	100.0
Exports										
Food, beverages, tobacco, fats and oils										
Crude materials, fuels, lubricants and related materials		Negligible		0.7		0.5		0.2		0.6
Machinery and trans- port equipment	28.1	19.3	24.4	16.7	22.7	16.5	25.9	17.4	30.1	18.5
Other goods	69.0	47.4	70.3	48.1	80.3	58.2	79.4	53.5	83.1	51.0
Total	145.2	100.0	146.4	100.0	137.9	100.0	148.5	100.0	163.0	100.0

a. Totals are derived from unrounded data and may not agree with the sum of their rounded components.

~~S-E-C-R-E-T~~

APPENDIX B

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this memorandum. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

-
- 1.
 - 2.
 - 3.
 4. REC 26, USSR. sec 65. chap 6. v. 51. C.
 - 5.
 - 6.
 7. "New Trade Agreement with the USSR," Bank of Finland Monthly Bulletin, Jul 54. U. Eval. RR 2.

~~SECRET~~

- 8.
9. Makkonen, V. "Development of Finland's Foreign Trade After the Devaluation," Economic Review (Helsinki), no 3, 1958, p. 113. U. Eval. RR 2.
10. International Financial Statistics and Bank of Finland Monthly Bulletin, 1957, 1958.
11. FBIS, Daily Report (USSR and East Europe), 9 Oct 58, p. BB 42. . Eval. RR 2.
12. State, Helsinki. Dsp 207. 1 Oct 58. Eval. RR 2.
- 13.
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19. international Monetary Fund. Financial News Survey, vol 11, no 25, 19 Dec 58. U. Eval. RR 2.
20. New Times, no 14, Apr 57, p. 3. U. Eval. RR 3.
- 21.
- 22.
- 23.

~~SECRET~~