CHAPTER IV

INDIA'S MAIN BILATERAL TRADE AND PAYMENTS AGREEMENTS CONCLUDED WITH THE SOVIET UNION AND OTHER EAST EUROPEAN COUNTRIES
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COUNTRIES.

It is obvious that the bilateral trade and payments agree-
ments have been of significant help to the underdeveloped countries
during the post-war period. Though bilateralism contains some
disadvantages which might be unfavourable to the healthy growth
of trade, so long as conditions are not favourable to the univer-
sal application of the multilateral trade system, bilateral agree-
ments will serve a very useful purpose in international trade, as
they have served and are serving, as an instrument for promoting
additional exports and imports. As India's trade with the Soviet
floc has been carried out through bilateral trade agreements, the
study of the working of India's bilateral trade and payments agree-
ments with them becomes relevant.

1. USSR

USSR is India's biggest trade partner from the centrally
planned economics and has been friendly with us for a long time.
Recently, there has been a multiple increase in the economic colla-
boration between the two countries and the substantial increase

1. "In their approach to bilateral trade the socialist countries
usually offer bilateral payments arrangements in terms of the
currencies of the respective developing countries. Any defi-
cits or surplus has arising from the agreements in a period
are settled through commodity deliveries in the required
amount during a subsequent period. Trade in both direction is
carried out generally at world market prices," see U.N.
"Trade and Development 'vol,II,p.51"(foot notes).

2. A list of bilateral agreements signed with the East European
countries has been given in appendix A and an account of
India's overall Trade position with these countries can be
seen from statement- 8.
in the volume of Indo-Soviet trade demonstrates the extent of the success of economic co-operation between them. The USSR is a member of the Council for Mutual Economic Aid (CMEA) which aimed at co-ordinating economic activities in the state-trading countries of the Soviet-bloc. This organisation specifically helped the division of labour and promoted considerably the degree of integration among its members.¹ Trade with other countries is generally carried out on the basis of inter-governmental arrangements made and most of the trade agreements include the lists of the products which are to be exchanged subject to commercial negotiations.

Up to 1952 there were some barter trade agreements at the semi or non-official level between the two countries. It was in December, 1953 that the first Indo-Soviet bilateral trade and payments agreement was concluded and it was followed by a number of supplementary and new trade agreements with the Soviet Union and in January, 1959 it was replaced by a new long term trade and payments agreement.

The Long-Term Trade Agreement envisaged the doubling of trade between India and the USSR by the year 1970 over the 1964 level. Trade was expected to reach the level of about 600 million Roubles both ways. Exports of commodities from India to USSR and the imports from the USSR into India are carried on in accordance with schedules agreed upon by the two Governments from time to time. All the payments of both a commercial and non-commercial nature are made in Indian rupees. The trade agreements provide a progressive increase in the share of the exports of manufactured goods from India to the USSR which is one of the important reasons for the bilateral trade and payments agreements with the USSR.

¹ See 'Trading With the World (Country Profiles)', I.I.F.T. p.530
as well as with the other East European countries. As it appears difficult for a developing economy like India to find a place for her engineering and manufactured goods in the traditional market, it was necessary for/to explore the possibilities of expanding the trade with the state-trading countries.

The trade promotion measures included in India's bilateral trade and payments agreements with the Soviet Union were accompanied by several other specific provisions such as institutional arrangements which were considered necessary for establishing a permanent Soviet Trade Representative in India. The difficulties inherent in the trade with the Soviet Union were realized though as late as November 16, 1958. The Ministry of Commerce emphasised that since this time, the public enterprise business in India and the Soviet foreign trade organisation will enjoy all the facilities. Moreover, the agreement signed on January, 1959 specifically included the MFN clause, and the rupee (non-convertible) was to be used as the unit of account. The rupee payments agreement between the two countries concluded in 1958, which covered a period from 1958 to 1963 placed the Indo-Soviet trade relationship on a firm basis.

The mutually advantageous character of the agreement is shown by the fact that it enabled India to obtain from the USSR her requirements of machinery, equipment and other essential materials needed for economic development through payments in the Indian rupee only and provided an opportunity for expanding and diversifying her exports. On the other hand it enabled the USSR to obtain various agricultural and industrial raw materials and
consumers goods required by the Soviet Union from India by making the payments in Indian rupees against funds generated by the USSR supplying the machinery, equipments etc; to India. The bilateral character of the trade agreements further enabled both the countries to plan for a steady and rapid increase in their trade from year to year. The level of trade between the two countries during the 5 years period increased from Rs. 431.1 million in 1958-59 to Rs. 1205.6 million in 1963-64.

Trade agreements between the two countries continued to be instrumental in reducing the imbalance in the payments situation of India through the increase in her exports by the USSR. Trade relations between India and the USSR entered an expansionary phase with the conclusion of a new five year trade agreement with the USSR on June 10, 1963.1 It came into force in January, 1964 and was valid for a period of five years. The agreement was, later on, extended for a further period of two years ending 1970.2

It envisaged doubling the trade at Rs. 150 crores each way by the end of 1970 from the 1964 level of Rs. 75 crores. A special feature of the new agreement is that consistent with its policy of increasing purchases of manufactured goods from the developing countries the USSR agreed to import from India an increasing range of products of engineering goods3 and products of other industries such as linobum and pvc cloth, paints and varnish, plastic goods, steel and modern furniture, leather goods, sport goods etc; besides the traditional items.4 The agreement

1. See India's trade Agreement, 1968, p. 340
also provided for the import from the USSR of machinery and equipment, spare parts and components for maintaining the production programme of various projects set-up with Soviet assistance. The Soviet Union also agreed to supply increasing quantities of essential raw materials for maintaining some of India's industrial production. The items are non-ferrous metals, newsprint, sulphur and fertilisers etc.

Trade and payments agreements with the USSR played a significant role in forging closer economic ties and increasing the country's foreign trade. Annual trade arrangements were finalised in 1966-67 within the framework of the existing trade and payments agreements with the USSR. The annual trade arrangements recognised the scope for increasing the trade between India and the Soviet Union. Accordingly, these arrangements provided for increasing trade turnover taking into account the rising needs of these economies. Although, as stated above, the increase in traditional export like tea and jute manufactures continued to figure in the exports list, exports of newer items such as iron and steel products, chemicals, engineering goods, rubber, plastic products, transport equipment and consumer goods like Flasks, refrigerators and air-conditioners feature on an increasing scale in number of agreements.

2. **CZECHOSLOVAKIA:**

Czechoslovakia has also been one of India's important trade partners from the centrally planned economies. The first trade agreement between the two countries was signed in March, 1949 and the mixtom in 1953. The agreement concluded in March, 1949
contained specific quota target for a number of commodities. In November, 1953 it was replaced by a non-quota list type of agreement. This was renewed from time to time and a new and long-term trade and payments agreement was signed in November, 1964 and remained valid for a period of five years i.e. up to the end of 1968.¹

According to this agreement all the commercial and non-commercial transactions between the two countries are effected in non-convertible Indian rupees for which Czechoslovakia has centralised account with the Reserve Bank of India. Balances if any at the time of termination of the agreements are adjusted by purchases of Indian or Czech goods as the case may be.²

The five-years Trade and Payments Agreements provided for exports from India including fruits, cashew, spices, de-oiled cakes, groundnuts, tobacco, shellac, coir, mica, iron ore, manganese ore, vegetable oils, various iron and steel product, fans, pumps, machinery for textile mills, sugar mills, cement-mills, foundary, abrasive, machine tools, motors, railways materials, cables and wires, razor blades, textile garments, linolium, footwear, sports-goods, toilet goods, hosiery, plastic manufactures, organic and inorganic chemicals and pharmaceuticals etc. In exchange, Czechoslovakia exported to India mostly heavy engineering equipment, dugs, dyes intermediates, laboratory chemicals, tyres, tubes, photographic paper and chemicals etc.

¹. See India’s Trade Agreements, 1968, p.51. Article XI.
². Ibid. see Article IX.
The progress of the trade between the two countries is watched by the annual plans which compare the total value of the goods to be imported from and exported to Czechoslovakia every year. The annual reviews in regard to the achievement of the agreements by the State Trading Corporation are of crucial importance as they make it possible to locate the slow-moving items and adopt certain remedial measures to ensure and enhance the prospects of augmenting trade each way. The special feature of the trade plans is the inclusion of the P.M. or 'Pro-Memoria' items whose targets are not fixed at the time of finalizing the annual plans but their imports and exports are possible depending upon the mutual agreement of both the countries.

A trade protocol between India and Czechoslovakia for the year 1968 was signed in New Delhi on November 28, 1967. Under this agreement India exported to Czechoslovakia a variety of engineering goods, viz; M.S. pipes, pipe fittings, machine tools of different kinds, ancillaries, locks and pad locks, railway wagons, wire roped, plants and machinery switch gear, refrigerators, flash lights etc. The exchange of goods under this protocol which were of the order of Rs. 30 million in 1955 were expected to increase up to Rs. 800 million in 1968.

Czechoslovakia had been a member of the GATT and therefore it was not difficult for India to extend the MFN treatment to this bilateral trade partner. Czechoslovakia is also a member of COMECON which came into being in 1949 for the joint development of the resources and trade of the Soviet Union and the other
East European countries. Besides, India and Czechoslovakia have also concluded a number of bilateral trade and payments agreements with other developing countries.

3. EAST GERMANY: (G.D.R.)

East Germany is also a member of COMEGOM. The rapid industrial progress of East Germany during the post-war period opened new opportunities for the Government of India to negotiate trade agreements with the country. Under the bilateral trade and payments agreements the trade turnover between the two countries has increased very considerably.

The first trade agreement between India and the G.D.R. was signed on October 16, 1954 which remained in force up to October 15, 1956. It was renewed for another three years till December 31, 1959 and then extended till December 31, 1964. The agreement signed on October 8, 1956 included certain specific provisions for the authorisation of a permanent Trade Representative on Trade. The 1956 agreement also granted for the first time in the history of the economic collaboration of both the countries the utmost utilisation of the shipping facilities of either country.

The 1956 agreement with its 1954 protocol was replaced on December 18, 1959 when the growing volume and the changing pattern of trade between India and the G.D.R. made it essential to introduce several changes in the payments provisions. Under

1. See Agreement with East Germany, October 1954.
2. cf Sen, Sunanda, op, cit; p.67.
the new agreement, all the payments of a commercial and non-commercial nature were effected in non-convertible Indian rupees, through the special accounts opened and operated by the Deutsche Noten Bank of East Germany with the Reserve Bank of India and with an Indian commercial bank authorised to deal in foreign exchange. The rupee balances credited to the Special Account are utilized for the purchase of commodities from India. Balance if found at the time of expiry of the agreement are used to import and export goods by either country or settled by mutual agreement.

Under the Trade and payments Agreements concluded on September 12, 1964, which were valid for three years from January 1, 1965 to December 31, 1968 all payments of commercial and non-commercial nature are made in non-convertible Indian rupees similar to those incorporated in the agreement of December, 1969. The goods were allowed for the purpose of re-exports.

The main items of exports from India to G.D.R. are fruit juices, ground nuts, cashew, walant, spices, bananas, tea, coffee, tobacco, shellac, coir, cotton-wast, animal hair, iron ore, bauxite, castor oil, light and heavy engineering goods, chemical compounds and a variety of manufactured goods like textiles, footwear, jute goods, sports goods, carpets, handicrafts etc. In exchange, India's imports from G.D.R. include plant and equipment, marine diesel engines, surgical instruments, raw films, fertilisers, newsprints etc.

1. See India's Trade Agreements, 1968, p. 103.
Annual plans are made between the two countries which incorporate the trade turnover in detail. A trade plan was signed under the trade agreement of September 12, 1964, on January 16, 1967 with a view to watch the progress and examine the prospects of increasing the Indo-GDR trade. The State Trading Corporation of India also makes reviews of the progress made under these trade plans like the annual plans signed with Czechoslovakia.

4. BULGARIA:

The bilateral trade relations between India and Bulgaria began with the conclusion of their first trade agreement on June 17, 1953. Articles relating to the payments were completely absent in this agreement.\(^1\) A long term trade agreement signed on April 18, 1956 which remained valid up to December 31, 1959, was followed by a protocol signed on May 18, 1959. The protocol to the Indobulgarian trade agreement of April, 1956 amended the payment clauses. The payments relating to all the transactions of a commercial and non-commercial nature were to be made in non-convertible Indian rupees on the lines indicated in the trade and payments agreements with the Czechoslovakia.

The fundamental objective of these agreements between the two countries had been to reduce discrimination. The MFN treatment, however, was not mutually accepted before March, 1960. Both India and Bulgaria expressed their identical views at the

\(^1\) India's Trade Agreements, 1968, p. 35
UNCTAD I held in Geneva, 1964. A trade and payments agreement was concluded between the two countries which was to be effective from January 1, 1964. Like the other East European countries annual plans are also made with Bulgaria. The annual plan negotiated on April 16, 1966 envisaged trade (both ways) of the order of over Rs. 14 crores in 1966. The plan was in terms of the agreement signed on February 14, 1964.

The composition of trade in the long-term trade and payments agreements signed on February 14, 1964 changed considerably from that of the agreement concluded in June, 1953. According to the new agreement the main items of India's exports are engineering goods including tropicalised motors, diesel engines, pumps, sewing machines, drugs and pharmaceuticals, chemical products, cotton fabrics, leather chappals, de-oiled cakes, apart from traditional items like tea, coffee, jute manufactures, shellac and tobacco, etc. In exchange, the main items of India's imports are heavy engineering equipment like electric hoists, cranes, power cables, transformers, mining locomotives, automatic looms etc.; besides some heavy chemicals, pig iron, ball bearing, zinc, fertilisers and dye intermediates.

5. HUNGARY

Indo-Hungarian economic relations date back to 1930's when Hungary used to export the well known ' 'Ganz' type machines, railways cars, generators, silk and rayon fabrics. India's exports mainly consisted raw jute, raw-cotton, mica, hides coir.

1. India's Trade Agreements, 1968, p.35.
yarn and inedible fats.

The first bilateral trade agreement (quota) between the two countries was signed in April, 1949. Both the rupee or sterling were specified as the accepted currency for payments. This trade agreement was replaced by some extensive trade arrangements in January 1951 and on January 17, 1954 a new trade and payments agreement was signed. The agreement was to be effective up to December 31, 1955 and thereafter for another period of two years unless either country declared its intention to terminate the agreement three months prior to December 31, 1955. The procedure for the payment was the same. It was on June 15, 1959 that a protocol to the existing trade arrangements was signed specifying the use of the rupee as the accepted unit for payments.

On June 25, 1960 new Indo-Hungarian trade arrangements were made specifying that all the payments of commercial and non-commercial nature will be effected in non-convertible Indian rupees through the special accounts opened and operated by the National Bank of Hungary on lines similar to those indicated in the trade and payments agreements with Czechoslovakia. India's main exports to Hungary were tea, coffee, spices, opium, vegetable oils, iron ore, manganese ore, mica, cotton, coir and jute manufactures, shoes, sewing machines, diesel engines, textiles, machinery, sports goods, etc. Hungary's exports to India consisted mainly power stations, flour mills, manufacturing plants, glass factories, different kinds

1. Sen, Sunanda, op. cit; p.73.
2. Ibid; p. 74.
of plants for small scale industries, telecommunication equipments etc.

The validity of the Trade and payments Agreement of June 25, 1960. 1 was extended for a period of one year. The Schedules of exports and imports were unaffected. Hungary played a crucial role in promoting India's economic development and continued supplying and setting-up scientific and engineering projects in India. Under the new trade and payments agreement signed on November 22, 1963, between the two countries, which is to remain valid up to 1970, the composition of India's trade with Hungary changed considerably. India started exporting to Hungary items like manufactured industrial and chemical products and other engineering goods. The main items on the list of exports from Hungary to India are rolled steel products, alloy and special steel, machine tools, organic and inorganic chemicals, man-made fabrics and heavy engineering equipment etc.

6. POLAND:

Like other East European countries Poland is also a member of COMECON which has coordinated economic activities among these countries. In the early years of India's independence, the trade with the Poland was an agreement. 2 Although the first trade quota agreement between the two countries was concluded in April 1949, it was not until 1954-55 that a trade agreement was signed which encouraged the rapid expansion of trade between India and Poland. 3

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2. Ibid.
3. See Sen, Sunanda, op. cit; p.55
4. Ibid.
Until the middle of the 1950's Polish trade had been lagging behind her overall economic development.¹ which can be attributed to the state controlled economy to attain certain desired objectives. The restraints were also applied in view of the general programmes and priorities of the Soviet bloc in regard to their production and trade.²

With a view to promoting trade relations between the two countries on a balanced basis and expanding the volume of trade between them, a trade agreement was signed in New Delhi on April 13, 1959 which is known the Shipping Services Agreement³ and the two countries were responsible for the operation of their ships. According to the 1951 trade-quota arrangements sterling was the medium of transaction and the balance was to be settled through the Polish Transferable Sterling Account.⁴ The 1956 trade and payment agreement was complete in the sense that it specified the payments provision. The supplementary payments protocol signed on March, 12 1958 was perfectly specific so far as the payments arrangements were concerned. A special payments procedure was agreed upon and the Narodowy Bank Polski of the Polish peoples, Republic opened a special Trade Development Account with a commercial bank in India which was authorised to deal in foreign exchange and the rupee proceeds of imports of essential machinery from Poland were

1. Ibid, see also U.N. Economic Survey of Europe, 1957, ch. VI, p.2.
2. Ibid.
3. Ibid; p.54.
4. Ibid. p.7.
credited to this account. The amount so credited was utilised by Poland for the payment of specified exportable commodities from India.

The new Trade and Payment Agreement signed on November 2, 1959 made some more comprehensive arrangements and all payments of a commercial and non-commercial nature were to be effected in non-convertible Indian rupees through the special account opened and operated by the Narodowy Bank Polski on the lines similar to those indicated in the protocol to the agreement with Czechoslovakia. This agreement was concluded for a period of three years being effective from January 1, 1960 but was extended for a year more ending on December 31, 1963. Under the Long Term Trade and Payments Agreement signed between the two countries which became effective from January 1, 1964 and remained valid up to December 31, 1968 trade has increased to a great extent and exports has increased and diversified. In addition to the traditional goods India also exported engineering goods, textile machinery and accessories, machine tools and various other engineering products including diesel engines. Poland supplied mining machinery, machine tools, tractors, zinc and rolled steel products including alloy and special steel and generating equipment etc.

It is important to note that Indo-Polish trade relations followed the general pattern of India's trade with other East European countries. But though soft currency treatment was guaranteed in 1951, the most Favoured Nation treatment was not accepted on a bilateral basis until 1959.

1. See India's Trade Agreements, 1968, p. 243
2. Sen, Sunanda, op.cit; p. 55. See also India's Trade Agreement 1953. (Contd)
7. **RUMANIA:**

For a long time India and Rumania have been maintaining friendly trade relations. The first trade and payments agreement between the two countries was concluded on March 23, 1954 and remained effective with some subsequent extensions till April, 1959. On May 14, 1959 a new trade and payments agreement was signed aiming at a larger trade turn-over between India and Rumania every year. Under this agreement all the payments for the goods imported and exported were made in inconvertible Indian rupees through special accounts opened and operated by the State Bank of the Rumanian's people's Republic on lines similar to those indicated in the protocol of the agreement with Czechoslovakia. Only July 23, 1960 the agreement of May 23, 1959 was modified to delete zincore from the export list. Apart from the generally accepted objectives of the bilateral agreements i.e., trade promotion and the inclusion of MFN treatment, the Rumanian Government was also assured a soft currency treatment from India in March, 1954. The agreement of December, 1958 included the convertibility of sterling and soft currency treatment ceased to be significant; the May, 1959 Trade and Payments agreement did not include the soft currency.

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5. See Sen, Sunanda, op.cit; p.88.
provision. Under this agreement both the countries were also required to make the maximum possible use of their shipping services.

A very comprehensive Trade and Payments Agreement concluded on November 30, 1962 provided for the continuation of all payments of commercial and non-commercial nature in non-convertible Indian rupees. The schedules of exports and imports for each calendar year were revised, modified and extended to include certain new articles after mutual consultations.

The new trade arrangements made on March 2, 1966 between the two countries, which were in terms of the trade and payments agreement concluded on November 30, 1962, provided for a ten percent increase in total trade between India and Rumania. According to the trade arrangements for 1967 signed on October 6, 1966 which were also in terms of the trade agreement of November 30, 1962, the trade was expected to be of the order of Rs. 32 crores during the year 1967. It showed an increase of 15 percent over the trade level achieved in 1966.

Under the bilateral agreement signed on October 6, 1966, the main items of India’s Imports are fertilizers, Retorolium products, chemicals, drilling equipments, capital goods, and machinery etc. In exchange India supplied coffee, spices, iron ore, mica, cotton textiles, jute manufactures, chemicals, engineering and manufactured goods etc. The list of the commodities can be modified, extended or renewed for each calendar year by exchange

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1. Ibid.
2. Ibid.
of letters between the two Governments.

8. YUGOSLAVIA:

India's trade and economic relations with Yugoslavia date back to the early years of India's independence. Diplomatic relations between the two countries were established on December 5, 1948 and the first trade (quota) agreement was concluded between the two countries on December 29, 1948.¹ The trade quota agreement remained effective with annual extensions up to June, 1963. On July 24, 1953, a non-quota trade agreement was signed specifying the use of rupee or sterling for financing the trade between India and Yugoslavia.²

The first trade and payments agreement concluded on June 19, 1957 was a protocol to the agreement of March 31, 1956 and it amended the payments procedure completely. According to this agreement all the payments of commercial and non-commercial nature were made in inconvertible Indian rupees. For this purpose the National Bank of the Federal people's Republic of Yugoslavia maintains a central account with the Reserve Bank of India and at its discretion with one or more commercial banks in India authorised to deal in foreign exchange's. Any balance remaining in the rupee account are cleared by the purchases of either Indian or Yugoslav goods as the case may be.

A long-term trade and payments agreement was signed on October 13, 1962 and remained valid for a period of five years from January 1, 1963 up to December 31, 1967.³ It provided for the

¹. See Sen, Sunanda, op. cit; p.79.
². Ibid.
³. See India's Trade Agreements, 1968 p.357.
continuation of all payments of a commercial and non-commercial nature in non-convertible Indian rupees. The schedules of exports and imports were revised and joint ventures in trade, commerce and industry were envisaged. Under this agreement the goods available from India to Yugoslavia were textiles, woolen fabrics, leather manufactures, plastic goods, sports goods, linolium, textile machinery and accessories and light engineering goods including sewing machines etc. India purchased from Yugoslavia, among other things petroleum products, caustic soda and soda ash, chemicals for textiles and leather industry, basic materials for dyes, pharmaceuticals, raw asbestos, tool and alloy steel, textile machinery, cables, machine tools, cranes etc.

A joint committee for the two countries was formed. The main function of this committee is to review the progress and prospects of trade between India and Yugoslavia and examine the difficulties arising between them in regard to trade expansion. The committee meets from time to time to devise ways and means in order to overcome the difficulties in trade, to formulate annual trade plans and to review other allied matters.

Consequent on the devaluation of the Indian rupee on June 6, 1966, a protocol was signed between the two countries July 16, 1966. It specified that efforts should be made by both the Governments for expanding the trade relations between India and Yugoslavia. But the Yugoslav government did not agree to some extent to purchasing Indian goods at the devalued rate and the result was a huge deficit in India's trade with Yugoslavia and enormous accumulation of imports in your sovereign missile by Yugoslavia. It is a heartening to note that due to the efforts made by both the Governments
and mainly the difficulties realised by Yugoslav Government, it has started again importing an increasingly larger amount of Indian goods both traditional and non-traditional which has largely reduced the deficit in India's trade with Yugoslavia.

The state Trading Corporation of India is also playing a very important role by making periodical reviews of the progress made under the trade plans. These detailed periodical reviews are helping to a large extent in finding out those items showing slow progress of trade and enabling the country to adopt remedial measures so as to ensure and enhance the rapid flow of trade each way.