Although the International Monetary Fund and the General Agreements on Trade and Tariffs have non-discriminatory provisions for free international trade, they provide articles under which countries in balance of payments difficulties or with low or declining monetary reserves can exercise discriminatory restrictions of a quantitative nature. Under provisions of these articles, a country could arrange imports on deferred payments while strengthening direct commercial relations with state trading countries. Bilateral agreements on trade may be meant to maintain the existing volume of trade or to promote trade in potential items with their actual values and volumes being given. Besides giving detailed schedules of exportable commodities, these trade agreements could insert the most-favoured-nation clause as regards customs duties, charges, etc. including shipping. Bilateral accounting provisions often make it operative for the contracting parties to carry out, on a reciprocal basis, a minimum level of purchase
as necessitated by the balancing provisions of the agreement. Since there is a purchase commitment, any trade imbalances can be met by an additional shipment of commodities. Within the framework of such bilateral agreements, barter deals on a self-balancing basis could also be conceived of.

Along with gradual tariff reductions or gradual relaxations of quantitative restrictions within the framework of bilateral agreements, it would be quite desirable if such agreements can provide for spheres of agreed specialisation between countries, as on the basis of particular industries to include successive stages of production. Such agreements can be concluded between governments, private parties or between governments and private parties.

Bilateral payments agreements which represent a clear development upon the clearing account devices of Europe (during the inter-war period) can take the shape of operating a non-residual account that is not convertible in relation to third party transactions. Responsible bodies in either country could be authorised to make the requisite payments to their exporters in domestic currencies, or the partner countries could undertake to effect their reciprocal current settlements in a way that will minimise the use of convertible exchange and gold.

A bilateral payments agreement has to include within its scope the tied export programme of under-developed countries under long-term contracts or the utilisation of the agreement for financing both commercial and non-commercial payments. It may be defined in more general terms as an agreement which establishes a general method for financing trade between two countries, giving rise to credits which are available for use in making payments over a wide range of imports from the other country or for specified other purposes.

The mere existence of an account for the purpose of measuring the progress of an agreement for mutual exchange of specified quantities of given commodities does not indicate the prior conclusion of bilateral payments arrangements, and even if they cover several commodities, they represent at best mere barter transactions involving no foreign exchange payments. While the scope of such payments may not necessarily be restricted to financing merchandise items only, such arrangements can easily cover settlements of any kind involving both commercial and non-commercial payment between the contracting parties.
Bilateral agreements may have three structural aspects:

(i) TENURE:

It is important how long the agreement will last. Special protocols on payments may have a term of validity far different from those for trade accords.

(ii) ACCOUNTING PROCEDURE:

It may cover financing of merchandise items only or regulation of financial transactions only in respect of all commercial and non-commercial payments. The bilateral account may be centralised in the principal bank of the country; or it may be centralised among a number of authorised commercial banks. The agreement may stipulate even a number of accounts just to collect information on different transactions like merchandise trade, payment of service charges or flow of long-term as well as short-term capital. Such compartmentalisation of agreements accounts is frequently designed to achieve a more specific object like the liquidation

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2. In this connection, it may be pointed out that the average duration of bilateral payments agreements in the ECAFE region tended to increase during the years 1950-54.

of debts or promotion of trade in a special category of commodities. It has often proved worthwhile to introduce differences in the method of settlement for the separate accounts covering payments for the different transactions. The unit of account may be the currency of either partner, gold or dollar or any other third currency as actually agreed upon. While bilateral agreements on payments carry with them the connotation of a certain degree of rigidity in approximating a balance, it is imperative that a strict aggregation of the whole network of a country's trade, and any attempt to achieve a balance with each trade partner can hardly be successful beyond a limit, and further attempts to distort it along the bilateral channels may even lead to a total suspension of trade itself with the economic consequences of an autarkic regime.

3. A reciprocal or even a regional balance with any trade partner or partners may be hardly recommendable; Burma's trade surplus with India may enable her to finance the former's trade deficit with other partners. Now, if Burma's trade with India is balanced her trade with other partners is naturally to be balanced.
Swing agreements may be arranged to tide over short-run imbalances by defining the limit up to which each partner is prepared to sell its own currency for that of the other without demanding cover. The swing limit may be either a gold point or a dollar point when the creditor can claim settlement of the excess over the swing in convertibles; in other cases the ceiling is merely a talking point for some joint commission or responsible authority.

Bilateral agreements, on the other hand, may not include any swing limits; and the necessity for it will be less felt with a higher coverage of bilateral accounts as well as with a higher inflow of non-merchandise items. Also it may be noted that without a large volume of these non-merchandise payments to compensate the merchandise payments, it becomes quite difficult to increase trade between the two countries on a bilateral basis. The necessity exists for long-term credit arrangement besides swing and other credit arrangements to bridge the short-term imbalances.

(iii) Settlement provisions:

The settlement provisions influence the working of the agreement account both during and at the termination of the stipulated arrangement. There may be an arrangement with any partner country with an inconvertible
currency as the unit of account, or a bilateral payments agreement may include no formal agreement on the mode of financing the trade, such trade being financed very often in transferable sterling as in the case of the European payments mechanism. Such payments agreements may also conveniently use the currency of either partner as the unit of account when both belong to a transferable area, or, there may be some such payments agreements with a complete absence of soft currency financing.

While arrangements with transferable currencies are ruled out in consistence with the essential elements of a clearing account system, it has been found convenient to distinguish the alternative forms of arrangements according to the extent of flexibility of the balancing arrangement and the degree to which these permit an advance towards free exchange conditions. With an automatic transferability of the balances, there takes place a multilateral settlement of the net amount of credit or debit for either partner. The bilateral impact is more explicit in the exchange settlement type of arrangements where the settlement is arranged in terms of free exchange,
gold or transferable currency. It may take place periodically or at the termination of the agreement. It may also be the case that measures are devised to bridge surpluses or deficits once the talking point is reached, thus making it unnecessary to arrange a periodic settlement. Balancing is complete under the offset settlement account while liquidation of the excess balance under these arrangements can be effected by additional shipment of merchandise items only.

It is, however, possible that the excess balance may even accumulate in practice; any tendency towards an excess balance being immediately mitigated by a constant control over the trade and surveillance of accounts.

The exchange and trade control mechanism may be operated to skew the bilateral trading pattern in a balanced direction. It has, however, proved difficult in practice to avoid an accounting balance, and it has generally been necessary to have some provisions for a mutual settlement. The general practice has been to start negotiations for settlement at the termination of the specified agreement period, and the final decision is more frequently relegated to the discretion of mutual decisions.
Bilateral trade and payments agreements have recently gained popularity in under-developed countries as useful adjuncts to their policy on trade and payments, and constitute a means of reducing balance of payments difficulties by stipulating payment in local currencies. While they have assisted programmes of economic development by influencing trade patterns with their bilateral partners towards a more desirable direction, it is significant to note that changes have taken place in both the content and application of the policy during the 1930s, and latter as a useful device to overcome the shortage of convertible currencies during the late 40s and 50s.

The motive is but to exercise some control over the volume and composition of exports and imports. Another concomitant motive is to diversify the structure of trade, and to establish direct contacts with state trading countries while the possibility of obtaining credit from abroad increases.

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5. There were tendencies in post-war Europe towards increased utilisation of bilateral payment agreements, see Mikesell, R.F.; Foreign Exchange in the post-war world, 1954, New York and also, Triffin, Robert; Europe and the money muddle, 1957, London.

trading relations along bilateral channels. The payments arrangements which generally formed a constituent or supplementary part of the trade accords were often used to dispose off temporary surpluses of commodities on the other hand. Such bilateral arrangements have become quite popular in recent years among the developing countries in Asia and the middle East. While the transferable currency was generally accepted as the means for settlement for their bilateral contracts with countries outside the Sino-Soviet block, such arrangements with block countries included more rigid methods for settlement.

THE INDIAN CONTEXT:

Beginning with 1948, India considered it convenient to extend her trade relations along bilateral channels. The trade arrangements involved quota commitments and there were no provisions regarding the procedure for payments. The specified quota limits set the permissible value or volume of the commodities traded. However, there were no obligations on the part of the trading partners to utilise the quota targets. In a number of cases, the quota limits guaranteed imports of commodities not easily obtainable during the immediate

post-war period. It was often a bargaining point for India and her trading partners to negotiate the reciprocal commitments for exchanging their scarce products. The gradual resource position improvement of the world since 1952 led to the conclusion of non-quota types of agreements.

The gradual depletion of the country's sterling reserves increased the popularity of bilateral payments agreements, and since 1953 a number of payments were concluded with different trading partners. During 1953-56, arrangements generally stipulated an exchange settlement of net bilateral balances. While the rupee was the accepted unit for accounting purposes, it had to be converted into sterling for purposes of settlement of any such balances. Since the end of 1956, the shortage of foreign exchange increased the necessity of economising the available foreign exchange resources, and it became convenient for India to utilise rupee payments arrangements on a wider scale. During 1957, a number of exchange settlement arrangements changed over to the offset settlement types of payments accords and during 1958-61, the rest of India's rupee payment agreements also incorporated the offset settlement mechanism.
It was possible for India to utilise the offset settlement mechanism for financing the more significant part of her trade with those countries with which she concluded bilateral payment arrangements. One may work out two trends in the arguments generally put forward by the official spokesman as the plea for bilateral trade and payments arrangements. One provides an argument in terms of specific scarcities while the other more popular in recent years rests on the prospects of export promotion.

**INDIA'S BILATERAL RELATIONS WITH SOUTH EAST ASIAN COUNTRIES: A CRITICAL REVIEW:**

While bilateral payments arrangements would mitigate balance of payments difficulties, such agreements would promote export earnings and would minimise the incidence of fluctuations in world markets. Besides the general purpose of trade promotion, such agreements would be suitable for the state-controlled trade sectors in countries like Burma and Cambodia.

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The Indo-Burma trade agreement of 1941 was replaced by a fresh one in 1951 which assumed the nature of a trade quota agreement involving some barter commitments. Part (I) of the agreement provided for a rice deal in exchange with stated quotas of four Indian products, viz, gunny bags, groundnut oil, cotton yarn and galvanised sheets. Ruling out re-exporting, part (II) of the agreement set minimum quota limits for the licensing authorities and part (III) contained a set of general statements on the facilities like authorisation of a soft-currency treatment by India or the reciprocal guarantee of a mutually favourable treatment to their trade.

The trade agreement of 1956 made provisions for mutual most favoured nation treatment along with mutual concessions to the ships of either partner, while the 1958 agreement specified quotas indicating maximum value limits. While the rupee was the medium of financing, it did not cover rice which was a crucial item of imports. The agreement of 1958 was successful in reducing the trade gaps during 1950-60 and made provisions for promotion of exports of India's non-traditional items. A trade agreement was signed in May, 1970 between India and Burma for expanding trading relations on a bilateral basis. Where licensing is involved, export and import licenses would be issued, most-favoured-nation treatment would
be accorded and payments would be made in convertible currencies or banking arrangements would be made between the two countries. As can be seen from Appendix No. VII-I, the agreement was supposed to remain in force until 31st December, 1971 subject to automatic extension for a period of one year unless its termination is requested by any contracting party three months in advance.

An Indo-Thai trade agreement was signed in December, 1968, the text of which is given in Appendix No. VII-2. Art I of the agreement mentioned that appropriate measures should be taken to further economic relations within the framework of existing possibilities. Subject to existing rules and regulations, exchange of commodities had to be facilitated through normal trade channels either by private traders or governmental agencies. All payments had to be effected in freely convertible currencies. The agreement was to be valid for one year only, subject to automatic yearly extension unless its termination was formally requested by any of the contracting parties.

The Indo-Chinese area has had trade with India. Cambodia (where the foreign trade is nationalised and operated by the state-controlled organisation SONEXIM) has trade agreements with a number of communist countries like the USSR, Czechoslovakia, Bulgaria, East Germany and North
Vietnam, and also with a number of free-world countries such as Japan and West Germany. India can afford labour to initiate trade agreements with this region.

By virtue of the provisions of the UK-India trade agreement (1939), specified products from the Union of Malaysia were admitted into India at preferential rates of customs duty and this was reciprocated by Malaysia in specified products for which guaranteed margins of preference were provided in the Indo-British agreement. Malaysia, however, withdrew the preferential rates in August, 1966, purely on revenue grounds. It becomes important that a trade agreement is worth consideration.

While Singapore would sign trade agreements with a number of Soviet Block countries like Bulgaria, Poland, Rumania, Hungary and North Korea including the Soviet Union, India has not entered into any bilateral agreement with Singapore.

The earliest Indo-Indonesian trade agreement was signed in November, 1950 and the quota schedules set the value limits for individual items and also for an aggregate balance in the overall value of trade. The agreement includes an understanding to utilise, on an increased scale, the national shipping services in either country on a reciprocal basis.
In 1953, the direction was towards a non-quota agreement.
The trade agreement of December, 1966 (initially made valid up to October, 1970) provided for the extension of the most-favoured-nation-treatment to reciprocal trade while an earlier agreement of 1963 specified exportables as well as importables.

For the first time, an Indo-Philippine trade treaty was signed on March 26, 1968 for facilitating the exchange of goods and services and for diversifying trade between these two countries. As can be seen from Appendix No. VII-3, the agreement listed export availabilities for both countries in Schedules 'A' and 'B'. In accordance with the provisions of the agreement, the two governments agreed to identify areas of possible co-operation in various fields industrial, commercial and technical. The agreement, however, remained more as a symbol of goodwill than as a useful means of trade expansion.

9. Schedule A listed important items of Indonesian exports: rubber, petroleum products, palm oil, copra, timber, kapok, gums and resins, cinnamon, nutmegs and betelnuts, etc. while Schedule B listed potential Indian export items: cotton yarn, cotton & woollen piecegoods, synthetic fibres, textile and made-up garments, jute and jute products, coir yarn and coir manufactures, tea, coffee, vegetables, hydrogenated oil, chemicals, pharmaceuticals and allied products, engineering goods including electrical goods, hardware, construction materials and other miscellaneous items.
While India has signed trade agreements with only a few countries in South East Asia, there have been a number of lacuna in the texts of the agreements. Provisions for a strict enforcement of the agreements lack in a majority of the cases. Sometimes, the coverage of the agreement was very small as in the case of the 1953 Indo-Indonesian trade agreement. Even a vital export item of Indonesia such as mineral oil was not included. When the Indian commercial representative in Indonesia stressed the latter's strict foreign exchange control policy with its trade implications for Indian exports to be vitally linked with imports from Indonesia, the situation could be generalised to include India's bilateral links with other South East Asian Partners. And also whenever any trade agreements were signed, there was always a tendency to include all principal export items, irrespective of the partners' necessities.

While there were some such undesirable features in Indo-South East Asian bilateral trade and payments agreements, fears have been entertained in some quarters about fruitful possibilities of such agreements. The argument runs like this: while India would increasingly import vital capital items for industrialisation, these South East Asian countries also would increasingly require to import them for a similar


purposes. These countries in South East Asia have attempted textile and other light engineering products which characterise industrialisation in India. Moreover, India's agricultural problem is nearing a solution, in which case South East Asia's surplus rice, vegetable oils, raw jute and raw cotton would have less of a chance for exchange with India's industrial projects. All such bilateral operations with these countries will, therefore, harm India's interest in the long run as India cannot balance her trade with these countries by direct exports.

The force of the argument would be much weaker if there could be provisions for a minimum co-ordination of members' investment plans within the framework of the bilateral agreements (or within the framework of the regional economic union). While many of the industrial items that have been produced in India will be received in South East Asia, it will be advantageous for India to concentrate on advanced industrial complexes since she is already well-advanced relative to neighbouring South East Asian countries. Iron and Steel or chemicals form such a category on which India may profitably concentrate and this category will long remain on the import-list of these South East Asian countries. Even competitiveness can be secured in iron and steel; because

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the country is well endowed with first-class iron ore in close proximity to coal and other essential materials for the manufacture of steel. Moreover, a country of India's size is expected to exploit all reasonable economies of scale at an early stage of development to improve her competitive position in the world market.

In spite of the undiversified production as well as limited export specialisation in South East Asia, as is indicated in Chapter 2, it would perhaps be wrong to conclude that South East Asian countries have very little to offer in the short run, and this conclusion is made on the basis of India's frequent trade deficits with the region. Whereas India's inability to relax control on intra-regional trade with these countries may be justified on balance of payments grounds, any such plea on grounds of an otherwise nature (such as paucity of regionally produced items) should not be entertained.

Declining trends of India's exports to traditional markets in South East Asia illustrate the need for more organised efforts on India's part and the approach to bilateralism may be based on preferential duties for countries like Thailand which encourage the private sector.

13. Singh, Manmohan. Op. cit, Chapter X & also, Lakdawalla, D.T. & Patil, R.H. "Prospects of India's trade with the BCAFÉ", a paper read at the Bangkok conference on economic inter-dependence in South East Asia sponsored by the University of Wisconsin, USA.
Commodity exchanges are also appropriate for purposes of trade expansion such as, for example, India's exports to Thailand are tied with jute imports from that country. India's engineering exports to Indonesia may be tied to imports of petroleum and tin-in-concentrates from the latter. This bilateralism could even be changed into trilateralism or multilateralism wherein, say, Ceylon's export of tea to Burma for India's imports of rice from the latter.

When so much is said in favour of bilateral agreements, they will be effective only when supplemented by payments provisions or arrangements. Offset settlement provisions under bilateral arrangements did not generally permit any transfers to and from any external source. The rupee account stipulated a compensatory movement for India's exports, imports, loans, or repayments in relation to these countries. Bilateral offset settlement provisions were successful both in enhancing the value of India's trade in new directions and in bringing about a marginal addition to the volume of her exports as well as of imports with no undesirable repercussions on either the composition or the unit prices of the traded commodities.

Even where these arrangements did not produce any spectacular change in the volume of India's trade with her agreement partners in Asia, they proved significant in
terms of their stabilising effects on the course of India's trade with these countries. In the absence of such bilateral agreements, the dangers of a continuous trade imbalance in one direction are likely to assert themselves while the presence of such agreements considerably diversified the export market with no visible signs of trade diversion from one region to another. The device of such bilateral agreements has made it possible for India to purchase a large part of her crucial imports from the neighbouring Asian countries without any foreign currency disbursement.

While the rupee payments agreements with complete offset settlement provisions would be most desirable in terms of their built-in-balancing device with the automatic mechanism for paying off charges on account of imports and capital inflows by an increased volume of exports, the glaring contrast of India's spectacular trade achievements with countries in the Soviet Block (which have agreements with complete offset settlement provisions) with the relatively less impressive records of her (partial) offset settlement arrangements in South East Asia would tempt a policy

implication to be drawn in terms of advisability of extending the rupee payments arrangements (with complete offset settlement provisions) to this area. However, the desirability of the programme must be judged along with its feasibility. The absence of suitable organisations in free-market economies to work out complete offset settlement provisions in relation to another state-trading country happens to be an obstacle for such agreements to materialise. In the South East Asian context, this seems to be a minor difficulty since a few countries at least have such state-trading organisations. The genuine difficulty may be because the countries in the region had different monetary connexions or some countries had a different economic faith or were bound by an entirely different set of obligations.

Nevertheless, the mechanism has a definite comparative advantage as a technique of promoting intra-trade (as can be guessed from the Indian experience with the Soviet Block). In spite of the operation of a large number of adverse forces, it could cover countries both within and outside the sterling area which have already developed bilateral commercial links with India.

CONCLUSIONS:

Chapter VII suggests that bilateral trade and payments agreements are consistent with the provisions of the GATT and the IMF and they have three main aspects, viz, tenure, accounting procedure and settlement provisions. For India, such bilateral trade agreements have been common since 1948 and India has had such bilateral trade agreements with Burma, Thailand, Indonesia and the Philippines while the rest of the region has not concluded any such trade pacts or treaties.

As regards agreements with South East Asian states, it is pointed out that the coverage of the agreements is sometimes awfully small. All the available export items are always included irrespective of the needs of the partner countries. Moreover, there is no strict enforcement of the provisions made in the trade treaties. It is suggested that South East Asia has very little to offer in the short-run; and it will be better for India to concentrate on advanced industrial complexes. On the other hand, India's declining export-trends strengthen the case for such bilateralism and wherever trade agreements are struck, they must be supplemented by payments agreements.
While agreements on trade and payments would definitely encourage intra-trade, they have also the additional effect of stabilising the course of trade and make it possible for India to purchase a large part of her crucial imports without involving foreign currency disbursements.

The rupee payments arrangements with complete offset settlement provisions might better be recommended and any difficulties faced therein will be minimised since a few countries in the region possess state-trading agencies. The only difficulty might be that the countries in South East Asia had different monetary connections or were bound by different economic faiths or obligations.

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