INTRODUCTION

Foreign trade plays a crucial role in formulating the economic destiny of the underdeveloped countries. Much attention has been paid in recent years to the problem of economic development, particularly to mobilisation of domestic resources and their allocation between competing projects according to some sort of formulae. But the problem of external resources and export promotion has been given scant attention so far. The present study attempts to make a contribution in this direction by examining one technique of trade policy, viz., bilateral trading arrangements. Our interest in this particular technique arose because countries have in past benefited from bilateral agreements during times of exchange difficulties and secondly, because India, in particular, has recently been showing considerable interest in negotiating bilateral payments arrangements.

Scope:

The broad based definition of bilateral trading arrangements accepted in the present study provides us scope to discuss bilateral trade agreements, payments agreements, limited payments agreements and bilateral contracts. The theoretical formulation in the earlier part has been followed up by two empirical studies relating...
to India's bilateral agreements and Sino-Ceylon bilateral contract in the latter part of the Study. The interest throughout is in analytical assessment of trade under these agreements, and not in narration of procedural details associated with their working. The study is confined to finding out whether a short term measure advantageously employed by developed countries in past could be employed for relatively longer period by underdeveloped countries during early years of growth, and whether bilateral agreements would obstruct movement toward free trade.

Scheme:

The Study falls in two parts -

Part I: Theoretical presentation of the relationships between bilateral agreements and foreign trade.

Part II: Empirical studies to verify the hypotheses presented in Part I.

Chapter I brings out interrelationships between economic development and balance of trade. The factors affecting income elasticity to import in both developed and underdeveloped countries are discussed, and it is shown that the balance of payments disequilibrium in the latter countries is likely to be persistent and due to structural factors. As remedial measures, adequacy of foreign aid and scope of devaluation are examined, and it is suggested that...
discriminatory restrictions would restore the balance quicker and with less cost to the economy than nondiscriminatory restrictions. This provides a theoretical setting for discussion of the bilateral arrangements undertaken in Chapter III.

Chapter II offers observations on broad characteristics of bilateral arrangements and discusses why countries are motivated to negotiate such arrangements. We also discuss the nature of discrimination that would arise under these arrangements. The appendix discusses the objectives and effects on trade of 'goodwill' type of trade agreements, which, strictly speaking, do not fall under bilateral agreements.

With this background, Chapter III presents a comprehensive analysis of trade under bilateral arrangements. It is admitted at the outset that free trade is the ideal policy for optimising world welfare if all the Paretoian conditions are fulfilled in each country. But if all conditions are not satisfied, or at least one condition is not satisfied, free trade would not yield the best results. So we turn to bilateral arrangements to find out whether they yield the desired results. We analyse the effects on trade of payments arrangements and lay down criteria for evaluating the welfare-significance of bilateral trade. Next, few important cases of bilateral
agreements are distinguished and the benefits as well as limitations of bilateral trade in each case are brought out in clear perspective. We then discuss bilateral contracts and their significance for stabilisation of export earnings. The final section gives us the answer we were groping for so far. The second best solution under the given circumstances would be given by regional trading groups. But is the solution feasible? Or, are the structural characteristics of underdeveloped countries such as would evolve multilateral trading groups so easily in proper time? In this connection, the pattern of trade among South East Asian countries and Latin American countries are examined. Finally, we seek to answer the question: Would not bilateral arrangements facilitate and expedite the evolution of regional trading groups?

The next two chapters aim at verification of theoretical observations made in earlier part. Our interest therefore, is in application of the conceptual framework in interpretation of statistical data from a specific point of view, and not in description of every aspect of trade. Chapter IV seeks to examine, in the light of India's bilateral trade with East European countries, the hypothesis that it would be profitable for underdeveloped countries to negotiate agreements with middle-income countries. We also offer brief remarks on India's trade with high income trade-
agreement partner countries of Western Europe and with low-income underdeveloped partner countries.

If India provided a case of large-sized country in Chapter IV, the selection of Ceylon gives us a case of small-sized foreign trade-oriented underdeveloped country in Chapter V. We study here a very interesting case of bilateral exchange contract between Ceylon and China. So excellently does it provide, within a single instance, various facets of a bilateral agreement that one may be tempted to call it an ideal case of bilateral arrangement.

The last Chapter offers concluding remarks.

The concept of a social welfare optimum we have in mind in this Study is not one of the individualistic type determined by the simultaneous fulfilment of all Paretian conditions. It may be referred to as paternalistic where the preference scale as determined by the Economic Authority count more than those of the individuals comprising the economy, and where the welfare of citizens at some future date is given a larger weightage than the welfare of citizens in the present. We also assume for our purpose that time horizon, the social rate of discount, planned rate of growth and pattern of investment are exogenously determined. It is possible, indeed likely, that what

* The word is borrowed from de Graaf, but he uses it differently to connote, social optimum which is completely divorced from the preferences of the individual members of the group. Cf. J. de V. Graaf - Theoretical Welfare Economics (Cambridge, 1957), p.7.
appears to be loss of individual welfare under Faretian concept of social optimum would lead to gain of collective welfare under this type of welfare function.

The chief purpose of the empirical part is interpretation rather than generalisation. Both the case studies are first of their kind for these countries. Curiously enough, countries to which rapid expansion in exports have taken place at a time when India’s exports were at standstill, has aroused much suspicion and resentment among private traders. The present study is an attempt to dispel many of these doubts. At some places, it has not been possible to offer definite conclusions for want of information. In such cases, the analytical possibilities, as far as possible, have been indicated.