Chapter V

SOVIET ECONOMIC POLICY. TOWARDS INDIA
INDO-RUSSIAN ECONOMIC RELATIONS BEFORE INDIAN INDEPENDENCE

As we have seen earlier (1) cultural contacts between the peoples of India and Russia went back to the period of British occupation of India or the communist revolution in Russia; these relations, however, were not merely cultural but economic too. A Russian writer maintains that trade between Indians and Russians was going on in the 8th century A.D. (2) There is now fairly well-established evidence to support the history of Indo-Russian trade from the 17th century onwards. In the 16th and 17th century, trade between Armenia and India was noticeable and some of the Indian goods were popular in Armenia. (3) The famous Russian Czar, Peter I, took some interest in establishing trade relations with Moghal India and accordingly he instructed his Vice-Admiral, D. Vilster, to go to India with a view to negotiating for trade. (4) There were about hundred Indian merchants who were doing business in various commodities at Astrahan in the 18th century. Indian merchants were coming with their goods from Astrahan to Navgorad, Moscow, northern Kavkaz and Petersburg. Peter III showed special interest in India. On 22 March 1762 he directed that the trade with the east and "especially with

(1) See Chapter I.


(3) Ibid., p. 10.

India" be developed "as it is the only way to develop the economy of Russia and improve the lot of her people." (5) The famous Russian Scholar, M. V. Lemonesov, who lived in the middle of the 18th century and whose authority on different branches of knowledge made him known as 'living encyclopaedia', recorded the growing Indo-Russian trade and cultural ties in his days. (6) A well-known Russian merchant, Mikhail Dmitrievich Chylkov, who lived from 1743-1793, grouped Indian commodities that were coming in those days in Russia under four heads:

(1) Spices, sugar, tea, varnish, paints, etc. (incidentally, Russian words for sugar and tea are the Hindi words Sakhar and Chai);

(2) Silk and its artificial products.

(3) Cotton and linen clothes;

(4) different metals, diamonds, jewellery, wooden and other goods. (7)

These goods were coming from Ahmedabad, Cambay, Surat, Malabar, Govalkonda, Bengal, Benares and Assam. Indian merchants were taking from Russia hammered boxes, samovars, small metallurgical articles and some other goods. (8)

After the British conquest of India, Indo-Russian trade did not stop, but changed its route via London. In the middle of the 19th century Russia was one of the principal importers of Indian cotton. She occupied 5th place among importers of Indian cotton. In the 60s of the last century, in the Petersburg port alone more than four

(7) Ibid., p. 15.
million pods of Indian goods were imported. (9) According to some Russian economists of those days every third textile article woven in Russia was made of Indian cotton. (10) Exhibitions of Indian goods were held in Petersburg and Moscow in early 1870s, which proved to be a grand success. Many Russian newspapers published articles about Indian tea, jute and cotton. Towards the close of the 19th century Russia occupied a major place in the foreign trade of British India (barring Britain); in the ten years of last century her place varied from the 1st to the 5th in British India's overall foreign trade. (11) One of the reasons why Indo-Russian trade increased irrespective of the type of regimes existing in both countries was that, after the opening of Suez Canal, Russia's Odessa was the nearest European port to India and hence the trade was proving economical. (12)

Compared to Indo-Russian trade under Tsarist regime, the position of Indo-Soviet trade after the October Revolution remained more or less similar. Major Indian commodities that were imported by Soviet Russia from British India during this period were jute, tea and cotton. The volume of India's trade with the USSR was almost negligible in consideration of the total jute, tea and cotton exports of India. For instance in 1931, raw jute exported to Communist Russia

(9) Ibid., p. 28.
(10) Ibid., p. 29.
(11) Ibid., p. 57.
(12) Distance between Bombay and the major Western ports in miles is as follows:

<table>
<thead>
<tr>
<th>Port</th>
<th>Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bombay</td>
<td>London</td>
</tr>
<tr>
<td>Bombay</td>
<td>New York</td>
</tr>
<tr>
<td>Bombay</td>
<td>Leningrad</td>
</tr>
<tr>
<td>Bombay</td>
<td>Marseilles</td>
</tr>
<tr>
<td>Bombay</td>
<td>Odessa</td>
</tr>
</tbody>
</table>
represented less than 1 per cent and gunny bags 3 per cent of the total exports of jute from India. (13) Prior to the Russian Revolution, India had quite a large share in the Russian import of tea. According to 1913 figures, 11.1 per cent of the total tea exported from India went to Russia, but the percentage heavily fell in 1931-2 when only 0.7 per cent of India's total tea exports went to the USSR, as Russians preferred Chinese tea to Indian. (14) Principal Soviet exports to India during pre-independence period were mineral oils, wood and timber, paper and paste board, dyeing and tanning substances, chemicals, sugar etc. (15)

ECONOMIC POLICY UNDER STALIN

Post-war Soviet economy was stronger and the USSR was in search of foreign markets towards the close of the Stalinist era. By the beginning of 1952 her foreign trade amounted to 18,000 million roubles a year, about three times the pre-war figure. (16) Soviet exports and imports in 1938 were around 0.2 and 0.3 billion roubles respectively; but by 1950 they had gone up to 1.6 and 1.3 billion roubles. (17) But the search for markets, on the part of the USSR, had not led it to develop any meaningful trade relations with India under Stalin. In accordance with separate pacts made in 1948,

---
(14) Ibid., p. 31.
1949 and 1951, the Soviet Union agreed to supply wheat in exchange for Indian tea, tobacco, jute etc. The Indian government concluded this agreement as there was an acute shortage of foodgrains in India and near-famine conditions were existing in Bengal. During the whole of 1953 Indo-Soviet trade amounted to Rs. 81 lakhs both ways. (18) In fact, Indo-Russian trade relations towards the close of the 19th century were much better, both in terms of quantity and variety of goods exchanged. During the last days of Stalin the belief that the self-imposed isolation of the USSR from the newly independent non-communist countries was going contrary to Soviet interests had become quite apparent. In the report submitted to the 19th Congress of the Party in 1952, Malenkov stated that one of the four-fold objectives of Soviet Union's foreign policy was to increase trade relations with all countries. (19) In the same year India was among the 42 countries which participated in the International Economic Conference held in Moscow. In his speech at the conference, the President of the USSR Chamber of Commerce expressed willingness of the USSR to increase trade relations with India and other newly independent countries on mutually advantageous terms. He stated that trade could be balanced in terms of imports and exports and could be made in local currencies of the countries concerned. As he put it:

Soviet commercial organizations are in a position to develop mutually profitable trade with the countries of South-East Asia and the Near and Middle East. They could place order there for such traditional export items as rubber, non-ferrous metals, jute, cotton, shellac, tea, spices, quinine bark, copra, oil seed, rice, citrus fruits, bananas, tobacco, etc., in

---

(18) D.K. Rangnekar, Economic Co-operation (Seminar, no. 73, September 1965), p. 33.

exchange for industrial goods and equipment, particularly for the metallurgical, fuel and chemical industries and also for the light and food industries. This would make it possible for these countries to process their raw materials. ... 

Soviet foreign trade organizations are prepared to establish and develop commercial relations with business interests in India, Indonesia, Pakistan, Ceylon, Burma, Thailand, Malaya and other South East Asian countries. The mere mention of such a state as India speaks of the potential broad prospects of expanding trade in this part of Asia. (20)

In the same speech he further said:

Soviet trade organizations are prepared to conclude barter transactions, receive payment for goods in local currencies and spend them in the countries concerned. Considering that many countries are experiencing foreign exchange difficulties, barter transactions and payment in local currencies should contribute in small measure to the expansion of trade. (21)

Thus it becomes clear that despite the failure on the part of the USSR to establish any large-scale trade relations with India, towards the end of the Stalinist era a desire had become manifest to increase economic relations with India on mutually advantageous terms. Indian merchants, who attended the International Economic Conference in 1952, were able, to some extent, to assess Soviet export potentialities and import requirements. During the same period, following the Soviet participation in the International Industrial Exhibition held in Bombay in 1952, the Indian public too had a chance to acquaint itself with Soviet goods. On this occasion the Russian pavilion turned out to be a major attraction to Indian visitors. It exhibited mainly agricultural machines like excavators, tractors and industrial products like automobiles, textile machines, motors, radios, opticals, etc.

(21) Ibid., pp. 6-7.
UNDER KHRUSHCHEV.

A real start in Indo-Soviet economic transactions was effected by the new Soviet regime after the death of Stalin. As both the Soviet Union and India follow development plans of five or more years, to suit the convenience of both parties, five year trade agreements were concluded between the two governments in the following period. This enabled the Indian Government to have in advance a clear view of the quantum of assistance available from the Soviet Union for each one of its five-year economic programmes. As the Soviet planners too estimate their industrial production in terms of five year programme, such five year trade transactions prove helpful to them too. The first Five Year Trade Agreement was concluded between the two governments on 2 December 1953. The practice of concluding trade agreements of five years duration is normal with the USSR. Among the non-socialist countries Finland was the first to enter into such a trade transaction with the Soviet Union in 1951.

According to the terms of the first Indo-Soviet agreement trade was to increase to the tune of 450 million rupees by the end of 1958; India was to export jute, tea, coffee, tobacco, shellac, spices, wool, raw hides, vegetable oil and other goods. The Soviet Union agreed to supply India wheat, barley, oil, oil products, timber and paper, manufactured steel articles, goods for heavy industries, electrical machines, equipments for textile, foot wear and polygraphic industries, tractors, rolling mills, chemicals, etc.

The distinguishing feature of the agreement was that the trade between the two countries was to be carried on in Indian rupee and the imports and exports of both countries were to balance with each other.
Thus the traditional handicap of India's foreign trade - that it was to be in a Western currency and the Indian imports were to exceed her export to the West - were removed. As the Soviet Trade Representative in India commented upon it:

Owing to such agreements India could, for the first time in her history, get a real opportunity to develop her trade on a balanced basis - a basis on which proceeds from the sales of her goods as well as repayments of credits are to be fully used by the Soviet Union exclusively for the purchase of Indian goods. It was also for the first time that the Indian rupee was recognised as a currency for payment in foreign trade and other transactions with an industrial country. (22)

HEAVY INDUSTRIES AND OIL

A more significant development in Indo-Soviet economic relations was the conclusion of an agreement for the construction of a steel plant in India on 2 February 1955. Under this agreement the Soviet Union granted a credit of about 647 million rupees for the construction of a steel plant at Bhilai with an annual capacity of one million tons of steel, expandable to 2.5 million tons. The significance of the Soviet aid could be understood by viewing it against the background of circumstances of those days. When India became free her annual output of steel barely exceeded one million tons and even in 1955, eight years after independence, it stood at only 1.26 million tons. As a consequence of this low production, India was encountering acute shortage of steel. In 1955, about a million tons of steel was imported. The demand of steel was continuously increasing roughly at the rate of

---

(22) Ten Years of Soviet-Indian Economic Cooperation (Information Department of the USSR Embassy, New Delhi,) p. 20.
12 per cent per year. The rising bills of the import of steel made it imperative for the government of India to develop steel industry in India.

The Indian government, therefore, decided to undertake construction of large steel plants in public sector during the Second Five Year Plan period and approached for this purpose her traditional trade partners in the West. The government, an Indian steel expert informs, was given, in response, "sermons about creating a favourable climate for private foreign investment, about the advantage of importing steel from them rather than producing it here and the need to concentrate on infrastructure". (23) And if at all an aid was offered, it was offered at a prohibitive price. The West German firms Krupp and Demag, who were approached before the Bhilai transaction was concluded, offered credits to build a steel plant at an annual interest rate of 12 per cent and wanted even a share in the equity capital of the new enterprise. (24)

It was in these circumstances that the Soviet government was approached for technical and financial assistance for building a steel plant in public sector. The USSR readily agreed to it and offered credits on terms unknown then in the Western world - credits on 2.5 per cent interest to be repaid in twelve annual instalments with the export of Indian goods. The Soviet government was supplying such complete industrial plants to China and Bulgaria in those days and was conducting trade transactions with Czechoslovakia and some other countries in their national currency. But all these countries were within the socialist bloc, the only exception being Finland which was offered a credit of

(23) Ibid., p. 30.
(24) Ibid., p. 30.
40 million roubles on annual interest of 2.5 per cent. The fact that India was offered similar terms only underlined the importance the USSR placed on strengthening its links with the former.

As a consequence of the Soviet credit offer for Bhilai steel plant, the Western terms for Rourkela and Durgapur steel plants were modified in a manner favourable to India. It now became possible for the Indian government to conclude agreement with a group of West German firms for assistance in building the steel plant at Rourkela on much better terms than those earlier proposed by Krupp and Demag and with a consortium of British steel enterprises for building a steel plant at Durgapur on even better terms than those offered by the Germans. Even then the disparity is noticeable. For Rourkela steel plant the German firms granted a loan of DM 660 million in 1958 at an interest rate of 6.3 per cent for as short a period as three years. This involved repayment liabilities of about Rs. 60 crores up to March 1963 i.e., even before the plant reached full production. (25)

The Russians did an excellent job at Bhilai; the plant, though started later than the one at Rourkela, reached its full production capacity before any other steel plant in the public sector. The Soviet government sent its engineer minister to personally direct the construction of the plant. The minister, unfortunately, died in an accident at the Bhilai plant. The plant was designed to suit climatic conditions in India. The distinguishing feature of Bhilai is best stated in the words of Earl C. Smith, Chief Metallurgist and Director of Research of the Republic Steel Corporation of the USA, in whose opinion Bhilai is "better designed for continuous production than

anything that I have seen either in the U.S.A. or in Russia proper". (26)

The Indian government approached its Soviet counterpart for technical and economic assistance for building certain other basic industries in India during this period - a move which met with a favourable response from the Soviet side. Even though the United States continued to be the largest aid-giving country to India during this period, it should be kept in mind that nearly 2/3 of the US aid to India was either by way of supplying agricultural products under PL 480 funds or related to agriculture.

Among other Soviet-aided basic industries mention must be made of the Heavy Machine Building Plant at Ranchi and the Coal Mining Machinery Plant at Durgapur. The former was constructed with the Soviet aid the terms of which were similar to those offered for the Bhilai steel plant earlier. The Ranchi plant was to produce 80,000 tons of machinery for steel industry, including equipment for coke shops, blast furnaces, steel-melting equipment, rolling and crane equipment, as also oil drilling machines, mine lifts, excavators, etc. On reaching the designed capacity this plant was to produce metallurgical equipment sufficient to build steel plant with a capacity of one million tons per year, i.e., equal to the Bhilai plant before its expansion. It had an expansion capacity for 165,000 tons a year. The Coal Mining Machinery Plant at Durgapur had an annual production capacity of 45,000 tons of various machinery and equipment, including coal-cutters and loaders, conveyors, electric locomotives,

fans, pumps, winches etc. The products of this plant would enable the full mechanization of mines to the capacity of 8 million tons per year.

Soviet assistance in putting India on the oil map of the world is more representative of its economic policy towards the Afro-Asian world. There is no doubt that the Soviet economic policies towards Afro-Asian and Latin American non-communist countries is politically motivated to "strengthen" their "economic and political independence" from the West. Russians themselves have asserted this position on a number of occasions. Since Anglo-American domination of Afro-Asian world is more pronounced in such vital field as oil, Soviet Union's economic policy was directed to free Afro-Asian countries from the monopolistic control of the oil cartels of the West.

The three oil companies monopolising the Indian market were artificially maintaining high prices for their products and in spite of negotiations started by the Indian government in early 1957, they refused to bring down the prices to the international level. In these circumstances the Soviet government made an offer in 1960 to supply crude oil at much lower prices on rupee payment. The Indian government requested the oil companies to refine Russian crude oil, and the Western oil companies refused to do it. But the oil companies soon announced a 11 per cent reduction in the prices of crude oil imported by them. Referring to the impact of Soviet offer on the conduct of Anglo-American oil companies, the Damle Committee, appointed by the government of India to inquire into the oil prices in India, remarked: "One can not fail to recognise that the competition generated by this
offer influenced their (western companies!) ... final decision to allow discount at the current rates". (27)

More than the offer of oil at lower prices, the Soviet technical and financial assistance in exploring oil in India was of far more consequence both to India and the USSR. Since independence the Indian government had more than once approached the Western oil experts to explore the possibilities of finding oil in India. Their uniform opinion was that India was an 'oil dry' area and efforts to dig oil under such circumstances would only result in wasting money on 'sterile wells'. Writing in the same year in which oil fields were discovered in Assam with Soviet assistance, Henry Charter Ray, the former oil adviser to the government of India, had stated in the American "Oil and Gas Journal":

India is second-rate country in terms of oil supplies, except in the already explored Assam area. Geological survey shows that there is little likelihood of finding oil in India in considerable quantities. (28)

Against this background, and despite the official discouragement in India, (29) some Soviet experts came, and, as the former Indian Minister of Petroleum and Chemicals, Humayun Kabir, said, did the work

(27) Ajit Roy, n. 25, p. 320.
(28) Quoted in the Ten Years of Soviet-Indian Economic Cooperation, n. 22, p. 63.
(29) N. Kalinin, one of the Russian experts who had been associated from the very beginning with oil exploration in India, had recalled in an article an interesting conversation he had with the then Finance Minister, C.D. Deshmukh: "You recommend spending 300 million rupees", said Deshmukh, "to carry out your plan and to discover at the cost of these expenses one or two deposits of oil and gas, but won't this be a waste of money? You probably realize that India is't rich enough to be able to afford an insufficiently grounded risk." Ibid., pp. 60-62. See also an article in the New Times, on "India's Oil", no. 2, 1960.
which was to be of record performance in the world oil history. While, according to world statistics only one out of eight wells drilled could be expected to be successful, in India as many as 120 out of 150 wells proved to be successful. (30) Big reserves of oil and gas have been found in Assam, Gujarat and Punjab. Besides helping India in oil exploration, the Soviet government offered financial aid and technical assistance for constructing oil refineries at Koyali in Assam and Barauni in Bihar. A notable feature of the construction of the Koyali refinery is that it was designed by the Indian specialists, trained under the guidance of Soviet oil specialists.

Building up heavy industry is closely related to creation of power supply for it. According to the official sources, more than 70 per cent of the electricity generated in the country during the period under study was used for industrial production. In industrial sector, large and heavy industries consume the bulk of power. This is not surprising since the production of one ton of finished steel requires as much as 500 kwh of power.

Soviet assistance during this crucial period was made available in all sectors of India's basic industries. An agreement was signed in November 1957 by which the Soviet government agreed to supply credit of 112.5 million roubles for the construction of a thermal power

(30) Surveying the latest situation in the field, an Indian oil expert says: "The performance in exploratory drilling can be seen from the fact that, as on September 30, 1964, the drilling of 266 wells had been completed and the total meterage drilled was 473,000. The results achieved are among the best in the world. Out of these 266 wells, as many as 149 were found to be oil-bearing, 29 gas-bearing and only 36 dry. The testing in 52 wells had yet to be completed. Excluding the latter, the percentage of success comes to about 75. Few places in the world could claim to have achieved such a high success ratio. The Indian oil specialists have with Soviet assistance surpassed the record of the biggest and oldest international companies." Ibid., p. 64.
station at Nayveli, near Madras. The Soviet government supplied equipments and necessary technical assistance for this plant under ordinary trade deals against rupee payment. The extent of Soviet assistance in this field can be seen from the fact that as much as 35 per cent of the newly-installed power generating capacity under the Third Plan was developed by Soviet assistance. (31) Among the major power stations aided by the Soviet credit were the Bhakra Hydro-power station, with a capacity of 600 MW, the Neyveli Thermal power station and Patratu thermal power station, each with 400 MW capacity, and Karba and Orba thermal power stations.

The thermal and hydro-power stations to be built during the Fourth Plan will, to a large extent, be equipped with machineries made in India. Most of these will be manufactured at the Heavy Electrical Equipment Plant, near Hardwar, built with Soviet assistance. The Hardwar Plant will manufacture 200,000 kw unit hydro-generators with a capacity of 1.2 million kw. Besides these, it will produce heavy and medium electric motors, electric equipments, etc.

Production of precision instruments, which is a very important branch of modern machine building, has been undertaken in India with the Soviet government assistance. The first big plant manufacturing a wide range of precision instruments is to be set up at Kotha in Rajasthan with an annual output of 140,000 electrical instruments.

To complete the list of Soviet government aided projects in India during this period, mention must be made of Soviet government's assistance in pharmaceutical industry and in the agricultural field; Barring few public sector plants like the one at Pimpari, much of

(31) Ibid., p. 51.
India's pharmaceutical industry was in the hands of Anglo-American concerns during this period; prices of medicine were very high in India, a subject much discussed in the Indian Parliament. The Indian government invited a team of Soviet specialists in 1956 to study the possibilities of opening pharmaceutical industries in India. Another Soviet team of specialists came in 1958. After a thorough study of Indian conditions and resources the Soviet specialists submitted their report in which they sympathetically stressed the opinion that India possessed the necessary resources for creating many-sided pharmaceutical industry. In a subsequent deal, signed with the Indian government in May 1959, Soviet government offered a credit of 95.2 million rupees for setting up 4 plants for the production of synthetic chemico-pharmaceutical preparations, antibiotics, and basic surgical instruments. The antibiotics plant at Rishikesh, which is expected to go into production in 1966, will be after its completion Asia's biggest and one of the biggest antibiotics plants in the whole world. (32)

Of equal importance is the synthetic drugs plant at Hyderabad, which would produce 450 tons of synthetic drugs and 4500 tons of chemicals from indigenous medicinal herbs. (33) Another project covered by the Soviet Indian agreement of May 1959 is the fifty million surgical instruments factory near Madras.

(32) Ibid., pp. 75-76.
(33) Ibid., p. 78.
On completion the plant would produce 159 tons of various kinds of surgical instruments and would meet about 70 per cent of India's requirements in surgical instruments and appliances. The programme of the plant also provides for repairs of surgical instruments amounting to 5 per cent of the manufactured output.

The Soviet Union also assisted India in the field of large-scale mechanized farming, altogether a new venture in this country. Although the bulk of Soviet assistance to India is in the form of loans, the Soviet Government under Khruschev made a free gift to India of the various agricultural machinery, worth about 7.9 million rupees for running a mechanized farm consisting of 30,000 acres at Suratgadh in Rajasthan. Encouraged by this experience the Indian government has decided to undertake another such project of mechanized farming at Jetsar in Rajasthan at a later date. It should be kept in mind that before bringing this area under cultivation, it was a part of vast Rajasthani desert.

In industrializing a backward country national technical cadre plays as much important a role as the national machinery. Soviet assistance came not only in erecting plants to manufacture a variety of machines in India, but also in training Indian personnel. Soviet specialists have been training Indian personnel at a technical institute established near Bombay, at various technical training centres such as the Bhilai Technical Institute, The Central Training Institute, Ranchi etc., and in the Soviet Union.
Soviet Union's foreign trade with developing countries is normally balanced throughout all these years and, therefore, gives opportunities to her trading partners to increase their exports in proportion to the imports from the Soviet Union. Because of its rapidly expanding economy, with an annual growth rate of around 9 per cent, and its helpful trade policy, the Soviet government offered unprecedented opportunities to developing countries like India to increase their exports. In 1938, foreign trade of the Soviet Union was around 0.2 billion roubles; soon after the war in 1946 it went up to 0.6 billion roubles and in the following 17 years it increased 12 times till the end of 1963. (34) Since rouble is a non-convertible currency Soviet government conducts its foreign trade with the developing countries either in the national currency of the country concerned or by way of exchange of goods. It should, however, be kept in mind that the USSR's foreign trade is mostly with the communist countries. In 1963 her trade with East Germany and Czechoslovakia alone exceeded her trade with the rest of the non-communist world. Trade with East Germany and Czechoslovakia during this year accounted for 3,975.4 million roubles and her trade with the developing Afro-Asian and Latin American countries and the developed

(34) V.P. Kadyshhev, n. 17, p. 17.
western countries came up to 3,624.7 million roubles. (35) USSR's biggest trade partners during this period were East Germany and Czechoslovakia; then came Poland, Bulgaria and Rumania. In 1950 her trade with communist China was to the extent of 518.9 million roubles; it increased 2.5 times more by 1955, thus making China her biggest trading partner. This trend continued to grow till 1960 when suddenly it began to fall following the deterioration of political relations between the two countries. By 1963 it had almost come to the level of the starting year, i.e., 1950. (36) Under these circumstances it must be kept in mind that even though Soviet economy gave opportunities for developing countries to increase mutually advantageous bilateral trade, the potential vast market of communist China points out the limitations of growth of the Soviet foreign trade with them, when relations between China and Russia would improve.

In the non-communist developing countries, India topped the list of trading partners of the USSR in 1963; next came the UAR and the Mali Federation. Soviet trade with India increased from 162.8 million roubles in 1958 to 285.0 million roubles in 1963. (37) By 1968 it had already increased about ten times than in 1953. As a matter of policy Indo-Soviet trade was doubled every five years between 1953 and 1963 and in the

(35) Ibid., see tables on pp.23, 34 and 41 respectively.
(36) Ibid., p. 23.
(37) Ibid., p. 34.
trade agreement concluded in 1963 it was again agreed to double the trade turnover from 1,000 million rupees in 1963 to 2,100 million rupees in 1966. (38) In a report submitted to the XXII Congress of the CPSU in 1961, it was mentioned that in the coming 20 years the foreign trade of the USSR would increase by more than four times. On this account the USSR economy had the potentiality of doubling its foreign trade after every five years. (39) The Soviet Union's economic policy towards India since 1953, thus, was in line with her own economic needs. It should also be kept in mind in this context that the USSR had supplied machinery of heavy industries to India and some other countries during this period because as there was a demand for such machinery in the friendly developing countries, so also was there a favourable supply position in the heavy industry oriented Soviet economy.

The USSR's trade policy during this period has certainly proved advantageous to India. Its offer of low-interest loan was helped India's bargaining position with her Western creditors, whose loan terms were till then unequal to Soviet offers in terms of interest and repayment position. Almost all the Soviet credits offered during this period carried an interest of 2.5 per cent per year and were payable in 12 deferred annual instalments. Of the 28 loans granted by the Western countries during this period, only four loans carried interest charge below 5 per cent. The interest rates of other four loans ranged between

(38) n. 22, p. 21.

3.5 per cent and 7 per cent. The remaining 20 loans carried interest charge of over 5 per cent. (40)

Unlike with the Western countries Indo-Soviet trade is conducted in Indian rupees, which money the Soviet government keeps in her account in Indian banks and utilizes it for purchasing Indian goods for domestic use. Prices of the items are normally quoted in official exchange rate. In the actual transaction, however, supplies are negotiated at world prices in non-rouble currency. The rouble overvaluation in the official rate is thus corrected. Barring special arrangements to differ payment balances are normally settled in sterling. (41)

The composition of the Indian foreign trade from the First to the Third Plan period has not changed significantly. Over 70 per cent of the total exports still consisted of agricultural commodities and related manufactures. But during this period India's trade items with the Soviet Union have been changing to her advantage. Much of India's trade with the UK, USA, and other developed Western countries and Japan consisted of traditional items like tea, jute, spices and raw materials. Even though India has pressed during this period for market for industrial goods, the developed Western countries have shown no change in their policy of importing mostly the agricultural products and raw materials from India. This has resulted in creating an unhappy position where Indian exports from them have been increasing enormously, due to demands for machines by India's development plans. Such an imbalanced foreign trade, which is to

(40) Ajit Roy, n. 25, p. 329.

India's disadvantage, does not exist in relation to the Soviet Union as the latter imports from India as much as she exports to her.

The composition of India's trading items to the Soviet Union has also changed due to India's requests. During the first Five Year Trade Agreement period, from 1953 to 1958, even though the volume of trade between both countries has increased more than ten times, the items involved in it continued to be more or less traditional. But in the second trade agreement signed in 1958 the USSR agreed to purchase Indian industrial goods to a significant proportion. In an interview given to a Soviet weekly, K.B. Lall, who headed the Indian delegation and signed the agreement on behalf of the Indian government, said:

> It is significant that machinery constitutes the main item of our imports from the Soviet Union. One of the legacies of the colonial regime was the colonial character of our foreign trade. In the past our chief imports from industrial countries were manufactured goods, and not equipment. That, of course, did not contribute to our industrialization. Trade with the Soviet Union follows a different pattern.

> There is also this significant feature. In the past we exported such traditional items as tea, spices, tobacco, jute and other agricultural produce. The Soviet Union, on the other hand, has agreed to buy our manufactured goods as well. We hope their share in the total volume of exports will grow, for that will help us to modernise foreign trade and stimulate industry. (42)

He also stated in late 1958 that the "Soviet Union is the only country with which we conduct balanced trade".

Whereas in 1953 India supplied to the Soviet Union only 3-4 commodity groups, in 1963-64 Indian exports to the USSR comprised of over 40 different commodity groups. (43) By the end of 1963 large

---

(42) *New Times*, No. 50, 1958, p. 17.

(43) *Ten Years of Soviet-Indian Economic Cooperation*, n.22, p.21.
varieties of industrial products like shoes, textile products, chemicals, engineering goods etc., have gone into the Soviet market from India. Towards the close of the second Five Year Trade Agreement period Soviet imports from India accounted for 50 per cent of Indian tobacco exports, 49 per cent of raw and semi-tanned goat skins, 40 per cent of woollen fabrics, and 10 per cent of tea. The manufactured industrial products accounted for 40 per cent of the Indian exports to the USSR. Indeed, in respect to many of these industrial products Soviet Union was the first industrialised country to import them from India. Some of the finished goods increased their volume noticeably. Thus, about 60 per cent of India's total export of shoes went to the Soviet Union by this time. (44)

Traditionally much of India's foreign trade is with the U.K. and the USA, which accounts for 40 per cent of her imports and exports. Even though there has been fluctuation between these two countries' share, the volume continued to be the same during all this period. The most significant change, however, was in relation to the Soviet Union and other East European countries. The share of the USSR and East European countries in India's overall foreign trade increased from about 1 per cent in the first half of the First Five Year Plan to about 10 per cent in 1962-63. (45)


The manner in which the USSR's aid policy was implemented during this period proved to be of great help to planners in India. Unlike the US Government, which requires annual Congressional sanction for its foreign aid programme, the Soviet government has followed a policy of sanctioning aids quite in advance to help the Indian planners to work out future programmes in their development plans. This helpful Soviet attitude has considerably eased difficulties of planning in India. Thus, for instance, loans amounting in the aggregate to Rs. 2,803 million authorized by the USSR, Czechoslovakia and Yugoslavia during the Second Plan period were for projects not included in that plan but figuring in the Third Plan programme. (46)

LIMITATIONS

Even though Indo-Soviet economic relations have thus developed to the advantage of both countries, and especially to India's advantage, the growth suffers from certain limitations. The phenomenal growth of Indian imports of Soviet machinery was due to the needs of India's development plans. There appears to be a sector-imbalance in Indo-Soviet trade. In exporting her machinery to India, the Soviet trading organizations supply the needs of India's public sector economy, but in importing Indian goods the Soviet trading Organizations depend upon the Indian suppliers in the private sector. That is to say, the Indian government purchases Soviet machinery for use in industries directly run by her, but it is not in a position to supply the various agricultural and consumer goods required by the

Soviet market and therefore depends upon the supplies from private traders in India. In these circumstances, unless the Indian private sector is directly brought in trading relation with the Soviet market, both in terms of exports and imports, it is unlikely that the growth of Indo-Soviet economic transactions would keep up the existing pace, once India reached the self-reliant stage in her economy. At such a stage India's public sector demands from Soviet market are likely to shrink; unless the private sector compensated the probable shrinkage in public sector demands, the Soviet trading organizations may find their Indian market not so attractive from the point of view of exporting their own goods.

Apparently, due to such limitations, Indo-Soviet trade has neither kept the pace of growth of Soviet foreign trade during this period, nor in fact disturbed the past pattern of India's foreign trade. The Soviet Union's global exports shot up from an estimated 4,298 million dollars in 1958 to 7,272 million dollars in 1963, but India's share during this period fell from over 3 per cent to 1.6 per cent. Similarly, global imports in the Soviet Union soared from an estimated 4,350 million dollars to 7,059 million dollars during these years; but India's share languished at 1 per cent in 1958 and 1.4 per cent in 1963. (47) From the Indian side too, even though the Soviet Union came up to third or fourth place in India's foreign trade partners by 1963, the position of India's major Western trade partners remained unaffected as the gap between the leading Western trade partners and Russia had been too much. For example, India's sales to the Soviet Union in 1963 formed about 6 per cent of India's total exports, but the sales to

(47) Ranganekar, n. 18, p. 33.
Britain formed 22 per cent and to the United States 16 per cent. (48) These two leading Western countries shared about 40 per cent of India's foreign trade since the time India became free and the percentage continued to be more or less the same during the period under survey.

Besides the relative inferiority in quality of Soviet goods compared to the goods from the Western countries, which by itself might affect adversely Indian demands at a later stage when trade by aid would diminish or vanish, efforts to increase bilateral trade during this period also seemed to have suffered from, what one observer called, "sporadic efforts" on both sides. Of the six aid agreements five came between February 1955 and September 1959. Only one new aid agreement was signed in the following five years. (49) Another factor which seemed to have created some misunderstanding is the unfortunate tendency in certain quarters in New Delhi to "treat the Soviet Union as the rescuer of last resort". The impression seemed to have existed that India during this period approached the Soviet Union only when her Western partners rebuffed her. In case of Bokaro, for example, the Soviet Union was sounded for about two years, but there was no follow up as some people in New Delhi wanted the US government to make up its mind. A formal approach was made to the USSR at a later date only when the Americans rejected such a plant in India's public sector. (50)

The more important determinant of foreign trade of major powers in the post-war period, including the foreign trade of the United States of America and that of the Soviet Union, is the political considerations

(48) Ibid., P. 33.
(49) Ibid., p. 33.
(50) Ibid., p. 35.
involved in aiding or trading with the country concerned. As an Indian economic commentator put it:

What we get by way of trade is largely determined by our own evaluation of Soviet association, by our trading preferences, by the speed with which aid is utilised and trade expanded, and, above all, by our willingness to base some of our plans on the use of Soviet equipment and technology. At the Soviet end the limits are set by Soviet resources, but more particularly by the value attached to the Indian links. The problems involved here are, therefore, not merely of economic significance, but they also concern respective attitudes, evaluation, preferences and policies. (51)

There is no doubt that the Soviet Union's overall policy towards India, including its economic policy, is motivated by the considerations of "strengthening" India's "independence" from the West. It is in this context that the policy of non-alignment received support in Moscow, as it was serving its ends too. To the extent to which India's non-alignment would become meaningless due to increasing Western influence upon her domestic and foreign policies, overall Soviet policies towards India, including her economic policies, are likely to change. As the Soviet Union's economic aid programme to India had lessened India's economic dependence upon the West and thus made her non-alignment policy more meaningful, the lack of importance attached to non-alignment itself or to non-aligned powers in the Kremlin's foreign policy considerations, or the increasing influence of the Western powers over the domestic and foreign policies of such non-aligned countries as India, might take away the aid that came from Moscow to New Delhi and diminish the pace of growth of their trade too.

(51) Ibid., p. 34.