Chapter VI

SUMMARY AND CONCLUSION

The trade between India and the Soviet Union was conducted by a special system of trade and payment: Rupee Payment and System or Bilateral System of Trading. The trade was highly beneficial for both the countries and served the purpose of both the countries to much extent at a time when the Western countries declined to export to the USSR under COCOM, and the Indian exports were not good enough to compete in the world market owing to its poor quality and higher prices. The first long-term agreement between the two countries took place in 1953, and since then, the trade turnover between the two countries had increased from less than Rs.2 crores in 1953 to Rs.3687 crores in 1988-89 and Rs.6561 crores in 1989-90. The trade turnover between the two countries passed through various phases during that three and half decades.

For the purpose of historical survey, the whole period has been divided into two periods - one, history of the Indo-Soviet rupee trade from 1953 to 1980 and second, developments in 1980s.

The history of the Indo-Soviet rupee trade has also been sub-divided into two phases - one, from 1953 to 1970 and second, from 1970 to 1980.
In the first phase, the trade turnover between the two countries increased tremendously both in value terms as well as volume terms. The trade between the two increased from less than Rs.2 crores in 1953 to Rs.346.64 crores in 1969-70. Among the important factors which contributed to this phenomenal growth in trade turnover between the two countries in this period were, besides a low initial base to calculate the growth rate and large complementarity between the two economies, flagging demand for the Indian exports in the world market and unwillingness of the western countries to export to USSR.

Actually, what was needed most in Rupee Arrangement was complementarity between the two economies. During this phase, there was a lot of scope between the two countries to exchange goods according to their demands. India had to establish its infrastructure and basic industries based on Mahalanobis model during this phase, and in those sectors, the Soviet Union had acquired the technology comparable to the world standard. On the other hand, the Soviet Union was in need of the varied raw materials for its industries, and India could supply them. Thus, machines and equipment dominated the Soviet exports to India, and in India’s exports to the USSR, raw materials and agriculture products remained prominent during this period.

In the second period from 1970 to 1980, the total trade turnover between the two countries increased about 7 folds from Rs. 315.98 crores in 1970-71 to Rs. 2240 crores in 1980-81. As is obvious from the figures of two
different periods that trade turnover between the two countries increased with a far lower pace in the second period as compared to the first period. Even this increase in the trade turnover had been more in value terms owing to the increase in prices and less in volume terms. This relatively much slower growth rate of trade during this period can mainly be attributed to the declining of complementarity between the two economies, a greatly enlarged base as compared to very small in phase I, on which growth was calculated, India’s declined capability to export the agricultural surplus to USSR and the slowing down of Indian investment in public sector, which had been a major importer from USSR.

This qualitative as well as quantitative change in Indo-Soviet trade led to a feeling among certain quarters that the Indo-Soviet trade had touched plateau during this period because of the exhaustion of complementarity between the economies of two countries. As the basic industries and infrastructure, for which the Soviet Union provided with quality machines and equipment, had been established during the first phase (1953 to 70), the needs of the Indian side had changed to a considerable extent during the second phase (1970 to 1980). It was argued that then the Soviet side was not in a position to supply goods according to the changed demands of the Indian side. India wanted to improve its consumer sector, electronics and telecommunication. These were the sectors in which the Soviet Union was not doing well, and it itself wanted to improve them with the help of western countries. The share of machines and equipment declined in the
Soviet exports to India, and their dominant place was taken by oil and oil products during this period.

One more significant development in the Indo-Soviet trade, which appeared because of the reduced complementarity between the two economies on account of the changed needs of the Indian side and non-capability of the Soviet side to cater to its requirements, was the large trade surplus in India’s favour since 1970-71. On consequence, India had accumulated a large trade surpluses, a phenomenon that ought not to have come about under the Rupee Trade System.

In the 1980s, the trade turnover increased from Rs.2240 crores in 1981 to Rs.3867 crores in 1988-89 and Rs.6501 crores in 1989-90 with a very low average growth rate and wide fluctuations. For the comprehensive examination purpose, the period of 1980s has also been sub-divided into two phases - one, from 1980 to 1985 and second, trends after 1985.

In the first phase of 1980s, the main difficulties started arising after 1981-82 onwards because of the fall in the world oil prices, which caused the share of oil and oil products in the Soviet’s exports to India to gradually decrease. The Soviet Union and India faced serious difficulties in settling the mutual accounts in trade during that period. Since there was a lack of resource generation for USSR to finance its imports from India, the Indian exports to USSR too could not increase substantially, thereby impeding the overall growth of trade turnover. The
problem was attempted to be tackled through ‘Technical Credit’, a facility extended by India at a low level of interest charges of 4.7 percent per annum. To balance the mutual accounts, the Soviet Union increased the share of machines and equipment in its exports to India. It was not good for India because the Soviet Union could supply quality capital goods in basic industries and infrastructure only, and that India had already bought in the excess quantity. And moreover, by that time, India had built up her own capacity in those sectors. So any further purchasing of capital goods in those sectors was at the cost of our domestic industries. On the other hand, in telecommunication, electronics and service sector, in which India wanted to improve its capacity and capability, the Soviet Union was itself not advanced enough. The Soviet Union was itself willing to import advanced technologies and equipment from the Western countries for these sectors.

The period of 1985 onwards in the Indo-Soviet trade was a period of decline and stagnation. Among the main reasons of this stagnation and decline in trade were, along with nature and pattern of trade, which itself was unsustainable in the long-run and the structural and institutional changes taking place in both the countries, declining importance of government sector in both the countries, which had played a dominant role in trade relations, attempts at diverting exports from the rupee trade area to the general currency areas and slow utilization of inter-governmental credits on the part of India.
Thus looking at the stagnating and declining trade between the two countries, it became imperative to have a new pattern of economic cooperation in addition to the existing one in order to sustain or increase the economic cooperation between the two countries. The joint venture, which was introduced in USSR under Perestroika by M. Gorbachev, was an innovative step in this direction.

The joint venture, which was introduced by the Soviet Union during reforms’ programme to liberalize its external sector and to integrate it with the world economy was a new form of economic cooperation. It should not be confused with collaboration, which India and the Soviet Union were having since 1957, when India established its Bhilai Steel Plant with the Soviet collaboration. A collaboration, in fact, is different from a joint venture. Under a collaboration, a country having superior technology in some areas transfers its technology to a country having no technology or inferior technology in that area. In lieu of transferring technology, the technology transferring country receives a royalty from the technology receiving country. The technology transferring country has nothing to do with the management of production and profit and loss of the business concerned. While in a joint venture, two or more partners come together with equity participation in the form of cash or kind, as technology, management, etc., to produce something. They all manage the production, sell it in their respective domestic markets or any third country and distribute the profits accruing from the joint venture among themselves as per agreed proportions.
The Soviet Union initiated to liberalize its external sector after being disappointed with its foreign trade performance. The benefits of trade were not being realized since a quite while by the Soviet Union. The share of non-renewable raw materials increased in the Soviet exports, and in imports, the share of capital goods declined. All these did not correspond with the structural changes in the world economy. This put the Soviet exports in a vulnerable and disadvantageous position. The main reason of this poor performance of the Soviet foreign trade was the lack of commercial features in its economy. Trade through exclusively foreign trade organisations, industries non-admittance to the foreign market and the lack of stimulation to work over there led to the dominance of non-renewable materials in the Soviet exports and the absence in the country of national technical policy in imports.

All this imparatively called for a radical restructuring of the country’s external economic activities. Some new types of economic cooperations were introduced to invite the foreign investment. The joint venture was one of them.

The joint ventures offered a series of benefits for both the countries. From the Indian point of view, the benefits can be enumerated as follows. Firstly, the economies of large scale - the main problem with Indian entrepreneurs was the low market demand for their commodities and the large number of producers. So the Indian producers were unable to avail the economies of large scale production. The result was the under utilization of the plant capacity and higher cost. But
under the joint ventures, they were to produce both for the Indian and Soviet markets. Therefore they could avail the economies of large scale production. Secondly, owing to the economies of scale, the cost of production was bound to be low, and they could compete in the hard currency market. Thirdly, under the joint ventures, there were more chances of getting modern technologies from the USSR. Fourthly, the joint ventures were to create more employments for India because there was good scope in labour intensive joint ventures as in construction sector. All these benefits were to accure to India in addition to the expansion of exports to the Soviet market.

From the Soviet point of view also, there were several benefits from the joint ventures in general and the Indo-Soviet joint ventures in particular. The benefits from the joint ventures, which were visualized in general by the Soviet experts, were as follows.

Firstly, they were to satisfy more fully national requirements in certain types of industrial goods, raw materials and food stuffs. There were so many items, especially in the consumer and agriculture sectors, which were produced in insufficient quantity or with poor quality in the USSR. So the demands for these items were satisfied by importing them from the hard currency areas. But then with the participation of the new and updated technologies by the foreign partners in the joint ventures, the quality of these items could be improved and the hard currency could be saved.
Secondly, in certain sectors, as the consumer sector, telecommunication, service sector, etc., the technology of the Soviet Union was not at par with other developed Western countries. Through joint ventures, there were more chances of getting good technology from these countries.

Thirdly, the Soviet Union had little or no experience about a consumer economy. It had to learn a lot about marketing, cost accounting and management. The joint ventures were to provide with a lot of opportunities for the Soviet Union to learn about these features of market economy.

Fourthly, they were to further develop the country's export capability.

The benefits from the Indo-Soviet joint ventures can be enumerated as follows. Firstly, there were many items for which the USSR used to spend hard currency. It could be avoided by establishing joint ventures with India. For instance, pre-compressed transformer board was one of those items. The compressed boards are used as separators and insulating materials in distribution and power transformers. The technology of the product was not available in the USSR. An Indian firm had located a leading Swiss firm willing to offer technology. A suggestion was put forward to the Soviet Union that a joint venture in India with the equity participation of USSR could be established for the manufacture of pre-compressed transformer boards with Swiss technology to meet the combined demands of India as well as the Soviet Union. The product was of
the interest of the USSR since its requirements were met through imports from hard currency areas.

Secondly, the Soviet Union could exploit the labour power of India for the mutual benefits. There were so many labour intensive sectors in which joint ventures could be established, as in the construction sector. From the USSR point of view also, it was beneficial because it was to provide with cheap labour easily to the USSR, which had inadequate man power, from India. The Indo-Soviet joint ventures proposed to be established in the Soviet Union and India were to be governed by the laws of the respective countries.

Uptil December 1991, five - joint ventures had started working, and another 59 - joint ventures were at different stages of negotiation. Out of the sixty-four - joint ventures, forty-eight were to be in India and the remaining 16 - joint ventures in the USSR. Out of these sixty-four - joint ventures, for thirty-two joint ventures, memorandums of understanding were signed, for five - joint ventures, protocols were signed, but details were awaited, and for the remaining twenty-seven - joint ventures, only proposals had been made.

As per sector-wise, in the industrial, service and agricultural sectors, there were respectively 48, 12 and 4 joint ventures. In percentage terms, they stood at 75, 19 and 6 percent respectively. Among the five functioning joint ventures - four in service sector and one in industrial sector - four
were operating in the USSR and one in India. In the service sector, out of the four operating joint ventures, in two - joint ventures, M/s ITDC was participating with Moscow Ashok Corporation in Moscow and M/s Goshom Intourist, Odessa, in Odessa in restaurants. The third joint venture was also in a restaurant in the USSR between M/s Pheonix Overseas (P) and the Central Board of Public Catering, Leningrad. The lone joint venture in the service sector in India was among Indian Reprographics System Ltd. (Modi Group), Licensintorg and NEFTECHIMPROMEXPORT of the USSR in consultancy. In industrial sector, one joint venture called ‘Eloilgeo’ had started working. It was manufacturing the automated working stations to process the geophysical informations for geological prospecting.

Examining the factors which govern the preference of an investor for a joint venture in a specific country, all factors can be analysed on two fronts - one is political front, and second is economic front. On the political front, the most important factor which influence the choice of an investor for a specific country is the political stability. The political stability ensures the investors for the continuance of economic policies, which lured them to invest in that country, for longer period and provide a congenial atmosphere for the business. On the contrary, if a country is unstable politically, the investor will not choose that country for investment because he might bear losses owing to anarchy or the reverse of economic policies by the new regime.
On the economic front, the most influenceable factor is complementarity of factors of production. For example, if someone having required capital wants to establish a joint venture, he would prefer a person who is having either a required expertise of business intended to be set up or having good technology rather than a person who is having the same capital. The second economic factor is imports. Foreign direct investment should flow into those countries that are importing goods from abroad. Because of the market imperfections, such as tariffs and quotas, foreign firms will find them attractive to produce locally in order to satisfy domestic demands. The third important factor is exports. As the level of a nation’s exports increases, its economy becomes more internationally integrated. This has the effect of altering the local labour market and driving the domestic wages towards world level. This, in turn, makes the foreign investment less profitable as the advantage of lower wages evaporates. Thus the hypothesized relationship between the level of exports and foreign direct investment is negative.

Alternatively, however, if a country characterised by low wages has an access to a trading group, one might expect that country to attract a significant level of the foreign direct investment as countries external to the trading group will attempt to sell within the group, thereby projecting a positive relationship between the level of exports and the foreign direct investment.

The fourth economic factor is infrastructure. For capital to migrate abroad, the host nation must provide with an adequate infrastructure. Thus the
The fifth factor is Gross Domestic Product (G.D.P.). It reflects both the size of the domestic market and the purchasing power of citizens. Thus there is a positive relationship between G.D.P. and the foreign direct investment.

The sixth economic factor is the exchange rate and rules and conditions regarding repatriation of profits. Although the exchange rate is more important as a factor in portfolio investment, it has its influence in long term investment as well. To attract the foreign investment, the exchange rate should not be over-valued. It should be realistic and stable. There should be an easy process of repatriating profits due to the foreign partner.

Among other factors are incentives given to lure the investors, like tax holidays, the rate of taxation etc.

Upto 1989, 1247 joint ventures had been proposed in the Soviet Union, out of which, only 200 joint ventures had started functioning.

The main reasons of this poor record were, besides the uncertainty about political stability and economic policies (as fast amendments were being made in
the original decrees regarding joint ventures, and so the investors were probably waiting for the final outcome), problem in the repartition of profits as it had been linked with the sales on foreign market, rouble unconvertibility and over-valuation of rouble to other countries' currencies. These negative features of the soviet economy over-shadowed the positive factors of the economy, as the huge and well developed infrastructure, a big importer, a sufficiently large market to accomodate the new supply of goods and well skilled manpower, thereby hampering the attempt of attracting sufficient foreign capital, which was indispensable for the soviet economy at that time to get it through the crisis stemmed from the major economic reforms initiated in 1985 by M. Gorbachev to put the soviet economy on the path of market economy.

Regarding the Indo-Soviet joint ventures, five joint ventures had started working, and another 59 joint ventures were at different points of implementation till December 1991. Even out of these 64 joint ventures, 48 joint ventures were proposed to be set up in India and rest of the joint ventures in the Soviet Union. The main reasons behind this poor record were the lack of complementarity of factors of production between the two countries and the insufficient hard currency capital in India to export to the USSR for importing good technologies and machineries from the hard currency areas for setting up joint ventures there. In fact, India could offer only certain types of technologies and equipment, preferrable to the USSR, for joint ventures. India would not have preferred to export its scarce foreign currency to the USSR to import
technologies and machineries from other advanced capitalist countries for the joint ventures.

The third reason for the lukewarm response from the Indian side was the problem of repatriation of profits from the Soviet Union. Since the repatriation of profits had been linked up with the proceeds from sales on foreign market, and the Indo-Soviets joint ventures would have been hardly able to sell their products in the world market, the repatriation of profits was being perceived as a real problem by the Indian investors. Later on, the Indian entrepreneurs were allowed to repatriate their remaining part of profits, which exceeded the earnings on foreign market, under Rupee Arrangement, thereby allowing them to import goods from any enterprise in the Soviet Union. Earlier, if the sales on the foreign market were not much enough to repatriate the foreign partner's profits in the joint venture, the remaining profits were to be repatriated through the imports of goods from the same joint venture in which he was a partner or he was supposed to invest it there only. But under the new provision, the Indian entrepreneurs had more choices to import. Even this special provision could not invoke much response from India.

The fourth reason for the slow response from the Indian entrepreneurs to the Soviet Union was the lack of enterprise in Indian entrepreneurs to invest in the Soviet Union owing to the new experience in joint ventures with the USSR. Of course, the Soviet economy was marching towards the market economy from
the command economy, and old institutions were being replaced by the new ones, but things were still not very clear, and it was going through a phase of uncertainty. The last two factors were also the reasons as to why more joint ventures were being proposed to be set up in India rather than in the Soviet Union even inspite of the fact that the maximum limit of investing in India by the foreign partner was 40 percent, and the tax on a joint venture’s profits was higher in India than in the Soviet Union.

The fifth reason for the slow progress was the over-valuation of the rouble to rupee, which worked as a disincentive to the Indian potential investors. Since a long-time, India was striving hard for a realistic exchange rate between rouble and rupee for the payment of its defence and civilian loans, but the issue was not resolved until recently after the collapse of the Soviet Union, when the rouble was devalued against rupee. The sixth reason was the poor choice of partners by the Soviet Union. Sometimes petty traders were chosen as partners. This happened despite the fact that an official of the rank of deputy director general in the department of technology was available to suggest the viability of the partners. But he was seldom approached.

The seventh reason was the tough competition from Western countries in almost every field owing to their better technologies. As the Soviet market was opened to everyone with the aim of modernizing and up-dating its industries, there were a few areas where India could be preferred, as construction and
consultancy. In these fields, India could be considered as a viable partner owing to its comparative advantages, as India had cheap labourers and it ranked third in the world in skilled man power. Among other reasons of slow progress were the lack of informations and bureaucratic red tape on the part of the Soviet side.

Regarding problems which were likely to be faced by the Indo-Soviet joint ventures in the USSR, as it was a novel experience for India regarding joint ventures in the USSR, those problems which were visualized by the western observers have been discussed.

Most of the problems which were visualized by the Western observers were related to the decrees relating to joint ventures. Although looking at the negative reactions of the foreign investors, some problems were tried to be removed by modifying the decrees in the course of time, some other important problems still remained.

The first and perhaps main problem was that the Soviet Union did not have the corporate law. This meant that any company signing a joint venture agreement needed to incorporate into the articles of association and other documents the necessary safeguards and details that are usually covered by the existing company law in the country. There was likely to be redrafting of some of the current Soviet legislations, that was either to produce a separate law for the country or was to
incorporate into joint investment legislation. The current text had made some western companies hesitate.

Under the original decrees, it was must for the Soviet side to have a minimum of 51 percent of equity capital. This, however, was changed later, and even 100 percent share equity was allowed in some priority areas. Some Soviet lawyers admitted that a majority stake by the Soviet partner would not have been needed if a proper legal text had been written, and safeguards had been incorporated into the laws.

Capital investment value for both sides, whether monetary, machinery, equipment or intellectual property (for roubles and hard currency), was cited as point of dispute by several potential and already signed joint venture deals. This point was particularly important in and when the joint venture was to come to an end since the original capital valuation was to be used. This point also included the Soviet contribution. The former Soviet Union generally tended to value their contribution by using world prices. What exactly this meant was an open question. In general, however, the Soviets tended to over value their contributions.

The supply of raw materials for joint ventures in most cases was to be bought in the USSR. This simply meant that joint enterprises needed to negotiate price, terms and conditions for the delivery of raw materials. In general, quality and reliability of supply of raw materials could be a problem. One solution to this
problem was to ask for a guarantee from the Soviet suppliers back up by penalties. However, in practice, it might be difficult to negotiate the penalty clauses, which the Soviet side would have been keen to avoid. Hard currency penalty clauses were one way to guarantee quality and delivery terms were kept, but negotiating such terms would not have been easy or automatic. In any event, the supply of raw materials and other inputs could be erratic.

Marketing was to leave upon the foreign partner. The Soviet Union was to learn a lot about marketing practices. The Soviet enterprises had little or no experience of a consumer society, where a variety of similar goods were available at competitive prices.

Unless the joint ventures were able to generate hard currency profits within the Soviet Union, its production was needed to be sold outside the country, although a limited amount of import substitute for the calculation of hard currency profits was allowed. The foreign partner was best placed to sell such goods in the foreign market, and it should have had a clear idea of the size of such a market before entering into a joint venture with a Soviet partner. Pricing was left upon a joint venture if the production was to be sold outside the Soviet union. But goods sold on the Soviet market might have been the subject to the Soviet policy restrictions. The introduction of a whole sale price reform was expected to begin soon, but it would have taken some years yet before free pricing was achieved.
Taxation, insurance and accounting all posed different kinds of problems for businesses looking at Soviet joint ventures. The tax system was based very much upon Soviet enterprises' laws, which made it compulsory for the joint enterprises to set up special funds for such things as social welfare, health, research and development. A joint venture was to form a reserve fund and other funds necessary for its operation and for meeting the special needs for its employees. Deductions from the profits were to be added to the reserve fund until the latter totalled 25 percent of the authorised fund of the joint venture. A joint venture was to pay taxes amounting 30 percent of its profits remaining after the deductions to the special fund. A joint venture was exempted from tax on its profit during the initial two-years of its operation as per the original decrees. Although some modifications were made later in tax rates and the initial years of tax holidays, the special fund was still posing a problem to a joint venture.

Insurance covering the joint ventures was to be placed with the Soviet insurer. If the premium payments were to be calculated and paid in hard currency, then any insurance claim should also have been paid in same hard currency. How this would have acted in practice, and whether the sum paid out would have been sufficient to cover losses was yet to be seen.

Accounting was also a problem. The Soviet accounts were generally seen as inventory statements. Since profits and losses in the Western Market sense did not previously exist in the Soviet Union, the accounts of an enterprise were unable
to reflect these points. Consequently, the Soviet side was attempting to set up internationally recognized accounts with all joint ventures being audited by the new Soviet group.

Repatriation of profits was something with which a joint venture was yet to have any experience. The linkage of transfer of profits with the proceeds from sales on the foreign market had posed an acute problem. The basis of any joint venture negotiation should have been a sound business idea.

The fact that the positions of chairman of the board and director general reserved for the Soviet citizens was also a bone of contention among foreign partners seeking to set up joint ventures in the Soviet Union.

Actually, it was a new experience for the Soviet Union regarding joint ventures outside the eastern block. In the course of time, however, as the Soviet Union saw the negative reactions of the foreign investors to the laws regarding joint ventures, it attempted to introduce some modifications over the original decrees in December 1988. Briefly the changes were as follows:

i) The share of a foreign partner in a joint venture was no longer restricted to a maximum of 49 percent, and the chairman of the board and the director-general of a joint venture were no longer needed to be Soviet citizens but might be foreign nationals too.
ii) A joint venture needed no longer obtain any outside consent in matters of hiring and firing and the rouble incentives payments for local staffs (earlier the trade union had to be consulted).

iii) Foreign employees of a joint venture were later permitted in most cases to pay their housing and other servicing costs in roubles.

iv) The attempts were made to make the Soviet Far East Area as an incentive area by giving rebates in taxes there. The profit taxation was reduced to 10 percent, and tax holidays years were increased from two to three years there. As an additional incentive, the Ministry of Finance was granted the right to waive or reduce dividend taxation for joint ventures located in the Soviet Far East Area or any joint venture producing consumer goods, medicines, medical equipments or high technology goods of practical significance to the national economy. In general also, the joint ventures were allowed to reckon the initial two years’ tax holidays after the declared profit of joint ventures. Earlier, it was to be taken from the starting of their operation.

v) Soviet enterprises appeared to have been granted broader rights to decide for themselves whether or not they wished to form a joint venture. This decision appeared to go beyond the decrees of September 17, 1987, which had granted the right of approval to all Union Industrial Ministries and Republic Council of Ministers (originally the Council of Ministers of the USSR had to give its consent).
vi) Production cooperatives forming joint ventures with Western firms later only needed consent from the Local Executive Committee (in Moscow and Leningrad from Municipal Executive Committee) as well as from the ministry which supervised the state enterprise where the cooperative operated.

vii) Major new construction or reconstruction projects for joint ventures were to be agreed upon by Local Territorial Administrative Bodies. In other cases, a joint venture participants were merely required to provide the territorial administration with the relevant informations.

The new decrees still did not address some of the most fundamental issues being faced by companies looking into joint ventures, such as foreign currency self-financing, repatriation of profits, etc. Nevertheless, these decisions were supposed to go a very long way towards eliminating some of the smaller but very important issues.

As far as the general atmosphere, in which the Indo-Soviet joint ventures were supposed to operate, was concerned, the Soviet economy was going through a major reforms programme, and its many shortcomings, as highly centrally planned economy, bureaucratic red-tape, etc, were being tried to be removed under the new policy of M. Gorbachev named Glasnost and Perestroika.
It appeared that the ongoing reforms in the Soviet economic management system would make it possible to deal with the problem of quality more effectively than before, the impact of planning on the day-to-day operations of many enterprises was to diminish and radically change its nature, enterprises were to be self-supporting, profitable enterprises were to be allowed to retain their profits after paying taxes and dues, and the pay of the individual employees of an enterprise was not to be automatically same irrespective of what was done but was to be depended on the actual performance of the employee. All these were to have a positive affect on the overall performance of the host country and the general joint venture operating environment.

In a meeting between Mr. Gorbachev and Mr. Rajiv Gandhi, it was decided that by 1990s, 10 percent of the total trade turnover would be made through joint ventures. In that meeting, the total trade turnover by 1992 between the two countries was decided at Rs.10,000 crores. By 1990, the total trade turnover between the two countries was 7803 crores. 10 percent of it (about 780 crores worth) was decided through joint ventures.

Five joint ventures had started working and another 59 joint ventures were at different negotiation. This poor record shows that it was an ambitious target. According to one Soviet source, one reason as to why there was a limited scope for joint ventures was the failure to realize that their dimension could not go beyond, in value terms, one crore roubles. It meant that to make the trade to the
extent of Rs.780 crores through joint ventures, at least 26 joint ventures were needed to be at the operational stage if calculated at the prevailing exchange rate of 1 rouble = 30 Rs. at that time. In 1988, for instance, the trade turnover as a result of the new forms of cooperations, which included the co-production also, was to the tune of 94 crores only.

The main reason behind the slow progress of joint ventures was the slow response from the Soviet side. This slow response from the Soviet side was because of the fact that the Soviet Union was demanding foreign currency from India for joint ventures, while India was not a capital exporting country. India could offer only certain types of technologies and equipments in the form of equity capital. India would not have preferred to export foreign currency to the USSR to import the equipment and technologies from the Western countries for joint ventures. The USSR also was to definitely prefer better technologies from the Western countries to the Indian technology. In some specific areas, as consumer goods, consumer electronics and light engineering goods, in which the Indian technology was as good as any other country’s technology, the USSR could prefer India for the joint ventures. The second main reason of the slow progress was the doubtfulness of the Indian firms to the repatriation of profits clause. Since repatriation of profits had been linked with exports in foreign currency areas, and the Indo-Soviet joint ventures would hardly have been able to sell their products in the world market owing to intensive competition there, the Indian businessmen were feeling scared about the repatriation of profits. Although at the later stage,
the remaining part of profits, which exceeded the foreign exchange earnings, was allowed to repatriated under Rupee Payment Arrangement, yet entreprenuers were less enthusiastic to invest there. And the third reason of slow progress was the bureaucratic red tape in registering the joint venture in the USSR.

Thus looking at the position, the statement of 10 percent of total trade turnover through joint ventures looked an ambitious target. To expedite the progress of the joint ventures between India and the Soviet Union, it was necessary for the USSR to change its attitude to India. Some suggestions were made by FICCI to speed up the progress of joint ventures between India and the Soviet Union. These suggestions were, along with the contribution of foreign exchange from the USSR, a clear-cut policy on repatriation of profits and dividends in the USSR and a quick response from the Soviet Union, a ready-made list of enterprises interested to set up industries in India, a comprehensive list of technologies and areas available in the USSR to make it readily available to those seeking joint ventures with the Soviet Union, a joint monitoring of investment and an easy access to informations in the USSR.

Regarding potential areas of joint ventures between the two countries, the Soviet Union was running in shortage of almost all consumer goods, consumer electronics, drugs and pharmaceuticals. But the main question was that in which areas the USSR would have preferred India for joint ventures when other better options from Western countries were available to it. Either India was to export
foreign currency to the USSR to import the technologies and equipment from other countries or it was to assure the Soviet Union that it had at least as good technology and equipment as any other country.

India could offer good technology in light engineering goods, consumer electronics and consumer goods. India could excel in construction and consultancy because India could provide a reasonably cheap labour for construction, and for consultancy, it could supply good technical manpower as it ranked third in world in technical manpower.

As far as the main competitors of India were concerned, in consumer goods, the main competitors were West Germany, Austria and U.S.A. West Germany had set up a joint venture with the Soviet Union, named Interferma (Moscow). Austria also had registered a joint venture with the Soviet Union, named infinite (Moscow). In consumer electronics, the main competitors were U.S.A., West Germany, France and Austria. They all had registered joint ventures with the Soviet Union. In Engineering sector, Switzerland, West Germany and Italy had registered their joint ventures with the Soviet Union. In construction sector, the main competitor was Finland, and after that, Yugoslavia, Turkey and Japan were also good enough. In consultancy, Canada and Yugoslavia were in a good position. In food product, Singapore and Switzerland were main rivals with their joint ventures, name IMM (Moscow) and ESTOKOMPLEKSIM (TALLIM) respectively.
There were probably two reasons as to why Western countries were more preferrable to the Soviet Union than India in most of the cases. One of them was the better technologies which they could supply to the Soviet Union than India could supply in most of cases. Second one was the close proximity of these countries to the Soviet Union.

Thus looking at the number of joint ventures, which had taken place between the Soviet Union and India, it did not seem that it would have been able to solve the problem to much extent which had emerged in the economic relations between the two countries under rupee arrangement owing to the exhaustion of complementarity between the economies of two countries. But had certain changes been brought about by the USSR in its attitude to Indian proposals as has been suggested by FICCI, the progress of joint ventures could be expedited between the two countries in the time to come.