INTRODUCTION

After independence, the Indian leaders, with dreams of making India a modern country based on heavy industries faced an acute problem of putting it on the developmental path. Pandit Jawaharlal Nehru, a leader of modern views, much advance of his times, as well as the main architect of India’s economic planning, laid emphasis on industrial development based upon Mahalanobis model, for which basic industries and infrastructure were required to be set up. With capitalist countries having declined to help India in establishing the basic industries and infrastructure for their own commercial considerations, India’s problem reached its zenith. Actually, the capitalist countries wanted to perpetuate its status as an economic and political appendage of the capitalist colonial powers.

At such a time of crisis, when India was to break its vicious circle to put itself on the developmental track, the erstwhile Soviet Union lent its great helping hand. First of all, the Bhilai Steel Plant in 1957 and thereafter the Bokaro Steel Plant and many other plants were set up with the help of the Soviet Union. The Soviet Union did not furnish assistance in the Steel plant only but also in many other fields, as aluminium work in Korba and the engineering work in Ranchi, Hardwar and Durgapur. The oil deposits in Gujarat and Assam, where oil is now being extracted, were discovered with the help of Soviet specialists. The oil
refineries in Koyali. Barauni and Mathura are also putting out vitally needed products. The Neyveli, Bokaro and Patnatu electric power plants are supplying industries with energy. Coal pits open cast collieries, concentration plants and many other industries were put in operation with the help of the Soviet Union.

The antibiotics plant in Rishikesh, Synthetic drugs plant in Hyderabad and surgical instruments plant in Madras are making an important contribution to the development of India's public health services. The state farms in Suratgarh, Hissar, Jetsar, Jullunder and Cannonore, which were outfitted with modern Soviet equipments, are functioning efficiently.

The Indian Institute of Technology in Bombay and its autonomous metallurgy department in Kharagpur, geo-physics department in Hyderabad and automation and computing equipment department in Bangalore are imparting training to the qualified personnel. The USSR assisted in the organisation of secondary technical schools in Bhilai, Ranchi, Bhopal, Baroda and Hyderabad, where metal-makers, machine-builders, power-technicians and oil technicians are being trained for India.

Simultaneously, the erstwhile Soviet Union and India started trade exchanges too. The trade between the two countries was based upon the Bilateral System of Trading, which had its unique features. The bilateral system of trade
was based on the 'nul saldo' principle, in which both the trade partners strived for balanced trade in principle for each year of the plan period. In this system, the basic precepts were contractual approach in deciding the trade flows, special payment arrangements to ensure payments of net balance through trade or any other method and possibility of assimilation of aid and debt repayments with trade flows. The main points to note were the most favoured nation clause and payment in non-convertible currency. The Soviet trade with India too was guided by the same principle of bilateralism.

The first Long Term Trade Agreement took place in 1953, and since then, seven long-term trade agreements had been signed between the two countries upto the collapse of the Soviet Union. This trade exchange between the two countries paved the way for the Indian agriculture goods and raw materials in the Soviet market and in lieu of that, provided good machines and equipment to India, which were very much valuable for India at that time for its industrial development. In 1988, the erstwhile USSR was the third biggest trading partner of India after America and Japan, and for the USSR, India ranked first among the developing countries. The trade turnover between the two countries had increased from less than Rs.2 crores in 1953 to Rs.3250.40 crores in 1988.

The economic relations between the two countries had been important outside India also and had been receiving the attention of the scholars world-wide from time to time. The economic relations between the two countries had passed
through various phases since the signing of the first long-term agreement in 1953, giving opportunities to the scholars to analyse the trade relations between the two from different angles.

In the beginning, the trade turnover between the two countries increased tremendously both in value terms as well as volume terms. In fact, at that time, there was a lot of scope between the two countries to exchange the goods according to their demands owing to a great complementarity between the two economies. As India had to establish infrastructure and basic industries during that period, the Soviet Union supplied quality machines and equipment for these sectors, while India exported varied raw materials for the Soviet Union's industries.

Since the close of 1960s, the needs of the Indian side changed to a considerable extent, and the Soviet Union was not in a good position to cater to its changed demands. Since the basic industries and infrastructure had been established during first phase (upto 1970), now India wanted to improve its other sectors, like service sector, consumer sector and consumer electronics. These were the sectors in which the Soviet Union was itself not good enough. Thus, this is mainly for the reason that the trade turnover between the two countries could increase with a far lower pace during this period in comparison of the first phase (1953 to 70), and even this lower growth rate in trade turnover between the two had been more in value terms owing to the increase in prices and less in volume.
terms. Among other factors, which were responsible for the slow growth rate in second phase were, besides a greatly enlarged base as compared to very small in Phase I - on which growth was calculated, India's declined capability to export agricultural surplus to the USSR and slowing down of Indian investment in public sector, which had been a major importer from the USSR.

Thus, since the close of 70s, there started emerging two opposite opinions among the scholars regarding the Indo-Soviet trade relations. One School believed that the Indo-Soviet trade relations had reached its peak at this phase, and there was no further scope for its flourishing owing to the exhaustion of complementarity between the two countries. It suggested to switch over the trade from bilateralism to multilateralism. The second school opined that this was not as such, and there was still further scope for bilateral trade between the two countries. These emerging divergencies between the opinion of two schools aroused my curiosity to ponder over the facts.

The main problems started arising after the early 80s owing to the fall in the world oil prices, which led the share of oil and oil products in Soviet exports to India to shrink. The share of oil and oil products, which accounted 80 per cent of the total Indian imports in 1980, came to a gradual shrinkage to 40 per cent in 1986. Thus India and the Soviet Union faced serious problem of settlement of their mutual trade accounts during this period. Because of the declining of the world oil prices, the Soviet Union could not generate enough rupee resources to
finance its imports, and so the total trade turnover could not increase substantially. An attempt was made to tackle the problem through 'technical credit', through which the USSR borrowed heavily after 1982 onwards, and increasing the share of machines and equipment in the Soviet export list to India.

The increase in share of capital goods in the Soviet exports to India, in turn, again caused problem for India. Actually, the Soviet Union could supply quality capital goods in certain sectors, like basic industries and infrastructure only, and that we had already bought in excess quantity. Furthermore, we had built up our own capacity in these sectors by then. So any further purchasing in these sectors would have been at the cost of our domestic capacities. On the other hand, in sectors, like the service sector, telecommunication and consumer electronics, which then India wanted to improve, the Soviet Union was not good enough, and it itself wanted to improve them with the help of western countries.

The period of 1985 onwards was the period of stagnation / decline in Indo-Soviet trade. This is evident from the fact that over the period of 1981-82 to 1988-89, the trade turnover grew at the exponential rate of 1.99 percent per annum, which is not a healthy rate by any reckoning. The stagnation in Indo-Soviet trade was itself a result of a combination of factors, which had negative influence on the trade growth. Major ones among those factors were
i) Weakening of complementarity between the two economies.

ii) Nature and pattern of trade, which was itself unsustainable in the long-run.

iii) Structural and institutional changes taking place in the USSR, and to a certain extent, in India too.

iv) Declining importance of government sectors in both the countries, which had played a dominant role in trade relations.

v) Attempts at diverting exports from Rupee Trade Area to General Currency Area.

vi) Slow utilization of Inter-governmental credit on the part of India.

Thus, stagnating trade relations between the two countries made it imperative to introduce some new forms of economic cooperation in addition to the Rupee Trade. The joint venture, which was introduced by Mr. Gorbachev under his new policy of 'Galsnost had Perestroika' was considered as one of the most logical choices, best suited to meet the requirements of both the countries. How the joint ventures were to have the effect on the overall trade performance between the two countries, and what were likely problems and prospects of Indo-Soviet joint ventures in the Soviet territory, are the issues which have been investigated in this study.

I have divided the whole work into six chapters, including the introduction of Indo-Soviet economic cooperation as first chapter.
The second chapter deals with the historical background of the Rupee Trade.

The third chapter deals with the significance of joint ventures both for India as well as the Soviet Union, and the laws and regulations which were to govern the joint ventures in the respective countries.

The fourth chapter deals with the number of joint ventures which had been proposed up to December 1991 and were under different stages of negotiation.

The fifth chapter discusses the issues like the reasons as to why most of the joint ventures were proposed to be set up in India, the problems which were likely to be faced by the Indo-Soviet joint ventures in the USSR, the potential areas of joint ventures between the two and the main competitors of India in these areas.

The sixth chapter is the conclusion of the whole thesis. It summarises the findings of the work.