Chapter 2

AN HISTORICAL SURVEY OF RUPEE TRADE AND TRENDS IN 1980s

April 13, 1947 was a remarkable date in the history of the Soviet-Indian relations. It marked the establishment of not only official diplomatic relations but also opening up of new vistas for the direct trade and economic cooperation between the two countries. Since then during the past more than four decades, bilateral trade has been a major component of the traditionally friendly relations between the former USSR and India.

The trade between the two countries was conducted by a specific system of trade and payment: Rupee Trade System or Bilateral System of Trading. The Bilateral System of Trading is based on the 'nul saldo' principle, in which both the trade partners strive for balanced trade in principle for each year of the plan period. In this system, the basic precepts are contractual approach in deciding the trade flow, special payment arrangements to ensure payment of net balance through trade or any other method and possibility of assimilation of aid and debt repayments with trade flow. The main points to note are the most favoured nation

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clause and the payment in non-convertible currency. The Indo-Soviet Trade also worked on the basis of bilateral clearing arrangement, with account being maintained in non-convertible Indian rupees. The first long term Rupee Trade Agreement between India and the Soviet Union took place in 1953, and since then, the total trade turnover increased from less than Rs. 2 crores in 1953 to Rs. 3250.40 crores in 1988, and to Rs. 6501 crores in 1989-90.

In these three and half decades, the trade under the rupee arrangement between the two countries passed through various phases, which must be examined carefully. For this purpose, the whole period has been divided into two periods one, the history of Indo-Soviet Trade from 1953 to 1980 and second, trends during the 1980s.

First of all, an attempt will be made to examine the history of Indo-Soviet Rupee Trade in brief, and thereafter, the recent developments in 1980s will be dealt with in detail.

The history of the Indo-Soviet rupee Trade has also been sub-divided into two periods for the purpose of comprehensive analysis - first, from 1953 to 1970 and second, from 1970 to 1980.

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In the first phase, the total trade turnover between the two countries increased tremendously both in value terms as well as volume terms. It increased 160 folds during this period from less than Rs. 2 crores in 1953 to Rs.316 crores in 1970-71.6 Among the important factors which contributed to this phenomenal growth in the trade turnover between the two countries in this period were, besides the low initial base, complementarity between the two economies,7 flagging demand for Indian exports in world market8 and unwillingness of the Western countries to export to USSR.9 Actually, what is needed most for the rupee trade is complementarity between two economies. And since, in the beginning, there was a lot of scope for India and the Soviet Union to exchange goods and services, and they could supply them to each other according to their demands, the turnover between the two increased immensely. At that time, India was going through its programme of industrialization based on Mahalanobis Model, and for that purpose, basic industries had to be set up, in which USSR had technological knowhow comparable to the best in the world. On the other side, the Soviet Union was requiring primary goods and raw materials for its industrial development which India could supply, thus fulfilling one another's requirements. In this period, machines and equipment accounted 54.48 percent in


9 Santosh Mehrotra, no.7, p.144.
the Soviet exports to India. And in the Indian exports to the USSR, the raw materials and the agriculture products (such as coffee, castor oil, black pepper and jute), which could not be produced in the USSR owing to its climatic conditions or which was produced in insufficient quantity, dominated during the same period.\textsuperscript{10}

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.\textsuperscript{11} It is obvious from the figures of two different periods that trade turnover between the two countries increased at a far lower pace in the second period as compared to the first period. Even this increase in trade turnover had been more in value terms owing to the increase in prices and less in volume terms. The relatively much slower growth rate of trade during this period can mainly be attributed to the declining 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 agricultural surplus to USSR and 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 a plateau.


during this period because of the exhaustion of complementarity between the economies of the two countries. As the basic industries for the industrialization programme, for which the Soviet Union provided machines and equipment, had been established during the first phase (1953 to 1970), the needs of the Indian side had changed to a considerable extent during the second phase (1970-80). It was argued then that 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, consumer electronics and service sector, and the Soviet Union was itself not doing well in these sectors. 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.\textsuperscript{12}

Thus, besides the other factors mentioned earlier, due to the incapability of the Soviet side to fulfil the changed demands of the Indian side, the trade turnover could not increase with the same pace during this period as in the first phase (1953-70).

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 surpluses in India's favour since

\textsuperscript{12} Anderi Muravyor, no.10, p.158.
Consequently, India had accumulated large trade surpluses, a phenomenon that ought not to have come about under the Rupee Trade System. But this surplus on trade account should not be confused with surplus of payments. In fact, it was India which was highly indebted to USSR, and this trade surplus might be more an indication of credit repayments, both development and defence, than anything else, as the credit repayment in this system is assimilated in goods flows. The balance of Trade (BOT) in favour of India was Rs. 104 crores in 1970-71, Rs. 210 crores in 1980-81 and it further shot up to 2425 crores in 1989-90.

Now we shall discuss the recent developments in 1980s in the Indo-Soviet rupee trade in detail. The period of eighties has also been subdivided into two phases - one, from 1980 to 85 and second, from 1985 to 90.

India’s total imports and exports, total trade turnover between the two countries and balance of trade between the two during 1980s have been shown in the table below.

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Table 1

India Total Imports and Exports, Total Trade Turnover and Balance of Trade between the two Countries

<table>
<thead>
<tr>
<th>Period</th>
<th>Indian Imports</th>
<th>Indian Exports</th>
<th>Trade turnover</th>
<th>BOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1015.70</td>
<td>1225.71</td>
<td>2240.00</td>
<td>210.01</td>
</tr>
<tr>
<td>1981-82</td>
<td>1136.88</td>
<td>1659.90</td>
<td>2661.25</td>
<td>523.02</td>
</tr>
<tr>
<td>1982-83</td>
<td>1413.23</td>
<td>1662.07</td>
<td>3075.30</td>
<td>248.84</td>
</tr>
<tr>
<td>1983-84</td>
<td>1645.62</td>
<td>1219.98</td>
<td>2865.61</td>
<td>---</td>
</tr>
<tr>
<td>1984-85</td>
<td>1788.10</td>
<td>1867.06</td>
<td>3655.16</td>
<td>78.96</td>
</tr>
<tr>
<td>1985-86</td>
<td>1677.50</td>
<td>2005.70</td>
<td>3683.20</td>
<td>328.20</td>
</tr>
<tr>
<td>1986-87</td>
<td>1014.80</td>
<td>1867.20</td>
<td>2882.00</td>
<td>852.40</td>
</tr>
<tr>
<td>1987-88</td>
<td>1278.90</td>
<td>1971.50</td>
<td>3250.40</td>
<td>692.60</td>
</tr>
<tr>
<td>1988-89</td>
<td>1258.00</td>
<td>2609.00</td>
<td>3867.00</td>
<td>1351.00</td>
</tr>
<tr>
<td>1989-90</td>
<td>2038.00</td>
<td>4463.00</td>
<td>6501.00</td>
<td>2425.00</td>
</tr>
<tr>
<td>1990-91</td>
<td>2548.00</td>
<td>5255.00</td>
<td>7803.00</td>
<td>2707.00</td>
</tr>
<tr>
<td>1991-92</td>
<td>1796.00</td>
<td>4043.00</td>
<td>5839.00</td>
<td>2247.00</td>
</tr>
</tbody>
</table>

As is clear from the above table the total trade turnover between the two countries increased from Rs.2240 crores in 1980-81 to Rs.5839 crores in 1991-92 with wide fluctuations over the period.

Examining the period 1980 to 1985, it is obvious from the table that total trade turnover increased during this period from Rs. 2240.00 crores in 1980-81 to Rs.3683 crores in 1985-86 with wide fluctuations, with 12.88 percent average annual growth rate. This very low average annual growth rate was mainly attributable to, besides further declining complementarity between two economies and sagging public sector investment, the drop in the world oil prices mainly after 1981-82. Owing to declining world oil prices, the Soviet Union could not generate enough rupee resources to finance the imports from India, and so the total trade turnover could not increase substantially between the two countries.

The drop in the world oil prices caused the share of oil and oil products, which accounted 78 percent of the Soviet Union’s exports to India in 1981-1982, to gradually decline to a level of 42.5 percent by 1986. To maintain the total trade turnover to a respectable level, a provision of ‘technical credit’ was made in the agreement. Provision was made for the short-term-low-interest bearing credit, with an interest charge of 4.7 percent per annum. USSR on its part did not utilize this facility till the early eighties. It was only in late seventies, more precisely in 1981, that the Soviet Union had to take recourse to heavy short term

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15 Andrai Muravyor, no. 10, p.159.
borrowing under this facility owing to sharp reduction in world oil prices and concomitant fall in rupee resource generation for USSR as oil accounted for major chunk of its exports to India in value terms. To settle the mutual accounts in trade, the Soviet Union increased the share of machines and equipment in its exports to India during this period. The share of machines and equipment, which was 11.3 percent in the Soviet exports to India in 1981, shot up to 36.8 percent in 1986.\textsuperscript{16}

This increase in the share of machines and equipment in the Soviet’s exports list to India to achieve a balance in trade account was not beneficial for India because of the fact that the Soviet Union could supply good machines and equipment only for defence, basic industries and infrastructure, which had already been bought in excess quantity. Moreover, India was quite capable of producing capital goods for these sectors with its own efforts. This is why the further purchasing of these goods was at the cost of domestic industries. On the other hand, in capital goods for telecommunication sector, consumer electronics and service sector, which India was then looking for its further economic development, the Soviet Union itself was not in a good position. The Soviet Union was itself trying to improve these sectors by importing new technologies and equipment from western countries. Moreover, Japan, West Germany and America, which excel in these sectors, were interested to sell machines and equipment to India.

\textsuperscript{16} Ibid. p.158.
Trends after 1985

The Indo-Soviet trade had shown a healthy growth trend up to 1979, but could not maintain it during the eighties, especially after 1985. The period from 1985 onwards was a period of stagnation and decline in the Indo-Soviet trade. This is evident from the fact that over the period from 1985-86 to 1988-89, the trade turnover increased from Rs. 3683.20 crores in 1985-86 to Rs. 3867 crores in 1988-89 with the average annual growth rate of 1.7 percent per annum, which was not a healthy rate by any reckoning. The stagnation in this period was itself a result of a combination of factors, which had a negative influence on the trade growth. Major ones among those factors were

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

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

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

iv) Attempts at diverting exports from the rupee trade area.

v) Slow utilization of inter-governmental credit on the part of India.
Nature and Pattern of trade, which itself was unsustainable in the long run

The nature and pattern of trade which existed earlier, under which the Soviet exports comprised mainly machines and equipment and the Indian exports mainly agriculture products and raw materials, came under a considerable change after 1970s because of the declining complementarity between the two economies. Because of the technology transfer and capital imports from USSR, India had built up its own infrastructure and basic good industries. As a result of this, India acquired the capability of producing machineries and equipment domestically, which reduced the dependence on imports of these goods. In the consumer sector, in which India wanted to import capital goods, the Soviet Union was itself not good enough. This implied a decline in demand for Soviet machineries and equipment. The relatively declining demand for Soviet machineries and equipment necessitated introduction of new items in Soviet exports to India, for which demand existed here, for the continued growth of bilateral trade. The Soviet Union introduced new commodities in its export list after 1970 by including crude oil and petroleum products. After 1985 too, because of the major fall in world oil prices, the Soviet Union attempted to diversify its exports to India by including cooking coal, chemical engineering products, waste paper and sawn timber in its export list. The tendency of declining demand for machineries and equipment and increasing need and hence demand for crude oil and petroleum products got accentuated over time resulting drastic alteration in commodity composition of the Soviet exports to India. The commodity composition of the Soviet exports changed
in favour of raw materials, petroleum and petroleum products and intermediate goods, like fertilizers, newsprints etc., which accounted for a lion’s share in total exports, while share of machineries and equipment, and finished manufactured products had declined.

In case of Indian exports, we find that reverse trend held true, with machineries and equipment and other manufactured products displacing the traditionally primary products from its earlier predominant position. It was argued that such a pattern of trade was not sustainable in the long run, and it would not have been able to develop the rupee trade beyond a limit.\(^{17}\)

This is so because, firstly, the Soviet Union could not be expected to function as a primary commodity and raw material exporting appendage of India for longer periods given its large industrial base.\(^{18}\)

Secondly, an overwhelmingly large proportion, almost 90 percent of the Soviet Union’s exports to India, was hard currency items, which could fetch convertible hard currencies, which were necessary for USSR’s modernization and economic development. Hence, USSR was not much interested in increasing its exports of these items to India. Instead, it had much incentive in diverting these hard currency items from India to hard currency areas. Finally, there was a limit


\(^{18}\) Ibid., p.15
upto which USSR could increase the exports of petroleum and petroleum products given their production capabilities and priorities. Thus, in the slightly longer period, the Soviet export to India was bound to stagnate or start declining. Given the bilateral nature of balancing involved, exports from India were constrained by the availability of rupee resources to USSR, which was dependent upon the Soviet exports to India and credit repayment by India. The declining Soviet exports then implied a declining Indian exports to USSR.

ii) Structural and institutional Changes taking place in the USSR and to certain extent, in India too

We see that radical changes had gripped the economy and society of the Soviet Union. The buzzword of decentralization, decontrol and greater role for market mechanism had become the mainstay in restructuring of the economy under Glasnost and Perestroika. This process had led USSR to its logical conclusion of a free market economy. Foreign trade sector in USSR was also not unaffected by these changes. The Foreign Trade organisations (FTOs) were permitted to act autonomously and interact directly with their trading partners so long as they did not involve trade in strategic goods. With effect from 1991, FTOs had started functioning on the basis of Khozraschet, i.e., cost accounting, self-financing and self repayment.\(^{19}\)

The decentralization of economic and foreign trade management, introduction of full cost-accounting in enterprises and their resource self-reliance, including that of foreign exchange, undermined the very principle of maximizing predominantly macroeconomic benefits of external economic relations, which laid at the roots of bilateral clearing arrangements. Before these radical reforms were initiated, there existed only a single government foreign exchange fund, and the individual enterprise’s surplus foreign exchange earnings were appropriated by the state to enhance the foreign exchange reserves, while losses were financed from the state budget through multiple-exchange rates, budget subsidies, etc. Under the earlier situation, what really mattered was the total benefits of trade with India accruing to the Soviet economy irrespective of its profitability for the individual enterprise.\textsuperscript{20}

Decentralization of the import and export decisions taken by the enterprises, which were holders of the foreign exchange as well as export surpluses, inevitably disfavoured trade in closed and clearing currencies, where the range of choice for importing goods was naturally narrower than in the case of convertible currencies, especially when flexibility of inter-enterprise exchange of various currencies was not completely perfect. Such a tendency was apparent from the growing unwillingness of the FTOs to even fulfill their committed exports of hard currency items to India. The corollary to such a development was a certain slowdown in Indo-Soviet trade.

\textsuperscript{20} A.E. Granovskil, no.17, pp.6-7.
Moreover, the bulk of India's imports from USSR was channelled through the public sectors. Over 80 percent to 90 percent of Indian imports from USSR were made under the government account.\(^{21}\) Given the trends towards liberalization, decentralization and privatisation especially after 1985, it was clear that the government of India was to play progressively a smaller role in the economic affairs. Moreover, as mentioned earlier, the share of plan expenditure as well as that of capital formation in total governmental expenditure was also declining over time. These developments implied that imports from the Soviet Union were to decline especially in the absence of increased share of the private sector in the total imports from USSR.

The share of private sector in the Indian imports from the USSR was not increasing substantially inspite of some deliberate attempts after 1985. While in 1986, the Indian private sector exported 80 percent of the total exports of India to the USSR, it imported only 20 percent of the total imports of India from USSR, which was quite unmatched.\(^{22}\) The deliberate attempts made to increase the share of private sector produced a moderate result because of many reasons, which have been discussed below.

Because private sector was interested mainly in importing the capital goods, this led to a question of price, competitiveness, quality, post-purchase services

\(^{21}\) Ibid., p.3.
\(^{22}\) Muravyov, no.10, pp.160-161.
of the Soviet equipment in relation to other supplying countries in the market economy. Generally, the private sector's decisions are based upon their own fund of information, their own perceptions and most importantly access of credit facilities on competitive terms. Moreover, most of the private firms were in consumer sector, and in this sector, the Soviet Union was itself not advanced enough to cater to the requirements of the private sector. Furthermore, Japan, West Germany and America, which excel in this sector, were interested in selling machines and equipment to India for this sector. For all these reasons, the attempt of increasing the share of private sector in India's total imports from USSR could produce limited results.

Attempts at diverting exports from Rupee trade area towards General currency areas

There had been covert and overt attempts by the two governments, FTOs and other trading enterprises to divert hard commodities and commodities with high content of hard currency imports away from rupee trade to hard currency areas. This practice is different from switch trade. It involves redirecting the destination of export items produced domestically by the country concerned as against the practice of redirecting the imports made from other countries as is done in switch trade. Various attempts made at diverting exports away from the rupee trade area on the part of Indian government were as follows.
a) Export promotion councils were asked by the government to give preference to exports to general currency areas over the rupee trade area, including the Soviet Union.

b) The Chief Controller of Exports and Imports had begun a monthly scrutiny of exports to the Soviet Union, identifying items with over 30 per cent import content.

c) The government was insisting on high value addition in the case of exports to the Soviet Union.

d) The trade policy had announced a new incentive scheme for exports making eximscripts freely tradable, with maximum incentives being given to exports with less import intensity. In particular, export generated from the Rupee Payment Area (RPA) would enjoy the benefit of import replenishment for use from the RPA only. This was to discourage exports to the Soviet Union, for which India had to pay out the import costs in hard currency.

These steps were taken by the Indian government to control the outflow of foreign currency. Simply put, Indian exports to the USSR had high import content. India paid foreign exchange for these imports, produced goods for exports to the Soviet Union, but got only rupees in return, resulting in the net outflow of hard currency. Given the fact that manufactured goods contributed 65

to 75 percent of the Soviet imports from India,\textsuperscript{24} most of them having high import content, with some like engineering goods, computers and colour picture tubes having as much as 70 to 80 percent of import component,\textsuperscript{25} and that import content in India's export in general was on the rise, the payment arrangement implied substantial loss of foreign currency to India, in return of which, it only earned rupees from the Soviet Union.

On the Soviet Union's part, such an attempt of diverting hard items away from India got manifested in non-fulfilment of the trade protocol commitment in hard currency items. Though other reasons, such as disruptions in domestic production, had also been important.\textsuperscript{26}

Thus, such trends on the part of both countries resulted in declining trade turnover.

**Slow Utilization of Inter-Government Credit by India**

Given that liberalization was the basis of trade, it is clear that if Indo-Soviet economic relations had to keep expanding, India was required to buy more in order to sell more to the USSR. Imports by the Soviet Union were dependent

\textsuperscript{24} A.F. Granovski, no.17, p.15.


\textsuperscript{26} A.E. Granovski, no.17, p.8.
on rupee resource availability, which was dependent upon Indian imports from USSR. In addition to imports, credit utilization by India also generated rupee resources to USSR over a period of time in the form of interest and principal.

But India had not been able to utilize the credits provided by the former Soviet Union in recent times in some sectors, as coal, oil refining, etc., due to non-availability of supplementary rupee funds on the part of the Indian government to carry out the necessary infrastructure investment. This had resulted in a situation where a major part of the Soviet credit remained under utilized. Though in some cases, other factors, such as problems in appraisal of projects, political or social resistance, etc., had also been important. This was amply demonstrated by the Tehri project being built by Soviet cooperation. In the face of resistance, the work was suspended there at least temporarily even though much investment had already been made in the project. It was being criticised both on social and technological grounds. The criticism on technological grounds might not necessarily be true, but in any case, it had resulted in delays, cost escalation and non-utilization of Soviet credits. The problem of stagnation in trade could partially be countered by effective utilization of these credits, especially some major Soviet credits announced in May 1985, November 1986, November 1987 and November 1988, as the utilization of these credits would have generated

additional rupee resources for USSR (over a period of time) so that additional exports could be generated from India.\textsuperscript{28}

Thus, these were the factors which had their negative influence over the trade turnover between the two countries. The massive imports by USSR in 1989, 1990 and 1991 was partly a reflection of the gross disequilibrium in the consumer market in the USSR, and partly of the provision of massive technical credit by India.

Thus, looking at the declining Indo-Soviet rupee trade on account of many factors mentioned above, it became imperative to introduce some new patterns of economic cooperation in addition to the existing one, which might serve the purpose of both the countries. The joint venture introduced by Gorbachov during the course of his restructuring was looking an innovative step in this direction.

The operation of joint ventures on the Soviet soil was allowed by the regulations adopted in Jan. 13, 1987 permitting foreign partners to set up joint ventures. Specific objectives of reform were to attract new technologies, management expertise and other production factors to substitute unnecessary imports and to promote exports.

The joint venture provided numerous advantages to both the sides. Firstly, it facilitated the full exploitation of economies of scale as it extended the market.

\textsuperscript{28} \textit{Ibid.}, p.144.
of the produce of the joint venture. This economies of scale was also expected to
result in fuller utilization of plant capacity and lower cost in the economy as a
whole. Secondly, the lower cost of production achieved due to economies of scale
was to make it competitive in the world market and hence improve exports and
foreign exchange earnings of both the countries. Thirdly, under the joint venture,
the flow of technology was to speed up. Fourthly, it was to generate more gainful
employment in both the countries.

Summary

The trade between India and the Soviet Union was conducted by a specific
system of trade and payment: Rupee Payment System or Bilateral System of
Trading. The trade was highly beneficial for both the countries and served the
purpose of both the countries to a great extent at a time when the western
countries declined to export to the USSR under CoCom, and Indian exports were
not good enough to compete in the world market owing to their poor quality and
higher prices. The first long-term agreement between the two countries took place
in 1953, and since then, the trade 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 Rupee trade between the two countries passed through various
phases during the 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 subdivided 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. Among the important factors which contributed to this phenomenal growth in trade turnover between the two countries in this period were, besides the low initial base and the large complementarity between the two economies, flagging demand for Indian exports in world market and unwillingness of the Western countries to export to USSR. 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 the Mahalanobis model during this phase, and in these sectors, the Soviet Union had acquired the technology comparable to the world standard. On the other hand, the Soviet Union was requiring raw materials for its industries, and India could supply it. Thus, machines and equipment dominated in the Soviet exports to India, and in India’s exports to the USSR, raw materials and agriculture products remained dominant during this period.

During the second phase, the trade turnover between the two countries increased with a far lower pace as compared to the first phase, and this increase
also has been more in value terms owing to the increase in prices and less in volume terms. Among the main reasons behind this slow progress in trade were, besides the declining of complementarity between the two economies and greatly enlarged base as compared to a very small base in phase I, India's declined capability to export agricultural surplus to USSR and slowing down of Indian investment in public sector, which had been a major importer from USSR in Phase I. Since most of the basic industries and infrastructure had been established in the first phase, during the second phase, the Indian emphasis changed to the consumer industries. In the consumer sector, the Soviet Union was itself not good enough to cater to the requirements of the Indian side in the changed scenario. Thus, the share of machines and equipment declined, and their dominated place was taken by the oil and oil products in the Soviet exports to India during the second phase. Owing to the changed needs of the Indian side and the non capability of the Soviet side to fulfill its altered needs, a significant development, which ought not to have come about in bilateral clearing arrangement, had been the large surpluses in trade account in India's favour since 1970-71.

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 have also been sub-divided into two phases - one, from 1980 to 1985 and second, trends after 1985, which have been dealt with in details.
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 gradually to 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 the imports from India, the Indian exports to USSR too could not increase substantially, thereby impeding the overall growth of trade turnover between the two. 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 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 would have been at the cost of our domestic industries. On the other hand, in the telecommunication sector, consumer electronics and service sector, in which India wanted to improve its capacity and capability, the Soviet Union was itself not good enough. The Soviet Union was itself willing to import quality up-to-date technologies and equipment from the western countries for these sectors.

The period of 1985 onwards of Indo-Soviet rupee trade was a period of decline and stagnation. The main reasons for this stagnation/decline in trade were,
along with nature and pattern of trade which itself was unsustainable in the long run and structural and institutional changes taking place in the USSR and India, 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 general currency area and slow utilization of inter-government credit on the part of India.

Thus looking at the stagnating/declining trade between the two countries, it was imperative to have a new pattern of economic cooperation in addition to the existing one. The joint venture, which was introduced in USSR under Glasnost and Perestroika by M. Gorbachev, was innovative in this direction.