Chapter III

JOINT VENTURES AS A NEW STRATEGY FOR ECONOMIC CO-OPERATION: THE LEGAL STRUCTURE

As already noted earlier, the trade turnover between India and the Soviet Union under the bilateral system of trading saw its tremendous growth both in volume and value terms in the first phase (1953-70). In the second phase (1970-80), the trade turnover between the two countries increased at far lower growth rate as compared to the first phase, and even this increase was more in terms of value owing to the increase in prices. The main reason for this slow progress was the changed needs of the Indian side and the limited ability of the Soviet Union to fulfill its altered demands. As the basic industries and infrastructure, for which the Soviet Union provided good machines and equipment, had been established in the first phase, in the second phase, the needs of India had changed to a considerable extent. Now India wanted to improve its consumer sector, service sector and consumer electronics. These were the sectors in which the Soviet Union was not advanced enough, and it itself wanted to improve them with the help of Western countries. Thus the share of capital goods declined in the Soviet exports to India, and its dominant place was taken by oil and oil products during this period. Among other factors which contributed to the decline in growth of Indo-Soviet trade during this period were, besides a greatly enlarged base as
compared to a very small in phase I - on which growth was calculated - and India's reduced capability to export the agricultural surplus to USSR, slowing down of Indian investment in the public sector, which had been a major importer from USSR in phase I. A most significant development in Indo-Soviet trade during this phase was the large surplus in trade account in Indian favour, which again reflected the growing lack of scope of rupee trade between the two countries.

During 1980 to 1985, the trade between the two countries increased with still lower average growth rate of 12.88 percent per annum. The main difficulties started arising after 1981-82 onwards owing to the fall in the world oil prices, which, in turn, caused the share of oil and oil products in the Soviet exports to India gradually to shrink. Since the Soviet exports to India could not increase much during this period owing mainly to a fall in World oil prices, the Soviet Union could not generate much rupee resources to finance its imports from India, and hence the trade turnover between the two countries could not increase substantially. The problem was attempted to be tackled through technical credit, through which the Soviet Union borrowed heavily mainly after 1981-82 onwards.

The Soviet Union and India faced serious problems in the settlement of mutual accounts in trade. To settle the mutual accounts in trade, the Soviet Union increased the share of capital goods in its exports to India, which, in turn, again
caused a problem for India. It was because the Soviet Union could supply quality capital goods for basic industries and infrastructure only, and that India had already bought in excess quantity. Moreover, India had already built up its own capacity in these sectors. This simply meant that any further purchasing of these products was at the cost of India's domestic capacity.

The period from 1985 onwards was a period of decline and stagnation, for Indo-Soviet trade. The main reasons for the stagnation and decline in trade, as mentioned in the preceding chapter in details, were, along with nature and pattern of trade which itself was unsustainable in the long run and structural and institutional changes taking place in USSR and India, declining importance of the 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 area and slow utilization of inter-governmental 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 co-operation in addition to the existing one. The joint venture scheme, which was introduced in the USSR under Perestroika by M. Gorbachev, was innovative in this direction.

The joint venture was a new form of co-operation introduced by the Soviet Union under Perestroika to liberalize its external sector and to integrate it with
the world economy. It should not be confused with collaboration, which India and the Soviet Union were having since 1957, when India established its BHEL Steel plant with the Soviet collaboration. A collaboration 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 transferring country has noting 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 technology to produce something. They all manage the production, sell it in their respective domestic markets or in a third country and distribute the profit accruing from the joint venture among themselves.

The Soviet Union started liberalizing its external sector after becoming disappointed with its foreign trade performance. The benefits of the foreign 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 this 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 for this poor performance of the Soviet foreign trade was the lack of commercial features in its economy. Trade through exclusively foreign trade organisations, exclusion of industries from the foreign
market and the lack of stimulation to gain access to it led to the dominance of non-renewable materials in the Soviet exports and the absence in the country of a national technical policy in imports.

All this imperatively called for a radical restructuring of the country's external economic activity. Some new types of economic co-operations were introduced to invite the foreign investment. The joint venture was one of them.

The joint venture offered a series of benefits for both the countries. From the Indian point of view, the benefits could 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 the higher cost. But under a joint venture, 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 hard currency market. Thirdly, under a joint venture, there were more chances of getting modern technology from the USSR. Fourthly, the joint ventures were to create more employment for India because there was good scope in labour intensive joint ventures, for instance, in construction sector.
All these benefits were to accrue 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 a joint venture in general and the Indo-Soviet joint ventures in particular. The benefits from a joint venture, which were visualized in general by the Soviet experts, were as follows.

Firstly, it was to satisfy more fully national requirements in certain types of industrial products, raw materials and food stuffs. There were so many items, especially in consumer sector and agriculture sector, 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 hard currency areas. With the participation of the new and updated technology by the foreign partner in a joint venture, the quality of these items could be improved, and the hard currency could be saved.

Secondly, in certain sectors, as the consumer sector, tele-communication sector, service sector etc., the technology of the Soviet Union was not at par with other developed Western countries. Through a joint venture, there were more chances of getting better technology from abroad.
Thirdly, the Soviet Union had little or no experience of a consumer economy. It had to learn a lot about marketing, cost accounting and management. Thus, a joint venture was to provide a lot of opportunities for the Soviet Union to learn about these features of market economy.

Fourthly, it was to further develop the country’s export capability. Coming to the Soviet benefits from Indo-Soviet joint ventures, firstly, there were many items for which USSR used to spend hard currency. By establishing joint ventures with India, it could be avoided. 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 USSR. An Indian firm had located a leading Swiss firm willing to offer this technology. A suggestion was put forward to the Soviet Union that a joint venture in India with 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.¹

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 construction sector. From the USSR point of view, it was beneficial because it was to provide cheap labour to the USSR, which had inadequate manpower resources.

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. Therefore, it is worthwhile to look into the details of the rules and conditions which were to govern the joint ventures in USSR and India. With the purpose of further development of the trade, economic, scientific and technical cooperations with the capitalist and developing countries on a stable and mutually beneficial basis, the USSR council of ministers issued decrees on 13 January, 1987.²

General Provisions

According to the original decree, the joint ventures, with participation of the Soviet organizations and firms of capitalist and the developing countries, were to be established on the territory of the USSR with the permission of the USSR Council of Ministers and on the basis of agreements concluded by partners therein.³

² *Economicheskaya Gazeta* (Moscow), No.6, February, 1987, p.17
A draft plan was to be submitted by the organisation (USSR) desirous of entering a joint venture with a foreign partner to the concerned ministries and government agencies, which, in turn, were to further submit the proposed plan to the USSR Council of Ministers. The concerned government agencies and ministries, and the USSR Council of Ministers were to discuss the feasibility of joint ventures with the USSR State Planning Committee and Finance Committee. There were many criteria for giving consent to a joint venture. First was the national requirements regarding the manufactured products, raw materials and food stuff. Second was to introduce advance foreign equipment and technologies, management experience and additional materials and finance resources into the USSR national economy. Third and final was to expand the range of exportable products of the country as well as to curtail the superfluous imports.4

In December 1988, the USSR council of ministers modified its previous decree of joint ventures. State enterprises, associations and organisations were allowed to take decisions on the establishment of joint ventures, international amalgamations and organisations with foreign firms and organisations with their own with the consent of their higher administrative body.5

4 Ibid., p.17
Later on, production cooperatives forming joint ventures with western firms only needed consent from the local executive committee (in Moscow and Leningard from Municipal Executive Committee) as well as from the ministry which supervised the state enterprise where the cooperative operated.\textsuperscript{6}

**Partner in Property and Rights in Joint Venture**

The joint ventures were to be agreed upon between one or more than one Soviet organisations on the one side and one or more than one foreign firms, companies, corporations etc. on the other. The joint ventures were legal entities under the Soviet law, which were to work under a specific procedure, maintain its independent balance, and operate on the basis of full cost accounting, self-supporting and self-financing.\textsuperscript{7}

The authorised fund of the joint venture was the contribution of its partners in the form of money, building structure and other material values, including invention and know-how. The fund was to be maintained through profits and if necessary, through fresh contributions by its partners. According to the original decree, the contribution of the Soviet partner was to be evaluated in roubles with due regard to the world market prices. The contribution of the foreign partner was


\textsuperscript{7} *Economicheskaya Gazeta*, no.2, p.17
to be evaluated by converting his contributions in roubles, which was to be fixed with the official exchange rate of the USSR State Bank. But the position was altered later on, and the contributions of the participants were allowed to be evaluated both in the foreign as well as domestic currencies.

According to the original decree, a foreign partner was allowed to invest upto 49 percent of the total equity capital. But later on, the limit was dropped, and the foreign partner was permitted to invest without any limit.

Whatever was to be imported by the foreign partner in terms of equipment, material and other property, as well as other contribution to the authorised fund, was exempted from the custom duties. The property of the joint venture was liable to be insured by the insurance company of the USSR. A joint venture was entitled to own, use and dispose off its property. The property of a joint venture was not to be confiscated by the administrative bodies. The property right of a joint venture was to be protected according to Soviet Legislative acts applicable to state run organisations. The government bodies were authorised to consider the disputes involving the joint ventures.

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9 Business International, no.5, p.403.

The partners had right to transfer their shares in the joint venture fully or partially to the third party with the consent of the State Foreign Economic Commission of the USSR Council of Ministers.\(^{11}\)

The branches of joint ventures established in USSR were entitled to function independently. The joint ventures were not liable for the obligations of its branches and vice-versa. Branches of the joint ventures set up with the participation of the Soviet organisations in other countries were to be established in accordance with the regulations which applied to the establishment of joint ventures in the countries concerned.\(^{12}\)

Under the USSR laws, disputes between the joint ventures and the Soviet state, co-operatives and other social organisations on the one side and disputes between joint ventures and disputes among participants of joint ventures over matters related to the activities of the venture on the other were to be settled either by the Soviet court or with mutual consent of both the sides or by a court of arbitration.\(^{13}\)

\(^{11}\) Ibid, pp.21-22.

\(^{12}\) Ibid., p.22.

\(^{13}\) Ibid., p.22.
Operation of Joint Ventures

A joint venture was to be headed by a board, which consisted of 16 persons appointed by its partners. It was to work according to the procedure defined in its foundation documents. According to the original decree, the general director and the chairman of the board were to be the Soviet citizens, while the management could consist of Soviet as well as the partner country's citizens. Looking at the negative reactions of the foreign partners, the amendment was introduced in the original decree, thereby allowing foreign partner's appointment as a chairman of the board and general-director.\textsuperscript{14}

A joint venture was to establish contact with the central government bodies through an organisation superior to the Soviet partner in the joint venture. Its contact with the local bodies and other Soviet organisations was to be direct.\textsuperscript{15}

A joint venture was to function independently as far as the operation of its programme and approval of its product were concerned. It was neither bound by the directions of government bodies of the USSR for production assignments nor guaranteed for sales of its products.

\textsuperscript{14} \textit{Economicheska Gazeta}, no. 2, pp. 17-18.

\textsuperscript{15} \textit{Ibid.}, pp. 17-18.
A joint venture was entitled to conduct its import and export operations independently, which were necessary for its economic activities. The export and import operations might also be effected through Soviet foreign trade organisations or sales network of foreign partners on the basis of appropriate agreements. All foreign currency expenditures of joint ventures, including payments of profits and other amounts due to foreign partners and specialists, were to be secured by the sales of joint ventures’ products on foreign market.\textsuperscript{16}

According to the original decrees, the sales of products of joint ventures on the Soviet market and supplies to the joint ventures from this market of equipment, raw materials, fuel energy and other items were to be paid in rubles through related Soviet foreign trade organisations on the basis of agreed prices and with due regard for the world market prices. Later on, an amendment was introduced, by which joint ventures in which firms of the capitalist and developing countries participate were, by agreement with Soviet enterprises and organisations, to determine the type of currency used in payments for the realized products and purchased goods, and also the procedure for selling their products on the Soviet market and shipping goods from this market. The material and technical supplies for and the sales of products turned out by such joint ventures could be effected in different forms (through foreign trade organisations, the wholesale trade system, the supply of national economy corresponding branches,

\textsuperscript{16} Ibid., p.17-18.
by direct contracts, the retail trade systems), while payments for them could be made not only in roubles but in foreign currency as well.17

In case of credits, the joint ventures could go in for commercial credits both in roubles and foreign currencies, which were managed by the USSR State Bank or the USSR Bank of Foreign Trade. The USSR State Bank or USSR Bank for Foreign Trade were authorised to check if the credits granted to the joint ventures were used in a proper way, if security was provided for credits and if credits were repaid in due time. The monetary assets were to be accounted in roubles and foreign currency by the USSR State Bank and the USSR Bank of Foreign Trade, which bore interest.18

A joint venture was entitled to form a reserve fund necessary for its operation and for meeting the social needs of 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. The profit was to be distributed among the partners in proportion to their shares in the authorised fund of the joint venture after deducting the amount to be paid to the USSR state budget and to maintain the joint venture. The foreign partner in a joint venture was to be assured that amount in foreign currency due to him as

his share of profit made on the operation of joint venture would be transferred abroad.\textsuperscript{19}

The joint ventures were entitled to make depreciation deductions in accordance with regulations applying to state-run Soviet organisations unless different arrangements were stipulated by the foundation documents. The sum thus accumulated were to remain at the joint ventures' disposal.\textsuperscript{20}

The approval of the designing and the capital construction of joint ventures was to be made by the USSR state construction committee.\textsuperscript{21}

**Taxation of the Joint Venture**

A joint venture was to pay 30 percent of the profit in the form of taxes, which was to be transferred to the USSR national budget. In the original decrees, the initial two years after the operation of a joint venture were exempted from paying any tax.\textsuperscript{22} But later on, the initial two years of tax holidays were allowed to be reckoned from the declared profit of joint venture.\textsuperscript{23} If transferred abroad,

\textsuperscript{19} Ibid., p.24.

\textsuperscript{20} Ibid., p.24.

\textsuperscript{21} Ibid., pp.24-25.

\textsuperscript{22} *Economicheskaya Gazeta*, no.2, p.17.

\textsuperscript{23} "Joint Ventures on Soviet Territory: First Agreements and Developments of Legal Regulations," *Foreign Trade (USSR)*, 1/1988, p.47.
the part of profit due to foreign partner in a joint venture was to be taxed in the amount of 20 percent of that part unless a different arrangement was stipulated by an agreement between the USSR and the partner country.\(^{24}\)

Under the new decrees introduced in December 1988, 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 holiday years were increased from two to three years in their case. As an additional incentive, the Ministry of Finance was granted the right (as long as bilateral government agreements did not stipulate otherwise to waive or reduce dividend taxation for joint ventures located in the Soviet Far East or any joint venture producing consumer goods, medicines, medical equipments, high technological goods and goods of practical significance to the national economy.\(^{25}\)

The foregoing taxation procedure was to apply to profits made by joint ventures established on the territory of the USSR and branches of joint ventures set up in the USSR or in other countries as a result of their operations on the territory of the USSR, on its continental shelf in the economic zone of the USSR and in other countries.\(^{26}\)

\(^{24}\) *Economicheskaya Gazeta*, no.2, p.17.


\(^{26}\) *Economicheskaya Gazeta*, no.2, p.17
Supervision of Joint Ventures

In order to enable partners in a joint venture to exercise their supervision rights, the foundation documents were to stipulate a procedure for giving them access to informations related to the operation of the joint venture, the state of its property and its profits and losses.27

A joint venture could set up an inspection commission, which was to be formed in a manner defined by the foundation documents. The joint venture was to maintain business book keeping and statistical accounting in accordance with the procedure established in the USSR for a state-run Soviet enterprise. The form of such accounting and book keeping was to be jointly confirmed by the Ministry of Finance and the Central Board of Statistics of the USSR. Under the Soviet law, the joint venture was to be held responsible for complying with the procedure for maintaining accounting and book keeping, and for the correctness thereof. The joint venture was not to submit statements or other similar informations to state or other bodies of foreign countries. The auditing of finance, business and commercial activities of a joint venture were to be carried out for a consideration by a Soviet auditing organisation operating on a self-supporting basis.28

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28 Ibid., p.151.
Personnel of Joint Ventures

The personnel of a joint venture were to be mainly Soviet citizens. The management of a joint venture was to conclude collective agreements with trade organisation set up at the facilities. The content of these agreements, including provisions for meeting the social needs of employees, was to be defined by the Soviet law and the foundation documents. The working conditions of the employees of a joint venture were to comply with the rules of the Soviet law, which was equally applicable to their foreign employees except for the matter of pay, leave and pension, which were to be stipulated by an agreement signed with the foreign employees.29

The USSR State Committee for Labour and Social Affairs, and All Union Central Trade Unions were authorised to decide on the applicability of the Soviet Social Insurance Legislation to foreign employees of a joint venture. A joint venture was to make contribution to the USSR national budget for state-sponsored social insurance of Soviet and foreign employees in accordance with the rates established for state-owned soviet organisations. Contributions to cover foreign employees' pensions were to be transferred to respective funds, in the countries of their permanent residence in hard currency.30

29 Economicheskaya Gazeta, no.2, p.18.

30 Ibid., p.18.
The pay of a foreign employee of a joint venture was liable to the income tax in accordance with the procedure defined by the decrees of Presidium of the USSR Supreme Soviet of May 12, 1978 on the income tax imposed on Foreign legal and Physical persons. The unutilized portion of the foreign employees' pay might be transferred abroad in foreign currency.\textsuperscript{31}

According to the new decrees introduced in December 1988, the joint venture no longer required to obtain any outside consent in matters of hiring and firing, and the rouble incentive payments for local staffs (earlier the trade union had to be consulted). These matters were later left to the joint venture itself. Foreign employees of a joint venture were later permitted in most cases to pay their housing and other services costs in roubles.\textsuperscript{32}

Liquidation of Joint Ventures

A joint venture might be liquidated in cases and in the manner stipulated by the foundation document and also by a decision of the USSR Council of Ministers if the activities thereof were not consistent with the objectives of these documents. A notification of the liquidation of a joint venture must be published in the press. In the case of liquidation of a joint venture or upon withdrawal from it, the foreign partner was to have right to return his contribution in money or in

\textsuperscript{31} Ibid., p.18.

\textsuperscript{32} Business International, no.5, p.403.
kind to the residual balance value of his contribution at the moment of liquidation of the joint venture, after discharging his obligations to the soviet partners and third parties. The liquidation of a joint venture was to be registered with the USSR Ministry of Finance.33

Joint Ventures in India

The government of India, as a rule, permitted until 1991, when a big reforms programme was launched, foreign equity or foreign ownership upto 40 percent. This could be relaxed and might go even upto 100 percent provided the joint ventures were involved in exports or using a sophisticated technology.34

Safety of Investment

India having a democratic form of government and a modern system of justice, foreign investment was not subject to risk. Even when enterprises were nationalized in public interest, foreign concerns were not disturbed. When banks were nationalized 1969, foreign banks were not at all touched. They continue to operate even today on an expanding basis. Besides, the law provides for adequate compensation in case of nationalization.35

33 *Economicheskaya Gazeta*, no.2, p.18.
Remittances

The Government of India freely allowed the remittance of income on account of dividend and interest after payment of Indian taxes. Besides repatriation of initial capital in the original currency was also allowed after paying taxes. 36

Royalty

Royalty was generally allowed upto 5 percent on sales and was worked out on the basis of an internationally accepted formula. Higher rates of royalty going upto 8 percent were permissible on exports and products involving imports of sophisticated technology. 37

Lumpsum Fee

Lumpsum payments in addition to the recurring royalty was considered for the import of drawings, documents and other form of know-how. This was to be decided on the basis of the value of production, based on technology imported, so that lumpsum and recurring royalty, if any, were an acceptable proportion of the value of production and did not exceed 8 percent of the ex-factory value of 36 Ibid., Annexure II, p.l. 37 Ibid., Annexure II, p.l.
production during the period of agreement. These payments were subject to Indian taxes.\textsuperscript{38}

**Dividends**

Dividends were paid to the equity holders out of the total profits after allowing for taxes. Dividends on shares, whose value did not exceed Rs.0.5 million (US $ 0.04 million) or 25 percent of the issued equity capital, could be remitted without the prior approval of the Reserve Bank of India. It was only for the repatriation of dividends not covered by the above provisions on it, if any, that the approval of the Reserve Bank was necessary.\textsuperscript{39}

**Taxation**

Over the years, taxation laws have been simplified, and tax rates reduced. The effective tax rates, in fact, worked out to be much lower if the incentives and the concessions extended to the industrial units were taken into account. The basic rate of corporation tax on domestic companies was 50 percent. Dividend income derived by foreign companies on their equity investment, in Indian companies was taxed at a concessional rate of 25 percent. Income by way of royalties and technical services fees were subject to a tax rate of 30 percent.

\textsuperscript{38} *Ibid.*, Annexure II, p.l.

\textsuperscript{39} *Ibid.*, Annexure II, p.l.)
There were a number of tax incentives, which brought down the effective rate of taxation.\textsuperscript{40}

**Summary**

The rupee trade between India and the Soviet Union saw a tremendous growth in the first phase (1953-70). In the second phase, it slowed down as compared to the first phase, but it was still a healthy growth rate. This growth rate was more in value terms owing to the increase in prices than in volume terms. Problems in trade between the two countries started surfacing in 1980s, especially after 1982 onwards, because of the fall in world oil prices. The trade turnover between the two countries could increase with a very low average growth rate in 1980. In rupee trade to increase the total trade turnover, it was necessary for the Soviet Union to increase its exports to India to generate the rupee resources for the payments of its imports from India. But since the Soviet exports to India could not increase much in this phase, the Soviet imports from India also remained low, thus keeping the overall trade turnover at a low level. The problem was attempted to be tackled through ‘the technical credit’, through which the Soviet Union borrowed heavily from 1981-82 onwards.

There was a serious problem of balancing the mutual accounts in trade owing to a fall in world oil prices in 1980s. To balance the mutual accounts in

\textsuperscript{40} Ibid., Annexure II, p.1.
trade, the Soviet Union increased the share of capital goods in its exports to India, which, in turn, caused problem for India. The Soviet Union could supply good machineries and equipment in only basic industries and infrastructure, and those had already been acquired in a huge quantity in the first phase (1953-70). Moreover, by then, India had built its own capacity to produce capital goods for these sectors. Thus any further purchase for these sectors was at the expense of the country's domestic capacity. Actually, India wanted to improve its consumer sector, service sector and consumer electronics. These were the sectors in which the Soviet Union was itself not advanced enough and was keen on receiving western know-how in these fields.

In the period from 1985 onwards Indo-Soviet rupee trade declined. The main reasons for this stagnation / decline in trade were, apart from nature and pattern of trade which itself was unsustainable in the long run and structural and institutional changes taking place in USSR and India, declining importance of government sector in both the countries - which had earlier played a dominant role in trade relations, attempts at diverting exports from the rupee trade area to the general currency area by both the country and slow utilization of inter-governmental credit on the part of India.

At this point, it become imperative to devise new ways of overcoming this stagnation, and the joint venture scheme launched at the initiative of Gorbachev looked quite promising.
The joint ventures offered a series of benefits for both the countries. From the Indian point of view, the realization of economies of large scale production and low cost, which was to benefit India in the world market by increasing its competitiveness, better chances of getting better technology from the USSR and more employment opportunities for Indians especially in the labour intensive joint ventures were some of the benefit which were to accrue to India in addition to expansion of exports to the Soviet market.

From the Soviet point of view also, there were several benefits from joint ventures in general and Indo-Soviet joint ventures in particular. The benefits to the Soviet union from joint ventures in general were, besides greater satisfaction of national requirements in certain types of industrial products, raw materials and food stuffs, introduction of advanced foreign equipment and technologies, management experience, additional material and finance resources into the USSR national economy, further development of the country's export capability and the reduction of unnecessary imports.