CHAPTER III

RUSSIAN ECONOMY
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INTRODUCTION:

Following World War I, the strengthening of the democratic and anti-democratic strains accentuated the conflict between the two forces and contributed to the disintegration of the State. The Duma, i.e., the Soviet or Russian Parliament was powerful. However, the mediaevalism of the Czar was severe and monk Rasputin had a brutal command over the Czarina at that time which aggravated the situation further. In course of time, the abdication of the king was demanded and in its place a provisional government was formed, which was overthrown during what was known as "OCTOBER REVOLUTION OF 1917." This ushered in Soviet rule. Lenin did not intend any immediate widespread nationalisation of the economy. Moreover, the transition was rather very slow and carefully planned. Lenin, in fact, wanted a smooth transition from Capitalism to Socialism. He wanted to ensure that the new regions were well-guarded and protected against the spreading epidemic of economic disintegration and a possible strike of capital.

1 SCHWARTZ HARRY: "Russian revolution of 1917 came, not at the end of a long period of stagnation and decay, but rather after more than a half century of the most rapid and comprehensive economic progress." RUSSIA'S SOVIET ECONOMY, 2 Edition, Pub. by Prentice-Hall of India Private Ltd., New Delhi, 1963, page 63.

The period from 1918 to 1920 is better known as "War Communism." This cannot be called as a Civil War. This is the second phase of the revolution, when war against reactionaries, Mensheviks and White Armies was going on at railway terminal points, familiarly known as "Railway War." Actual co-ordination of the Soviet Economy during the years of War Communism seems to have been practically accomplished through the activities of the Council of Defence. It became impossible for the government to obtain the resources through the normal channels of markets. Industries starved for raw materials and people in the urban areas suffered from famine. The government began to adopt a system of compulsory requisitioning of food grains and other articles from the peasants. Some amount of coercion and duress was adopted by the centralised control of the government. This is known as State monopoly in agricultural products and the compulsory levy resembled a tax upon the peasants. The government made the distribution of manufactured goods to the rural people conditional on the delivery by each community of the full quota of produce due from each village. It was mainly on the condition of such complete deliveries that the rural communities of the republic wars given any manufactured or industrial articles. In June 1, 1918 the currency circulation reached 40.3 million roubles. On 1st January 1919 it reached 60.8 million roubles. The increase during 1918 was amounting to 119%.
After 1918 inflation proceeded at a disastrously accelerated pace multiplying three times in the course of 1919 and more than four times in 1920. In October, 1920 the purchasing power of the rouble was $1\%$ of which it was in 1917.¹ In the face of food crisis and famine, the prices soared to astronomical heights and the peasants refused to deliver the necessary supplies of grain to the urban and town population. There had been a gradual exodus to the rural areas from the towns and cities.

The industrial sector was brought under control of the Soviet government because of its urgent and immediate need to nationalise every branch of industry throughout.² Within a decade, private trading and industrial production based on the use of hired labour had been virtually wiped out. Actually new economic policy was an antidote to war communism. The temper of the people could be visualised through the early rising of the KROSTADT NAVAL REBELLION in 1921. To serve the Soviet regime the New Economic Policy was adopted and followed. Even today economists and statesmen do not see eye to eye with each other. Western Governments jeered that socialism failed. Though the protagonists were of the opinion that it was only a transitory measure. The New Economic Policy was inaugurated in 1921 and lasted until 1924. This policy aimed at

¹ POPOV A.S. : "In Economic Zhian", March 31, 1923. Published in Moscow, 1935.
an easing the peasantry and to revitalise the economy allowing the legal activities of private entrepreneur to certain limited areas and fields of economic activity. Private trade was allowed and high tax rate and embargo was fixed. State monopoly was relinquished during this period. Lenin outlined the immediate aims of the New Economic Policy as under:\(^1\)

(i) At all costs, to increase the quantity of production;

(ii) To remedy the political crisis, i.e., to remove the hostility towards the central government shown by the peasantry and industrial workers and the growing alienation between villages and towns; and

(iii) To keep all the economic power, in the hands of the State and to use them for increasing the productivity of the industries, which will secure the victory of the proletariat.

The first few years of the New Economic Policy period, however, were years of appeasement. The leaders were trying to renew the SMYCHKA or collaboration between the proletariat and the peasantry - particularly the poor and middle peasantry that had been so brutally destroyed by the grain confiscation policies of the preceding period.\(^2\)

\(^1\) Ibid: Pages 144-145

\(^2\) PANKOV A. Dr.: New Economic Policy, as representing a dual system in which elements of socialism represented by attempts to plan parts of the economy were combined with institutions typical of competitive capitalism. THE DEVELOPMENT OF SOVIET ECONOMIC SYSTEM, Page 124. Macmillan & Co., New York, 1947.
SCISSORS CRISIS:

This is a particular phenomenon that occurred during the closing period of New Economic Policy in Soviet Union. In the pre-war Russia based on 1913 Index Nos., the price Index Nos. of Agricultural prices and Industrial prices have been recorded during the first nine months in 1922:

<table>
<thead>
<tr>
<th>Month</th>
<th>Agricultural Price Index Nos.</th>
<th>Industrial Price Index Nos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913 - Base Year</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1922</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 1</td>
<td>104</td>
<td>92</td>
</tr>
<tr>
<td>February</td>
<td>105</td>
<td>82</td>
</tr>
<tr>
<td>March</td>
<td>109</td>
<td>77</td>
</tr>
<tr>
<td>April</td>
<td>111</td>
<td>74</td>
</tr>
<tr>
<td>May</td>
<td>113</td>
<td>89</td>
</tr>
<tr>
<td>June</td>
<td>106</td>
<td>82</td>
</tr>
<tr>
<td>July</td>
<td>104</td>
<td>92</td>
</tr>
<tr>
<td>August</td>
<td>100.5</td>
<td>99</td>
</tr>
<tr>
<td>September</td>
<td>94</td>
<td>112</td>
</tr>
</tbody>
</table>


This is a prelude to the enigmatic scissors crisis. At the outset, this looked as though there had been acute shortage of raw materials. When the industry was cut adrift
from centralised supplies and allowed to fend for itself in the market. The new industrial trusts immediately found themselves faced with shortage of working capital. At first this appeared as a marketing difficulty. RAS BAZARIVANIA (Improvised sales depot) has been opened. Itinerant salesmen and pedlars were engaged to market the industrial products who simply bartered the industrial goods for agricultural commodities. Even wages had been paid in terms of industrial products. Such a glut was due to sub-standard industrial production. Sugar Trust in Moscow producing 3 million poods of sugar had bartered away a substantial portion of its production with the peasants growing beet crops. Shortage of Agricultural Commodities and raw material had been the root cause of the crisis. For instance, in 1913, one arstrix (a unit) of Russian cotton piece goods could procure 4.33 lb. (Russian) of Rye flour but in May 1922, it could procure only 1.68 lb. (Russian) Rye flour. Similarly, a pair of boots in 1913 could fetch 2.83 lb. (Russian) Rye flour but in May 1922, it could fetch 1.33 lb. (Russian) Rye flour. On an average, any industrial unit could procure no more than 65% of the pre-war equivalent in Agricultural production.

This complex slowly changed since the third week of September 1922. Most of the industries could go into
the cost of working the units. A co-ordination between trade and industry was effected. Unification of shortage and purchases had been well-planned. The impact of financial economics had been well recognised. Each particular industry had started its own syndicate. A Sugar Trust, Metallic Ores Trust and other units were organised. These were known as SYNDICATES. By 1922, there were seventeen (17) syndicates covering 176 Trusts which had on its roll 54% of the total workers of 360 industrial trusts. They could utilise the markets and consumers to their advantage. Unbridled prices and artificial shortages had been adopted. Urban and suburban consumers suffered greater hardship. Prices began to shoot up to astronomical heights. This is known as the effect of SYNDICALISM. Agricultural prices were at the same prewar level when surplus agricultural products could flow into the market. Industrial products' prices in the winter of 1922 started to rise at the rate of 2:1 to agricultural prices. In the summer of 1923, it rose at the rate of 3:1 to agricultural prices.

SOVMOCOM decreased that Chervonetz note issue could be made by the State Bank on the 11th October 1922, which was inconvertible. Therefore, there were 2 unrated paper currencies one of which was strictly limited in issue and the other was responsible for inflationary trend. Both the notes began to depreciate. With the result in 1923 October
to December conditions were very precarious that the peak of boom in industrial producer's prices could be seen with the slump in agricultural prices.

The Russian Economists viewed this crisis as an outcome of syndicalist tendency which ought to have been controlled by the Government. Prof. Faletner adduced this phenomenon as a phase of monetary factor (please see the diagram in the next page).

The Government met squarely the crisis from both the sides. At first syndicalism was curbed through official pressure. The high prices had been surreptitiously written down through appropriate cost structure and nominal profit allocation. Anti-social managers of industries had been either sent to prison camps in Siberia or liquidated. Automatically industrial price index numbers came tumbling down. Peasantry had been wooed by the Government through financial help, price incentives and co-operative bulk purchases. State grain purchasing organs granted liberal credits to the agriculturists. This had the desired effect. The agricultural prices shot up. Thus the artificial assistance to agriculture and pressurised control upon industries had simultaneously been launched and both the sides of the two blades of scissors could gradually be closed.
FISCAL, FINANCIAL AND TRADE POLICIES:

As late as 1920, the rouble export or import was prohibited. Hence, all external payments or receipts between U.S.S.R., and other foreign Governments have been carried out in foreign currencies. Until 1950, when bilateral trade agreements could be effected, payments abroad could be made through U.S.A. dollar and it was used as the basis for determining the prices and aggregate value of trade. From June 1937 to March 1950, the rouble was officially valued in terms of the foreign currency by declaring 5.3 roubles equal to one dollar and then establishing rouble value in terms of a foreign currency. This rate was maintained throughout the period of the II World War. On 1st March 1950, the U.S.S.R. Government announced a new value in terms of gold for the rouble making nominally equivalent to 25 cents, i.e., 1 rouble was = $ \frac{1}{4} or 4 roubles = $ 1. This cannot be deemed to be truly backed by gold since in the Soviet Union gold trade was prohibited. This was merely used to make public announcements of foreign relations with weaker nations as exemplified by the Finnish Trade Agreement concluded in April 1948. An agreement of friendship non-aggression and mutual assistance between Finland and U.S.S.R. was concluded in Moscow on the 6th April 1948 for 10 years, extended on the 19th September 1955 to cover a period of 20 years, and extended on the 1st July 1970 to cover a further period of 20 years.

Its imports from U.S.S.R. (1970) 1376,503,000 marks and

1 New York Times Issue dated June 11, 1950
its exports to U.S.S.R. 1151,381,000 marks. Its pattern of imports from U.S.S.R.: Iron and steel, Textile yarn, fabrics, Lubricants. The exports to U.S.S.R.: Wood pulp, veneer, plywood, paper, paper boards, textile machinery apparatus, transport equipment, wood scraped and simply worked live animals and food. All financial transactions relating to foreign countries pass through the State Bank of U.S.S.R. and which has its branches throughout the world and it gets a clear financial picture of each country through its branches. When necessary to balance accounts, it can shift convertible foreign currency from one country to another. Alternatively, to reach a general balance with the rest of the world, it may export or import gold bullion or other precious metals or stones. This arrangement also permits the State Bank to act as a major central organisation over the economic relations of the U.S.S.R. with foreign countries. This is somewhat similar to the organism of her domestic economy.

The crying need for immediate take over of the foreign trade was felt. They wanted to completely avoid paying tribute money to foreign governments. By a decree of the peoples' Commissariats the international trade became government monopoly.

In 1924, the Soviet Union established diplomatic relations with U.K., Italy, Austria, Norway, Sweden, China, Denmark, Mexico, France. The First Five Year Plan for
the economic development of the Soviet Union was fulfilled ahead of the schedule.

After the opposition from Mensheviks and Kulaks had been done away with, the Soviet Government had not only established diplomatic relations with the major countries of the world but also set up trade consulates in such places, viz., Austria, China, Denmark, France, Italy, Mexico, Norway, Sweden, United Kingdom and United States of America and its foreign trade gradually expanded as seen from the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover in Million Roubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>182</td>
</tr>
<tr>
<td>1924</td>
<td>470</td>
</tr>
<tr>
<td>1925</td>
<td>1,123</td>
</tr>
<tr>
<td>1928</td>
<td>1,377</td>
</tr>
<tr>
<td>1930</td>
<td>1,640</td>
</tr>
<tr>
<td>1932</td>
<td>5,900</td>
</tr>
</tbody>
</table>


The meagre turnover in 1921 is reflected on account of fluid and unsettled internal conditions when War Communism was perpetrated by the Soviet Government in order to liquidate the opposing elements. The gradual increase from 182 million roubles in 1924 is made possible for the simple reason that
the Soviet Government had introduced the New Economic Policy allowing free trade. During this period, many syndicates were formed in metal, textiles, oil, sugar and ferrous material which could gradually develop their exports as well as imports. The turnover in 1925 has been higher by 653 million roubles and in 1928, the turnover reached 1,377 million roubles. Thus, the economic development envisaged in their First Five Year Plan had been fulfilled ahead of the time schedule. In 1930, the turnover was 1,640 million roubles. Due to Russo-Japan conflict in the matter of ownership of some islands, the trade with Japan deteriorated. Due to Fascist control of Italy, the trade with Italy also came to low ebb.

**STATEMENT OF BALANCE OF TRADE**

(in million roubles)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Turnover</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>813</td>
<td>830</td>
<td>1,643</td>
<td>- 17</td>
</tr>
<tr>
<td>1933</td>
<td>388</td>
<td>273</td>
<td>661</td>
<td>+ 115</td>
</tr>
<tr>
<td>1935</td>
<td>288</td>
<td>189</td>
<td>477</td>
<td>+ 99</td>
</tr>
</tbody>
</table>


In 1930, the balance of trade showed an adverse condition. However, during 1933, 1935, there was favourable balance or positive balance of trade. The cause for sudden decrease
in turnover is due to the Great Depression which had totally depressed the economy of the entire West Europe including United Kingdom and United States of America. During this period, the total trade with Central Europe had gone down to such an extent that it was around 1.5% of the total trade of U.S.S.R. During the Second World War, exports had declined and imports of military equipments had been made. During German invasion, once again exports declined and imports of food grains had been made. After a successful attack of Germany with Grand Allies, U.S.S.R. not only recovered her territory but also maintained and regained her image.

After the cessation of hostilities U.S.S.R. could maintain close ties with the Mongolian Peoples' Republic. Trade with Iran expanded considerably. Before the Second World War the countries of the South-East and Central Europe did not occupy an important place in the Soviet trade turnover. In 1937, the countries of East and Central Europe excluding Germany could account for 1.5% of the entire trade of U.S.S.R. After the Second World War the volume of Soviet Trade has been steadily increasing. In 1935, it was five times higher. In 1965, it increased nearly 13 fold.  

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Profound transformation in the pattern of Soviet foreign trade was noticeable during the war period as shown under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (000,000,000 roubles)</th>
<th>Imports (000,000,000 roubles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>1,331.9</td>
<td>1,432.9</td>
</tr>
<tr>
<td>1940</td>
<td>1,412.0</td>
<td>1,446.0</td>
</tr>
<tr>
<td>1942</td>
<td>399.0</td>
<td>2,756.0</td>
</tr>
<tr>
<td>1943</td>
<td>373.0</td>
<td>8,460.0</td>
</tr>
</tbody>
</table>

The remarkable transformation was due to the consequence of the tremendous military struggle inaugurated when the German forces had occupied many of the agricultural and industrial areas to the west of Moscow. Thus for foreign trade purposes, U.S.S.R. was cut off from the Continental Europe. Hence exports fell down from 1,412 to 399 and then to 373 million roubles. This has created extraordinary needs of food, medicines and consumable commodities. Thus the imports rose up from 1,446 million roubles to 2,756 millions and then to 8,460 million roubles.

Due to paucity of data a satisfactory and full picture of the growth of Soviet foreign trade is not given. Between 1946 to 1954 not even stray information is made available. The statistical officer of United Nations has compiled some data based on the reports from countries with which U.S.S.R. has been doing business.
According to A.I. Mikoyan's statement in 1949, U.S.S.R. had doubled its physical volume of foreign trade compared to previous level.

V. Nestrov observed in the course of his press conference in April 1952, that U.S.S.R.'s foreign trade had exceeded 18 billion roubles - roughly three times greater than before.

When Soviet trade was largely multilateral, financial planning was not directed at balancing Soviet expenditures in each country but rather obtaining an overall balance with the rest of the world. This effort had to take into account the difficulties raised by non-convertibility of the several foreign currencies. In post war periods bilateral balancing of annual exports and imports of Soviet trade could be noticed.

In 1949 the Council of Mutual Economic Assistance was set up. It included all the Peoples' Democracies of Europe and the Soviet Union. The Socialist countries played a very decisive role in Soviet foreign trade during the post-war period.
Soviet trade in million roubles distributed over groups of countries.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>2,925</td>
<td>5,839</td>
<td>7,782</td>
<td>10,071</td>
<td>14,598</td>
</tr>
<tr>
<td>Exports</td>
<td>1,615</td>
<td>3,084</td>
<td>3,368</td>
<td>5,005</td>
<td>7,350</td>
</tr>
<tr>
<td>Imports</td>
<td>1,023</td>
<td>3,755</td>
<td>3,914</td>
<td>5,066</td>
<td>7,248</td>
</tr>
<tr>
<td>With Socialist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>2,373</td>
<td>4,662</td>
<td>5,754</td>
<td>7,371</td>
<td>10,048</td>
</tr>
<tr>
<td>Exports</td>
<td>1,350</td>
<td>2,453</td>
<td>2,822</td>
<td>3,790</td>
<td>4,999</td>
</tr>
<tr>
<td>Imports</td>
<td>1,023</td>
<td>2,209</td>
<td>2,932</td>
<td>3,581</td>
<td>5,049</td>
</tr>
<tr>
<td>C.M.E.A. Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>1,753</td>
<td>3,267</td>
<td>4,174</td>
<td>5,469</td>
<td>8,471</td>
</tr>
<tr>
<td>Exports</td>
<td>938</td>
<td>1,722</td>
<td>2,146</td>
<td>2,881</td>
<td>4,210</td>
</tr>
<tr>
<td>Imports</td>
<td>845</td>
<td>1,545</td>
<td>2,028</td>
<td>2,588</td>
<td>4,261</td>
</tr>
<tr>
<td>Capitalist Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>553</td>
<td>1,176</td>
<td>2,028</td>
<td>2,700</td>
<td>4,549</td>
</tr>
<tr>
<td>Exports</td>
<td>265</td>
<td>630</td>
<td>1,045</td>
<td>1,213</td>
<td>2,850</td>
</tr>
<tr>
<td>Imports</td>
<td>258</td>
<td>546</td>
<td>983</td>
<td>1,485</td>
<td>2,199</td>
</tr>
<tr>
<td>Industrially</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>developed</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>440</td>
<td>904</td>
<td>1,228</td>
<td>1,917</td>
<td>2,806</td>
</tr>
<tr>
<td>Exports</td>
<td>236</td>
<td>502</td>
<td>632</td>
<td>913</td>
<td>1,841</td>
</tr>
<tr>
<td>Imports</td>
<td>204</td>
<td>402</td>
<td>591</td>
<td>1,004</td>
<td>1,485</td>
</tr>
<tr>
<td>Developing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>112</td>
<td>272</td>
<td>805</td>
<td>783</td>
<td>1,743</td>
</tr>
<tr>
<td>Exports</td>
<td>29</td>
<td>128</td>
<td>413</td>
<td>302</td>
<td>1,009</td>
</tr>
<tr>
<td>Imports</td>
<td>83</td>
<td>144</td>
<td>392</td>
<td>491</td>
<td>734</td>
</tr>
</tbody>
</table>

Soviet Union has expanded its trade relations with many industrially-developed capitalist countries. Long-term trade agreements have been signed. Soviet-Finnish trade is an illustration. U.K. is also one of the major traditional trading partners of U.S.S.R. In 1965, the volume of trade between U.S.S.R. and Great Britain was around 397 million roubles. Japan holds the third place in Soviet foreign trade. On a five-year agreement basis Soviet-French trade is being conducted. Soviet-Italian trade has increased by 3.5 times.¹

Unlike tariffs on most imports in a free enterprise society, Soviet customs duties do not play a very significant role in determining the nature and volume of foreign trade. Tariffs paid by enterprises importing goods are in reality merely bookkeeping transactions.² The tariff rates are normally very high though they are not protective as in the case of free economy. A very high rate of tariff is levied upon goods brought in by diplomatic missions, parcel posts, and luggage of foreigners visiting the Soviet Union. The Soviet system of monopoly of foreign trade is a much more effective barrier against imports of cheap foreign goods that might compete with domestic industry than any simple tariff or quota device such as is common in capitalist

¹ Italian concern Fiat has been given a big contract to build up automobile plant about 600,000 cars per annum.

² Ibid, p. 342
countries. From an accounting point of view, Soviet import tariffs may help equalise the cost of foreign commodities with the cost of these made domestically.

The tariff rates more or less remain the same since 1937. There are four varieties of rates applicable as under: The first and presumably the most important group at that time covered all imports and exports from Western Europe and overseas countries. The second group consists of special preferential rates established for trade with Eastern countries through the Caspian Sea ports and also over the land border of the U.S.S.R. from the Black Sea eastward covering goods from Turkey, Iran, Afghanistan, Mongolia and Sinkiang. The third group of special tariffs was established for certain basic goods produced in Afghanistan and sent from there. A special fourth group of differential tariffs existed for goods brought in through the port of Muramansk.

The major group of tariffs, presumably applicable to the first group of countries indicated above consisted of some basic group rate imports of foods were either duty free or taxed at very low rates at fixed amount per unit of weight. Livestock entered duty-free, but livestock products were taxed at differential rates, ranging from 50% of price for animal fats to 1 to 15% for leather and related products. Lumber entered duty free, but furniture of every kind paid a duty of 10 roubles per kilogram.
Other wood products were taxed at a rate of 150%, graphite 100%, aspirin 100%, raw rubber 100%. Metallic ores of all kinds were duty free but iron and steel were taxed at 50%, tin 10%, lead and zinc 60%. Gold, silver and platinum were duty free; optical and medical instruments at 200%, Cotton and Cotton Wool were taxed at 20%, raw wood at 30%, yarns and threads at 100% to 200%, haberdashery materials at 400%, precious stones at 400% roubles per kilo, women's shoes at 150 to 200 roubles per kilo. Customs duties are a relatively small source to Soviet Government.

Many subtle and intricate problems arose in foreign trade operations in U.S.S.R. Countries were eager to have trade agreements with U.S.S.R. in order to enjoy the Most Favoured Nations clause (MFN) treatment as well as the elimination of discriminatory rates. When any two countries come to an understanding and enter into a trade agreement means, to that extent, they are surrendering their prerogative to charge any rate of tariff and customs duties, etc. Suppose, tariff concessions are extended to U.S.S.R., naturally the exporting country would reduce these duties. The foreign import country would naturally render such concessions to their private importers. Let us suppose U.S.S.R. quoted 1,000 roubles for a commodity under such an agreement whereas it would be 1,250 in the other market (without agreement). The concession of 250 roubles would be
enjoyed by the private foreign importers of the importing country. When the Foreign Trade Organisations of U.S.S.R. import from the countries under the agreement, such a reduction may go into the hands of the foreign trade organisations but such concessions need not be passed on to the several syndicates which may import through these organisations. That is why it can be stated that the Soviet Tariff Reduction need not have corresponding influence upon the other contracting nations' exports to U.S.S.R. According to Alexander Gerschenkran, the Soviet Union had to save more in order to meet her obligations than she would have done if she had bought all commodities in the cheapest markets.

TRADE ORGANISATIONS:

The foreign trade organisations are formed by the U.S.S.R. Government in a pyramidal form. At the apex is the Ministry of Foreign Trade. It has got direct control over all the activities and exercises, viz., general planning, administrative and co-ordinating functions. It negotiates international trade agreements and other economic pacts with foreign nations, prepares the foreign trade plan annually and quarterly in terms of amounts and kinds of commodities; countries of sale and purchases and financial balances, arranges for credits to be obtained from or given abroad, supervise the administration of Soviet customers, directs and co-ordinates the activities of procurement and sales organisations in the Soviet Union. A member of the Council of
Ministers is the head of the Ministry known as Minister for Foreign Trade. This is subordinated to the Presidium. Before any programme of work is to be carried out, it must be approved by the Government.

**ORGANISATIONAL FRAME WORK:**

Since early years U.S.S.R. had reserved all foreign trade dealings to State organs. After a period of experiment Trade Corporations had been set up which specialised in the export and/or import of particular commodities under the general control of Ministry of Foreign Trade. These are autonomous ones. Import requirements and exportable surplus are made known to these corporations by COSPLAN and other internal economic agencies. There are nearly two dozen institutions:

**AMTORG: This is a commercial organisation formed under the laws of the State of New York. Margold has given a brief account of the functioning of this institution. The trade delegation throughout the U.S.A. is undertaken by the Amtorg. All its stock is however, owned by the Bank of Foreign Trade in Moscow. In fact specialists happen to be the personnel of Amtorg. They are also the representatives of various export and import organisations and several other economic ministries of foreign trade. Incidentally the parallel can be drawn between the various trade organisations of U.S.S.R. and the State Trading Corporation as well as

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Minerals and Metals Trading Corporation started on these lines in India.

**EXPORTELS**: This organisation sells timber to all foreign countries.

**EXORTKLES**: This organisation imports wheat, rye, barley, oats, maize, rice, pulses, oil cakes and meals, and all agricultural materials as well as other grains and fodder prices.

**EXPORTJON**: Raw wool, raw jute, cotton, raw silk and silk wastes, woollen and silk fabrics, sewing threads, rope and string goods, artificial silk yarn, staple fibre, fishing nets and jute manufactures are imported through this agency.

**INTRUST**: This is a travel agency owned by the Soviet Government. All travel agreements inside U.S.S.R. are being undertaken by this institutions.

**MACHINOIMPORT**: They import power equipment, electro-technical equipment, oil-mining equipment, pumps, compressors, hoisting and transporting equipment, industrial fittings, also import railway rolling stocks.

**MEDIIMPORT**: They import medicines, raw material for medicines and medical instruments.

**MEZHДUNARODNAYA**: They import books and publications, stamps, gramophone records, etc.

**MEZHДUNARODNAYA KNIGA**: 'Kniga' in Russian means books. This institution exports Soviet publications and stamps.
Import of foreign publications is being undertaken by this agency.

**PRODINTORG:** They import and export all types of food products and live animals (imports from India; tea, coffee, spices, black pepper and cardamom only) cashewkernels, vegetable oils including castor oil and live animals like monkeys.

**PRIMASHEXPORT:** A Soviet foreign trade organisation exporting complete plant and equipment and rendering technical assistance in the construction of engineering, chemical and food industry enterprises as well as communication facilities abroad. Undertakes all kinds of work involved in the construction of industrial projects and installations abroad including prospecting and collection of initial data for projecting, carrying out designing work, delivering complete plant and equipment and building materials, rendering technical assistance in the construction of installation, assembly and adjustment of equipment as well as commissioning of industrial enterprises. To carry out designing and exploratory work employs the services of more than seventy Soviet designing organisations, including major designing institutes, specialized designing bureaux and leading research centres staffed with the most experienced experts. Sends out skilled Soviet specialists for rendering technical assistance on the spot. In addition v/o “Prommasheexport” sponsors the vocational training of local personnel through instruction given in the clients' countries or at Soviet industrial plants.
PRONSYRT IMPORT: They import cast iron and ferro-alloys steel, ingot, forgings, blooms, rolled steel special and high grade steel, steel pipes strips, wires and ropes and industrial hardware.

RAZMO EXPORT: They import hides and skins, leather manufactures, including shoes, tobacco and its products, mica, hosiery and knitted wear, sports goods, handicraft products, cement, domestic appliances like refrigerators and sewing machines.

RAZNO IMPORT: They import non-ferrous metals and alloys and rolled products, ores and concentrates of non-ferrous metals, natural and synthetic rubber cable products, cork and products thereof, tyres for automobiles and agriculture machines, linoleum and technical rubber products.

SOJUZCHIM EXPORT: They import shellac, essential oils, various chemicals like caustic soda, dye-stuffs, raw films, perfumery, cosmetics, etc.

SOJUZ PROM EXPORT: They import manganese, chrome and iron ores, non-metal minerals, asbestos and products, coal coke, coal tar, etc., mineral fertilisers, precious metals and stones, electrodes, anode compound and refractory products.

SOJUZ PUSHNINA: They import carpets, furs and caracul raw, dyed and dressed bristles, horse hair and other animal hair.

SOVESPORTFILM: They import feature films and documentaries.
SOVFRAKHT: They handle Soviet and foreign sea and river tonnage chartering for shipment of Soviet export and import cargoes, also of foreign cargoes to all destinations, undertake agency work in connection with forwarding of cargoe by all means of transport, also loading and unloading warehousing insurance and other agency work in connection with transhipment of cargo at land and sea border stations, organise transit of cargoes over the territory of the U.S.S.R.

SOVZUNESHTRANS: This is a foreign trade services organisation which handles transport of commodities by all means of transport as well as loading, storage, insurance and custom clearing of all goods entering foreign trade.

STANKIMPORT: They import metal cutting and wood working machinery, rolling mills and foundry equipment, ball and roller bearings, hard alloys abrasives, machine tools in general and cameras, motion pictures equipment and accessories.

TECHMASHIMPORT: They import equipment and machines for the chemical rubber and cellulose and paper-making industries, equipment for the manufacture of artificial and synthetic materials and fibres, for the sugar, alcohol and soap manufacturing industries as well as refrigerating equipment for industry and trade, equipment for the manufacture of organ therapeutical compounds and also for the chemical pharmaceutical industry.
TECHNOPROMIMPORT: They import technological equipment for the food industry, for the manufacture of cable products for the tanning, shoe and textile industries for the printing and publishing industry, for the production of building materials as well as equipment for the manufacture of vacuum articles, electric meters, radio meters, control of optical and medical instruments, communication equipment.

AID PROGRAMMES:

The several programmes have been chalked out as Friendship projects by the U.S.S.R. In fact after the death of Stalin and that the Indo-Soviet relations entered their active sphere. Mr. K.P.S. Menon, the then Ambassador to U.S.S.R. has pointed out in his article "Best example of peaceful and fruitful co-existence" - that in 1952, the value of out-turn of trade was only 30 million rupees. By 1961 it reached 1,000 million rupees mark. The various aid projects are enlisted below:

AGRICULTURE: Suratgarh Central Mechanised Farm; August 15, 1956.
               Jetsar Control Mechanized Farm, 1964.

ENGINEERING: Ranchi Heavy Machinery Plant, 30,000 tons, 1957.
               Durgapur Coal Mining Machinery Plant,
               45,000 tons, 1957
               Korba Central Electrical and Mechanical Workshop; 1957

1 Trade with East Europe - Directorate of Commercial Publicity, Ministry of International Trade, New Delhi, Appendix III, P. 23.

Hardwar Heavy Electrical and Mechanical Workshop; Feb. 2, 1960.

Kotah Precision Instruments Plants; 1960.


MINES:

Manipur Open Cast Mine - 1 m. tons; 1964.

Korba Coal Mines - 1.7 m. tons; 1964.

Kathar Coal Washery - 3 m. tons; 1964.

OIL:

Borauini Oil Refinery with capacity of 3 million tons; Agreement signed on 26-12-1959.

Ankleshwar Oil Field; Cambay Gas Field; 1960.

Koyali Oil Refinery with capacity of 3 million tons; 1963.

Prospecting of oil and gas in Gujarat, Madras, Bihar, Assam, Punjab, and off-shore seismic survey for oil; 1965.

PHARMACEUTICAL: Rishikesh Antibiotics Plant (300 tons), 1959.

Hyderabad Synthetic Chemico-Pharmaceutical Plant (850 tons), 1962.

Durgapur Ophthalmic Lens Factory (300 tons), 1962.

Madras Surgical Instruments Plant (2.5 million tons), 1965.

POWER:

Thermal Power Stations at Neyveli (400 m.w.), Korba (200 m.w.), Obra (250 m.w.), Patratu (400 m.w.), Harduaganj (100 m.w.), 1957.

Hydro-electric power stations at Bhokaro Right (600 m.w.); 1957.

Hirakud (250 m.w.), Mettur (200 m.w.), Balimala (360 m.w.), 1957.
STEEL: Bhilai Steel Plant with a capacity of 1 million tons per annum under expansion to 2.5 million tons of steel per year. Year of agreement 1955.

Bokaro Steel Plant - 1.5 to 2.0 million tons per annum; Year of agreement 1965.

TRAINING: Indian Institute of Technology, Bombay1; Year of agreement December 12, 1958.

As indicated in the Introduction, Indo-Soviet Trade is an integral part of Aid programme. Right from the installation of Bhilai Steel Plant in 1955, U.S.S.R. has been helping India in various ramifications of industry. Many industries which India could not imagine to build up of her own have been started with the technical co-operation and co-ordination of U.S.S.R. Hitherto uncared for Thar Desert has begun to bloom with rich crops in the areas of Suratgarh and Jaisalmar Farms. The break through in the field of engineering is really marvellous. Lakhs and lakhs of personnel being trained by the Soviet Engineers to bring out precision tools and equipments. The Heavy Boiler Plant has been a sine qua non, which is showing profit since two years.

Prof. Kalinin can be remembered by the posterity as he had been the pioneer to strike oil in India though two decades back it was considered to be a very costly and vain proposition by the then Finance Minister. The steel from Bhilai and Bokaro has not only flooded the Indian market but also the Soviet Market. The thermal power plants

constructed with the Soviet Aid have to some extent mitigated our power crisis. Despite criticism from a section of the Press, the projects have been carried out according to time schedule. Some of them have blossomed forth as profitable venture. Where antipathy is expressed, the Soviet Union imports such manufactures done with Russian aid.

**INDO-SOVIEK TRADE AGREEMENTS:**

Soviet Indian relations are based on mutual advantage and equality. Trade is thoroughly balanced, and all settlements are made in Rupee currency. India pays for the commodities she receives from the U.S.S.R. with deliveries of her traditional export goods.

Up to 1953, trade exchange agreements played an important role in Soviet Indian trade. This agreement, being the first one, has been termed as Trade Exchange agreement as it is like any other Western European Country's agreement. It means India could carry on trade operations on the basis of parity between the Soviet Rouble and the Indian Rupee linked to the Pound Sterling. Further settlement of mutual indebtedness on account of trade would be made in terms of Pound Sterling both ways. As it was anticipated that in future exchange difficulties may arise, it has been discontinued in subsequent agreements and Rupee Payment Agreement has been entered into between Soviet Union and India. The later agreements have been named as Rupee Payment Agreement.
Subsequently trade relations were based on long-term bilateral agreements which created the necessary pre-requisites for a steady growth of trade between the two countries and helped to improve the pattern of the trade turnover.

An important landmark in the development of Soviet-Indian economic relations was the first five year trade agreement signed on December 2, 1953 and an agreement of February 2, 1955 on the construction of the iron and steel plant in Bhilai. A specific feature of these agreements was the substantial increase in the deliveries of Soviet industrial equipment which helped India to accelerate her industrialisation programme. The delivery of oil products, ferrous and non-ferrous metals, fertilisers, paper and other commodities badly needed by India also grew rapidly. At the same time, the supply to the U.S.S.R. of India's traditional export goods increased substantially.

Under the first trade agreement, the turnover between the two countries sharply increased, reaching a total of 162.8 million roubles in 1958. The signing of the second trade agreement on November 16, 1968, became instrumental in further increasing the trade turnover between the two countries. Toward the end of the period covered by that agreement the mutual trade turnover reached 285 million roubles.

The agreement on regular marine communications between
ports of the U.S.S.R. and India, signed in April 6, 1956 was a step towards further developing economic co-operation and expanding trade between the two countries. The ships of the two countries were granted most-favoured-nation treatment within the legislation of the U.S.S.R. and India.

The Third Five-Year trade agreement came into force as on January 1, 1964. It led to a further increase in trade and a wider range of goods.

The striving for a further expansion of trade between the U.S.S.R. and India led to an exchange of letters between government delegations of the two countries extending the trade agreement up to the end of 1970 which was officially ratified on January 7, 1966 in Delhi. The countries established yearly quotas for their 1966-70 commodity exchange, which will be double through the volume of trade in 1964 by the end of the five year period.

In addition to the new long-term trade agreement, the U.S.S.R. and India signed a protocol granting commercial credits to Indian firms and organisation. Soviet foreign trade organisations agreed to sell Soviet equipment and machinery to Indian firms for payment by instalments over a period of eight to ten years. The delivery date is taken as the date on which the credit becomes available effectively.

In 1967, an agreement was signed between the two countries on the delivery by India to the U.S.S.R. of 100,000 tons of rolled ferrous stock. In February 1968, they signed
a three-year agreement on the delivery of 600,000 tons of Indian Steel to the Soviet Union.

Soviet foreign trade organisations are major buyers of Indian traditional goods. In 1966-67, the Soviet Union's share in India's export amounted to 12.7% for jute articles, 67.9% for woollen knitwear, 84.3% for some important types of clothes, 47.1% for footwear. Recently there has been a steep increase in Soviet imports of Indian leather footwear and other consumer goods. The Soviet Union imported 558,000 pairs of Indian shoes in 1957, over 1.5 million pairs in 1966. In 1966, the Soviet Union purchased from India 19,000 storage batteries, 27 million metres of Cotton fabrics, 255,000 metres of woollen fabrics and many other goods.

The successful development of Soviet-Indian trade meets the interests of both the countries. The new protocol agreement on mutual goods deliveries for 1968 provides for an increase in the trade turnover of the two countries. Both sides will look for new ways of cooperating in the commercial and economic fields.

CONSTRAINTS:

The first problem that arises concerns calculating the profitability of trade. This is rendered very largely impracticable by the divorce between internal and world prices, as well as between the internal prices of the Soviet Union and those of other countries in the Soviet Group.
The official exchange rate had been impracticable and unrealistic. A French Delegation compared the prices of Soviet Chemicals with those prevailing in France and they took as basis an exchange rate of 50 old francs = 1 old rouble (which would be the equivalent of about 28 (old) roubles to £1, or 10 (old) roubles = $1). Sulphuric Acid at this rate is three and a half time dearer in U.S.S.R. than in France but Caustic soda is one and a half times dearer in France than in U.S.S.R.¹

Superimposed to the wholesale prices is the Turnover Tax which adds heavier burden and complicates the problem of comparison further.

Soviet prices do not reflect the real cost, or the relative scarcity and hence they are not true guide to trade. For instance, a 'Cheap' commodity which in terms of price comparison seems eminently exportable may actually be in short supply and need to be imported.

Following the above arguments, calculation of comparative cost as well as advantage thereof runs into most serious obstacles. But in practice these calculations are seldom made at all in U.S.S.R.

Soviet trade deals are very often bilateral in character. This bilateralism stems from two factors; one is that quantitative exchange, a species of barter, lends itself far

more easily to two way arrangements, the other is that planning operates for more smoothly if both the prospective imports and the prospective exports are integrated in the plan; an element of untidiness may be introduced to some other participating country. Suppose that some other participating country is a trading partner earning a surplus profit, this profit is transferred to another country making an unexpected demand for goods and those goods already demanded by the other country may be earmarked for some other purposes in their plan.

Quantitative trading at world prices unrelated to domestic costs is the present order of things taking place in U.S.S.R. The present system can permit sales or purchases to be made which are inherently unprofitable.

The fact that exchanges take place at present at 'capitalist' market prices is a recognition that criteria must be found outside the 'Socialist' system. Indeed, one Eastern official jokingly said — in private — that after the world revolution, it would be necessary to preserve one capitalist country; otherwise how would we know at what prices to trade?

Another by-product of the monopolising of trade by specialized corporations. These corporations stand in the way of direct contact between Soviet exporter and the customer, the Soviet importer and his supplier which makes clumsiness, delays, difficulties over precise specifications
etc., on which it is hardly necessary for further exposition; these have caused much criticism in Czechoslovakia and Hungary, among others and one imagines there must be a good deal of grumbling in the U.S.S.R. too.

The Ministry of Foreign trade has to channel all trade contacts through their own hands, even where, on general grounds, direct contract between firm and firm was desirable. Quite recently, the expanding levels of trade with the countries of Soviet Union and with many other countries too, has placed heavier burdens on the system; so that major reforms of organisation, of prices, and some development in the still primitive theory of International trade can hardly be very long delayed.

Problems like discrimination, most favoured nation clauses, alleged dumping, the relationship between trade and aid and politics are all fully imoosed in trade with non-Soviet Countries.²

According to Dr. H. Mender Shausen, the actual prices at which trade within the Soviet Union takes place favour the U.S.S.R. ³

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¹ B. BALÁSSA - For Hungary, see his article 'The Hungarian Experience of Economic Planning' (Yale University Press, 1959).

² O. BOGDANOV: "It is therefore not surprising to learn that a study of criteria of relating economic effectiveness of production in different countries has been launched by COMECON, which has set up a committee for that purpose. VOPROSY EKONOMIKI, No. 1/1960, Moscow, Page 17.

³ For a detailed discussion, please refer to TRADE WITH COMMUNIST COUNTRIES (Hutchinson) 1960, Pages 31-44 (Alec Nove and Dr. Domoly)
CONCLUSION:

The great revolution in U.S.S.R. brought in meteoric changes and developments. A controlled capitalism or a directed capitalism steered by such measures of economic control as adopted by belligerent governments had been followed. Vashenko, the Supreme Economic Council was formed by a decree on the 5th December 1917. Banking business had become a State monopoly. The most prominent feature of State monopoly was Foreign trade. By a decree on the 22nd April 1918, foreign trade organisations had been created. Money lost much of its significance and particularly in the matter of exchange and economic calculation. The Red Army had to be fully kept in vigilance in order to fight against White Armies, Mensheviks and vested interest who were mostly foreigners. Shortages of food, and consumer goods, the arbitrary and often brutal requisitioning techniques, and the confused economic administration had their inevitable effect. This period is known as "WAR COMMUNISM". In the cities industrial discipline declined, while absenteeism strikes and even anti-Soviet sentiment was paraded. To appease the peasantry, and thereby revitalize the economy of the country, legal permission of private entrepreneurship was tolerated under the new policy known as NEW ECONOMIC POLICY. This in fact inspired mixed economy in which the State held firmly to the commanding heights through its continued control larger industry, the credit
and banking machinery, transport and all foreign trade. Within a decade of its creation, it was not encouraged and gradually the private enterprise lost its control and was totally effaced from the country. The "terms of trade" had shifted violently against the rural population.

The industrial goods were far more costly than the agricultural goods. The wide cleftage between prices is known as 'SCISSORS CRISIS'. By the time three five year plans were being strictly followed, there had been the German invasion resulting in the evacuation of Moscow and other industrial cities of the West. It should be remembered that as early as last years of New Economic Policy, the rouble had become an entirely an internal currency; its export from and import into the U.S.S.R., were equally prohibited. Its exchange value of the foreign currencies was fixed by the State Bank of the U.S.S.R. The State Bank has a 'Vaulta Monopoly', i.e., apart from the exclusive right of dealing throughout the territory, it also has the monopoly of all transactions in foreign currency, in all commercial paper denominated in foreign currency (bills of exchange, cheques, foreign money orders, etc.) and foreign securities (shares, bonds, coupons, etc.) The rate of exchange of foreign currency is based on the exchange bulletin. This is a technical device for computing foreign trade turnover and settlement in foreign currencies. In the case of some foreign currency like Pound
Sterling and Dollar, the rate is calculated through the parity of gold. There are nearly two dozen corporations, some specialising on imports and some on exports, but mostly on both. These are autonomous ones acting as intermediaries. No other ordinary Soviet Enterprise has the right to import or export save through one of the above corporations. Since 1950 onwards, U.S.S.R. has shown a very abiding interest in rendering economic aid to India to rebuild her economy. The trade plan is dovetailed to the Aid Programme. Despite constraints, India is able to forge ahead through the Special instrument known as Five Year Protocol Agreements. In the following Chapter, a detailed survey analysis and explanation is offered about these agreements.