CHAPTER - VII

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PROBLEMS OF INDIA'S TRADE WITH SOCIALIST COUNTRIES

Having assessed the gains flowing to India from trade relations with socialist countries, one could feel convinced that such a trade serves the desired purpose. Nevertheless, there may be some aspects which might pose problems for which solutions would need to be suggested. Moreover, sometimes certain difficulties were said to have been experienced in the process of promoting Indo-East European trade. These problems and difficulties are enumerated as under.

Problems

The infra-structural deficiencies and distortions revolved in the country in such a manner that unless plans and projects are undertaken promptly and executed within the next five years or less, whatever marketing efforts may be undertaken, the same will be of no use. As regards the other drawback, viz. technology created by (a) the apathetic attitude of Indian industry and industrialist to undertake and support substantive R. and D. Programmes and (b) the lack of adequate
infusion of the latest imported technologies due to the Government's continued stringent terms and unrealistic attitude towards foreign investments and foreign collaborations.*

India will have to reckon with the increasing resort to protectionist measures, most of them by the developed countries. The bewildering rush to protectionist measures is astonishing, viz. the price-trigger mechanism imposed by the U.S.A. already affected exports of several steel-based items of India.

India unfortunately did not take adequate advantage of the political leverage and the ability to supply many consumer and capital goods that East European countries procure from the West.

India's trade relations with socialist countries grew on an ad-hoc basis. The growth of relations is drawn up by international clash of policy and pre-determined implemental action on the part of self-willed national governments.@

India faced the disturbances, like commodity export boom and subsequent collapse, the large rise in the price of petroleum, the collapse of international

@ Falke - India's Trade with Developing World, Ex. Imp. Times, p.57, January 1980.
monetary system, the international food crisis and the cycle of boom and recession with persistent inflation in the developed market economies.

The inconvertibility of East-European currencies stems from (a) balance of payments pressures and a shortage of foreign exchange and (b) the need to safeguard the integrity of national plans.*

India faced the following problems:
(a) Limited foreign exchange earnings which fall short of import needs;
(b) Instability in her foreign exchange earnings renders the economic development programmes unstable, thus jeopardising the rate of growth of her economies and diversification as a result of fluctuations in price and volume of her major export;
(c) Bulk of export earnings were mainly used for aid repayments leaving only a small portion of the earnings for developmental process; and
(d) The latest monetary developments, like Petro-Dollar, Euro-Dollar system, in world trade also added new dimensions to these problems.@

@Sumitra Chisti - Bilateral Trade & Payments Agreements, Foreign Trade Review, 1979.
Problem of Multilateralisation

So it is not easy to go multilateral with the socialist countries and also sustain the level of trade without a harmonious use of the various methods of trading with them. In fact a large number of trade contracts with Eastern Europe by the West have shown that all payments in hard currency are not at all encouraged by these countries even today. They take recourse to seek counter purchase system of compensatory arrangement. It is always desirable for India to liberalise the payment arrangements on the general level. India must be in a position to strive for such counter purchase while dealing with Eastern Europe. If the level of trade has to be sustained and increased, a sudden change in this would surely affect India's exports as well as other aspects, viz. employment and pricing.

It was felt that it was not in India's interest to continue the Rupee trade system with the East European countries, because it created difficulties in balancing the trade. The problem would magnify when in future India simply would not require the items which these countries had been supplying for some time.

It has been noted that a number of trade agreements were entered into between India and East European countries. But the problem of Rupee-Rouble exchange rate
posed a ticklish problem. The problem became more complicated when East European countries, particularly U.S.S.R., revised the Rupee-Rouble unilaterally.*

The tariff and non-tariff policies of Western countries were inimical to increase exports of manufactures and remunerative prices to the primary export items from developing countries. This posed a problem as to how to distribute India's exports between East European countries and market economies. It also resulted in revising the estimates of growth rates in India's trade.

The aid received from socialist countries has tied with specific projects and was obtained only in the form of goods and services. But the actual implementation of the socialist countries' aid created problems, like tardy utilisation. The failure of utilisation was due to the fact that the aid was channelled into public investment with high technology and experienced large number of difficulties in planning. Tied aid might check the re-production of fixed capital and might adversely affect the strategy of import substitution adopted by developing countries. The


@Paramit Chaudhury - East European Aid to India, Economic Relations Between Socialist Countries and the Third World, page 150.
heavy reliance on aid and foreign private investments bound India's industrial growth to the economy of her most powerful creditors and this prevented India from not taking advantage of the competition between the imperialist countries. The global environment posed a challenge to the developing countries like India. The market forces obstructed the flow of necessary technology to developing countries as the important technology was controlled by trans-national corporations and if at all the transmission took place, the countries like India had to pay a very high price. The gains of the Indian economy could derive from the improved technology of the M.N.C.s. were minimised on various counts. Heavy charges for technology accompanied by huge imports as a part of the transfer of technology arrangement had an adverse impact on the balance of payments and thwarted thereby the pace of economic development in the country. India does not expect a significant contribution of the M.N.C.s. to the employment position in the country.

Lack of infra-structural facilities, including trained man-power, the lack of sufficiently well developed scientific and technical capacity to permit assimilation of technology, inadequate dissemination of information due to the absence of a specialised information service, insufficient local data for the feasibility studies, bias against the import of technology and dissimilarity of
technical standards could be the difficulties in the transfer of technologies from socialist countries to developing countries like India.*

A necessary aspect of foreign trade is shipping arrangement. The shipping conferences created difficulties due to ever-rising freight rates and poor standards of shipping services.

Due to different economic and social systems, the trade and economic co-operation between India and socialist countries were apprehended to be hampered because in the socialist countries, the negotiating parties are the Governments and their institutions whereas on the other hand the parties from developing countries are either private or state institutions.

Lack of adequate information could also be an important constraint on the growth of trade and economic relations between the socialist countries and India.

Trade exchanges sometimes developed certain rigidities in terms of volume, rate of growth and diversification due to non-availability of certain basic inputs.

Export diversification was not as high as it was expected. This was also true of the composition

of India's exports to the U.S.S.R.*

The question of exports to East European countries required a satisfactory solution. The increase in 'Switch Transactions' by which India's exports had been diverted from these countries to convertible currency areas aggravated the situation. Exports of traditional goods to these markets would weaken India's hold on the convertible currency areas. In view of the limited capacity of the East European countries, the switch transactions might be encouraged which might prove detrimental to India's exports to convertible currency areas.

Imports of non-ferrous metals from the East European countries in general and from U.S.S.R. and Yugoslavia in particular, had not yet been adequate while these countries are very well endowed with such items.

Thus in main, the difficulties and problems experienced in the course of Indo-East European trade were meagre investment in research and development by India's private sector, non-utilisation of political leverage, non-convertibility of East European currencies, inadequacy of foreign exchange earnings, growing tendency

for adoption of multilateralisation in socialist countries, rigidity in exchange rate, inflexibility of tied-aid, communication gap, at times non-availability of basic inputs, limited diversification, switch transactions, etc.

In the following concluding chapter, certain suggestions have been presented with a view to highlighting the direction and the line of action which might help in removing the problems and to provide the Indo-East European trade a sound footing to build the destiny of India.