CHAPTER- V

INDO-SOVIET TRADE- 1985-91

Gorbachev's regime can be divided into two phases: first phase that was between 1985 and 1988 and the second phase was from 1989 and upto the disintegration of the Soviet Union. Perestroika was introduced in the first phase.'Perestroika' literally means reconstruction; and 'Glasnost' means openness. Perestroika could not be implemented without Glasnost. Democracy and Glasnost are regarded as the most significant result of Perestroika. Glasnost achieved a very important thing - it has emancipated man spiritually. It has returned self-respect to him. When Mikhail Gorbachev became the General Secretary of the Communist Party of the Soviet Union in March 1985, the Soviet economy was already stagnated under the leadership of Brezhnev. In these circumstances, Perestroika and Glasnost were meant to reconstruct the stagnant Soviet economy. In order to accelerate the development of the economy and to release the full potential for development inherent in the system of socialism, Gorbachev gave slogan of Glasnost and Perestroika. Gorbachev believed that if the citizens were allowed to criticize the low-ranking officials for their inefficiency and corruption, the stumbling block to rapid economic development could be spotted and removed.

At the very initial period, Gorbachev's doctrine was meant for the reconstruction of the Soviet economy, but ultimately, Perestroika and Glasnost were used for political purposes. While explaining Perestroika and Glasnost, Gorbachev said[1], "We need not fear openly raising and solving difficult problems of social development, criticizing and arguing. It is in such circumstances, the truth is born and that correct decisions take shape". During Perestroika, the Soviet Union was inclined towards the west in general and the United States in particular. In this period, Gorbachev held many summit meetings with President Reagan and concluded a good number of disarmament agreements. On the other hand, a good number of communist countries in Eastern Europe, e.g. East Germany, Poland, Hungary, Czechoslovakia, Rumania, Yugoslavia, Bulgaria were influenced by Perestroika and staged a revolt against their own communist rulers. All these developments affected the Indo-Soviet relations. With this background, trade relation between these two countries during the era of Perestroika will be discussed. Former prime minister late Rajiv Gandhi signed two agreements during his visit to the Soviet Union in May, 1985. The first agreement was a guideline of Indo-Soviet economic, trade, scientific and technical cooperation for the period 1986-2000 and the second agreement was on economic and technical cooperation for 1986-90. These two agreements - one was short-term and another was long-term - were mainly designed for strengthening economic ties between the two countries. With the signing of these two agreements, the Soviet Union offered one billion rouble(Rs. 1,160 crores) credit to India for the promotion of Indo-Soviet economic cooperation and trade. The Soviet leaders wanted to achieve several important objectives by offering this credit. India's desire to get more crude oil and petroleum products from the Soviet Union was turned down by the Soviet authority with this credit offer as the Soviets preferred to sell more of the same to the West in order to boost their hard currency earnings[2]. Gidadhubli[3] pointed out that a limit had been reached on the Soviet side for exporting oil, oil products, and industrial raw materials. So,Gorbachev might have indicated to Rajiv Gandhi his country's inability to increase exports of oil and oil products beyond the level 3 to 3.5 million tonnes, which constituted about 70 percent of Soviet exports to India in 1983-84 . In contrast to this, the Soviet export of engineering goods to India was only one percent of their total exports to India. In fact, in the first part of 1980s, the volume of imports of engineering goods by the USSR from India was much larger than exports of this category of goods to India. So Gorbachev tried to correct this situation and also the imbalance in the export trade structure by offering this huge credit with which India could import Soviet machinery and equipment. Gorbachev intended to achieve simultaneously two objectives: diversification of export trade and growth of trade volume.

It was viewed that the two-way trade declined over level of the previous year and shortage of rupee resources was crucial in the curtailment of imports from India which affected many Indian exporters. The shock of 1983 (shown in Table-II) had created psychologically destabilising effect on the Indian export. The Soviets rightly apprehended that any such shock for the second time might have affected the growth of Indo-Soviet trade. With a view to retaining long-cultivated market and to ensuring further growth, the USSR offered this big amount of credit which were automatically repaid in terms of a variety of consumer and industrial goods to the Soviet Union . The repayment of this credit was to be done in Indian rupees. The Soviet policy makers had a vested interest in retaining rupee-trade system with India. Because, they knew that their sale of defence equipment as well as industrial machinery to India would not be smooth and secure under hard currency arrangement. Over and above, the Soviet Union did not like to close the institution of rupee trade which they created and built up. The Soviet Union also wanted to explore the Indian private sector as a potential large scale buyer of their technology and capital goods. An indication of this seemed to be conveyed in the agreement in which it was stated that "the terms of the credit agreement are flexible"[4].

There was another motive behind this billion rouble credit. Gorbachev was aware of Rajiv's interest in western hi-tech products which the USSR was not in a position to supply. So in order to make the ground gained by them in India's economy in tact, the Soviet leaders decided to offer this big volume of credit to India. And 350 million roubles out of the total credit were earmarked for expansion of the oil industry in India.

The seventh Indo-Soviet trade agreement was signed in December,1985 for the period 1986-90 with a target of doubling of the 1981-85 turnover. Addressing the members of the Bombay Chamber of Commerce and Industry(BCCI), Dr.Pavlov[5],former head of the department of Foreign Trade Ministry,USSR, referred this Indo-Soviet trade agreement covering the period of India's Seventh Five-Year Plan and the Soviet Union's 12th Five-Year Plan which envisaged expanding cooperation between the two countries in areas such as power industry, joint projects, coal production, oil production and productivity growth at Bhilai and Bokaro steel plants.

It was clearly stated in the Annual Report for the year 1986-87 of the Ministry of Commerce that India's trade relations with some of the East European countries including the USSR were conducted on the basis of bilateral clearing arrangements envisaging balanced trade in non-convertible Indian rupees. During 1985-86, India's exports to the USSR increased by 3.1 percent, whereas imports fell by 6.4 percent as compared to 1984-85. Export to the USSR at Rs.1485.77 crores during April-December,1986 were marginally higher by 0.57 percent as compared to the level of exports in the corresponding period of the previous year, whereas the imports from the USSR had declined by 46.8 percent during the same period. In 1986, the trade turnover stood at Rs.3,600 crores against the target of Rs.4,850 croroes. This shortfall was mainly on account of a substantial fall in the value of the Soviet exports to India; and this was said to be mainly because of the sharp fall in the prices of crude oil. Crude oil happened to be India's major import commodity from the USSR. This caused a net loss to the USSR to the extent of Rs.500 to Rs.600 crores.

Mikhail Gorbachev visited India in November, 1986. Immediately before his visit, the U.S. secretary of Defence visited India which created an atmosphere of doubt and misunderstanding. Specially,in 1986, the U.S was leading in trade exchanges with India, foreign investment flows to India and collaboration arrangements for industrial ventures in India. In order to modernize India's industrial sector, the U.S government came forward with their technological know-how. Transfer of technology in several cases happened which was unthinkable in 1983-84. The then U.S. Ambassador released a directory entitled "Indo-US Cooperation in Business and Industry-1986". At that time, the U.S. proved to be a strong contender for controlling a sizable part of the Indian market for high-tech export in goods and services. By this way, Indo-U.S. economic relations were not merely economic, it was becoming political-strategic one. At a panel discussion on development of Indo-U.S. economic relations organised by the Indian consulate in New-york, a former U.S. Senator, Charles S. Percy who was the chairman of the committee on technology transfer to India of the Indo-U.S. business council, was reported to have said[6] that US business had greater opportunities in India than ever before in the environment created by the then prime minister Rajiv Gandhi for a turn towards free market economy. Having this background, Gorbachev's visit has to be examined. Though the relation between the two countries was excellent in a political strategic frame-work, but a heap of clouds of doubt might have downcast the sky in Gorbachev visit.

During the visit of Mikhail Gorbachev, one agreement was signed between India and Soviet Union on economic and technical co-operation . By this agreement, India got a credit package of 1.5 billion roubles,i.e. Rs.2883 crores, from the USSR. The Soviet intention of offering this credit was for four Indian projects:

(i)Construction of the Tehri hydro-power complex in UP having declared capacity of 2400 mw.

(ii) On-shore exploration of hydrocarbons in West Bengal.

(iii) Reconstructions and modernisation of the convertor shops and the continuous casting department of the Bokaro steel plant.

(iv) Setting up of four underground coal mines in the Jharia coal fields with a capacity of 8 million tons of coking coal.

Not only credit for the above mentioned four projects, but the Soviet Union, according to this agreement, assured to extend their helping hands for the implementation of these projects with providing technical assistance. Even they agreed to provide design and survey work and supply equipment, machinery and spare parts, but what should be noted that all their helps were on turnkey basis. They imposed one restriction that their expertise and documentation were to be made available only and only for India. India would not be allowed to transfer it to other countries. Gidadhubli[7] said that perhaps this was the first time that such a clause had been inserted for Soviet aided projects.

Regarding rate of interest for their credit given to India, Soviet Union followed a discriminatory policy. For 1200 million roubles out of total 1500 million roubles, they charged interest rate at 2.5 percent repayable in 17 years; and for other three hundred million roubles they charged 1.5 percent rate of interest above the rate on treasury bills in India. The Soviet authority also categorized these two sections of credit earmarking their utilisation. First 1200 million roubles, they said, were allotted for importing equipments and services from their country; and the second 300 million roubles were to be used for local expenses in the constructions of Tehri hydro-electric complex. This also was a new form of economic assistance given by Soviet Union.

Gidadhubli[8] remarked that these four projects also served the interest of the Soviets. For this he mentioned three instances:

First, by these projects, the Soviet Union would be able to export more machinery and equipments to India

Secondly, by giving loan to the tune of 1.5 billion roubles for 17 years, they would get much needed food-items and manufactured consumer goods from India for a long period.

Thirdly, as these four projects were to be constructed on a turnkey basis, so the USSR would surely get orders from the public sector of India for the supply of machinery and equipments, if they did not get it from the private sector of India.

Gidadhubli commented that the outcome of Gorbachev visit was two-fold : a Soviet credit offer of 1.5 billion roubles, discussed above, and to increase two -way trade. It was expected that the trade turnover between the two countries would increase by 2.5 times by the end of 1992.

The Soviet authority, at the specific request of the Indian side increased the range of its items of exports to India. The new items were synthetic rubber, soda ash, wood pulp, raw hides, coking coal, chemicals etc.

The trade protocol for 1987 was signed on November13,1986 with a target of 5.5 percent increase in trade turnover to Rs. 3,800 crores of which Indian imports from the USSR could be Rs.1850 crores and Indian exports to the USSR could be Rs. 1950 crores. This trade protocol identified a wide range of new commodities to improve the level of total trade turnover and at the same time balance the trade. In 1987, India imported, for the first time from the Soviet Union, a number of essential items needed by its economy. These items were cooking coal, abrasive goods, selenium antimony, soda ash, ortha and paraxylene, PVC, polystyrene, sawn goods, wood pulp, waste paper, raw hides etc. The trade protocol for 1987 provided for additional quantities of Soviet crude oil. This was the time when the sharp drop in oil prices gave Moscow a very strong incentive to step up the volume of oil sales to hard-currency customers[9]. Moscow did not change a premium price for oil sales in rupees.

After a perceptible drop in mutual trade in 1986, caused by many negative processes in world trade as a whole, the trade turnover not only recovered but began to rise. Trade flow between India and the Soviet Union during 1987 reached a level of Rs. 4000 crores. This indicated a growth of above five percent against the target. Mr. N.D.Tiwari,[10] the then Union Finance Minister in a meeting with the former Soviet Deputy Prime Minister, Mr. V.M.Kamentsev impressed upon him to ensure supplies of items like sulfur, methanol wood logs etc. He also expressed India's keenness to acquire a variety of items in the steel and steel products sector, from the Soviet Union.

The Soviet Union was among the first three major trading partners of India. The share of the USSR in the total trade of India formed as much as around 11 per cent in 1986, only next to Japan(12.1%) and the USA(13.5%). Interms of India's exports, the USSR was the second largest market absorbing 16.7% of the exports, only next to the USA to which India's exports constituted 21.7% of its total exports. In case of the USSR's trade too, India was one of the most important trading partners among the developing countries[11]. India's share in the Soviet Union's total trade was around 4.1% in 1986, as against 1.7% for Argentina and 0.6% for Brazil. The prospects of trade and economic cooperation between the USSR and India were most fully characterized at the 11th meeting of the intergovernmental Soviet-Indian commission on economic, scientificand technical cooperation held in June 1987.

During N.I.Ryzhkov's visit to India in November 1987, the trade protocol for 1988 was signed providing for the total trade turnover from Rs.4000 crores in 1987 to Rs.5000 crores in 1988. This protocol reaffirmed both countries' interest in expanding trade in machinery as a most promising dynamic trend in mutual trade. The document harmonically balanced the requirements of each side for industrial and agricultural raw materials, finished products, consumer goods and possibilities of their manufacture. The protocol included exchanges of consumer and industrial goods and specified for the first time mutual cooperated deliveries[12]. In 1987, the mutual cooperated deliveries amounted to roughly 15 million roubles. It was commented in the 'Economic and Political Weekly'[13] that the logic of the Soviet Union emphasis on Glasnost and Perestroika was a greater reliance on the international division of labour. So the Soviet Union decided to step up its trade turnover with India, its largest trading partner in the Third World, by 2.5 times between 1987 and 1992 to Rs.10,000 crores. Aiming at this target, trade plan for 1988 envisaged an increase of 25% in the total trade turnover. Compared to the 15 years trade before

Perestroika, a structural change occurred in the pattern of Indo-Soviet trade with the introduction of Perestroika. The rapid expansion of Indo-Soviet trade in the 1960s was due to the huge Indian imports of Soviet machinery and equipment for the public sector projects in steel, heavy engineering, oil exploration, power etc. It has already been mentioned in earlier chapter that only Soviet Union came forward to make India industrially strong, immediately after independence. The age-old friendship between these two countries made the trade to a huge extend.

The seventh meeting of Joint Business Cooperation between the Federation of Indian Chamber of Commerce and Industry and the USSR Chamber of Commerce and Industry was held on September 28,1988. Addressing the meeting, the former Minister of State for Commerce, Sri.P.R.Dasmunshi[14], called upon the business community of the two countries to identify the specific fields in which Soviet and Indian agencies could participate to their mutual economic advantage. He said that the Rupee Payment Arrangement had stood the test of time and had helped the Indo-Soviet trade to reach its pick.

The Trade Protocol[15] for 1989 was signed on November 16, 1988 in New Delhi, with a target of total trade turnover to Rs.7000 crores, of which Rs.3,800 crores of exports from India to USSR and Rs.3,200 crores of imports from the USSR into India. In 1988, total trade turnover reached Rs.5200 crores. The projected level for 1989 represented a growth of about 35 per cent over 1988 figure. In this Trade Plan, the export of engineering items were expected to go up by about 50% which included exports of automobile storage batteries, paleographic equipments, iron and steel castings, electrical equipments, food processing and dairy equipments, machinery and equipment for civil and industrial construction projects etc. It was further planned to diversify the trade by addition of a number of new items. In the export list, this included nonferrous castings and forgings, abrasive goods, analyzers for quality control of agricultural products, machinery equipment for the textiles and leather industries, components for tractors, sports shoes, razor blades, detergents, decorative plastics etc. In the import basket, new items added were Benzine,pig iron, equipment and materials for the Indian Railways etc.

The Trade Protocol for 1990 was signed on 24 November 1989 in New Delhi, providing a growth rate of over 25% and the two-way trade was planned to be increased to Rs.8800 crores in 1990, comprising of RS.5300 crores of exports from India to the USSR and Rs.3500 crores of imports from the USSR to India. Both the Indian and the Soviet delegation led by A.N.Verma, Former Secretary, Ministry of Commerce, and the former Deputy Minister for Foreign and Economic Relations of the USSR, V.F.Mordvinov, respectively recognised the need for diversifying the structure of bilateral trade by addition of more items to the import and export lists[16].

By the end of December 1989, Indo-Soviet trade volume recorded an impressive increase to nearly Rs.7000 crores. Dr.Badar Alam Iqbal[17] wrote "A pointer is the impressive growth in trade turnover since 1987 when Perestroika got under way. In 1989, the rise was 30 percent in terms of rupees which only nearly 13% was due to currency depreciation. The balance reflected an increase in quantum due to most prices held steady". A protocol was also signed to continue the rupee-trade upto 1995 between the two countries. This was really a great achievement on part of the Indian authorities to have the biggest concession from the Perestroika in prevailing conditions in the Eastern Europe.

Former Prime Minister Mr.V.P.Singh visited Moscow in July 1990. The MOU signed at the end of the meeting of the inter-governmental Indo-Soviet Joint Commission during Mr.V.P.Singh's visit, stressed the need for fulfilling the obligations of either country under the trade plan for 1990. During discussions, the Soviet side pointed out that they, over the years, had become an exporter of raw materials - oil, cellulose, fertilizers, paper, etc. - whereas India had stepped up exports of finished products like computer, medicine and detergents. Such a situation could not last long as the USSR was switching over to a market oriented economy. The two sides recommended that the composition of goods should be significantly diversified and provisions made for exchanges in greater volume in the Agreement on Mutual Supplies of Goods for 1991-95 between the USSR and India[18]. Gidadhubli[19] said that the outcome of V.P.Singh's visit to Moscow for Indo-Soviet trade relations was the affirmation of the status quo. It was viewed that when revolutionary changes were taking place in the Soviet domestic and foreign economic relations under Perestroika and major changes were taking place in India's internal and external economy, the framework of Indo-Soviet trade relations should remain unaffected. Before V.P.Singh's visit to Moscow , leading newspaper 'Izvestia' demanded that trade with India be converted into hard currency and that India should repay Soviet debt in hard currency. Gidadhubli is of the opinion that under the spirit of Glasnost, the 'Izvestia' reflected the views of only a section of Soviet academic and policy-making bodies. He also pointed out that the Soviet Union was one of the largest trading partners and hence this factor made it essential for India to maintain its trade level with the Soviet Union. It was an open secret that India was able to get critical industrial products in significant quantities from the Soviet Union without affording hard currency. Increase in the international spot market price of oil from $14 per barrel to about $20 per barrel as a result of Iraqi invasion of Kuwait further increased India's dependence on Soviet supplies of oil and oil products[20].

Similarly, India's exports of a wide range of manufactured industrial goods and machines depended on the Soviet Uniona; and this was one-third of total exports to the

Soviet Union. For example, the knitwear industry in Ludhiana was fully dependent on the Soviet market. On the other hand, the Soviet economy had been suffering from deep crisis - budgetary deficit of Rouble 60 billion and according to unofficial estimates it was Rouble 120-150 billion; low economic growth having 2-3 percent in the first half of 1990, inflation of 8-10 percent, shortage of a wide range of consumer goods and so on. Perestroika did not improve the economic condition and caused dislocation and uncertainties in the old system. With it in the external sector, the Soviet Union suffered trade deficit in 1989 and which persisted in the first half on 1990. The USSR's trade with CMEA partner countries of Europe also declined. India also exported a wide range of consumer goods - tea, coffee, soaps, detergents, knitted and ready-made garments, hi-tech products like xerographic machines, computers and electronic items. Some of these items were imported by India and re-exported to the USSR.

For the above reasons, both India and the Soviet Union were compelled to maintain status quo in the trade structure prevailing at that time. Some other factors were there for which both countries had strong compulsions to agree to maintaining continuity in the framework of trade relations, i.e.rupee trade, bilateral balancing of trade and so on. First, regarding defence supply, India had to depend on the Soviet Union. The Soviet Union also exported their surplus defence equipment to India. Secondly, the Soviet Union improved political relation with China and South Korea by which trade relation with these countries was rejuvenated. Between 1980 and 1988, Soviet trade with China increased six times, and rapid growth registered since 1985. Naturally, China could have exported all those commodities to the Soviet Union which were mainly supplied by India. So, without rupee trade India's export performance could have been impaired. Thirdly, the Soviet Union improved political relation with the developed countries after the introduction of Perestroika by which they procured liberal credit from governmental and non-governmental agencies. Soviet policy-makers were keen to utilize the credit for importing machinery and equipment for modernising their economy. If rupee trade was discontinued, the Soviet Union could export major portion of these commodities from the West. "It is evident", Gidadhubli[21] wrote, "that although there are compulsions for both India and the USSR to retain the existing framework of Indo-Soviet trade, the compulsions operate more for India than the USSR". The causes are obvious.

TABLE-I

India-USSR Trade

(in Rs crore)

Year	*Export*	*Import*	*Turnover*	*Trade Balance*
1970-71	209.9	106.1	316.0	103.8
1975-76	416.7	309.8	726.5	106.9
1976-77	453.8	316.1	769.9	137.7
1977-78	656.9	446.4	1103.3	210.5
1978-79	411.4	470.6	883.0	59.2
1979-80	638.2	824.3	1462.5	-186.1
1980-81	1226.3	1013.7	2240.0	212.6
1981-82	1661.1	1136.9	2798.0	524.2
1982-83	1669.8	1413.2	3083.0	256.6
1983-84	1305.9	1645.6	2951.5	-339.7
1984-85	1879.6	1788.1	3667.7	91.5
1985-86	2005.7	1677.5	3683.2	328.2
1986-87	1867.2	1014.8	2882.0	852.4
1987-88	1971.5	1278.9	3250.4	692.6
1988-89	2609.0	1258.0	3867.0	1351.0
1989-90	4459.0	1460.0	5919.0	2999.0
1990-91	5251.0	1675.0	6926.0	3576.0

Source: Economic Survey and DGCI&S

During 1989-90, India's export to the USSR increased to Rs.4459 crores from Rs.2609.43 crores in 1988-89 registering an increase of 71.0%. Exports to USSR during 1990-91 were of the order of Rs.5251 crores registering an increase of 18% This is shown in Table-I. The Trade Plan for 1991 envisaging a total trade turnover Rs.9411 crores of which Rs.4330 crores of imports from the USSR and Rs.5081 crores of exports to the USSR, was signed on 13 December 1990. This represented a growth of 7% of total turnover as compared to 1990. The most important feature of the 1991 trade plan was that the Soviet Union agreed to maintain supplies of crude oil to India at the level of previous year despite a reduction of almost 50% in the global exports of crude oil from the Soviet Union [22]. In the second half of 1990, the USSR suggested the application of barter trade between the two countries in order to encourage cooperation in the field of aviation and hotel trade. This idea was initiated so that India and the Soviet Union could share their expertise and help each other to keep out the constraints in the respective areas.

Commodity Composition

During the era of Perestroika, the major exports from India to the USSR consisted of traditional items such as tea, packaged tea, coffee, instant coffee, pepper, tobacco, minerals, ores, chemicals and chemical products, textile items, leather products including finished leather ,shoes and shoe uppers and a wide range of engineering goods. In 1989, soap and detergents were also exported to meet an acute shortage. The important feature of India's exports to the Soviet Union was the dominance of manufactures which constituted 65 to 70% of India's total export to that country [23]. In order to diversify and expand the trade, the government of India added new items like nonferrous castings and forgings, castings for railways, abrasive goods, analyzers for quality control of agricultural products, machinery and equipment for textiles, sewing and leather industries, sports shoes and razor blades, ship repairs, components for tractors, decorative plastics. The major items of imports from the Soviet Union were crude oil, oil- products, newsprint, fertilizers, sulphur, steel products, plastic chemicals, nonferrous metals like zinc, copper, nickel, a number of machinery items like power equipment, coal mining equipment and ferrous metallurgical equipment. New items were benzene, pig iron, equipment and materials for Indian Railways. The share of machinery and equipment in India's total imports from the Soviet Union recorded nearly 6 percent in the early 1960s to 30 percent in 1989. A major portion of this imports took place against the USSR's credit. Manufactured goods declined to about one-fourth of Soviet imports and it comprised of textiles and garments, jute goods, woollen knitwear, some engineering goods, cosmetics and soaps and detergents etc.

India's imports from the Soviet Union were categorized into three groups[24]: First, consisting of petroleum and petroleum products like crude oil, kerosene oil and lubricants, accounted for 70 percent of India's total imports from the Soviet Union. Second group consisted of raw materials and bulk commodities like fertilizers, nonferrous metals like zinc, aluminium, nickel, palladium, sulphur, asbestos, and newsprint. The third group included machinery, power equipment, earthmoving machinery, mining equipment, specialised industrial machinery, general industrial machinery and electrical machinery. India's exports to the Soviet Union were much more diversified than India's imports from the Soviet Union. From the Indian point of view, the major concern with commodity compositions had been a desire to restrict the shipment of import-intensive goods to the Soviet Union .

Problem

There were so many problems in Indo-Soviet trade even after the reformations of internal economies of the two countries. The main problems were:

(i) Adverse balance of trade.

(ii) Switch trade.

(iii) Technical credit.

(iv) Lack of information.

(i) **Adverse balance of trade - Reasons thereof**

During the Gorbachev visit to India in November 1986, the two Heads of Government, Rajiv Gandhi and Mikhail Gorbachev had a 10-hour prolonged discussion on a number of complex issues among which most burning problem was the adverse trade balance. With India, trade deficit of the USSR increased from Rs.300 crores in 1985-86 to Rs.500 crores in 1986-87. The problem was more deepened due to hike in oil prices in 1986. As a result of increased oil prices, India was forced to reduce their import of oil from the USSR, and this reduced the value of Soviet exports amounting to approximately Rs.300-400 crores and this fact brought down the two-way trade for 1986 to Rs.3600 crores from the level of Rs.4000 crores in 1985. Not only that, oil production in the USSR was also declined to 595 millions tones in 1985 from 614 million tones in 1984. Some oil-producing and almost inaccessible areas such as Tyumen regions of Siberia increased the production cost of oil[25].

During this visit, Gorbachev offered 1.5 billion of rouble credit to India. But it was argued whether this credit was really necessary when India had a trade surplus with the Soviet Union.

The problem of trade imbalance could not be resolved during the era of Perestroika. Because the Indian industries were oriented more towards the West, and were keen on consumer durable and consumerism. Mere government imports could not balance the trade. Heavy machinery and technical services ceased long ago to be the principal component of exports of the Soviet Union to India, because India upgraded the composition and quality of its industrial infrastructure. Moreover, had India felt that the Soviet technology being better one, it would not have asked Japan to update the Heavy Engineering Plant at Ranchi. On the other hand, India's GNP exports as agricultural products, raw materials and other finished goods as value added might reduce the trade gap but would not be in India's interest, because due to the product orientation of Indian industries, imports from the west continued though with minor reduction[26]. V.R.Panchamukhi[27] remarked that with a view to solving the problem of trade imbalance, India should import more capital goods from the USSR. Since much of the import of capital equipments was in the private sector, the private sector would have to be induced to purchase more capital equipments which led to the question of the issue of price competitiveness, quality, post-purchase services of the Soviet equipments in relation to the other supporting countries in the market economies. In this context, the delegation of FICCI and ASSOCHAM during their visits to the Soviet Union in 1986, which were organised with official blessings to promote Soviet exports to India in order to balance the rupee trade with the Soviet Union, rightly pointed out to the Soviet authorities that the principal issue at stake in this connection was Soviet marketing in India. It was for the Soviet side to sell its products in the Indian market on a competitive basis and if the Soviet trading agencies were able to do so, the Indian private sector would come forward keeping aside their ideology or other non-economic considerations[28].

But private sector's decisions were based on their own fund of information, their own perceptions and most importantly access of credit facilities on competitive terms. The environment in the Indo-Soviet trade relations did not seem to have become very clear in this regard. Gorbachev's domestic reform programme of Glasnost and Perestroika stipulating that each Soviet enterprise which had received autonomy in its operations should balance its earnings and expenditure on foreign exchange in each transaction, became the biggest constraint in striking trade deals. No mechanism emerged on the Soviet side which could facilitate each unit's balancing problems through appropriate band credit or other devices[29].

N.D. Tiwari[30], India's former External Affairs Minister was reported to have proposed during his visit to Moscow in 1986 to prepare for Gorbachev's visit to India that Indo-Soviet trade should not be balanced on year to year basis since it could disrupt the smooth flow of trade and it should be attempted to be balanced in a longer period of time.

In spite of all efforts, trade balance could not be restored, which is clear from the Table-I.

Adverse trade balance is a regular feature of Indian economy. With it, in 1989, foreign exchange reserves were declining and thus mounted debt servicing burden. So it was remarked in 'Economic and Political Weekly'[31] that imports from the rupee payment areas, particularly the USSR should be stepped up. The USSR was not interested in exporting crude oil, petroleum products, newsprint, nonferrous metals. It was however keen to expand its exports of capital goods - power generation and transmission equipment, aircraft and aviation equipment, ships, machine tools, metallurgical machinery, mining machinery, railway equipment, textile and jute mill machinery, etc. But the demand for Soviet capital goods was not forthcoming from the Indian private sector. Except for the power sector, and the steel sector to a lesser extent, Soviet credit financed equipment and machinery did not seem to be making much headway. Due to Soviet defence credits, for 1989, a trade turnover at Rs.7000 crores was fixed, a 35% growth envisaged over the 1988 trade turnover figure of Rs.5200 crore. Besides increase in exports of traditional commodities like tea and coffee, the Indian side was hoping to step up exports of engineering goods and ready-made garments by 50%. As in hard currency areas, engineering goods exports became stagnant or declining, much emphasis was placed on exports to the Soviet Union.

With the current stress of Perestroika on the Soviet consumer, there was much scope for Indian exports of consumer durable like washing machines, television sets, refrigerators, hair dryers, electric irons and other electrical appliances[32].

It appears from the DGCI&S data that the demand for the above consumer durable in the time of Perestroika, which is shown in the following table.

Table-II

***Export of Different Items to the USSR** (Rs.)*

Items	*1988-89*	*89-90*	*90-91*
Fan	172533174	192109575	161717460
Washing Machines	0	9007219	9796829
Sewing Machines	4626521	11820504	34497152
Type Writer/ Word processor	10175	268786	15615028
Electronic Calculator	0	3246078	1431937
Computer	728701523	889455201	74943365
Hair-dressing aparatus	94659	2611594	10846487
Telephone	48665	1229845	16733090
T.V.Set	51150873	122925910	29493350
Refrigerator	0	1287032	4782869

Source: DGCI &S, Ministry of Commerce, Government of India.

In Gorbachev era, one particularly disconcerning aspect of some Indian exports to the Soviet Union was where the exported end products involved considerable hard currency expenditure on imports and the domestic value added was low. There was a proposal to export one million colour TV picture tubes to the Soviet Union per year till 1995. This type of exports involved hard currency, as glass cells would have to be imported.

Moreover, with the process of normalization of Soviet relations with China, in Gorbachev era, India had to face competition with China in the Soviet market, particularly with regard to commodities such as tea, textile fabrics, knitwear and engineering goods and so on. Moreover, the Soviet Union was reported to have played Pakistan card for securing attractive terms for textile imports from India by which bargaining position of Indian textile was weakened[33].

(2) **Switch Trade**

During the era of Perestroika, switch trade could not be stopped, but it was not permitted as per the trade protocol. Bibek Debroy and L.D.Mago[34] said that although information on switch trading was difficult to get, but such instances were increasing at that period. Indian goods, bought under the rupee trade arrangement and cleared for Soviet destinations had turned up in the west and the gains were distributed between the Soviet importer and the India exporter. In order to clamp down on switch trading, the Soviet Union on March 1 1991, introduced a system of import licences for imports from India. These licences were issued strictly in conformity with the protocol and Soviet banks did not open letters of credit without the prior permission of a license by an importer. Debroy and Mago remarked that the, licensing system had increased 'red tape' and 'bureaucratic delays' and hampered India's exports to the Soviet Union since March 1991.

(3) **Technical Credit**

Technical credits were required under the bilateral payments framework when the surplus, on either side exceeded the planned surplus. In 1980s, India acquired huge amount of unplanned trade surplus in trading with the Soviet Union. So technical credits had to be extended, which were in 1991, estimated to be Rs.19000 million. There was growing realization in the Ministries of Finance and Commerce that Indo-Soviet trade could not be carried out on the basis of technical credits provided by the government to the USSR to finance its imports from this country[35]. It was argued that a resource-starved country like India was not in a position to continually extend technical credits for long time[36].

(4) **Information gap**

Lack of trade information between the two countries continued to be a problem in the era of Perestroika. The setting up of Indo-USSR Chamber of Commerce and Industry in June, 1987 to some extend, bridged the information gap.

Regarding Indo-Soviet trade, some other problems were there. Trade turnover did not increase at a faster rate in the 1980s. This is shown in Table-I. The balance-of-trade surplus, as a percentage of total trade turnover, increased markedly since 1986-87. The calender year figures shown in Table-III do not contradict the above conclusion. Rather it shows surplus for all the years under consideration.

Table-III

***Indo-Soviet Trade** (Rs.in Crores)*

	India's export	*India's import*	*India's surplus/ deficit*	*Surplus/deficit as a % of total trade*
1981	1410	1233	177	6.70
1982	1269	1110	159	6.68
1983	2102	1312	790	23.14
1984	2278	1340	938	25.93
1985	2117	1500	617	17.06
1986	2183	1437	746	20.61
1987	2614	1560	1054	25.25
1988	3059	1788	1271	26.22
1989	3575	1849	1726	31.82

Source: 'IMF,Direction of Trade Statistics' in Issues in Indo-Soviet Trade, by Debroy, Bibek & Mago,L.D.

Over the period 1980-81 to 1988-89, total trade turnover grew at an exponential rate of 0.003 per cent. India's exports grew at an exponential rate of 7.10 per cent. On the other hand, India's imports from the Soviet Union increased at an exponential rate of only 1.13 per cent[37]. This shows that there was a stagnation in trade flows, particularly for imports from the Soviet Union.

In the last part of 1990, seventy percent of Indian imports from the Soviet Union were made by the public sector, whereas about 78 per cent of India's exports to that country were made by the private sector. This declined in public sector investments in India resulted a decline in India's imports from the USSR. Side by side, India's public sector investment was made in those areas where the Soviet Union lacked technical expertise. It was in same way or other, injected in the minds of the private sector, that Soviet machinery and equipment were not of good quality. There was also another reason behind the private sectors' choice of western technology; the private sectors of India signed most of their accords of collaboration with USA and Japan. As increasing exports to India was a major problem for the Soviet Union, so India's problem was to manage the trade surplus. A part of India's balance of trade surplus was planned to have been utilised for repayments and interest payments on Soviet credits and for imports of defence materials. Though exact amount of surplus could not be known because it is difficult to obtain precise figures on supplies of Iraqi crude oil to India, still there was huge amount of unplanned surplus for which technical credit was extended to the Soviet Union at a rate of four per cent per annum till the balance was rectified. For the balance of payments crisis, the government of India increased the value addition requirements for all import- intensive items sold to the Soviet Union[38]. For drug exports, value addition requirement increased from 33.33 per cent to 233.33 per cent. It was decided in 1991, before the coup, that colour picture tubes would be imported from the hard currency area and exported to the Soviet Union for rupees. The Soviet Union would have got Japanese-licensed electronic goods at no hard currency cost. But this would have led the Indian balance of payments to a further crisis. Thid crisis was analyzed beautifully in article "In Weston Saga, Indo-Soviet Trade will be the Greatest Casualty" published in 'The Economic Times' just before the ill-fated coup in 1991[39].

In the era of Perestroika, some dislocations cropped up in the external trade sector of the USSR. Since 1987, trade was conducted on the basis of personalised contacts and one to one links, which created an atmosphere of uncertainty. Indian exporters were put in difficulty to identify whom to exports their goods in that country. A good number of autonomous foreign trade organizations were reluctant to operate within the framework of the rupee trade arrangement. Due to reform in the Soviet external trade sector, self-financing was applied to the foreign exchange requirements of individual enterprises of the USSR, which led to a demand for counter-trade on the part of selected Soviet enterprises for their Indian counterparts[40]. According to this new system, balancing was required to be done on a deal by deal basis. Here lies the difference between bilateral clearing arrangements between the two countries which implied another type of counter-trade with balancing on the aggregate and self-finencing. Under this new arrangement, the Indian enterprises had to face immense difficulty as they were to balance the aggregate of the deals over a specifeid time period.

Economic Cooperation

During Gobachev era, the pattern of Indo-Soviet economic cooperation was changed. With Perestroika and Glasnost, the Soviet Union had thrown open the country to foreign investment. The process of liberalization led to a great deal of changes in the Soviet economy and polity. The system of command management of the economy made way for decentralization with the right to enterprises to negotiate trade deals directly with foriegn party. Joint ventures were started between India's private sector and Soviet enterprises. One problem of the joint ventures was the repatriation of rouble profits of the Indo-Soviet join ventures in the Soviet Union[41]. Gidadhubli narrated the Indo-Soviet join ventures as the 'new form of Soviet economic cooperation with India's private sector'. At the initial stage, this new forms of cooperation did not progress at a satisfactory pace, because many of them were being removed as the economic reforms in the USSR were being implemented which involved financial and economic self-reliance of industrial enterprises, rights of direct producers and consumers to enter the foreign market. Of late one more factor came in the Indo-Soviet cooperation which was the participation of Indian firms in the construction of projects in the Soviet Union[42]. India built a good number of hotels in Tashkent, Bukhara and Samarkand.

During his visit to India in November 1988, Mikhail Gorbachev remarked that Soviet Union was examining proposals for the establishment of 54 Indo-Soviet joint ventures - 36 in India and 18 in Soviet Union. There were 67 proposals for production co-operation. The Government of India approved only 26 proposals for foreign collaboration with Soviet organisations within 1984-89. Under Perestroika, Soviet Union was trying to link Indian exports of jute goods to import of jute mill machinery, e.g.hessian looms. In textiles, the Soviets were offering low prices and easy credit facilities for the purchase of their STP looms and open end spinning machines, but there seemed to be few takers.

The year 1979 was earmarked as the beginning of Soviet economic cooperation with the Indian private sector. The Sixth meeting of the Chambers of Commerce of the two countries in September,1985 proved a turning point in this process.

From the point of veiw of Indian private sector's interests ,transfer of technology took place in four major areas[43]: high priorities areas, export oriented or import substitution industries, energy saving industries. Indian private sector had shown greater interests in the areas of Soviet machinery and technology specially in Soviet jute and textile machinery. Other areas of Indian private sectors interest were food preservation and dehydration, juices, electrical transmission, transducers, solid state relays, RF heating system, process control equipment for textile industries, tranformers, electric motors and starters, fans, electrical substation, switch yards, sugar mill machinary etc. It was viewed by same economist[44] that without vigorous efforts by the Indian private sector, two-way trade could not be increased to a substantial lavel. In 1988, 85 percent of Indian goods were delivered to the USSR by private companies; at the same time their share in purchases of Soviet goods was less than 10 percent which was not economically logical in terms of their high business potential.

Speaking at the symposium on "Restructuring of Soviet Economy and its Probable; Impact on Indo-Soviet Trade and Economic Cooperation" organised by the Indian Merchants' Chamber, in Bombay on November 27,1986 Dr.R.G.Gidadhubli, Director, Center for Soviet Studies, University of Bombay, suggested for promoting trade and cooperation between the two countries, greater participation of private sector for joint ventures, diversification in trade and Third World country exports[45].

In the field of science and engineering, Indo-soviet cooperation played a vital role in strengthening political, trade and economic ties between the two countries and in futhering their scientific and technical progress[46]. One of the great events of scientific cooperation was the joint Indo-Soviet space flight. The scientists of the Institute of High Temparatures of the USSR Academy of Sciences helped India complete the first magnetohydrodynamic power plant in Trichi. Scientific agriculture in India was developed to a large extant with the help of the USSR. The Comprehensive Long-term Programme of Scientific and Technical Cooperation between the USSR and India was signed in Moscow in July,1987 by M.S.Gorbachev and R.Gandhi . The Programme consisted of two big blocks. The first defined eight priority projects and trends of particularly great importance for accomplishing scientific and practical tasks. These priorities included bio-technology and immunology, new materials, catalysis, laser science and technology, creation of new synchrotronic radiation sources, technology of searching for water, as well as computers, electronics and space research. Second block consisted of joint fundamental research programme in some fields of science[47].

The signing of the "Agreement on basic Directions of Economic, Trade, Scientific and Technological Cooperation for the period up to the year 2000" and the "Agreement on Economic and Technical Cooperation between USSR and India" in May,1985 by MR.Gorbachev and Late Rajib Ghandhi marked an important step in furthering the cooperation between the two countries[48]. The first agreement was aimed at development and strengthening of economic cooperation through joint efforts for the introduction of advanced technology, attained of higher levels of production and labour productivity, modernisation and re-tooling of enterprises, building up of new projects in the fuel and power sectors to begin with, training of technicians, development of new types of equipment and production processes and drawing up of industrial research programmes. In November 1985, another coal agreement was signed for the period ending 2000 AD; and deferred payment arrangements for commercial deals were extended for the period 1986-90 (15 % down payment and 20 monthly instalments) as the Soviet credit and assistance for a number of specific projects to the extand of 1000 million roubles were fixed. In order to boost Indo-Soviet economic cooperation, some measures envisaged were: joint ventures and production cooperation. The USSR offered massive credits to India in 1985, 86 and 87 for development projects. Unfortunately thses credits were not fully utilised as India lacked the necessary rupee resources for carrying out the necessary infrastructural investments. For the establishment of close contacts with India's national and regional state organisations, associations, chambers of commerce and indusdry, research and information centres, banks, certain firms and "export" and trade houses, Business Cooperation Association was set up in July 1988 in Moscow. This Association was an independent self-supporting organization. Its practical activity was based on expanding the mutual trade turnover by including new porducts of Indo-Soviet cooperation.

During Gorbachev's visit to India in November 1986, an agreement on economic and technical cooperation was signed. Again, during Rajiv Gandhi's visit to the USSR in July 1987, a comprehensive Long-Term Programme of Scientific and Technical Cooperation between the USSR and India was sgned. First stage of Vindhyachal thermal power station having capacity 1260 MW and Vishakhapatnam iron and steel works was commissioned in 1988.

In November 1987, the former chairman of the USSR Council of Ministers N.I.Ryzhkovs visited India. By all these visits and thereby agreements signend, the USSR helped India in the construction of the Kahalgaon Thermal Power Station and one more thermal power station with a capacity of 840 MW each, a number of major projects for the extraction of cooking and power coal, Tehri hydro-power complex, Karnal oil refinery, and the oil pipeline in Chaksu-Karnal geo-exploratory works on contract basis for oil and gas in Gujarat, Tamilnadu, West Bengal; reconstruction and modernisation of the steel smelting and rolling facilities at the Bokaro Steel Plant. The former Minister of Energy and Communication, Sri Vasant Sathe and the Former Soviet Deputy Prime Minister MR. V.M.Kamentsev took decision in a meeting in New Delhi on April 28,1988, to set up expansion stage of the Vindhyachal super thermal power project consisting of two units of 500 MW each[49].

The year 1987, year of the 70th anniversary of the Great October Socialist Revolution, the 40th anniversary of the independence of the Republic of India and the establishment of diplomatic relations between the two countries, and also the 15th anniversary of the Treaty on Peace, Friendship and Cooperation between the USSR and India, became a beacon of light in the large-scale progressive transformation in the history of Indo-Soviet trade and economic ties[50]. In April,1987, the USSR and India signed a long-term Programme of Production Cooperation upto the year 2000. The official visit of N.I.Ryzhkov, former chairman of the USSR Council of Ministers to India in November 1987 was important for translating into reality the top-level accords signed earlier. During Ryzhkov's visit to India, a series of important documents were signed. One of them was an agreement on continued economic and technical cooperation providing for Soviet assistance in constructing an 840 MW thermal power plant, an oil refinery in Karnal and a 345 kilo-metre long oil pipeline of six million ton capacity between Chaksu and Karnal.

There was world-wide interest in setting up of joint ventures on Soviet territory under liberalised procedures and regulations announced by the USSR in the era of Perestroika and Glasnost. India also came forward particularly in the service sector and in consumer items sector. In 1990, new vistas of economic cooperation between India and the USSR were opened up by the way of joint ventures and production cooperation .

Indian firms built hotels in Samarkand, Bukhara and Taskent. The USSR invested in India in the fields of magnetic ferrite, computers, electronics component, transportation services and transfer of technology to Indian firms. Similarly, India invested in the USSR in the fields of staple fibre, polyester, filament yarn, pulp, newsprint, paints leather goods etc.

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