

CONCLUSION

Trade and economic relations between India and the Soviet Union/Russia can be divided into the following phases:

- (a) 1970 - 1985 : the period of rapid growth;
- (b) 1985- 1991: from growth to economic stagnation; and finally
- (c) from stagnation to decline and virtual collapse.

In the first phase, fruitful cooperation developed between the two countries' economies: the Soviet side assisted India in the fields of steel, coal, oil, power, non-ferrous metallurgy, machine-building and communications. The Soviet Union emerged as the leading trading partner as far as exports are concerned. The pattern of which was as follows: primary goods - tea, coffee, spices, tobacco; manufactured consumer goods - textile, garments, shoes, leather goods etc; and finally some engineering goods. Trade started stagnating between 1985 and 1991. the nadir of Indo-CIS trade was reached between December 1991 and April/ May 1992, when trade turnover declined by approximately 50 per cent. After that, trade started picking up; and by June, India became the second largest trading partner in terms of exports. On the side of imports, however, the picture was depressing. India ranked 10th¹.

Trade and economic relations between two countries depend on so many factors. India being a prime-mover of non-aligned movement was somewhat inclined to the Soviet Union. Age-old relation between India and the Soviet Union led to the signing of 1971 Indo- Soviet Friendship Treaty. India is celebrating 50th anniversary of diplomatic relations with the erstwhile Soviet Union as well as 50th anniversary of independence. The

Soviet Union became the biggest trading partner of India. But after the disintegration of the Soviet Union, the legal successor of the USSR, Russia has changed its attitude towards India. Between India and Russia, the presence of China is disturbing within a very short span of time, age-old border conflict between China and Russia came to a halt with the mutual solution. The relation between the two countries improved to a greater extent during the visit of Boris Yeltsin in December 1992 to China. Yeltsin's visit to China consolidated the ties between the two countries during that transitional period, when communism had collapsed in Russia and was under severe strain in China. During this visit, a Joint Declaration was also released by the two heads. This declaration states²: "the Peoples Republic of China and the Russian Federation regard each other as friend. They would develop friendly and good neighbourly relations and mutually beneficial cooperation in accordance with United Nation Charter, the principles of mutual respect for sovereignty and territorial integrity, mutual non-aggressive, non-interference in each other's internal affair, equality and mutual benefit and peaceful coexistence and other universally accepted norms of international laws".

Both China and Russia had reaffirmed that neither China nor Russia will seek hegemony in the Asia Pacific region or any other region in the world³. The fact that concerned India was that both China and Russia had expressed their support for the Nuclear Non-proliferation Treaty. China is also emerging as the important trading partner of Russia. In 1991, the two-way trade between China and USSR was \$ 3.96 billion; this increased to \$ 7.7 billion in 1993. In addition to this official trade, there is a flourishing illegal trade between Russia and China - which is at least one-fourth of the official trade. Most of the illegal trade is carried out across the far east border of Russia and that of northern China⁴. The main export items of Russia to China included defence equipments - SU-27-Fighters, S-300 surface-to-surface missiles etc. According to Mikhail Urusor, a Russia commentator, China ranked first among the foreign clients of the Russian military industrial complex in 1994⁵.

With this, Russia's westward tendency hampered the economic relation between India and Russia. Russia makes up only two per cent of Indian's trade, and on the other hand, India makes up only a little more than one per cent of Russia's foreign trade. Mr.

Grigory Karasin, Deputy Russian Foreign Minister confessed⁶, "India has been the largest market for our machine-building and technological products. However, today these possibilities are not being used to the full..... we must work out a system of long-term credits for Russian enterprises; because without this, the Indian market will be lost to a significant degree for our heavy industry".

Capitalism has emerged as the triumphant mode of development in recent international relations. Both India and Russia preferred the path of capitalism as a mode of development. The Nehruvian model by which India built her industrial base, has ultimately, proved to be ineffective in resolving major national problems like poverty, unemployment and growing socioeconomic disparity. Both the economies, India's and Russia's, have shifted - the Soviet from command, and the Indian from regulated - to market economy. The process of restructuring of economy started more or less the same time in 1992. The main preoccupation and the transitional problems had their impact on trade which declined perceptibly⁷.

The aftereffects of the collapse of the system was visible in Russia: a drop in GDP of 17 per cent in the first quarter of 1994 compared to the same period in 1993; national income fell sharply by 19 per cent. There has been a substantial increase of inflation in 1993 between 15 per cent and an incredible 1800 per cent. The number of non-working and unemployed citizens increased by 30 per cent during the first quarter of 1994. The budget deficit is estimated to be ten per cent of the GDP. Novosti News Agency⁸ concedes that the national economy of the Russian Federation is "fast stepping into the pits today". It reports a sharp drop in oil production; output had slumped by almost a third in 1994 compared to the 1991 levels. Production of oil-refining firms stood at 55.6 per cent of their estimated capacity. Oil exploration too suffered a similar sharp fall. In the agricultural sector, foodgrain harvest touched an all-time low of 63.5 million tonnes in 1995-96 - the lowest in the 30 years as against an average of 94.1 million tonnes during 1991-94. Before the disintegration of the USSR, there were only five banks, apart from the State Bank of the Soviet Union (Gosbank). With disintegration, there was mushroom growth of commercial banks in Russia. Now, Russian banking industry is in serious liquidity problems. Six banks went into liquidation and licenses of ten banks had been withdrawn. In 1993, there were 1700 inde-

pendent commercial banks in Russia which increased to 2500 by 1995. Most of the banks have a single branch and do not meet the capital adequacy norms of the Bank of International Settlement. The most glaring aspects of the Russian banking industry are the following⁹:-

- (i) Most of the banks are under-capitalised.
- (ii) They are concentrated in a few regions.
- (iii) They lack a proper branch network.
- (iv) They lack managerial skill and trained personnel.
- (v) No prudential norms have been prescribed and even when in place are not followed up.
- (vi) Banks lack proper audit and inspection machinery and there is no transparency in deals and documents.
- (vii) There is lack of accounting system of international standards.
- (viii) Bank service charges are high but service is not upto the mark.
- (ix) Poor clearing house system and inadequate transfer of funds.
- (x) Not enough reserves.

Foreign banks are not allowed to open branches in Russia but the way exists for a joint venture or through subsidiaries.

Russia, thus has become no different from any other developing country - acute balance of payments crunch, growing poverty all round, crumbled economy, obsolete technology etc - knocking at the doors of IMF.

A sheer negligence towards India has been due to Russia's westward orientation in foreign policy during 1992-93; Japan, South Korea also attracted Russia for their economic success. So, the Russian government reorganised its Council on Industrial Policy at the end of 1993 on the model of Japanese MITI¹⁰. In Russia's new foreign policy, it has been designed that relationship with the Asia-Pacific region would be improved. In 1991, the Soviet trade with Asia-Pacific region was less than \$20 billion which accounted for just about 2 per cent of Asia's trade. In 1992, this trade further declined as Russia faced acute

economic crisis and growing political tensions. Since 1993, there has been a modest rise in Russia's trade values with the Asia-Pacific countries.

Ignorance towards India was inherited by Yeltsin from Gorbachev¹¹. The only difference between Gorbachev and Yeltsin is that the later was totally preoccupied with the west. For this reason, perhaps, parliament house building was named as Russian White House. Yeltsin disowned Indo-Soviet defence treaty of 1971 unilaterally. It is not the Indian assistance, Yeltsin believed, but the assistance of the United States, Germany and other west European countries by which post-Soviet economy can be rejuvenated. South Asian countries in general, India in particular, was not on priority list of Russia. It is clear that Russia does not want to pursue pro-Indian foreign policy of the Soviet era. The concept document of the foreign policy of Russia states¹², "under the current conditions, unlike the cold war times, we have no criteria for one-sided orientation for someone..... the task consists of bringing up the ties with Pakistan to the level of relation with India". This indicates that India may not get preference over Pakistan in Russia's trade and economic relations.

Before disintegration of the USSR, India was a major trading partner among the LDCs. Trade relation between India and the Soviet Union was not only important from the point of view of the total trade volume, but also from the point of view of the total economic relations between the two countries. In this relation, rupee trade acted an important role over three decades. Virtually, a good political relation between these two countries widened the economic relations. In 1990-91, internal turmoil and political instability of the USSR influenced the bilateral relation between the two countries. Ultimately, disintegration of the USSR led to a virtual collapse of the trade relation.

Table-I

INDO-SOVIET/RUSSIAN TRADE

<i>Year</i>	<i>Export</i>	<i>Import</i>
	<i>(Values in Rs.)</i>	
1988-89	26081732553	7215645786
1989-90	44582110149	14600078758
1990-91	52503036012	16744267153
1991-92	40404953618	12744961650
1992-93	17560409772	7372744137
1993-94	20362956834	8062274029
1994-95	25343297565	15837642414
upto August		
1995	13121119111	11488646239

Source: Compiled from DGCI & S data.

It is seen from the above table that two-way trade is in decreasing state compared to pre-disintegration period. The main reason behind this drop is the internal economic disarray of post-coup Russia and reciprocal trade policies of the two countries. At the same time, when rupee trade was discontinued giving room to hard currency trade, it was not operationally acceptable to a large section of Indian traders. Both the governments could not introduce a mutually acceptable rupee-rouble exchange rate which in turn, hampered the bilateral trade.

In the 1993, with the visit of Yeltsin to India, the problem of exchange rate was solved. But this solution did not help India in any way. Every year India has to pay Rs.3000 crores at the composite rate of Rs.23 per rouble; specially when rouble has been devaluated in the international currency market to a large extend. This rupee credit in dollar terms which were placed at the disposal of the Russian government were to be utilised for importing goods from India. So, actual transactions were to take place not in rupee but in hard

currency. India gave her consent to settle an rupee-rouble exchange rate which was fully favourable to Russia with the expectation of increasing trade volume. But, in recently, Russia could not use the money. Moreover, when Mr. Narasimha Rao, the then Prime Minister of India visited Russia in June- July, 1994, Russia placed a proposal to him regarding the auction of a part of accumulated debt repayment fund (DRF). India accepted the proposal.

In order to utilise the DRF, the Russian government issued three tenders amounting to \$450 million in September, 1994 for the purchase of different commodities from India which included pharmaceutical products, tea, tobacco, soyabeans and some consumer goods. But result shows that Russia could not lift expected commodities from India.

Between 1994-95 and 1996-97, there was decline in the export of tea, cashew, castor oil, chemicals and engineering items. There was only a modest increase in the exports of textile fabrics, readymade garments and pharmaceutical items. In 1996-97, India's exports to Russia declined by over Rs. 200 crore.

In this situation, Russia has placed some proposals for the utilisation of debt repayment fund (DRF).¹³ First, Russia likes to invest a part of DRF in blue chip companies in India as Russia has done in case of Vietnam, Kyrgyzstan.

Secandly, Russia is interested in depositing a part of DRF in Indian banks and thus earning interest on such deposits. But there was no such proposal under India-Russia agreement of 1993. In this context, it should be noted that at present, DRF is kept in India and does not earn any interest.

Thirdly, Russia wants to convert a part of DRF into hard currency. In a decree passed in 1997, the Russian government stated,¹⁴ "The ministry of finance jointly with the Vneshekonombank are to hold talks with the Indian side on the settlement of Indian debt of the former USSR/Russian Federation in hard currency with the discount acceptable to both sides".

It is clear from all proposals made by the Russian government and by this auctioning of rupee fund that they are not in a position to utilise DRF for importing commodities from India according to agreement of 1993.

If Russia is able to utilise DRF regularly and fully, such a proposal need not arise. If these proposals are accepted by the Indian government, then Russia will be less enthusiastic in utilising DRF for importing commodities from India; and debt will get accumulated which will be against India's interest. Though there is no specific information about the total amount accumulated, it would be around US \$2-3 billion. This debt burden will further increase with the construction of 2,000 MW nuclear power plant at Kudankulam in Tamil Nadu with Russian help.

Russia's apparent irrationality in custom and import regulations has created complexity in India's exports to Russia. The Russian authorities have tried to apply revised rates of value added tax(VAT) even for the transactions which were already finalised and settled and for which shipments were already made on the basis of the then prevailing VAT rate. This affected the deal and cut down earning. In 1994, in one instance, one consignment of goods were exported to Russia after paying all the necessary taxes and these goods were kept in some godown in Moscow. After a few months, when these goods were brought out for sale, the Russian authority demanded VAT afresh inspite of providing proof of payment of VAT. In tax structure, some apparent contradiction are found in Russia. For example, it is cheaper to import readily packed tea in small packs from India rather than bulk import of tea.

So, situation is not congenial to rebuild the Indo-Russia relationships specially under Yeltsin regime. It is Yeltsin who is accustomed in flouting his past commitments. It is Yeltsin who unilaterally abrogated Indo-Soviet Treaty of Peace, Friendship and Co-operation of 1971, it is Yeltsin who has unilaterally abrogated the agreement to supply cryogenic rocket engine, it is Yeltsin who has unilaterally changed the terms of loan settlement agreement with India, it is Yeltsin who refused to support India in her bid to get a permanent seat in the Security Council of the UNO. On the contrary, Yeltsin tried to get Russia into G7. Yeltsin has been narrated as the 'new Tsar, Peter the Great, minus his greatness.'¹⁵

In Yeltsin's regime, terms of trade of Indo-Soviet trade has deteriorated which is shown in Chapter-VII. Russia is very irregular in the quantum of offtake of goods from India and there were wide annual fluctuations affecting the interests of Indian producers and exporters.

In spite of all, Russian resources are enormous. Half of the world's gas, a third of its oil, largest deposits of coal and hydro resources, gold resources and vast arable lands, combined with this, there is a highly trained manpower, Russia can be of India's immense help. India's trade policy towards Russia needs to be reconstructed. At some trade fairs, foreign importers were heard saying of, "oh! India means no timely deliveries." Russia once had to send back the whole consignment of shoes which contained only right foot shoes.¹⁶

After the disintegration of the Soviet Union, there is more of change than continuity in Indo-Russian economic relations. Because the framework of Indo-Soviet economic relations has undergone a sea change. For example, rupee trade relation between the two countries, bilateralism, state monopoly of trade in the former USSR have come to an end. But, in replacement, new ones are not there. On the other hand, new issues such as the inability of Russia to use rupee credits, problems of shipping and transportation on the part of Indian exporters have come on the scene. But, it is India's own long-term interest to strengthen economic ties with Russia. India should recast the list for budgetary allocation by incorporating all major items which were important in the export list from India to the former Soviet Union in 1991. Russia should also reframe the policy for utilising accumulated rupee credits for lifting goods from Indian markets. Both the countries should go for joint ventures in the banking and finance sector to promote mutual trade. Vietnam has already set up a joint venture bank in Russia. Within April 1998, India has also established more than 30 joint ventures with Russia.

It is difficult to predict the future. Indo-Soviet/Russia trade was primarily bilateral - with its attendant success and failures. From bilateralism, the trade relation has a tendency to move towards multilateralism. This means the countries would be guided by the relative price and cost structure.

In the era of multilateralism and globalisation all over the trade would increase if it is for mutual benefits - strictly in terms of economics. The political factors would be secondary in the post-liberalisation period. Even in the regime of multilateralism, liberalisation and globalisation, the trade between the two countries would increase if both the countries can maintain a reasonable rate of growth of income. The temporary setback may be replaced by genuine desire to reap benefits from trade. All over the world, changes

are occurring very fast and in this world there is no reason in to pre-suppose that trade would decline in the coming years.

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