

INDIA'S ECONOMIC RELATIONS WITH  
THE SOVIET UNION

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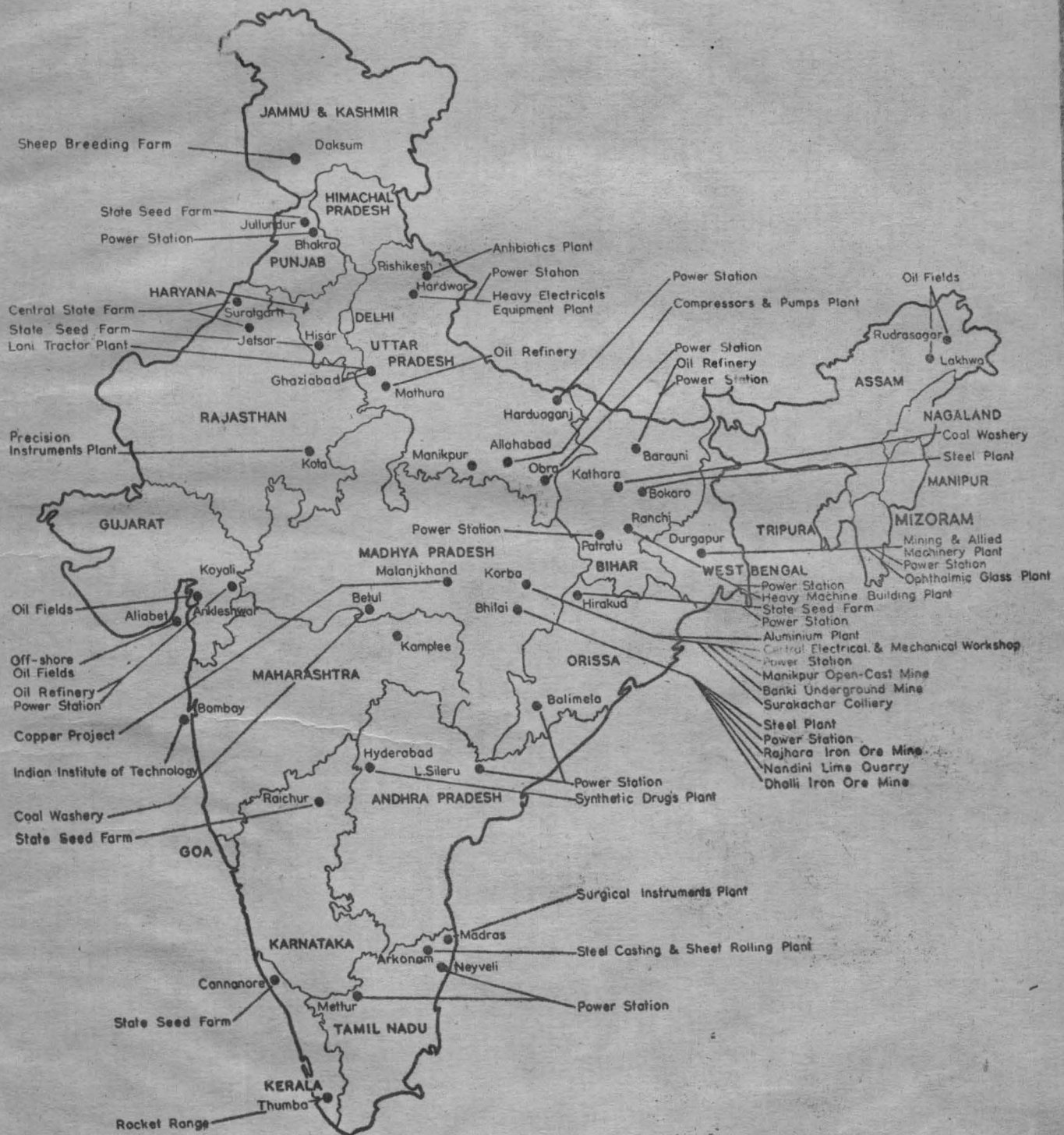
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# SOVIET-AIDED PROJECTS IN INDIA



## PREFACE

This work is concerned with India's trade and aid relations with the USSR. Aid to India is viewed as much in an international relations context as in economic terms.

Indo-Soviet economic relations are being scrutinised from an ideological perspective. The position of the Communist Party of India and Communist Party of India (Marxist) vis-a-vis Indo-Soviet economic relations are stated. An attempt is made, particularly, to examine some of the charges levelled against Soviet aid and trade relations with India by CPI(Marxist-Leninists) or Maoists.

Moreover, this study covers the period upto 1977 and particularly attempts an analysis of the critical period in Indo-Soviet relations after the Indo-Soviet treaty. India's economic and political relations with the communist bloc have in the recent past been becoming increasingly extensive and cordial, climaxed by the August 1971 treaty between India and the USSR. Following this, in 1972-73, the USSR superceded the US as India's leading trading partner. However, the intellectual counterpart of this development, which should have found expression in an appropriately large number of treaties on the subject, has so far been tenuous. The present study is an attempt to fill this gap.

We are all aware that trade and aid are two different aspects of economic cooperation between nations. However, in East European literature trade with the developing countries is regarded as a special form of aid.

In the Introduction, an attempt at definition of the concept of aid is made. This is followed by a brief examination of western aid which is actually imperialism in a new garb as it tries to perpetuate the relationship of dependence between the metropolitan countries and former colonies. In the light of this, the objectives, features and record of Soviet economic relations with the Third World in general are examined.

Chapter II discusses on two levels the politics of Soviet aid to India. It surveys the Marxist-Leninist theory regarding the role of the national bourgeoisie in underdeveloped countries and the importance of the "non-capitalist path" in the development of these countries. Then it examines the objectives of Soviet aid to India in the context of national and international politics.

Chapter III is concerned with an evaluation of Soviet aid to India. After briefly summarising the unique features of Soviet aid and recognising the role played by the Soviet Union in the development of our steel, oil and pharmaceutical industries, the study moves on to an assessment of Soviet economic assistance. The role of

military aid to India in establishing a relationship of dependence on the USSR is also examined.

Chapter IV deals not only with the changing character of Soviet trade with India, but also examines the controversy regarding the rupee-ruble parity rate, which arose on account of a clear attempt by the super-power to take advantage of its stronger position.

In Chapter V, an attempt is made to compare aid from Soviet and Western sources. Soviet foreign economic policy with special reference to India is also considered in comparison with Chinese aid policy to the Third World.

The conclusion tries to present an overall view, examining in turn the economic and political impact of Soviet economic relations with India. It emphasises the rivalry between the USSR and the USA and brings the study upto date by showing how the Soviet offer of a Rs. 225-crore credit to the new Janata Party Government can be explained in nothing but simple competitive terms.

I take this opportunity to express my deep sense of gratitude to Professor K. P. Misra of the Centre for International Politics and Organization, School of International Studies, who constantly encouraged me in my work and provided helpful suggestions. I am also grateful to Prof. Jayashekhar of the Centre for Soviet and East European Studies, School of International Studies, for

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## CHAPTER I

### INTRODUCTION

[ Properly defined "foreign economic aid is the transfer of capital and knowhow from one country to another which is made on concessional terms, that is, on terms more favourable than those obtaining currently in world capital and labour markets."<sup>1</sup> So grants of freely convertible currency constitute aid in the full sense, while loans contain only some elements of aid. Aid components depend on the length of grace and maturity periods and are marked by low interest rates. Private foreign investments and short-term capital are excluded from the category of aid.<sup>2</sup> ]

[ It is important to begin with a strict definition of the concept of 'aid. It actually means different things to different people. ] In the era of decolonisation most activities by the rich nations of the West became suspect unless they could be presented as being in the interest of the emerging states. It is not surprising, therefore, that whenever possible these activities were labelled as development aid. This happened for different

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1 L.G. Patel, Retrospect and Prospect of Foreign Aid, Foreign Aid: A Symposium, A Survey and an Appraisal, Indian Council of Current Affairs (Calcutta, 1968), pp. 107-108.

2 Little, I.M.D., and Clifford, J.M., International Aid (George Allen and Unwin, 1968), p. 13.



reasons, usually in order to improve the chances of applications for a governmental subsidy. Moreover, the desire that the national effort in development aid should contrast favourably with that of other nations furthered a wide interpretation of the concept. This is why in many governmental aid programmes development aid has got interwined with military aid, political support, export promotion and cultural propaganda. Even such varied private activities as missionary work, industrial investment and lending at commercial rates of interest are being referred to as "aid".

Strictly defined, international development aid is cooperation with a foreign state with an object to assisting that state in furthering its economic growth and social progress.

Development aid is a concept bound up with the starting point of modern growth economics.<sup>3</sup> Development aid may have had its roots in earlier policy and may sometimes give the appearance of being its continuation. The efforts, for instance, undertaken by colonial powers since the beginning of the present century to introduce

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W.G. Zeylstra, Aid or Development : The Relevance of Development Aid to Problems of Developing Countries (Sijthoff - Leyden, 1975), p. 17.

Western ideas and technology into their colonies, have often been presented as preliminaries to development aid. Apart from doubts whether this policy was founded on mutual agreement with the population in the colonies, the history of economic thought proves that its motive and purpose must have been different from those of development aid. The idea that economic development might be dependent on human volition was totally remote from classical economic thinking. After World War II, economic thought radically broke with tradition. For instance, W. Arthur Lewis's *Theory of Economic Growth*, published in 1955, no longer describes a self-evident phenomenon, but a goal for human effort. This concept has become the starting point of development economics, of which development aid is an application.

#### WESTERN AID OR NEO-COLONIALISM?

Ideally speaking, development aid ought to mean cooperation with a less developed country (LDC) to assist its economic growth. However, it has been alleged that 'the existence of aid can be explained only in terms of an attempt to preserve the capitalist system in the

Third World'.<sup>4</sup> Aid has been attacked as a concession by the Western powers to enable them to continue their exploitation of the semi-colonial countries; it is similar in its effects to reforms within capitalist countries, in the sense that the exploiting classes yield a little

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4 Hayter, Teresa, Aid as Imperialism, Pelican, 1971, p. 9. Three of the principal monetary agencies involved in western aid programmes, the World Bank, the United States Agency for International Development (AID) and the International Monetary Fund, are bound very largely by conventional economic wisdom and their priorities are quite different from the human priorities which could be embodied in an aid programme. They are concerned with short-term solvency and financial stability, no matter if this means severe cutbacks in domestic spending. Poor countries need to feed their hungry and provide the basis for further developments. These two sets of aims, as this study of the World Bank at work in Latin America shows, are diametrically opposed to each other. The attempt by the World Bank to discourage the publication of this work, although the author was commissioned to make the study by the Overseas Development Institute, gives some idea of the explosive nature of its contents. There have been several other studies of western aid which have characterised foreign aid as imperialism in a new garb (see Zeylstra, *ibid.*, pp. 70-80; M. E. Brown, The Economics of Imperialism, Penguin 1974, Chap. 11; C. R. Hinsman, Nich Against Poor: The Reality of Aid, Penguin, 1971; Cheryl Payer, The Debt Trap: The IMF and the Third World, Pelican, 1974). Soviet efforts at development aid have not been subjected to any large measure to similar scrutiny by academics, although Peking Review has, ever since the Sino-Soviet split, continued to label Soviet economic relations with the Third World as constituting 'social imperialism'.

so as to retain their essential interests. The decision to offer 'official aid' ensures that the governments of the Third World countries will allow the uninterrupted outflow of private profits and interests on past debts. Aid may also help in propping up governments by providing some short-term solutions to their economic difficulties. Again, aid may help to bring about and preserve, within the LDCs, a class which depends on the continual flow of aid and foreign private capital.

Aid has several other drawbacks. For instance, it can be used directly as a bribe to ensure the implementation of measures which favour the donors; mostly it adds to the debt burden of the recipient countries, and hence to their dependence. In a certain sense, aid is nothing more than a subsidy for multinational corporations paid for by the tax-payers of the donor countries. A clear example is aid which is tied to exports from the country providing it; goods which are financed by tied aid are usually very much more expensive than those which could be bought elsewhere. Aid may enhance the overseas markets for the products of the transnational companies; and it can be used to secure the creation of infrastructural facilities such as harbours, roads and training institutions, to commit the poorer countries resources to such projects, and thus to enable these concerns to earn more profits.

Aid can also be used to build-up socio-economic systems which are durable and resist any form of social change. On occasions, its provision has been made conditional on certain reforms being adopted within Third World countries, especially in taxation, education, even land reform, which, possibly, will defuse potential revolutionary situations. Aid can also be used to ensure, by attaching specific conditions, the smoother functioning of the system, and in this way make sure that debts are repaid, that profits can be remitted abroad and restrictions on imports can be removed.

In Latin America, says Teresa Hayter, the international agencies are in fact pursuing policies which distract attention from action to improve the conditions of life of the majority of Latin Americans. They have concentrated on efforts to achieve financial and monetary stability. But their stabilisation programmes have rarely been successful, even in their own terms; that is, prices have continued to rise. The more usual result is recession and political crisis so that the government, or its successor is forced to jettison the stabilisation programme. The international agencies have continued to hold that such programmes could be successful if they were pursued with more resolution and persistence, and that financial stabilisation is an essential prerequisite of growth and the establishment of an equalitarian

society. Objectives other than stabilisation have been sacrificed with a certain amount of equanimity pending the realisation of stabilisation, and since stabilisation is hardly ever attained, governments wishing to pursue other objectives must usually do so without the support of the international agencies. With few exceptions, stabilisation programmes supported by the international agencies have resulted in low or zero rates of growth.

A survey of the policies of the various Western donor countries by Willem Gustaaf Zeylstra (a Dutch diplomat) and who is surely no Marxist shows that as a rule either aid-giving is largely dependent on considerations which have little to do with the promotion of development, or its priority as a commitment is low. Only a few smaller donor countries such as the Netherlands and, in recent years, Sweden appear to combine a comparatively high degree of generosity with a similar degree of sincerity.

As regards trade relations between the Third world and the capitalist countries, it is well-known that the terms of trade of the Third world vis-a-vis the western countries have been deteriorating over the years, particularly, in the era of neo-colonialism. The (Singer-Prebisch) theories on the secular decline in the terms of trade of primary against manufactured goods are too well-known by now to be elaborated. This trend,

it is usually recognised started around the last third of the 19th century. It was precisely around these years that industries in advanced capitalist countries were developing into monopolies. Simultaneously, capital exports into the colonial countries acquired significant proportions. It is difficult to ignore the link between these 3 apparently disparate phenomena. Colonialism in the old sense may be dead, but neo-colonialism is not. Through the fifties of the present century to this day, barring a few exceptional years and commodities, the secular trend of worsening terms of trade for Third world primary goods has continued.

In the light of the experience of the Third World with aid from, and trade with, the west, it is important to carefully consider and scrutinise the objectives of Soviet aid and trade with the LDCs.

#### SOVIET ECONOMIC RELATIONS WITH THE THIRD WORLD

Historically, the first beginnings in economic relations including trade between the socialist countries of Eastern Europe and developing countries date back to the 1920s. The main principles of socialist foreign economic policy towards the developing world were announced by the Soviet Union in the 20s and were then implemented with some countries of the Middle and Far East. The period of steady and intensive growth in

economic relations and trade between these two groups of countries, however, really started in the mid-1950s with the coming into being of a large number of newly independent developing countries.

### Objectives

The Soviets have had a host of reasons for undertaking economic relations with the less developed countries. Their motives are not any different from those of any large country.

1. One of the earliest stimuli for Soviet interest in LDCs was the desire and need to maintain trade relations. In some cases, these areas possessed vital raw materials. In the period immediately after World War II, Soviet Union depended heavily on the East European countries for natural resources - coal, oil, uranium - and other commodities. The technologically more advanced countries, such as Czechoslovakia and East Germany, also supplied the Soviets with machinery. Gradually, the Soviets developed trade relations with the non-Communist developing countries as well; even here, aid and diplomatic activity was preceded by trade. Through such trade, the Russians were able to obtain rubber, cotton, sugar, cocoa, and coffee.

The Russians had other reasons for promoting trade. By the late 1950's, the export side of trade



became almost as important to the Russians and their East European allies as the import side. As Eastern Europe passed through the initial agony of industrialisation, it found that much of its industrial capacity had been over-developed in terms of basic heavy industry and unsophisticated consumer goods. After a time, many markets in Eastern Europe and the USSR had become saturated. When trade relations with China were drastically curtailed in 1960, the problem became especially serious, for China had been a major market for such products. Since the goods affected were not readily salable in the more advanced countries of the West, it became necessary to cultivate the markets of the developing countries.

However, most of the LDCs continued to rely on the West for merchandise and machinery. In some cases, the Soviet Union and East Europe were able to reach such markets by entering into all-encompassing barter agreements. This method was successful in the case of countries where the price of their primary export commodities had dropped. Where there were no bilateral barter arrangements, it became difficult for socialist countries to penetrate the markets which had been monopolised by capitalist countries. There was one other way in which local businessmen in the LDCs could be drawn or enticed away from the habit of trading with the West. This was

through the use of credit or the inducement of repayment in soft currency. Hence, for the Soviet Union and its allies, aid became a very important method of displacing western goods from their well entrenched markets. In 1965-66, the Russians began openly to pronounce the imperialist position that foreign aid should be used to stimulate the flow of raw materials to the Soviet Union. Articles in Voprosy E Konomiki of November 1965, February 1966, and April 1966, argued that Russian aid should be directed so that it encouraged the flow of tin, copper, zinc, aluminium, oil, rubber, iron ore and cotton to the Soviet Union.

2. Perhaps the most important consideration underlying Soviet actions is one of political self-interest.<sup>5</sup> In fact it may be said that all Soviet economic relations with the Third World are subservient to overall political aims.

In evaluating the motives of any donor country, it would be an oversimplification to assert that a certain decision was made only for economic, political

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5 M. I. Goldman, Soviet Foreign Aid (New York, 1967), p. 187. See also A. Datar, India's Economic Relations with the USSR and Eastern Europe 1953 to 1969 (Cambridge, 1972), p. 11; Eldridge, P. J., Politics of Foreign Aid in India (Delhi, 1969); L. Nayyar, "Introduction", World Development, Special Issue on Economic Relations Between the Socialist Countries and the Third World, Vol. 3, no. 5 (1975).

or humanitarian reasons. There are mixed motives behind every action. It is also true, however, that the USSR's relations with its satellites until 1956 were governed by the determination to promote Soviet national interests and to take as much out of Eastern Europe as possible by way of war reparations. Any other consideration was peripheral. Stalin was convinced that the cause of world communism could best be furthered by reconstructing and consolidating the new strength of the USSR and by maintaining a strong grip over Eastern Europe and China.

In the mid-1950s, the field of East-West contention shifted to the Third World, and the Russians began challenging the influence of the US and its West European allies there too. As a challenger of the status quo, the Russians had to adopt a much more generous policy than was necessary in Eastern Europe. Everywhere the Russians abetted anti-colonial feelings and the creation of sovereign states. It was hoped that one day these governments would go Red - the goal foreseen by Lenin and others who argued that the road to London and Paris lay through Asia and Africa. Soviet trade and aid would possibly lead to this result ultimately.

It was soon realised, however, that furthering Russian national prestige sometimes came in conflict with the long-range goal of spreading international communism. To the extent that Soviet foreign aid did in fact

facilitate the industrialisation of poor countries, and to the extent that these countries became economically viable, a Communist revolution became less likely. While the Aswan Dam brought worldwide acclaim for the Soviet Union, there was no satisfactory answer for those who asked what, if anything, the millions of roubles spent on the dam had done for the Communist movement in Egypt. Such questions became awfully embarrassing when disaster felled some members of the Egyptian Communist Party. Above all, such actions by aid recipients brought into focus the conflict between the national self-interest of the Soviet government and its commitment to revolution. This was especially disturbing to those in the Communist movement who resented the fact that the Russians usually subordinated the international movement to purely national aims. Thus, in Latin America, the Soviets granted official diplomatic recognition to Eduardo Frei's government in Chile at the same time that Fidel Castro was calling for a revolt in the country. These activities also upset the Chinese, who seized upon such dilemmas to embarrass and attack the Russians.

As the rift between China and the Soviet Union grew, foreign aid was used for a new political purpose: both socialist giants used it to increase their national prestige at the other's expense. Although both were still anxious to outdo the NATO countries, they were

often more concerned about competing with each other. A climax of this competition occurred prior to the cancellation of the second Bandung Conference in Algeria, scheduled for June 1965. A comparison of the ad<sup>hoc</sup> commitments of both countries for the months preceding this meeting indicates how much like a poker game the foreign aid negotiations had become. Several offers of long-term loans were given in the hope that the donor would thereby gain support for either the inclusion or the exclusion of the Soviets at the forthcoming conference. These credits were usually met by counterbids from the other country. And in all this, neither the Chinese nor the Russians seemed to be actively interested in the furtherance of international communism; behind the ideological camouflage it was essentially a question of Soviet national interest versus Chinese national interest.

3. For some Russians, the prime motivation for granting aid for the development of a poorer country is a humanitarian one. Moreover, it is the conviction of the Russians, and rightly so, that the countries in Africa, Asia, and Latin America are poor today largely because of their exploitation by the imperialist West. Therefore, the Russians feel they have an obligation as communists and human-beings to encourage the industrialisation of these areas.

The Russians felt the same way about China until the late 1950's. China too had been plundered by the imperialists - including Czarist Russia. As a result, the Russians made a sincere effort in the early 1950's to provide economic aid. In terms of present Russian capabilities, Soviet aid to China may not seem to be so generous. However, in relation to Soviet potential at the time, it was a major effort and undoubtedly reflected Russian compassion for the poverty of China.<sup>6</sup>

#### Features

The USSR emerged as an aid-giving country only after the US<sup>and</sup> had learnt from the initial reactions of developing countries to the US aid programme and its programme was tailored accordingly. The chief characteristics of the Soviet economic cooperation are:<sup>7</sup>

1. Emphasis on 'equality' between partners. The LDCs were very touchy about inferior status. The Soviets therefore stressed the fact that it was a partnership

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6 Since the Cultural Revolution, Chinese have begun to criticise Soviet economic aid in the early 50's as another form of imperialism. See D. Ray, "Chinese Perceptions of Social Imperialism", Stanford Journal of International Studies (Spring 1975).

7 Datar, n. 5, pp. 10-12.

between equals. One result of this was that they offered not 'humiliating charity, i. e. grants, but businesslike credits. Specifically the "Basic principles of the international socialist division of labour", jointly prepared by the member countries of the Council of Mutual Economic Assistance (CMEA), states in this respect that "the world socialist system actively facilitates consolidation of the principles of sovereignty and equality, mutual benefit and friendship among nations in international economic relations. Expansion of economic cooperation of socialist states with Asian, African and Latin American countries, based on these principles, is an important factor in promoting the independent economic and political progress of young national states."<sup>8</sup>

2. Coordination between trade and aid policies.

In economic cooperation they found a means of finding markets for their machinery and equipment and obtaining raw materials from developing countries. The reasons for this are partly economic necessity and partly political expediency. The main attraction of the East European credits for developing countries was that the former were willing to accept repayment in kind. East

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See Fundamental Principles of the International Socialist Division of Labour (Moscow, 1963), pp. 8-9.

European countries were far ahead of others in recognising the need for linking trade and aid policies.

3. 'Non-interference' in the internal affairs of developing countries. The USSR scored a propaganda victory by underlining the fact that it offered no advice - political or economic - regarding development strategy, priorities and policies. At a conference in Dar-es-Salaam, a Soviet academician said, "The cooperation between the Socialist and the liberated countries is a vivid demonstration of the fact that the countries of the capitalist economic system and the socialist countries cannot only live in peace, but can develop excellent business relations."<sup>9</sup>

4. Aid with no strings attached. This argument was aimed at American reluctance to give aid to non-aligned countries or countries friendly to the USSR. Thus, Martynov says, "When the socialist countries grant aid to the liberated countries, they never object to those countries accepting credits from the Western countries."

5. All East European aid was tied to projects and

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9 V. A. Martynov, "Soviet Economic Aid to newly Liberated Countries", in Problems of Foreign Aid, Proceedings of the Conference on Public Policy sponsored by the University of East Africa (Dar-es-Salaam, 1964).



to the country of origin.<sup>10</sup>

6. The East European aid was mainly directed towards the public sector industries. Since one of the aims of Soviet policy is to reduce Western economic domination, it is natural that their credits should be aimed at challenging the monopoly of Western firms.<sup>11</sup>

10. Aid can be either for individual projects or for overall programmes. The project approach takes a single plant or unit of investment as the basis for provision of aid and loans are provided for the imports and other needs of individual projects. The advantage of this form is that projects can be carefully prepared and planned. Programme aid on the other hand, takes the economy as a whole and the need of external resources for achieving specific development goals. External aid is accepted not for disparate projects but for the whole programme with its many projects which are subservient to the whole programme.

The chief demerit of project aid is that it does not recognise that a development programme or plan is more than a list of discrete projects. The efficiency of any one project is a function of the country's entire investment programme. In practice, project aid has concentrated on infrastructure projects while programme aid has gone into agriculture, education, small-scale industry and administrative services. Between the two, there can be no question of choice. Each approach has its place in a development plan. The Soviet aid to India is largely for projects. When authorisations are made they are made for a whole programme like the Five Year Plans. In the course of a plan, detailed project allocations are made and disbursed.

11. In a policy pamphlet produced by the Soviet economic mission to the United Nations the same point is made, that the Soviet Union contributes to liberation from economic domination by supporting industrial development. Economic and Technical Cooperation Between the USSR and Developing Countries (New York, 1967).

7. Concentration of key projects which form the core of the national economy. The investments have in fact been concentrated in (i) development of natural resources such as coal and oil; (ii) the setting up of infrastructural projects, e.g. dams, power station, transport and communications networks; and (iii) the building of industrial complexes for the production of steel, base metals and chemicals. Such a concentration on basic industrial projects "produces a multiple effect on several sectors at once and in the long run leads to a more balanced economic development". It enables, for example, India, the UAR, Syria, Algeria, Afghanistan, and certain other countries to solve major national economic problems. In this sense, the Russians have a knack for the spectacular. Their major impact projects not only excite the imagination, but result in productive and visible monuments.

8. Stability is becoming a characteristic feature of economic relations between the socialist countries and the Third world. The East European countries were the first to adopt the practice of announcing credits well in advance of the plan, thus facilitating the integration of external and domestic resources. An ever greater part of trade too is on a long-term basis. The payments agreements are now usually concluded for a period of

three to five years.

9. The main cooperation agreements are usually effected on the basis of bilateral inter-state agreements.<sup>12</sup> "This makes it possible to coordinate not only the current, but also the long-term national economic plans of each partner on a secure foundation; this helps reduce obstacles and facilitates the exchange of goods and services within the framework of the cooperation agreement (for example, tariffs, quotas, import licensing arrangements, etc.). Inter-state agreements are particularly important in a period when the pattern of a backward economy is being changed because the operation of these agreements exerts a regulating influence

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12 Aid can be bilateral or multilateral. If the aid agreement is entered into by 2 countries, it is bilateral. If the aid flows through multilateral agencies like the World Bank and IDA, it is multilateral. There are several reasons why donors prefer bilateral aid. Firstly, almost all bilateral aid is tied to donor's national exports which ensure that commercial fringe benefits of aid come back to the donor itself. Secondly, in bilateral aid the donor retains some operational control of aid which is not possible under multilateral aid. Thirdly, since there is direct contact with the recipient, whatever is done on that accord would boost the national image. On the other hand, by accepting bilateral aid, the recipient is often prevented from buying its imports in the cheapest market. Hence, the recipients often prefer multilateral aid to bilateral aid. Besides, accepting bilateral aid could mean inviting political interference.

on the process of change. <sup>13</sup>

### The Record

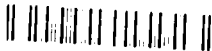
It should not surprise us that the developed socialist countries of Eastern Europe should give assistance to poor socialist countries such as Cuba, Mongolia, North Vietnam and North Korea. What is surprising is that the socialist countries have aided the development process in the poor capitalist countries. In fact, the past two decades have witnessed an astounding growth in trade between them. <sup>(see Table I, Appendix I).</sup> The total value of trade, in current prices, between East European countries, including the USSR, and the developing market-economy countries, increased very rapidly from \$ 390 million in 1952 to \$ 6,872 million in 1972. <sup>14</sup> So much so that, during the 1960s, the developing economies accounted for 40 per cent of Eastern European trade with the non-socialist world. <sup>15</sup>

<sup>13</sup> See a study prepared for UNCTAD by the Moscow Institute of Economics of the World Socialist System, "Innovations in the Practice of Trade and Economic Cooperation between the Socialist Countries of Eastern Europe and the Developing Countries", TD/E/238/Rev. 1, New York, 1970.

<sup>14</sup> Calculated from the UN Yearbook of International Trade Statistics. It is interesting that East European trade with the less developed socialist countries increased at a much slower rate than trade with the poor capitalist countries. The turn over of that trade increased from a little less than \$ 1,500 million in 1952 to approximately \$ 3,500 million in 1972. This is partly because of the sharp contraction in trade between the USSR and China, after the Sino-Soviet split.

Cf. Trade Relations among Countries having Different Social and Economic Systems, Report by the UNCTAD Secretariat, TD/112(Geneva, 20 January, 1972), p.11.

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It may be pointed out that the socialist bloc trade has been evenly distributed across the three continents of the Third World. For example, in 1970, Asia accounted for 40 per cent of the trade turnover while Africa and Latin America accounted for 30 per cent each.<sup>16</sup> Within these continents, however, trade as well as economic relations have been directed towards a limited number of nations. The important trading partners of the socialist bloc in the Third World have been: Argentina and Brazil in Latin America; Afghanistan, India, Iran, Iraq, Malaysia, Pakistan and Sri Lanka in Asia; Algeria, Egypt, Ghana, Sudan, and Tanzania in Africa. Collectively, these countries were responsible for a little more than 70 per cent of socialist trade with the Third World, during the decade that ended in 1970. Among them India and Egypt were of greatest importance.

The economic aid given by the socialist world to the poor capitalist countries has also been concentrated in a similar manner. In fact, the aid has been offered to even fewer nations. Over the period 1954-1972, the fifteen principal recipients of aid, listed in Table 2<sup>(See Appendix I)</sup>, accounted for 83 per cent of the total funds committed by the socialist countries to the underdeveloped capitalist world; Egypt and India received

29 per cent of the total. The USSR was the principal donor responsible for 52 per cent of all commitments, while the other East European countries contributed another 32 per cent.<sup>17</sup> The rest is accounted for by Chinese aid which has become important only in recent years and has largely been extended to African countries South of Sahara.

Socialist aid is not very large particularly when compared with the total foreign aid received by the Third World. However, since only a small number of countries have received aid, it might be quantitatively significant in those countries. An obvious example is Soviet assistance to Egypt.<sup>18</sup>

Economic cooperation between the socialist countries and the Third World has been mostly within framework of bilateral agreements, a framework which is rather different from the normal modus operandi of international trade. The principal characteristics of such an arrangement between a socialist country and a poor capitalist country are as follows:

1. The agreement lays down the objectives of economic cooperation for both partners and attempts

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17 Calculated from UN Statistical Yearbook(1973).

18 See Robert Mabro, "Egypt's Economic Relations with the Socialist Countries", World Development (May, 1975).

to set up planned needs as precisely as possible.

2. Trade balances outstanding at the end of each period are settled in exports and imports of mutually agreed products or in inconvertible currency.

3. Aid as well as debt repayments are automatically converted into trade flows; credits extended to the poor country, for instance, can be repaid in the inconvertible domestic currency, traditional exports or the output of aid-financed projects.

4. As far as possible, all transactions are carried out in terms of world prices, except that bilateral agreements seek to eliminate short-term fluctuations.

This example of a bilateral agreement may be typical, but it is not universal. When trade is conducted in terms of hard convertible currency, trade with the socialist countries is not different from the usual international exchange of commodities.

Given the wide range of countries and the diversity of experience, generalizations regarding Soviet economic relations with LDCs are obviously difficult. But certain themes do emerge. The socialist countries largely bought primary products and raw materials in exchange for manufactured goods. Until as late as 1970, more than 75 per cent of East European exports to the less developed capitalist economies were constituted by manufactured goods, whereas primary products and raw

materials accounted for more than 70 per cent of Third World exports to the socialist bloc.<sup>19</sup> This was despite their professed aims of forging a new socialist international division of labour. The socialist states admit that "the most intricate problem is that of finding concrete ways to eliminate the adverse consequences for developing countries resulting from the international division of labour which was shaped as far back as the 19th century."<sup>20</sup> Admittedly, patterns of production and trade that have evolved in the poor countries over the centuries cannot have been altered so soon. However, the transition to an international socialist division of labour clearly calls for a more sincere effort towards diversification.

The aid was frequently a package offer that related to key infrastructural projects, which might have been difficult to finance from alternative sources. Yet another advantage derived by the LDCs from their relationship with the East European countries was that it improved

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19 "Statistical Review of Trade between Countries having different Social and Economic Systems," UNCTAD Secretariat, TD/B/410 (Geneva), August 23, 1972, p. 9.

20 Study prepared by Moscow Institute of Economics, op. cit., p. 10.



their bargaining position vis-a-vis the Western countries.<sup>21</sup> This may have been because the socialist countries were an alternative source of technology, imports or finance and an alternative outlet for the traditional exports of the poor countries.

There have been a few attempts by scholars to scrutinise the charge that Soviet economic relations with East European and Third World countries constitute 'social imperialism'.<sup>22</sup> To diagnose Soviet foreign policy as imperialist in a Marxist sense it would be necessary to suppose some similar features of Soviet economic structure corresponding to those of capitalist economic structures. It is true that the rate of accumulation in the Soviet Union could not have been achieved, if the working population, and certainly the agricultural population, had been aware of the proportion of their current labour time that was being taken from them to invest in the future through the relative prices and wages that were being centrally fixed. It is, in large part, this concealing of relative non-monetary values in commodity exchanges between the Soviet Union, members of the Soviet bloc, and other underdeveloped countries that has led to the accusation of 'Soviet imperialism'.<sup>23</sup> This might

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21 Special issue of World Development, op. cit., see articles by P. Chaudhri, E. Dasgupta, and R. Mabro.

22 See Brown, n. 5., Chap. 12 (Soviet Economic Imperialism?).

23 A. Zaubermann, Economic Imperialism, The Lesson of Eastern Europe (1955),

appear to be very similar to the exploitation of underdeveloped countries by owners of capital in the developed countries of the capitalist world. Indeed, there is a widely held view, especially by Western analysts, that the Soviet and capitalist systems are converging.<sup>24</sup> This idea of converging systems could mean that the increase of state planning in capitalist economies makes them less dependent on exploitation, especially exploitation of other countries, and that the increased role of the market in the Soviet system makes it more liable to develop exploitative relations.

We may dwell in brief upon the unequal distribution of gains in trade relations between the USSR and

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24 J. Tinbergen, Shaping the World Economy (1962), pp. 34-9.

There is little evidence, however, asserts M. B. Brown, that in the Soviet system the central plan could be subordinated to the working of market relations without massive resistance from the state bureaucracies; equally, the subordination of the market to a central plan in the capitalist countries could not be achieved without fierce resistance from the owners of capital.

Recently there has been a growing volume of Marxist literature which sees developments in the Soviet Union, particularly after Khrushchev, as essentially making a reversion to capitalism. Most prominently there is Charles Bettelheim's recent book Class Struggles in the USSR: First Period, 1917-1923 (Monthly Review Press, USA); Restoration of Capitalism in the USSR, by Martin Nicolaus (Chicago, 1975); and How Capitalism has been Restored in the Soviet Union and what this Means for the world Struggle (Revolutionary Union, 1974).

the Third World.<sup>25</sup> In this connection several aspects are relevant: (a) the terms of trade between the USSR and the Third World; (b) the phenomenon of switch trading; (c) triangular trading by the USSR; and (d) certain other phenomena.

(a) The terms of trade in East-South trade has long been a subject of controversy. As early as in 1964, addressing the Afro-Asian Economic Seminar in Algiers, Che Guerara pointed out that in so far as the socialist countries' trade with the underdeveloped countries at the "world market" prices set by the imperialist monopolies was concerned, the socialist countries exploited the underdeveloped ones through unequal exchange no less than the capitalist ones did. There have also been charges from some quarters in the west, in the LDCs themselves, and recently (and very insistently) by the Chinese that the East European countries charge prices that are higher and pay prices that are lower than those going on the "world market".

"Authors like J. R. Carter, J. Ferliner, M. Goldman, Vassil Vassiley and Kurt Muller have charged that the Soviet Union sells its commodities to the developing

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N. K. Chandra, "USSR and the Third World : Unequal Distribution of Gains", Economic and Political Weekly, February 1977, Annual Number.

countries at 15 to 20 per cent higher than the world prices and that it purchases mostly primary commodities from developing countries at a rate 15 to 20 per cent lower than world prices.... Our analysis of the data forces us to conclude that India sold dear to and bought cheap from the Soviet Union. In the trade with the Soviet Union, India has been a net gainer. Similar conclusions have been reached by J. Bhagwati and Padma Desai, the National Council of Applied Economic Research, and Dharm Narain.<sup>26</sup>

Dr Chandra does not dispute the findings of Indian and other scholars who worked on different Third World countries. He concedes that from an analysis of the respective national statistics it cannot be contended that the Third World's terms of trade with the USSR are any worse than those with the West. On the whole, the Third World's net gain in this respect would be about 5 to 10 per cent. Further, since the Soviet internal market itself absorbs the lion's share of Third World exports to the USSR, this is beneficial for the

Third World. In the absence of such Soviet imports, there could have been a greater scramble among the suppliers for the limited capitalist world market for Third World products. This, however, is not the whole story.

While the USSR paid decent prices for imports, it gained much more in the process through the relative overpricing of exports. These prices were on the whole much above those it realised from the West. The author arrives at this conclusion after surveying past studies on the terms of trade between the Third World and USSR,<sup>27</sup> and reviewing the existing literature on the terms of trade among the COMECON partners with a view to gaining an insight into the Soviet methods of price fixation in foreign trade.<sup>28</sup> Since Soviet exports to the Third World have consisted mainly (roughly two-thirds in 1971-73 and one-half in 1974) of machinery, and since the USSR managed to get a price hike of anything between one-third and two-thirds as compared to the prices it obtained in the West,<sup>29</sup> the Soviet Union enjoyed substantial net gains in its overall exports to the Third World. For the years under consideration (1971 to 1974) these gains as percentages of total exports ranged between  $\frac{1}{3}$  and  $\frac{1}{2}$ .

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27 Chandra, n. 25, pp. 355-7.

28 Ibid., pp. 359-65.

29 Ibid., p. 361.

These percentage gains are significantly above those derived by the Third World countries in their exports to the USSR. It is because of this asymmetry that we call it a case of unequal distribution of gains.

(b) East European countries have often resold to the West some of the Third World goods obtained under bilateral agreements. Goldman has mentioned the case of cashew nuts. The Soviet Union had become by 1964 the second largest importer of cashew-nuts from India, but did not seem to consume much domestically. Most of it apparently was resold in the Western countries.<sup>30</sup> The same point has been made by Ambegaokar for the more recent past.<sup>31</sup> According to Goldman, other Third World goods rediverted by the USSR were cotton from Egypt, rice from Burma and sugar from Cuba. Since all such transactions have to be carried out without the knowledge of the producing countries, a great deal of secrecy is maintained and it is not easy to unravel the extent of such clandestine operations.

Another study states: "Using the special relationship gained by the Soviet Iraq 'friendship treaty'

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30 Goldman, n. 5, pp. 110-11.

31 N. Ambegaokar, "India's Trade with East European Countries - Trends and Problems", Reserve Bank of India Bulletin (Bombay), (March, 1974).

and its position as the major arms merchant, the Soviet Union was able to buy in December 1973, a quantity of oil for 6 million pounds. Even before it was delivered, the same oil had been sold to West Germany for 18 million pounds. Again, Afghanistan has been selling gas to the USSR at the rate of 19.5 cent (US) per 1,000 cft. in 1970. Such switch-trading is indulged in whenever there is an occasion for profit. Wheat, bought from the US at £ 1.65 a bushel was later resold to Italy at £ 4.77 a bushel.<sup>32</sup>

(c) Soviet data reveals that for a number of commodities the Soviet Union indulged in triangular trade, usually at a considerable profit to it. The USSR bought certain commodities rather cheap from the Third World and sold the same type (not necessarily the same consignment) to Western countries at a higher price. It is quite conceivable that the Soviet Union sold some domestic products whereas similar goods were also imported. Such deals would still deprive the Third World; for, in

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CPLML, "Soviet Social Imperialism in India", A CPLML Publication, Reproduced by Indian People's Association in North America (IPANA), Westmount, Quebec, Canada, 1976. The source of information for the oil deal is an undated issue of the Guardian (New York); the data on gas are taken from The Economic Times (Bombay), July 12, 1974 and on wheat from The Economic Times, September 12, 1973.

the absence of Soviet intervention the latter might have struck a similar deal with some Western country.

The list of commodities given below is far from exhaustive:<sup>33</sup>

1. Natural Gas. In 1971, the USSR imported 8,136 million cubic metres (m<sup>3</sup>) from Iran and Afghanistan at an average price of 5.9 roubles per m<sup>3</sup> and exported to Austria 1,428 million m<sup>3</sup> @ 12.85 roubles per m<sup>3</sup>. For the same group of countries the imports in 1972 stood at 11,046 million m<sup>3</sup> @ 6.0 roubles per m<sup>3</sup> and exports at 1,633 million m<sup>3</sup> @ 11.6 roubles per m<sup>3</sup>. In 1973 the corresponding import figures were 11,414 million m<sup>3</sup> @ 7.4 roubles per m<sup>3</sup> and for exports, 1,622 million m<sup>3</sup> @ 11.0 roubles per m<sup>3</sup>. In 1974, the imports stood at 11,941 million m<sup>3</sup> @ 12.7 roubles per m<sup>3</sup> and exports to Austria at 2,106 million m<sup>3</sup> @ 13.6 roubles per m<sup>3</sup>. A new client, Italy was sold 790 million m<sup>3</sup> @ only 7.8 roubles per m<sup>3</sup>.

2. Pig Iron. Between 1972 and 1974 USSR imported from India 98,000, 303,800 and 62,800 tonnes respectively at prices of 36.6, 36.6 and 30.5 roubles per tonne. Exports

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The source of information is the Soviet official publication, Vneshniaia Torzovlia for different years.



to the Third World as whole, including Pakistan, Turkey and Egypt amounted over the same years to 115,700, 18,000 and 65,700 tonnes at 56.1, 50.9 and 137.8 roubles per tonne.

3. Steel Sheets. Over the years 1971 to 1974 the USSR imported 53,800, 77,300, 63,800 and 29,400 tonnes from Egypt at 118, 118, 109 and 135 roubles per tonne respectively. Soviet exports to Third World countries like India, Iran and Syria totalled for the same years 80,800, 93,400, 55,600, and 42,800 tonnes at 134, 123, 157, and 171 roubles per tonne respectively. A small quantity of 6,000 tonnes was also exported back to Egypt at the rather low price of 90 roubles per tonne in 1973.

4. Cement. Small quantities (27,000 and 33,000 tonnes) were imported at 11.5 and 18.8 roubles per tonne in 1973 and 1974 respectively. Exports of much larger quantities were made to Algeria and Iran at the corresponding prices of 14.4 and 33.4 roubles per tonne. Clearly, the USSR made a trading profit at the expense of Afghanistan.

5. Tobacco, unmanufactured. In 1971 and 1972 the USSR exported to the Western countries 1,403 and 637 tonnes at 1,846 and 2,267 roubles per tonne. During the same years much bigger quantities were imported from India at 945 and 1,001 roubles per tonne respectively. In

1973 and 1974 large quantities were purchased from India, Turkey and Syria; small amounts were sold to Switzerland at a profit of 10 per cent.

6. Almonds. Sizable quantities were purchased from Iran and Afghanistan at average prices of 996, 1,329, 1,433 and 1,587 roubles per tonne in the years 1971 to 1974. Sales to West Germany amounted to 685, 122, 364 and 24 tonnes at the rate of 1,285, 1,615, 1,835 and 2,500 roubles per tonne.

7. Black Caviar. Although this commodity is known to be an exclusively Russian speciality, Iran also is an important producer. In 1973 and 1974 the Soviet Union imported 81 and 84 tonnes respectively from Iran at 35 and 35 roubles per kg., while it sold 67 and 70 tonnes at 57 and 56 roubles per kg. to many Western countries like the US, UK, West Germany, France, etc.

As regards tea and raw cotton there is no evidence of profiteering, but the USSR seems to have made its way into Western or Third World markets in a bigger way than was justified by its own resource position. The Soviet foreign trade in these commodities may have led to a certain diversion of Third World exports to the USSR from the West or other Third World markets. In a few items (rice and jute packing cloth) with relatively small transactions of a triangular nature, the

USSR appears to have lost in the bargain.

We have only covered a small number of possible cases. On the whole, though the Soviet Union may have made very handsome profits in some of the deals, these still do not amount to any significant proportion of the total trade between the USSR and the Third World. However, the Third World countries need to maintain vigilance on a collective basis to ensure that their exports to East Europe are not diverted to convertible currency areas.

(d) On the one hand, the socialist countries observe that "the causes of the continuing economic backwardness of developing countries are: the existing structure of international economic relations in the capitalist system, based on an obsolete and irrational division of labour...." as they say in a "Declaration" directed at the LDCs at the UNCTAD III Conference in Santiago in 1972. On the other hand, it was observed that at the same Conference the East European countries in fact lined up in debate and in vote - unless they abstained! - on the most crucial issues behind the developed capitalist countries. At the various international conferences for the negotiation of international laws to govern the exploitation of the oceans and their sea-beds, the coincidence of economic interests between the USSR, the USA, West Germany, etc. has also made them willing allies

against the demands for protection pressed by the underdeveloped countries. At the recent UNCTAD IV Conference in Nairobi in 1976, despite Indian Prime Minister Indira Gandhi's enthusiastic expression of appreciation for Soviet support for the Third World [Japan's Chief Delegate to UNCTAD IV, Toshio] Kimura was struck by the gap between Moscow's words and its actions. The Soviet Union and the East Europe bloc (the "D Group") expressed great sympathy for the less developed countries, but their attitude did not differ from that of the B Group (the developed countries) on specific matters such as the common fund and accumulated debts.\* These were the two principal points of contention between the capitalist developed and underdeveloped countries, in which the latter demanded a common fund to finance and stockpile raw materials and a moratorium on accumulated debt, both of which the US, West Germany - and the USSR - refused to accept. Again, during the 31st session (1976-77) of the General Assembly of the United Nations, the USSR and the Western countries voted together on such vital resolutions as on: 1. The Debt Problems of Developing Countries (Resolution No. A/31/14); 2. Industrial Redeployment in favour of developing countries; and 3. Ways and Means of Accelerating Transfer of Real Resources to Developing Countries on a predictable, assured and continuous basis.

Economic interests make strange political bed-fellows and so do political and strategic interests. Reviewing and introducing the studies on "economic relations between the socialist countries and the Third World", Deepak Nayyar suggests that "it appears that political factors were rather important determinants of the relationship between socialist countries and the less developed capitalist world. Interestingly enough, economic ideology and political developments within the poor countries had little to do with the relationship. International political developments were far more important."<sup>34</sup>

All pretensions at encouragement to revolutionary movements seem to be abandoned, and where considerations of international politics are not immediately determinant, it is simply business. For "business is business", as the First Secretary of a Soviet embassy in Latin America answered Andre Gunder Frank,<sup>35</sup> in response to the question as to why his government was not only maintaining but also increasing its trade and credits to Brazil after the reactionary military regime was installed there through the 1964 coup d'etat. The same explanation probably applies to "Moscow increases its credits to Banzer"

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34 Nayyar, n. 5.

35 See A. G. Frank, "Long Live Transideological Enterprise! Socialist Economies in Capitalist International Division of Labour", Economic and Political Weekly, February 1977, Annual Number.

after the military coup against the populist Torres in Bolivia.<sup>36</sup> The same explanation plus political competition with China and the US also applies to continued Soviet economic support for the Suharto regime in Indonesia, which killed 5,00,000 to 1,000,000 people in its repression of Asia's largest Communist Party. Moscow has been known to want to expand relations with Indonesia in advance of Jakarta's expected full restoration of diplomatic relations with China.<sup>37</sup> Similarly, Moscow continued to support Syrian President Assad - while Syrian troops suppressed the Palestinians in Lebanon with American and Israeli support. Moscow continued to recognise the American imposed puppet Lon Nol regime in Cambodia until the eleventh hour of its fall to the liberation troops. All these cases call some of the advantages of "socialist" aid to the underdeveloped countries seriously into question.

After examining Soviet capital projects in India, where until 1970, 85 per cent of Soviet aid was concentrated in steel (40%), oil, power and heavy machine-building, a study of "Soviet Social Imperialism in India"<sup>38</sup> concludes:

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36 El Mercurio, April 19, 1973, quoted in Frank, A.G., *ibid.*

37 Far Eastern Economic Review, December 12, 1975.

38 CPI(M) Publication, n. 32.

"In the case of India too there is no basic difference between investments by the Soviet Union and by other imperialists.... (1) The Soviet social - imperialists have been able to force on the Government of India unequal contracts, without even the normal commercial safeguards [regarding, for instance, the "normal" delays in the delivery of contracted equipment and completion of projects]. (2) Machinery from the Soviet Union is sold at a very high price [at least in documented cases of the Bokaro Steel Plant and three petroleum refineries]. (3) Sales of components and raw materials induced by the original investment are very profitable. (4) The projects are designed not with a view to economy but to maximise sales. (5) Outmoded technology is transferred [and complete Soviet technological and management control is maintained until project completion]. (6) Indian technology is not encouraged and Indian conditions are not adequately taken into account [even when Indian technology and installed capacity are adequate to supply components of the project]. (7) The basic consideration of Soviet 'aid' is to gain a foothold and break established Western cartels and earn super profits..... The pricing policy of the Soviet Union [is] to raise the price after a foothold has been established.... The commercial nature of the so-called

aid is seen in that the repayment may begin even before the project goes into production, e.g. Bokaro Steel Plant credits were being repaid even before the production began.... The Soviet Union then has upto now got the highest rate of repayment to 'aid' given - almost 75 per cent as against just 12 per cent for US, 25 per cent for UK and 50 per cent for West Germany.... Upto 1969 grants were only 3.7 per cent of the total Soviet aid against 19 per cent for the US." Some of these charges will be examined in greater detail in the course of the following chapters.

All said and done, it appears that the preferential East-South relations with the public sector in the underdeveloped countries strengthens the relatively more "progressive" sector of the local bourgeoisie. This may offer the population of these countries some relatively greater benefits directly through some public sector projects and indirectly through this more "progressive" political influence. However, in so far as these East-South economic and other relations strengthen State capitalism and <sup>puts</sup> the State at the service of private capital in the underdeveloped countries, all talk about "non-capitalist paths" notwithstanding, the socialist countries are giving further support to capital and capitalism in the Third World.



## CHAPTER II

### POLITICS OF SOVIET AID TO INDIA

The decision to grant aid to another country is fundamentally a political decision.<sup>1</sup> To understand fully India's economic relations with the Soviet Union, it is important to study them within the context of the political theory of Soviet economic relations as also the context of the changing national and international milieu. The first section of this chapter deals with the doctrinal formulation of the Communist Party of the Soviet Union regarding aid to LDCs. The second section elaborates the theme suggested in the first chapter that while political developments within poor countries had little impact on Soviet aid policy, international political developments were far more important.

#### POLITICAL THEORY OF SOVIET AID

The USSR stands committed ideologically to the non-capitalist path of development and the establishment of a national democracy in every underdeveloped state. The concept of non-capitalist path of development was discussed by Marx and Engels in studying the possibility of socialist revolution in backward countries in general

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A. Nove and D. C. Donnelly, Trade with Communist Countries (London, 1960).

and Tsarist Russia in particular.<sup>2</sup> In the Second Comintern Congress held in 1920, Lenin put forth his thesis that the national liberation struggle against colonialism and their feudal allies in Asia and the struggle of the proletariat against capitalism in advanced capitalist countries of the West were inter-connected. Lenin held the view that tactical alliances ought to be forged with the national bourgeoisie which was in a position of leadership in almost all the national liberation movements in Asia. However, Lenin did not arrive at a definite conclusion. He held the position that the Soviet support was to be guided by the actual co-relation of class forces prevailing in each of the colonies, rather than any dogmatic position in favour of the proletariat which was numerically and politically insignificant in most of these countries at the time. Although theoretical efforts for coming to grips with the initial stages of the national liberation movements in Asia were made in the Soviet Union the actual efficacy in terms of Soviet policy and material support was in fact negligible.

In the post-World War II period, the essential bipolarity of the international system as well as the

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J. Banerjee, "The Non-Capitalist Path and the Third World", Institute for Defence Studies and Analysis Journal (Delhi), January 1974, Vol. VI, No. 2.

process of decolonisation at its early phase in Asia were reflected in the ideological formulation during Stalin's period. It was recognised that the role of the ideology of nationalism in backward countries was progressive. Given the "backward" nature of revolutionary classes in the West (i.e. the integration of the industrial proletariat), the natural liberation struggle was "advanced" in backward countries in the era of colonialism. The point over which Stalin was still in dilemma was over the leadership of the liberation movements in the era of political decolonisation.

The impact of science and technology on the bipolar international system were twofold: on the one hand, military technology in the nuclear age made war as an instrument of social and economic change no longer a practical proposition; on the other hand, it strengthened the economic capabilities of both socio-economic systems. The implication for Soviet foreign policy during the Khrushchev era, therefore, was that, at the level of U.S.-Soviet relations, confrontation was to give way to peaceful co-existence.

Ideological formulations of the Soviet Union had to be adjusted to the external and internal consequences of the technological revolution. The concept of peaceful co-existence and the concept of the non-

capitalist path of development represent in concrete shape the recognition of the new form of international relations. Despite this change in the mode of interaction in an international system divided into two camps (East and West) characterised by latent antagonism in general, Soviet authors continued to emphasize the "advanced" character of national liberation movements in "backward" countries and the latter's potentiality in bringing about a change in the international correlation of class and political forces. Soviet policy-makers stress on the great significance of the newly independent states and their decisive role in the outcome of the international class struggle.

The 20th Congress of the CPSU in February 1956 formally adopted the concept of non-capitalist path as the model for development in Third World countries.<sup>3</sup> To that extent it represents a landmark in the evolution of Soviet relationship with Asian countries.

First, the Soviet Union took note of the independent character of non-alignment policy, adopted by India and other Asian countries. The non-aligned nations were termed as a zone of peace in the context of the division of the world into contending systems. These states represented a zone of peace to the extent that they were willing to utilize their newly gained sovereignty

to assert their independence from their earlier imperialist mentors. Khrushchev listed India, Burma, Afghanistan, Indonesia, Egypt and Syria as constituents of the zone of peace. Other countries, such Turkey, Iran, Pakistan, Thailand and the Philippines which entered into military alliances with imperialist powers, were left out of the conceptual area of zone of peace.

Secondly, the Khrushchev Report of the Central Committee of the CPSU took note of the general dissatisfaction of Asian countries ~~of their continued dissatisfaction of Asian countries~~ of their continued economic dependence and the tendency towards encouraging independent economic development and social progress within their territories. The Soviet Union's response was that only a non-capitalist model of development could provide the answer to the predicament of these countries and that disinterested Soviet economic aid programme created favourable conditions for independent development.

However, it seems that the Soviet Union did not define its attitude towards the national bourgeoisie and, as in the 2nd Comintern Congress, left the issue vague. While one could argue that this was essentially a tactical compromise to Asian reality, it nevertheless laid bare the extent to which the Soviet leadership was willing to go to retain the goodwill of these states and

the class in power.

Khrushchev held the view that the Soviet aid programme and the non-capitalist model were attractive to the Asian states irrespective of the class nature of these regimes for the following reasons. Firstly, it was argued that the Soviet economic assistance was not tied to political pre-conditions. Secondly, it was argued that despite the class character of Asian regimes the national bourgeoisie was itself interested in independent economic development and in raising the standard of living if only to consolidate their position within their respective state. Again such assistance, it was believed, could be utilised as a leverage for ensuring democratic liberties for the organisation of revolutionary social forces within these countries. It was also believed that such ideological interference would be politically more acceptable.

Thirdly, the Soviet Union stressed the revolutionary role of their economic assistance programme within the recipient states. Given the concentration of assistance to the state sector and heavy industries, it was believed that the revolutionary potential was to be enhanced by the quantitative increase of the proletariat and the surrounding stratum of semi-proletarians. Thus, justification was sought on the grounds that the material and moral factors enhanced the prospect for the creation of pre-socialist conditions within these states.

Finally, the Soviet Union stressed the national character of socialist revolutions in Asian countries, while accepting the possibility of an indigenous socialist revolution and the support of the Soviet Union in such an event, in reality such an eventuality was considered to be remote in the context of the low level of consciousness and material development of Asian nations.

The non-capitalist road of development and the state of national democracy are strategies designed to bring about in Phase One of the national revolution those conditions that are a prerequisite to its completion in Phase Two (socialism). However, there seems as yet no complete agreement among Soviet theoreticians on the new development theory. A. Sobolev underscores that the "state of national democracy" is a specific form of the non-capitalist way. But he disagrees with those "comrades" who equate the non-capitalist way with socialism itself.<sup>4</sup>

There appears to be a differentiated political approach by the Soviet bloc to the individual underdeveloped countries, an approach geared to socio-economical development and inter-class relations. The CPSU party programme states that in the underdeveloped countries the development

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4 A. Sobolev, "National Democracy - The way to Social Progress", Probleme des Friedens und des Sozialismus (East Berlin - Prague), No. 2/1963, pp. 126-27.

process of Phase One "may well be complicated and may require a series of stages". Thus in some countries [Burma, Congo (Brazzaville), Guinea, Mali] the Soviet bloc operates for immediate gains; in others [India, Iraq], for future profits. And so we read: In many cases the duration of the non-capitalistic stage of development will be "an episode in the life of society. In other cases, long years of qualitative changes in the socio-economic conditions will be required.<sup>5</sup>

As regards the class character of states, Soviet theoreticians speak of 3 groups of nations in the Third World; Internal class relations determine the structure of the anti-colonial and anti-imperial popular front, as well as the tempo, thoroughness and timeliness of the liberation struggle. In some countries the reins are still tightly in reactionary hands; in others, the commanding heights are in undisputed possession of the national bourgeoisie; while national democracies were able to form where the government is firmly allied with the urban and rural working class. Countries where the reins are still tightly in reactionary hands are those that are western-aligned. The Soviet bloc attitude toward these countries is well-known. Countries whose commanding heights are in possession of the

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5            Ibid., p. 128.



national bourgeoisie include, among others, India and Iraq;<sup>6</sup> in short nations that, while important in the "zone of peace" concept, have thus far proved impervious to internal communist influence. It is in these countries that the Soviet bloc applies its long-range policies, and it these countries (especially, India and Iraq) that prove most expensive to the USSR in terms of foreign aid. The third group of nations includes the national democratic states.

#### POLITICAL OBJECTIVES OF SOVIET AID

Eldridge in his book The Politics of Foreign Aid in India<sup>7</sup> reviews the political objectives of Soviet aid policy in India and comes to the conclusion that "whilst important ties of economic interest have been established, foreign policy considerations have been dominant. Purely communist objectives have played a secondary part." We know that the CPM steers clear of both Moscow and Peking. As for CPI, on ideological questions the influence of Moscow was strong, but there

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6 K. Muller, Foreign Aid Policies of the Soviet Bloc and China (New York, 1967).

7 The Politics of Foreign Aid in India, (Vikas Publications, 1969), op.cit.

was no automatic chain of command even during the period of tightest Stalinist control. The Soviet leadership had abandoned its objectives of encouraging revolutionary tendencies in India in 1950, when the Soviets realised that Nehru could prove a positive factor in international affairs. This Moscow line caused some internal dissensions in the CPI, before the latter formally accepted these objectives herself in 1956. After the announcement of the Soviet strategy of "peaceful co-existence", of which aid was an important component, the Soviet Government cultivated good relations with the Congress Government, unceremoniously shelving the CPI's political interests. Foreign policy considerations predominated in the Soviet attempt at improving relations with India after the death of Stalin. During the period 1947-54, hardly any relations existed between the USSR and India. But the speed with which co-operation was subsequently achieved is noteworthy. Apart from the global change in the Soviet strategy, foreshadowed under Stalin and implemented by Khrushchev, there were important factors of common interest to account for such a successful rapprochement.

The year 1954 was marked by a closer western involvement in sub-continental issues, in the form of Pakistan's aligning with SEATO and CEATO, and the supply of American F. 84 jets to that country. From the Soviet viewpoint these factors upset the power balance in the

area, bringing Western power nearer to her Southern borders. At the same time these circumstances provided an excellent opportunity to take advantage of Indian discontent against American pressures. A high proportion of Soviet aid was directed to India and Afghanistan,<sup>8</sup> both of whom had border disputes with Pakistan. From the Soviet point of view, India's neutrality now became synonymous with Soviet security, to which end it was important to reduce dependence on the US for aid. Such a strategy could easily be accommodated within the framework of promoting the independence of ex-colonial developing countries while still maintaining the new philosophy of peaceful co-existence.<sup>9</sup> There is thus a marked parallel between Soviet and American strategy towards India. In the US the need was emphasised for India to maintain good relations with the Soviet Union, for this was as much to America's interest. This seems to reflect the American strategy of encouraging the Moscow-Peking ideological split. Indeed, as Eldridge says, "following

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8 J. S. Berliner, Soviet Economic Aid and Trade Policy in Underdeveloped Countries (New York, for the Council on Foreign Relations, 1958), Chapter 2; K. Billerbeck, Soviet Foreign Aid to the Underdeveloped Countries, an Analysis and a Prognosis (Hamburg, 1960).

9 L. Fituni, Economically Underdeveloped Countries and the West (Moscow, 1963).

the Sino-Indian war in 1962 and the growth of the Sino-Soviet split, India has provided perhaps the clearest focal point of cold war detente between America and Russia."

On the Indian side, deteriorating relations with the US prompted India to improve relations with the Soviet Union. The USSR was willing to accept the basic foreign policy assumptions of India and had professed to adhere to a policy of non-interference in internal matters. Moreover, in view of World Bank and American hostility towards an economic strategy emphasising the public sector, India had good reasons to accept Soviet aid. After all Soviet assistance was extremely crucial in allowing India's particular chosen pattern of development to evolve. In this regard the volume of Soviet assistance was by far less important than its new orientation.

One can question whether the Soviet aid was ever viewed as a means or as an instrument of influencing India's domestic policy towards Communism, though certain statements of Khrushchev might be understood as indicating such an intention. Defining the concept of 'peaceful co-existence' at the 20th Congress of the CPSU in February 1956, he maintained the inevitability in a number of capitalist countries of 'the overthrow of bourgeois dictatorship by force.... the fact that we support

peaceful co-existence does not mean that one can relax in the struggle against bourgeois ideology.' At the same time it was 'likely that the forms of the transition to socialism will become more variegated.' These words reasonably invite the reactions that the Cold War is still on; the Soviet economic assistance policy of the Soviet Union is part of it. It is possible that these pronouncements were primarily meant for internal consumption, to protect the newly expounded concept of 'peaceful co-existence' from the charge of 'revisionism'.

There was a common tendency in the West during the mid-1950s to give various interpretations of Soviet assistance in vaguely conspiratorial/revolutionary terms. One may speculate whether the industrial (as opposed to agricultural) emphasis of Soviet aid in India stems from the theoretical desirability of fostering the growth of an industrial proletariat, the desire to export her own economic model or from reasons of economic convenience. All three motives would probably play a part. However, it must be stressed that the choice of emphasis (on the public sector) has been India's, the Soviet Union merely benefiting from the coincidence of Soviet and Indian view.

Examples may be cited of cases where Soviet Union has tried to reconcile ideology and diplomacy in favour of the latter. In Moscow an article was published under

official auspices, in which the Avadi resolution of the Indian National Congress, passed in January 1955, envisaging a 'socialistic pattern of society', receives approval: "Steps to develop state industry are not, in themselves of a socialistic character.... However, in India as in other economically backward countries that have recently embarked on the path of independent development, state-capitalist enterprises assume a special character... State capitalist enterprises in India, under present conditions, play a progressive part.... given close cooperation by all the progressive forces of the country, there is the possibility for India to develop along socialist lines.... The economic plans can be carried out with the active participation of their workers and peasants, their young technical intelligentsia, scientists, students."

Apart from the surprising turn-around in the orthodox doctrine involved in recognising the merits of a mixed economy, the abandonment of class-consciousness apparent in the last sentence is even more noteworthy. The CPI's reaction to the Avadi resolution was that it was 'a hoax perpetrated by the big bourgeoisie to deceive the masses.' This shows very obviously Moscow's stress on pragmatism. A similar conflict exists over attitudes to western aid. Whilst the CPI is hostile, Moscow, though occasionally denouncing western political motives in general terms, never does so in a specifically Indian context. Perhaps the most realistic assessment of the situation is provided

by Khrushchev's view of the function of Soviet aid in acting as a catalyst to produce still larger quantities of western aid. In fact, there is some truth in Khrushchev's contention that western aid is a special form of Soviet aid.<sup>10</sup>

From the Soviet viewpoint, perhaps the most important contribution of the foreign aid programme was that it made neutralism a practical alternative. The very existence of the alternative of Soviet aid provided needed leverage for the numerous countries that obtained their independence in the 1950's and 1960's. After the unexpected Russian decision to finance the Aswan Dam, the West and the developing countries learned that the Soviet Union was prepared to commit immense quantities of resources for countries that were willing to stand up to the NATO powers. It is entirely possible, for example, that the Iranian Premier's attempted nationalisation of the Iranian oil companies in 1951 might have been successful if it had taken place only 5 years later. As Soviet support for Egypt indicates, by 1956 the Russians had decided to support actively just such provocative challenges. At least as far as India is concerned, Soviet aid had made viable her policy of nonalignment.

It has been suggested that the USSR would not have been interested in India except for the interest shown by the US. What India benefited from was the 'cold

war'. The USSR gets credit because had it not chosen India as a 'friend', the latter would not have received much attention from others. The American reaction to the Soviet aid should be observed more closely in order to prove the point. There are four landmarks in US aid policies. In the first phase Europe was struggling to restore its economy with American aid: the Marshall Plan for Europe was launched in 1950. The primary reason for extending aid was to enable countries to stand up to the threat of communism. The second phase began with the Korean war, after which the advanced countries began to appreciate the importance of the developing countries. "The interest of the US in extending assistance to the underdeveloped countries is compounded of a humanitarian impulse to aid the less fortunate, a desire to promote sound and expanding world trade, the necessity of increasing supplies of raw materials and the firm determination to forestall the spread of communism. But the role of the US in assisting underdeveloped countries is conditioned by its belief in the value of the democratic form of political organisation and in certain basic principles of economic philosophy that are embedded in the American system."<sup>11</sup> For one thing, there is no mention here of the role of aid in promoting development; for another, it was clear that those who did not align themselves with the US in the crusade against communism were bound to be

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 W. A. Brown and R. Opie, American Foreign Assistance (Washington, D. C., 1953), 196.



affected adversely. The American administration disliked India's policy of non-alignment and often the Congress reduced the aid appropriations requested. Until the USSR entered the picture, therefore, the US had a strong bargaining position. The third phase, which began with the entry of the USSR as an aid-giving country, saw the reorientation of the American aid programme. Since the 1957 the US has supported concessional terms of loans and has cooperated with the world Bank to coordinate international ~~trade~~<sup>aid</sup> effort. The fourth phase saw the introduction of a new American policy: offers of long-term development-oriented loans on a continuing basis and integrating external funds into the planning process. In his aid message to Congress in 1961, President Kennedy said, "The ability to make long range commitments has enabled the Soviet Union to use its aid programme to make developing countries economically dependent on Russian support - thus advancing the aims of world communism."<sup>12</sup>

In its foreign economic policy the USSR has tended to give high priority to its own, and to what it believes, the region's security interest. The Soviets in general have identified two sources of conflict in the region: the Sino-Soviet rift and the consequent

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<sup>12</sup> The Message of the President to Congress, quoted in R. A. Goldwin, Why Foreign Aid? (Chicago, 1963).

competition that the Soviet Union faces from China for influence with the Asian states; and Asian nationalism, further aggravated by external interference from the USA and its allies, likely to result in escalation of local conflicts into a global confrontation. In the context the Soviet Union has responded with its proposal for an Asian collective security plan as a factor for peace and maintenance of status quo. The overall result of security preoccupation has resulted in the underplay of internal contradiction within Asian states in Soviet policy. Thus the Soviet Union's interest as a state has often overridden its international interest as a revolutionary power and as a consequence considerably tarnished its image with revolutionary social forces in India and elsewhere.

The Indo-Soviet treaty of 1971 should be seen in the context of continuing bellicosity of China and growing signs of understanding between it and the U.S. This brought India and the Soviet Union closer together from 1969 onwards. Talks were held for putting Indo-Soviet relations on a firmer basis of a treaty. Talks proceeded in a leisurely, fitful way. What finally clinched the issue were the developments connected with the Bangladesh crisis.

The dimensions this crisis assumed are well-known. It will be sufficient to recall the holocaust

let loose by the West Pakistani military regime in Bangladesh on the night of March 25, 1971. Millions of refugees poured into India. Both the US and China seemed determined to stand by the military regime in West Pakistan regardless of the policy it pursued. As the crisis in Bangladesh deepened further, the US President's Adviser on National Security Affairs, Henry Kissinger flew in the first week of July to Peking on an important secret mission via Islamabad. On the successful completion of his mission it was announced that President Nixon himself would soon visit Peking. Gen. Yahya Khan now adopted a more strident tone than ever. It was in India's interest, in such circumstances, to forge closer ties with the Soviet Union. The talks going on since 1969 were, therefore, soon completed and, on August 9, 1971, was signed in New Delhi the Treaty of Peace, Friendship and Cooperation between the two countries.

The treaty was the natural culmination of a process that had gone on over a long period of time. A survey of Indo-Soviet relations from the death of Stalin to 1970 would show how these grew ever closer and stronger year after year. By 1970, the Soviet Union had become the second largest buyer of Indian goods, the main source of external assistance in setting up and expanding her heavy industry, and also the main supplier of her sophisticated military equipments like tanks, supersonic bombers, sub-marines, radars, missiles and transport planes.

Besides, cooperation between the two countries at the regional and at the global level, had been widened. Whether it was the issue of Kashmir or Goa, the Soviet Union consistently stood by India. She also supported India's stand in the latter's problems with China. Likewise, on issues relating to West Asia or South-East Asia or on issues of general disarmament, the politics of the USSR and India were similar.

The treaty is by no means confined to the problem of security; it provides for the further development of co-operation between the two countries not only in political, but also in scientific, cultural and economic fields. Articles V to VII provide a broad framework for developing such cooperation between the two countries. The treaty has given a fillip to a further expansion of trade between the two countries. The Soviet Union has, thus, left the US behind and emerged as the largest buyer of Indian products. The Soviet Union had already emerged as a major supplier of machinery, equipment and sophisticated raw materials needed by Indian industries. In fact, after 1971, the Soviet Union has gradually edged out the US from the dominant position it was playing in the Indian economy.

## CHAPTER III

### SOVIET AID TO INDIA

This chapter is divided into two sections. The first deals with economic assistance while the second with military aid. A relationship between military and economic aid is relevant in long-range terms. To the extent that economic aid is directed into industrial development, such assistance enhances the long-term potential of the recipient to produce military hardware. Construction of steel mills and power plants, as well as the training of technicians and students, can all be viewed as economic aid. Nevertheless, some of these programmes increase a recipient's ability to produce its own military supplies in the future and to earn foreign exchange to purchase military equipment abroad.

#### Economic Assistance

Soviet economic aid started to flow into India from 1955. There were 9 different aid agreements from 1954-1955 to December 1966 when the last agreement was signed (see Appendix I, Table 5). Since then, no new credit agreement has been signed. The Soviet Union's assistance to India as on March 31, 1976 totalled Rs. 752 crores and accounted for 4.7 per cent of the total assistance received by India from all sources (see Appendix I, Table 6). The USSR was the first donor to accept the principle of giving

development loans on concessional terms. The interest rate charged on the loans is 2.5 per cent to be repaid within 12 years with a grace period of one year from the delivery of equipment.

A characteristic feature of Soviet aid is that it is not a regular annual flow, unlike American aid. Economic aid is authorised for particular projects and to particular plans. The annual flow would mostly depend on the needs of the recipient and on its capacity to draw the authorised credit as and when the need arises.

#### Features of Soviet Aid

Firstly, the quantity of East European aid is not a true indication of its importance to India. The share of East European loans in total loans authorised and utilised until 1973-74 was only 10.37 per cent and 8.47 per cent, respectively. In terms of grants their share was almost nil. However, as a bloc they were second only to the consortium countries in importance.

As Datar says, "the East European countries were not important donors in the sense that discontinuation of East European credits would have posed serious financial difficulties for India. Even in the field of industrial development, they contributed less than 20 per cent of the total external funds made available in the first three plans. Nonetheless, the availability of these credits

has been an important factor because of the reactions it produced among the other donors. "(p. 65) The contrast between the volume of funds made available before and after the USSR offered to set up a steel plant at Bhilai is indeed striking. Again, after the USSR had built two oil refineries in the public sector, foreign firms showed interest for the first time and the government was offered two refineries at nearly half the price of the first USSR refinery.

Secondly, there is a particularly close relationship between the aid and trade aspects of economic co-operation. There are two sound reasons why East European aid cannot be treated separately from trade. The East European countries agree to accept repayments in goods and since 1960, they have accepted repayment of loans in non-convertible rupees. For a country that suffers from acute scarcity of foreign exchange, this reduces the burden of servicing foreign loans, loans which are repayable in hard currencies impose the heaviest burden whereas loans repayable in domestic currency e.g., PL 480 food aid from the USA, impose the least burden. The loans repayable in domestically produced goods fall in between. Net benefits from this arrangement depend upon the quality prices and volume of goods that India buys and sells. But one thing is clear: any currency balances accumulated can only be used to buy goods and services from the

partner country. (If India cannot buy the goods she wants, the benefits from this arrangement may be lessened). In other words, if exporting to a country does not involve a commitment to buy an equivalent amount from that country and vice-versa, the two questions of trade and aid can be treated separately.<sup>1</sup>

Thirdly, the Soviet Union has as a matter of policy ruled out the provision of large-scale grants as a means of providing assistance. Grants given by the USSR to developing countries constituted only 3.7 per cent of total aid. For the U. S., in contrast, for pure grants (excluding surplus food aid programme) the percentage would be about 19. The reasons given by the Soviets for extending only interest-bearing credits are to restrict the number of requests, to avoid suspicion of 'political strings' connected with 'gratis' assistance; and also to approach the recipient on a more businesslike and mutually profitable basis. Besides, it gives the government of the LDC a psychological satisfaction that its relations with the USSR are not based on a begging bowl.

Offers of economic assistance from the USSR came early on in the life of planned development in India.

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Sebastian attempts to calculate the aid contribution to Soviet trade. For the years 1959 to 1968, the average annual growth rate in trade for developing countries which were aid-recipients was around 10 per cent while for the non-aid recipients the rate was around 2 per cent.



This was during the period of the first Five Year Plan, when the only other donors were the USA and the World Bank. The USSR's commitments came to a head during the Second Plan period, when aid was authorised for such important projects as the Steel Plant at Bhilai and the Heavy Engineering Corporation at Ranchi. Thereafter, the emphasis fell increasingly on bilateral trade agreements as a channel for economic cooperation between the two countries. The time-pattern of aid from other East European countries is the same.

One aspect of Soviet aid to India that is noteworthy is that it was the first country to authorise aid for the duration of a whole plan rather than on a year-to-year basis. This was made possible by the fact that the USSR is a centrally planned economy. This enables the aid-recipient to plan ahead its future development programmes in concrete terms. It is to be remembered that while other donor countries tied most of their credits either to a project( ) or to purchases in the country of origin( ). East European countries tied their credits both ways. It may be seen from Table 7 (Appendix I) that the share of grants and untied credits in the total external assistance utilised upto 1973-74 was only 6.3 and 21.1 per cent respectively. The share of East European countries in either was virtually nil. Moreover, in their case, aid was double-tied, by source as well

as by project.

It has been observed that the rate of utilisation of aid has been lower for the East European countries than for other countries. In fact, as regards utilisation of aid, the Soviet Union ranks 17th among 23 donors of aid to India (see Appendix I, Table 8). In general, all the East European countries, except Czechoslovakia, have very low utilisation figures. On the other hand, among the Western donors the utilisation of aid is over 80 per cent. For the USA, it was 97.3 per cent. Utilisation of aid authorised from all sources is 89.5<sup>percent.</sup> If this is taken as the standard, then all the socialist countries, excepting Czechoslovakia, would fall below it. Major Western donors would be above this standard.

The gap between aid authorisation and its utilisation is rather serious in the case of India. Up to the end of March 1966 Soviet loan promises to India totalled Rs. 489.6 crores while disbursements stood at only Rs. 282.1 crores. The following year a further commitment of Rs. 250.0 million was made but only Rs. 36.1 million were utilised. No further commitments were made till the end of March 1975. Yet aid utilised on a cumulative basis upto March 1974 was Rs. 544.6 crores against the commitment of Rs. 739.6 crores. Due to the special wheat loan in 1973-74 and 1974-75, utilisation increased sharply in

these two years.<sup>2</sup>

Table 9 (see Appendix I) illustrates this point with reference to the Soviet Union. It is observable that the utilisation is low for the period 1956-61 and 1966-70 but not for the intervening period. It is not clear as to what extent low utilisation is due to the alleged rigidities of the system. P. Chaudhri<sup>3</sup> suggests that the lower rate of utilisation of Soviet aid can be explained by the two factors. One is that all Soviet aid is project-tied, and project-aid, from whatever source, has a slower rate of utilisation. The second is that half of Soviet aid has been concentrated on two projects - Bokaro and Bhilai - and the rate of aid utilisation has been dependent on the progress made in these two projects. He also adds that the delays in implementing Soviet projects have been higher than that in projects built with aid from other donors.

#### Soviet Aided Projects in India

From India's viewpoint, the benefits of bilateral <sup>Soviet aid</sup> rupee trade seem fairly obvious. In terms of volume of

2 The wheat loans accounted for Rs. 148.0 crores out of Rs. 164.7 crores disbursed in 1973-74. For 1974-75 the wheat loan is not shown separately. Our data are taken from the Reserve Bank of India Economic Survey, 1974-75 and 1975-76, Appendix Tables.

3 P. Chaudhri, "East European Aid to India", World Development, op. cit., p. 339.

aid, Soviet aid was not particularly significant - USSR ranked 6th among the major aid donors. Quantities apart, the special significance of aid from the socialist countries lies in the fact that they are willing to give aid for capital goods industries in the public sector which have not always been favoured by some of the other donors. Secondly, it is widely believed that the East European countries are more sympathetic to India's development strategy which assigns a predominant role to the public sector. Finally, the presence of these countries greatly improves India's bargaining position with Western countries. In the last two decades, 80 industrial projects have been constructed or designed in India with Soviet co-operation. Of these more than 55 have already been commissioned. These projects at present account for one-third of India's output of steel, one-fifth of power generation, 60% of crude production, and 30% of oil products, over 80% of metallurgical products and 60% of steam and hydro-power plants. They also account for large quantities of pharmaceuticals and drugs, including antibiotics.

Steel. After 1947 with the decision of the Government of India to industrialise, expansion of domestic steel production was given the highest priority. Several Western countries showed willingness to help India set up a steel plant. But they refused to give assistance to a public sector plant. In this context India requested the

USSR to set up a one million tonne steel plant in Bhilai (Madhya Pradesh) in 1955. It was in the wake of this agreement that West Germany agreed in June 1955 to construct a one million tonne plant in the public sector at Rourkela in Orissa. This was followed by the British agreement to build another one million tonne plant at Durgapur in West Bengal. As V. K. R. V. Rao said, "had there been no Bhilai, there would have been no Rourkela or Durgapur".<sup>4</sup> The Bhilai plant's capacity has already crossed the 2 million tonne mark in 1975-76 and in accordance with the November 1973 trade and cooperation agreement signed between the two countries, Bhilai's capacity will eventually be raised to 7 million tonnes.

The USSR helped India again in the case of the Bokaro Steel Plant. Initially the USA showed interest when the Government of India decided to set up a plant. Goldman observes, "Bokaro could have provided a 'flagship' project for the whole American aid effort. It would also have posed an effective counter to Soviet aid, not only in India, but wherever the Russians made claims that Americans were unwilling to promote industrial projects. But major differences over issues like management and ownership occurred. In the meanwhile, the US Senate accepted a report which argued that while the US could not force its system of free enterprise upon others, it would be unreasonable to expect the US to support the public sector."

Nehru thereupon withdrew the request for a loan. But the Soviet Union expressed its willingness to finance the Bokaro Steel Plant. As of today, almost all the major units of Bokaro have been commissioned. The entire work related to this stage was expected to have been completed by December 1976. The construction work on expanding the capacity to four million tonnes of ingot steel production (stage II) is also on hand and is scheduled for completion by December 1977.

Oil. There are seven major international oil companies which have dominated the international oil industry. After 1947, India signed agreements with 3 Western firms (Burmah Shell, Stanvac and Caltex) to set up refineries in India. These companies imported crude, which had to be paid for in foreign exchange. Naturally the Government of India was anxious to bring down the heavy drain of scarce foreign exchange due to oil imports. In 1959/60 the USSR offered to sell its crude oil to India at a discount of from 15-20% below the world market price. But the refineries in India refused to take it. The USSR and Rumania then offered to set up refineries in the public sector.

Although India had made several efforts earlier, Western firms showed no inclination to invest in exploration and production of oil in India. India was a vast expanding market and perhaps it was contrary to the

interests of the Western oil companies to explore new fields in India. The world supply situation was that petroleum companies were taking steps to control rather than to increase production in the fifties. If large oil reserves had been found in India, the Government of India would have required them to refine indigenous crude oil. Thus they would have sacrificed another market for their existing sources.

The Soviet Union, in the meanwhile, made a proposal to help in exploring for crude oil. Oil was struck at Ankleshwar, S. Gujarat and began extraction Aug. '61 and to refine this oil the USSR and Rumania offered to set up refineries in the public sector, in 1958 and 1959. After the USSR had constructed two refineries in the public sector, Western firms became interested and India was offered two refineries at nearly half the price of the first Soviet refinery. As Goldman says, "There was considerable evidence to indicate that the Indians had paid an exorbitant price for Russian help. By the time the Indians had decided to build a third refinery at Koyali, the Western firms realised the seriousness of the situation and began to make counter efforts. In addition, once the cartel had been broken, other Western firms decided to enter the field. Consequently, Philips Petroleum Company at Bartlesville, Oklahoma, won the right to build the fourth refinery for the Indian

government at Cochin..... This provoked bids from ENI (the Italian state-owned oil corporation) and other Western firms. Thus, for the first time, India was permitted the luxury of competitive offers.<sup>5</sup> The competition between the Western firms and the East European countries compelled the Soviet Union to lower the cost of the refinery at Koyali.

Today, the oil-fields of Ankleshwar, Kalol, Rudrasagar and Lakwa and the refineries of Barauni, Koyali and Mathura stand as symbols of Soviet assistance. Detailed seismic surveys were carried out by a fully equipped Soviet-ship, 'Akademic Arkhangelsky' and the Indian exploratory vessel 'Mahindra' which indicated exceptionally promising structures in the continental shelf of India. It is probable that the off-shore waters are much richer in oil than the adjacent areas on land. In fact this prospecting led to the discovery of the "Bombay High" structure in the Arabian Sea. It was the Soviet Union which provided the design of the fixed platform for Aliabet and also helped in fabricating and erecting the platform at site. The capacities of the state-run refineries at Koyali and Barauni make up nearly 35 per cent of the total capacity in India. In September 1975 it was decided to set up another refinery with Soviet assistance, this

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5. Goldman, n. 5 (Chap. 1), pp. 98-9.



time at Mathura. A contract was signed in Moscow between the All-Union Association Neftakhimpromexport and the Indian Oil Corporation to this effect envisaging the delivery of Soviet materials and equipment for the construction of a refinery with a 6-million tonne capacity.

A large group of Soviet specialists and specialists of some other countries, working within United Nations projects have helped the Indian Oil and Natural Gas Commission to establish the first research Commission to establish the first research and educational institute dealing with oil matters and also the Hind Oil Design Institute (see Appendix II).

Pharmaceuticals. In the fifties foreign firms completely dominated the drug industry in India (at least 95% of production capacity). The Pharmaceutical Inquiry Committee in 1954 had found that patent rights of these Western firms were mostly responsible for the exorbitant prices in India. As regards prices of drugs, an American Senate Committee report said: "Prices in India for the broad-spectrum of anti-biotics, aureomycin, and achromycin were among the highest in the world. As a matter of fact, in drugs generally, India ranks among the highest priced nations of the world - a case of an inverse relationship between per capita income and the level of drug prices."

India could only have broken this monopoly of Western firms by seeking technical know-how from the East European countries. The USSR made a proposal of setting up 5 plants to manufacture antibiotics and surgical instruments in the public sector in 1955-6.

The following 3 plants came up: the Surgical Instruments Plant, Madras, Antibiotics Plant, Rishikesh, Uttar Pradesh, and Synthetic Drug Plant, Hyderabad, Andhra Pradesh. Till recently India used to manufacture only a small proportion of the simplest medical instruments, and the bulk of the instruments had to be imported. In the short-period since its commissioning, the Madras Plant has started producing 153 types of surgical instruments. The major branches of the drug industry are anti-biotics and sulphonamides, but hardly any were produced in India before the 1950s. The Antibiotics Plant at Rishikesh now accounts for 75% of antibiotics sold in India. Beginning with 1973, the plant is being entirely run by Indian personnel. The synthetic drugs plant at Hyderabad has been engaged in commercial production of sulphonamides since 1967.

Soviet assistance in setting up the pharmaceutical industry enabled India to gain marginal concessions from Western private firms. In 1958 the prices of these drugs were falling due to overproduction. However, India would have gained nothing from this price reduction had the USSR

not been interested in setting up a plant.

### Agriculture

The industrial sector has claimed nearly 99% of total aid from the USSR to India. This because, firstly, in the Soviet development strategy agriculture was given a minimal role. Between 1921 and 1950, agriculture received a share of only 8% of the total investment, while industry drew as much as 70% of the total. Secondly, the Soviet Union was convinced that a scientific development of agriculture in India was possible only through socialisation measures, because collectivisation of land would facilitate mechanisation of agriculture. In the view of the Soviet Union therefore, agricultural growth would only be a function of land reforms.

It is not surprising in this context that the little <sup>Soviet</sup> aid that India got for agriculture has flowed largely to state farms.

The Soviet Union has offered a gift of machinery and equipment constituting a composite unit for a farm of about 30,000 acres at Suratgarh, Rajasthan. This led to the establishment of the centralised mechanised farm, and it is the first and the largest of its kind in the country and is noted for production of improved seeds. The farm stretches over an area of 30,331 acres of which 27,300 acres are devoted to agricultural operations

which yield good crops despite water shortage. The Suratgarh farm constitutes the core of India's seed growing farms. The organisational principles for large state farms evolved at Suratgarh are now utilised to set up State livestock breeding farms. Machine-operators trained in the farm now work in the fields in nearly all Indian states.

This was followed by the setting up of yet another farm in 1964 at Jetsar, Rajasthan, with the help of machinery purchased from the Soviet Government. The completion of a number of irrigation projects in the Third Plan period opened up large areas of wasteland. Here was an opportunity to set up more large-sized mechanised farms, and the Soviet Government agreed to gift machinery for five state seed farms. Of these, four farms at Hirakud (Orissa), Hissar (Haryana), Jullunder (Punjab) and Raichur (Mysore) have already been set up. The five-year (1971-76) inter-governmental agreement on scientific and technical cooperation in agriculture has been extended for the next five years.

#### Technical Assistance

Kurt Muller identifies the following forms of technical assistance given to India and other developing countries by the USSR:

1. On the basis of government to government agreements, selected young people of developing countries are

trained in the universities and technical institutes of the Soviet Union.

2. Special technical institutes have been set up in the Soviet Union to train students from Asia, Africa and Latin America.

3. Technical and engineering personnel needed for the Soviet-aided projects in developing countries are trained in the Soviet Union.

4. Schooling in production-management and techniques of engineers and other specialists is provided through on-the-job training in factories, on the planning staffs and with the scientific research institutes, of the Soviet bloc or even in other Soviet-aided projects in the developing countries.

5. Technical and trade schools are also established in developing countries.

Ever since the first economic agreement was signed between India and the USSR in February 1955 for the construction of the Bhilai Steel Plant, there had been a regular flow of Soviet technology and know-how to India in diverse fields like metallurgy, oil, coal, non-ferrous metals, power generation and power equipment production, precision instruments, pharmaceuticals and others. Along with this process, the Soviet Union helped India to train specialists both in Soviet institutions and in projects receiving Soviet assistance in India. The Soviet Union has

also helped India to set up a number of research and training institutions in important fields, providing them with equipments and teachers.

An agreement on cultural, scientific and technical cooperation between India and the USSR, signed in 1960, led to more regular and closer contacts between the scientists of the two countries. The agreement provided, apart from exchange of scientific data, for exchanges in fields of higher and specialised secondary education, health, and fundamental sciences. To further Indo-Soviet cooperation in science and technology a joint Soviet-Indian Committee was set up in 1967. The signing of the Indo-Soviet Treaty of Peace, Friendship and Cooperation furthered assistance in almost all fields. Soon after, on 2 October 1972, India and the USSR signed an agreement on cooperation in the fields of applied sciences and technology.

In the meantime, Indian students were getting trained in the USSR in fundamental sciences, applied sciences and technology. Between 1956 and 1971 more than 500 students completed courses in Soviet universities in various fields of education - engineering, medicine, economics, pedagogics, agriculture, etc... Since then their number has been on the increase. Today, on an average 500 Indian students are registered in USSR institutions annually.

Among the major institutions created with Soviet assistance mention may be made of the Indian Institute of Technology, Bombay, the Centre of Russian Studies attached to the Jawaharlal Nehru University, New Delhi (earlier called the Institute of Russian Studies), and particularly three major departments of studies - the aeronautics department at the Indian Institute of Technology, Bombay, the geographical department of Osmania University, and the metallurgical department of the Indian Institute of Technology, Kharegpur.

Soviet educationists, scientists and academicians are actively engaged in more than 30 Indian institutions, including 18 educational establishments set up under UNESCO. Between 1969 and 1974 more than 500 Soviet educationists worked for various terms in Indian universities. The Indian and Soviet academies of sciences have played a significant part in the promotion of scientific cooperation between the two countries. The joint Indo-Soviet commission, engaged in selecting, translating and publishing Soviet text-books for Indian colleges, is carrying out useful work.

#### An Evaluation

It would be our attempt in this section to evaluate the advantages and disadvantages in the

context of the Indo-Soviet credit relations. The following questions seem relevant.

1. What has been the excess cost due to tying of aid from the Soviet Union?

2. Did the sectors or industries for which Soviet credits were available have high priority in India's development programme? If the answer to this question is 'No', then the cost of tied aid has really been greater than would appear from question 2 above. Such aid would have caused a distortion in the development priorities of India.

3. It is often the experience of developing countries that the donor seeks to increase effective tying by reducing the local cost component of the aided projects. This is done by raising artificially the import content which is tied to the donor sources. To what extent has East European aid caused unnecessary import of skills and underutilisation of skills locally available? This would increase actual costs of aid-tying beyond what they would otherwise have been.

1 Bhagwati<sup>6</sup> has argued that source-tying will

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6 J. Bhagwati, The Tying of Aid, UNCTAD Secretariat (New York, 1967). Donors prefer project tied aid because the political impact of project aid is greater as against aid which supports the general balance of payments of the recipient. Project-tying also secures a substantial accountability



impose costs, which include monopolistic pricing by suppliers, even when ideal procurement policies are followed. Moreover, these costs are likely to be accentuated when the donor countries also specify the end-use, by project or otherwise, of source-tied aid. These costs will vary with:

- i) the flexibility in substitution that the recipient country enjoys through access to more than one source of foreign funds;
- ii) the extent to which such exploitation of substitution possibilities is permitted by the donor countries; and
- iii) the willingness and ability of the recipient country, via optional procurement and related policies, to exploit such substitution and competitive possibilities.

Taking her cue from the above, Asha Datar argues that other donors were generally reluctant to provide

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and control over aid expenditure.

Both project-tied and source-tied aid limit the effectiveness of assistance to the recipient countries, by reducing economy and manoeuvrability of foreign exchange. Source-tying would lead to buying at the costlier market. The productive techniques to be bought might be quite inappropriate to the recipient country. The worst form is doubt-tying because it increases the cost of aid procurement and also creates the prospects of monopolistic pricing by suppliers.

finance for the type of projects for which East European credits were available (that is, public sector projects). The choice was restricted to what the donor country could offer even if some of the equipment was not always suitable to India's requirements. There was little room for mitigating the effects of tied aid by following ideal procurement policies as the supplier of equipment and the purveyor of credit happened to be one and the same body.

The following two cases of excess costs can clearly be cited: (i) in petroleum refining, the equipment and production processes which they could offer were not suitable to India's requirements; and (ii) the costs of production in the Bokaro Steel works and the Gauhati and Barauni refineries were higher than the private sector refineries and the United States proposal for Bokaro.

#### Costs of Public Sector Oil Refineries

Costs of public sector oil refineries (Rs. million)

Name	Capacity (million tonnes)	Towship	Total cost	Foreign exchange component	Collaborator
Madras	2.50	-	440.0		ENI (Italy)
Gauhati	0.75	17.2	159.8	64.3	Rumania
Barauni	2.00	34.4	434.5	178.1	USSR
Koyali	3.00	25.0	307.0	150.0	USSR
Cochin	3.56	4.84	293.3	177.8	Philips Petroleum (US)
Haldia	2.5	-	460.0	230.0	Technip ENSA Industrial Export (Bucharest)

Source: Annual Report of Public Sector Undertaking, 1965/6, ch. I,  
and Bureau of Petroleum Information, ch. 3.

It is clear that the Russians charged higher prices than the private sector. While Philips Petroleum charged Rs 293.3 million for a 3.56 million tonne plant at Cochin, the USSR built a refinery at about the same time at Gauhati with a capacity of 2 million tonnes costing Rs 434.5 million. However, Datar suggests that since

petroleum is an integrated industry and all the profits are made in producing crude, the deal should be examined as a whole. The Madras refinery was going to refine crude from a Persian oil-field. Similarly, Phillips Petroleum made its own arrangements for importing crude. The addition of a new outlet for their crude was a net gain for them, even though they could not charge monopoly prices as the old established companies did in the 1950s. Taking into account these factors, Datar says, the 'cheap' refinery may prove to be an illusion if it is shown that crude could have been obtained at cheaper rates from other sources. She, however, does not suggest any other sources and overlooks the fact that the only other possible source of crude was the Soviet Union, which is the second largest producer of crude in the world. And the Soviet Union, after having established a certain share in the world oil market had now developed a vested interest in stable and high oil prices.<sup>7</sup>

When the Western bids revealed the high cost of Soviet aid, the Soviets were also forced to bring down their prices in order to stay in the market. The agreement for the Koyali refinery, which had already been signed, was revised and the cost considerably reduced. It however, was still substantially more than that charged by the Western firms - Rs. 307 million for

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See Petroleum Economist (April 1974) quoted by R. Dasgupta, "Soviet Oil and the Third World", World Development, op. cit., p. 357. One of the CPI(M-L) allegations was that "the pricing policy of the Soviet Union is to raise the price after a foothold has been established."

3 million tonne plant.

During an inquiry into this problem in Lok Sabha the representative of the Petroleum Ministry said, "We have to confess that whenever we invited limited tenders from a single source, whether it is an East European country or any other source, we are not able to get always a competitive price. In the case of East Europe, they are sensitive to our finding that prices are not competitive. According to the Agreement, we buy only when the prices are competitive in relation to world prices. They have always shown willingness to reduce price."<sup>8</sup> An example of charging monopolistic prices is the heavy machines tools project at Ranchi. The original estimate cost was Rs. 185 million. It was revised upwards within 6 months by Rs. 75 million. This is a familiar story. Michael Kidron has pointed out that "India may be normally paying anything between 6 and 15 per cent, sometimes as much as 20-30 per cent, above the ruling prices for aid supported imports."

For Bokaro there were both US and Soviet proposals. On the basis of the estimates given in the

proposals, the cost of a 4 million tonne plant built by the Soviets would be about 25% higher than one built by Americans.

**Total Costs of Construction of the Bokaro Steel Plant**

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	<u>Stage I</u>	<u>Total</u>
US (million Rs.)	394	715
USSR(million Rs.)	486	1027

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**Sources:** For the USSR: Dastur and Co., Cost Reduction Study on Bokaro Project, Calcutta, 1966; For the US: Elliot and Wagner Synopsis of a Techno-Economic Survey of a Proposed Integrated Steel Plant at Bokaro, Washington L. C., 1963.

Dastur and Co., who were commissioned to do the initial feasibility report for the project concluded that the costs of the Soviet project were too high. Thus, the report says, "From the time in early December 1965, when these estimates became known, they have been generally considered high, even after taking into account the increase in import duties and escalation of equipment and construction costs during the last 2 or 3 years. It is also known that steel plants designed to produce flat products with facilities comparable to Bokaro are under

construction or have been completed during the past few years in Britain, France, Italy and Japan at less than one-half the estimated cost of Bokaro.<sup>9</sup>

Estimates of Total Plant Costs of Different Steel Works

Estimates of total plant costs of different steelworks

Steelworks	Year of completion	Initial ingot steel capacity (million tons per year)	Total plant cost (million tons per year)	Plant cost per annual ingot ton Rs.
Fukuyama (Japan)	1966	1.50	1,488	992
Spencer Works (U. K.)	1962	1.40	1,638	1,170
Taranto (Italy)	1964	2.50	2,153	860
Dunkirk (France)	1963	1.50	1,440	960
Bokaro (USSR proposal) Stage I		1.70	4,860	2,860

Source: Dastur and Co.

This was not an avoidable cost, says Datar, because India did not have other sources of finance for the projects concerned. However, this is surely no adequate justification for the advantage taken by the Soviets of their position as donors.

Datar's answer to the second question is convincing. The East European credits were used for the development of heavy industries in the public sector. While the thinking of Indian planners themselves was probably influenced by the experience of the centrally planned economies, they had definitely opted for a development process in which the development of heavy industry in the public sector played a key role. However, there was a failure to define priorities in industrial development and to rank industries according to well-defined criteria. This shortcoming was common to both the Second Plan document and the Industrial Policy Resolution. As a result the choice of individual projects was perhaps

arbitrary. The availability or non-availability of credit must have been a factor in the investment decision. The East European credits influenced the timing of certain investments, e.g. the heavy engineering works at Ranchi. This is obviously not something for which the Soviet Union can be taken to task.

In answering the third question, Datar says that the Soviet contractors were generally willing to use whatever local skills were available, "if only because of the relative scarcity of skilled indigenous manpower." A comprehensive training programme of a kind that a foreign firm would not have found profitable was provided on the Soviet projects. But in all Soviet projects, the credit agreement is comprehensive so that the Soviet staff take responsibility for everything. Complete Soviet technological and managerial control is maintained until project completion. They employ large numbers of their own nationals as necessary. In January 1964, for instance, there were more foreign technicians on Bhilai's pay roll than on that of Durgapur or Fourkela. One of the effects of this policy is to prevent the growth of Indian technology and know-how. In matters like open-cast coal mining, Indian technicians are fully qualified to plan and conduct the operation. But the Soviets insisted on their agencies being appointed as technical consultants as the price of aid given to buy Soviet coal-mining

equipment. Even feasibility studies were to be done by Soviet experts.<sup>10</sup> It is also true that being concerned with the success of a project, the Soviet contractors usually insisted on doing all the pre-investment appraisals, detailed project reports, drawings and designs themselves. Technical assistance of this nature cannot serve to promote the development of Indian technology. In Bokaro we have an outstanding example.

After the US had withdrawn its offer of aid for Bokaro Dastur and Company was commissioned to prepare the detailed project report. This was submitted in July 1963. A technical committee appointed by the Government scrutinised the report and recommended acceptance. This Committee included S. I. Mahper, the top Soviet steel expert at Ekilai who wrote:

"On going through the project report though not in much detail, I feel that the design organisation (Dastur and Co.) which prepared these materials are having all the potentialities to work out the first working drawings and also to supervise the programme of construction of the steel plant...."<sup>11</sup>

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10 Economic and Political Weekly,  
12 January 1974.

11 Letter dated October 7, 1963, quoted in Committee on Public Undertakings Report on Bokaro, p. 9.



But very soon the Russians insisted that they would themselves again do the Detailed Project Report. Though Dastur and Co. had been working on this project since 1958 and had accumulated considerable data, their services were not utilised by the Soviet contractors. If Dastur and Co. had been associated with the contractors from the beginning, project costs might have been considerably reduced.

In the case of Bokaro, Dastur and Co. made a Cost Reduction Study which would have saved at least Rs. 150 crores. The main suggestions were: (i) that larger convertors, of 200-300 tons, rather than 4 convertors of 100 tons in the first stage be used; and (ii) that the slabbing mill be dropped. The latest steel technology used convertors of large capacity. The Soviet side, however, held that the operation of such large convertors had not yet been fully established in the USSR and therefore they would instal such convertors only in the second stage. "Continuous Casting of Steel in the USSR - A Survey published by OECD in 1964 shows that installations had been planned in the USSR with convertors of 200 ton capacity.

"It is thus clear that if a plant like Bokaro were to be set up in the Soviet Union, it would have been designed in 1964 (and definitely in 1966 when the

proposals of the Cost Reduction Study were being discussed) with a provision for large-sized converters and without any provision for a slabbing mill."<sup>12</sup>

In the 1953 Bhilai agreement it was explicitly stated that:

"The design of the works and the component parts as well as the manufacture of the equipment shall be carried out by Soviet organisations on the best up-to-date level."<sup>13</sup>

In the case of Bokaro there is no such clause in the agreement - so that the Soviet Union could not be held liable for supplying outmoded technology. And this is exactly what the USSR did in the case of Bokaro - the supply of obsolescent technology.

The proposal for Bokaro brings out another feature of Soviet project planning. The problem is not

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12 P. Desai, The Bokaro Steel Plant (Amsterdam, North Holland), p. 57.

13 Bimal Prasad, n. , p. 87.

approached as one of achieving the given target with minimum costs and units of optimum size, by phasing out investment.<sup>14</sup> The dimension of timing in investment seems to have been neglected and many units were of a larger size than initially needed. If the units had been of a smaller size initially the total costs would have been lower. Secondly, when planning future expansion, the latest techniques of production could have been absorbed.

One criticism that can be levelled against all Soviet-aided projects is that the completion of projects took very much longer than expected. In planning a project, the planner should study the location, the source, cost and consumption of raw materials; the labour requirement; the profitability of the project; the demand for various products and the suitability of the output of the Indian market. The East Europeans, who have mostly done their own pre-investment appraisals and detailed project reports, have often made omissions and miscalculations of many of these items. This has led to delays in construction and loss of output.

Thus, the detailed project report<sup>(DPR)</sup> on the heavy machine building plant at Ranchi did not discuss the question

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14 A CPI(M-L) charge (see p.40) has been that "the (Soviet aided) projects are designed not with a view to economy but to maximise sales."

of availability of raw materials. This caused considerable delays in the implementation of the projects. Many of the projects were based on insufficient data, a failing which was especially evident in the field of pharmaceuticals. Thus, the Committee for Public Undertakings report on pharmaceuticals says, "It is as a result of this cursory data, on which assumptions regarding economic feasibility were based, that the Phytochemical Project at Nerianangalam had ultimately to be abandoned... government had proceeded with the Project, incurring a loss of Rs. 3.30 million before the Project was abandoned..."<sup>15</sup> The practice of writing DPRs on the basis of inadequate data resulted in serious marketing problems also. The Indian Drugs and Pharmaceuticals Co. was producing drugs for which there was no demand, or in quantities far in excess of what was required domestically.<sup>16</sup> All these are special cases of one general criticism - bad project planning.

To mention some of the projects which have been delayed - Heavy Machine Building Plant of HEC, Ranchi. The completion date was shifted from end 1964 to 1967

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15 Committee on Public Undertakings, Management and Administration of Public Undertakings (Third Lok Sabha), 13th Report.

16 From an article on Soviet-aided Enterprises in The Times (London), October 19, 1970.

and it was finally completed in 1970. MAMC was delayed by five years. It was estimated that extra-expenditure to the extent of Rs. 157.47 lakhs was incurred as a result of delay in supply. A ludicrous example is that of Bokaro, which was initially conceived to go into production in 1965-66 and was barely complete in 1976. Other instances - antibiotics plant, Rishikesh, late supplies of drawings, blue prints and equipment; synthetic drugs plant, Hyderabad, delay in supply; Bharat aluminium corporation, Korba, delay in supply.

In some cases equipment and spare parts have been supplied with no consideration paid to their actual requirement. For instance, in the case of Bokaro, "while on the one hand, the supplies were deficient to the extent of 10,000 tons for the first blast furnace complex, a large number of items of rolling mills required much later have already been supplied."<sup>17</sup>

In the case of HEC Ltd., "spares worth more than 2 crores of rupees were received much before the receipt of plant and equipment for which the spares were required. The spares rusted in the stores till the plant and equipment arrived."<sup>18</sup>

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17 Committee on Public Sector Undertakings Annual Reports, 1965/6 to 1973-74.

18 Ibid.

Delays of upto 18 months to over 2 years for parts of a project is the typical case. The cost of delays is the loss in production and the consequently higher import bill, i. e. if a plant reaches full capacity two years later than the plan projections, equipment has to be imported, and this may cause delays in other projects which were supposed to use the equipment. The other cost of delay is that it costs more to set up the plant than originally proposed. Table 19 (Appendix I) brings out that the revised estimates for projects financed with East European credits are much higher than other projects.

It has been held that sweeping criticisms of public sector projects do not give sufficient attention to the difficulties of pioneering a capital-goods sector in a poor, semi-industrialised society. However, this is no justification for the delays in delivery of equipment, or the delivery of faulty equipment by the USSR. Again, it is hardly any consolation that delays were in no way unique for Soviet-aided projects and were as common with the public sector steel plants financed by Western sources.<sup>19</sup>

#### Military Aid

There are three ways in which the supply of

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East European Aid to India, in World Development, op. cit., p. 343.

weapons can reinforce hegemony. First, arms can be provided to enable local forces to perform military tasks which are in the interests of the supplying country: to prevent real or imagined military threats to the system. Secondly, the supply of arms may strengthen the relationship between the supplying country and the recipient government. In this case, the supplying country may have nothing or little to gain through the use of the weapons. Having received arms, the recipient country becomes, in some degree, militarily dependent upon the supplying country. The latter can then demand favours or withhold spares or further supplies if the recipient country does not comply with its interests. Alternatively, the supplying country may simply be interested in preventing another supplier from achieving this kind of relationship. Thirdly, the supply of arms may provide an opportunity for influencing individuals in the recipient countries. This occurs when contacts are made between the military personnel of the two countries and when military training accompanies the provision of weapons. This function is most relevant for countries where the military play an important role in politics.

Soviet military aid to India does not seem to reinforce the super powers' influence in the sub-continent in the first two ways, though not in the third primarily because the military does not as yet have any role in the

decision-making process. Soviet aid is, however, meant to counter the so-called Chinese threat to India as also balance the arms supply to Pakistan. And in the light of the complete monopoly of the USSR in the supply of defence equipment to India, the second condition is fulfilled.<sup>20</sup> An India dependent on the USSR for defence equipment is in the larger interest of the Soviet Union in the context of the latter's global rivalry for influence with the USA and China, particularly in Asia.

Before 1962, India's policy of non-alignment was reflected in two aspects of arms procurement. First, India refused to receive any military aid. Krishna Menon said in 1961: "There is not one stick in our services that has not been paid for. There is no item of equipment in the Indian army, navy or air force, which has been given or received by us in aid from anywhere."<sup>21</sup>

Secondly, India avoided purchases from either of the super-power. In fact, apart from the gift of two transport planes from the Soviet Union in 1955, India did not purchase any Soviet equipment until 1960. During the 1950s, nearly two-thirds of India's supplies of major

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20 An exaggerated view of the role played by the arms trade was expressed in Peking Review 28, 11 July 1961: "Like US imperialism, Soviet revisionism is a wolf in sheep's clothing. While doling out cranky machines and arms to Asian, African and Latin American countries, it plunders fabulous wealth from them.... Through its military 'aid', Soviet revisionism control the armed forces and key military departments of the recipient countries, takes their military training and operations plans into its own hands, enjoys various military privileges and establishes military bases there. In some of the recipient countries, military personnel and 'advisers' from the Soviet Union have deeply penetrated army battalions and companies, air force squadrons and navy warships."

21 Quoted in Christian Science Monitor, 18 July 1961.



weapons came from Britain, its traditional supplier. The navy was almost entirely British, the army and air force somewhat less so.

Several reasons for India's heavy dependence on the west for military equipment<sup>22</sup> have been suggested. Firstly, it was not easy to obtain authentic information about the performance of Soviet equipment. Secondly, language was a problem. Without the knowledge of Russian language it was difficult to train the soldiers and officers to handle Soviet equipment. Thirdly, the Indian armed services were brought up in the British tradition and were therefore oriented in that direction. Finally, India's contacts with the arms traders of the British were more wide ranging.

The Sino-Indian conflict was followed by two important changes in India's arms procurement policy. First, India requested military aid from whoever was willing to grant it. Secondly - and this was only indirectly a consequence of the war with China - India came to rely militarily on one of the super-powers, the Soviet Union. In fact, between 1965 and 1969 eighty per cent of India's defence imports came from the Soviet Union.<sup>23</sup>

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22 Subramaniam, "Soviet Military Assistance", in ISSUE, Indo-Soviet Cooperation, New Delhi, 1971, p. 37.

23 Stockholm International Peace Research Institute, Arms Trade with the Third World, 1971.

during and immediately after the war, the western powers rushed to the aid of India with everything from woollen socks to guns. No emergency aid was received from the Soviet Union, but the Soviet Union supplied in 1963 aircrafts under an agreement signed in September 1962. After the first flush of the invasion, the western powers soon became disillusioned with the new India. Quite apart from the fact that India continued to receive military equipment from the Soviet Union, it refused to accept a US and British commitment for air defence in case of attack. India made it clear that it regarded its defence as wholly the responsibility of the Indian government and would prefer to purchase its own air defence system. But the western powers were unwilling to supply such a system. The main reason seems to have been the objections to India's links with the Soviet Union.

The Soviet Union, on the other hand, was willing to increase both military and economic aid. Such aid would reduce western influence and, it was also an element in the growing Sino-Soviet dispute. In September 1964, India signed an agreement with the Soviet Union for an additional direct purchase of MiG-21s. The value of the deal was put at £ 142 million. This credit included technical assistance and machinery for three factories to be built in India to assemble and manufacture more MiGs - altogether

a total of about 200. Reportedly, the credit was repayable in rupees, for over 10 years at 2 per cent interest, which the Soviet Union could use to buy Indian products such as tea, jute and cashew nuts.

The story of India's naval purchases is no different. Britain offered in November 1964 three very old "Weapon" class destroyers, which India declined. The US also proved unresponsive, and in 1965 India accepted a Soviet offer of "Petra" class frigates. In 1964 also India began looking for a submarine. Britain offered India an obsolete World War II model which India turned down. Soon an agreement was signed with the Soviet Union for the provision of 4 Soviet submarines. Soviet advisers have been training Indian submarine crews.

In September 1965, during the Indo-Pakistani conflict, the UK and USA went a stage further by imposing an embargo on both parties. The Soviet Union did not do so. The Anglo-American reluctance to supply weapons increasingly led India to rely on the Soviet Union. After the partial lifting of the US embargo in April 1967, the US made an attempt to limit India's purchases from the Soviet Union, but to no avail.

From a Soviet point of view, the establishment of a Russian military assistance presence in India was in part a response to American arms aid diplomacy in

the SEATO area.<sup>23</sup> The Soviet Union wanted to offset efforts to strengthen the northern ties. Taking advantage of Indian concern over Pakistan's defence build-up, Moscow had moved to add New Delhi to its arms aid recipients. By diminishing India's reliance on western influence in India and link New Delhi more intimately with Moscow. Soviet arms aid further served to identify Soviet policy with India's nationalist aspirations. The 1962 accords sought particularly to underscore this point.

As for India, anxious to reinforce its commitment to non-alignment in international relations, India wanted to reduce its dependance on the west for arms and diversify its supply sources. Equally important, India regarded Pakistan as a major threat to its position on the Asian subcontinent. India sought to acquire modern equipment to match the weaponry Pakistan received from the U. S. According to Indian spokesmen, only the US and the Soviet Union were able to furnish the heavy transport aircraft and helicopters suited to India's

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Wynfred Joshua and Stephen P. Gilbert,  
Arms for the Third World: Soviet Military  
 Aid Diplomacy (The Johns Hopkins Press,  
 Baltimore and London, 1969), p. 58.

high altitude and climatic conditions.<sup>25</sup> When the Soviet Union proposed to meet Indian demands for considerably less cost than the US, and when Moscow, unlike Washington, was prepared to receive payment in Indian currency or commodities, India decided to accept the Soviet offer.<sup>26</sup>

The bulk of India's frontline air force and naval equipment will be from Soviet sources for at least the next few years to come.<sup>27</sup> It has always been a basic aim of India's defence policy to become self-sufficient in military equipment, in order to be able to pursue its policy of non-alignment. While India has achieved considerable self-sufficiency in the field of small arms, it is still purchasing large numbers of aircraft, ships and tanks from abroad, mostly from the Soviet Union. Even those that are produced in the country are mainly assembled from imported Soviet components. Most domestic defence equipment is produced under licence from foreign countries. Industrially advanced countries like the Soviet Union are often unwilling to transfer manufacturing know-how and India's R&D base is not sufficiently advanced to develop its own weapon system. Thus, for instance, India,

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25 See the defense of the Indian-Soviet arms accord by Defence Minister V. K. Krishna Menon, Hindustan Times (New Delhi), April 13, 1961.

26 Christian Science Monitor, October 15, 1960; Times of India, October 4, 1960.

27 SIPRI, Arms Trade with the Third World, 1971, p. 486.

with a very ambitious defence production programme, devotes only 1.3 per cent of its defence budget to R&D, compared with 10-15 per cent in France and Britain. Even assuming that R&D facilities could be mobilised at very great cost, the time factor involved in the production of a particular weapon system may well mean that it is obsolescent by the time it is produced. Hence, it is likely that India will continue to be dependent on imports and foreign assistance for very many years.

The above analysis belies the contention of Vinod Mehta that while 'our dependence on America, Britain and other western countries for the supply of sophisticated military equipment began to decline progressively.... this does not mean that our dependence on the Soviet Union began to increase. Far from it, the Soviet assistance has been designed not only to supply sophisticated military hardware immediately but help India become self-sufficient in its production.'<sup>28</sup> This view seems to overlook our dependence upon the Soviet Union in the military sphere altogether.

In fact, some interesting features of Soviet military aid to India need to be examined more carefully.

The USSR, like other supplying countries, tends to charge higher prices for parts than they do for complete weapons. Thus, the foreign exchange cost involved in producing MiG-21 and Alouette in India is higher than the cost of importing the same aircraft complete. The USSR sale price for complete MiG-21 aircraft is estimated at between Rs. 60 lakhs and Rs. 75 lakhs. The price of the first 39 aircrafts, which were built from major assemblies supplied from the USSR was Rs. 77 lakhs each. As the aircraft began to be manufactured from materials supplied by the USSR, the cost went up to Rs. 1.27 crores each. Of this Rs. 83 lakhs is in foreign exchange, i.e. payment for materials supplied by the Soviets. Thus, even leaving aside the profit from the sale of machinery for the project, it was more profitable for the USSR to have the aircrafts manufactured in India than to sell the complete aircraft. Even later, when the extent of indigenous material was increased, the foreign exchange cost (Rs. 70 lakhs in 1971-72) was at least equal to that of a complete aircraft.<sup>29</sup> This fact indicates not only the expense of defence production to a country with scarce foreign exchange resources, but also the extent of dependence on

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See Dennis Childs and Michael Kidron, "India, USSR and the MiG Project", in Economic and Political Weekly, September 22, 1973.

the Soviet Union.

As in the case of industry, here too the Soviet Union gained a breakthrough by offering to set up plants for the manufacture of MiG-21 fighters. With this and the sale of both the MiGs and SU-7 (mainly a ground support fighter) the Indian Air Force became significantly dependent on the Soviet Union. These two aircraft now form the main strength of the IAF.

At the same time complete control is maintained over the project. Complex parts - such as undercarriages, braking systems, communications and electronic equipment are still imported. Little is learned about manufacturing aircraft from foreign collaboration since there is hesitation to part with the designs. India is manufacturing only non-essential items. If, for instance, for some political reason, the Soviet Union decided to stop supplies of components, there is nothing that the Indian Government could do about it, and the three plants set up at enormous cost would lie idle. As the Stockholm study noted,

"India would not be in a position to undertake the manufacture of any other aircraft in these factories."<sup>30</sup>



Despite Indian requests the Soviets have refused to part with the detailed design drawings.

"Under the terms of the contract, the USSR does not supply India with any detailed design or type approval data. Requests for the supply of these from the Indian side have been turned down."

In the case of the army new supplies of major equipment are mainly from the Soviet Union. Although the British Vijayanta tank is being produced here, an order was placed for seventy-five T-55 tanks from the USSR.

Along with the Air Force the Navy is also almost wholly dependent on the Soviet Union for new supplies. Purchases from the Soviet Union accounted for all the Navy's submarines, half its frigates, all its missile boats, and the few landing craft in the inventory.<sup>31</sup>

The period since the beginning of Treaty of 1971 has only increased the Soviet Union's grip over the Indian

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31 From Military Budget 1974-75, a study by the International Institute of Strategic Studies, London, quoted in Indian Express, December 4, 1974.

armed forces. During a recent trip (February 1975) of the Soviet Defence Minister Grechko, accompanied by the Navy Chief and the Air Force Chief, many new items came up for discussion. They were: MiG-25 (deep penetration aircraft), TU-22 to replace the Canada medium range bomber; Plyushin 38 and 39 for naval reconnaissance; Kara class cruisers and Krivak destroyers armed with ship to ship missiles; and a repair shop for submarines.

In the case of naval equipment there is dependence not only for spares but even for overhaul and repairs. Thus all repair can only be carried out under the supervision of Soviet advisers. There are 50 to 100 such advisers at the Naval Lockyard, Bombay, and they are allotted to every shop in the dockyard. If this is the situation in Bombay, the Visakhapatnam Lock must have many more Soviet advisers. Visakhapatnam is the headquarters of the Eastern Wing, and the Naval Lockyard there with a submarine base is itself being constructed by the USSR.

There have been complaints that the Soviet Union was not supplying sufficient spares for the MiG 21s, Mi-4s, heavy artillery, tanks etc. Madhu Limaye had stated in Parliament that there were sufficient stores for only 10 days conflict.<sup>32</sup> This statement was not contradicted

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Evidence presented to the Parliamentary Consultative Committee of the Indian Defence Ministry on 21 July 1970.

by the Government. It has, however, been denied by Jagjivan Ram, the Defence Minister, that the Soviet Union was withholding spares for the MiGs.<sup>33</sup>

But such action on the part of the Soviet Union seeing its record in other countries, is not very unlikely. Weapons supplies have been used by the Soviet Union to serve its strategic interests against the US and China. Withholding offensive equipment for Egypt, planting several hundred advisers in Egypt, not supplying the latest defence equipment to Vietnam - there are the best known examples. It appears that the economic gains which the Soviet Union has made by supplying weapons to developing countries are negligible for the Soviet prices have been low. It seems that the Soviet Union, like the US, has been mainly interested in possible political and strategic benefits from arms supplies.

The Indo-Soviet Treaty of August 1971 established India's dependence on the Soviet Union in the military sphere. Articles VIII to X of the treaty deal with co-operation between the two countries in the fields of defence and security. Article <sup>viii</sup> provides that in the event of either country being subjected to an attack or threat

thereof, both countries "shall immediately enter into mutual consultations in order to remove such threat and to take appropriate effective measures to ensure peace and security of their countries."

All alignments are a product of the compulsion felt by a weaker state to reinforce its political and economic system and the need felt by the stronger state to persuade as many countries as it can to see the world in the way it would like them to. Alignment between equals or on the basis of equality is a theoretical category. China's alignment with Stalin's Russia was not an alignment between equals. Nor, of course, was Pakistan's alignment with the US.

Stephen P. Gibert perhaps hit the nail on the head when he said, while comparing Soviet and American military assistance to India and Pakistan, "the United States has furnished large amounts of weapons to Pakistan and more limited supplies to India; the USSR has reversed the order and favoured India with considerable military aid while limiting aid to Pakistan."<sup>34</sup> As of today, India stands in almost the same relationship of <sup>military</sup> dependence on the Soviet Union as Pakistan does with the United States.

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34 Gibert, Stephen P., "Soviet-American Military Aid: Competition in the Third World, Orbis, Vol. XXII, No. 4, winter, 1970, p. 1136.

## CHAPTER IV

### INDIA'S TRADE WITH THE SOVIET UNION

Prior to 1955 India's trade with the USSR was insignificant, both in absolute terms and as a proportion of India's total trade. In 1953-54 imports amounted to Rs. 6 million and exports were of the order of Rs. 11 million. After two decades, India's exports to the USSR increased to Rs. 2,858 million and imports to Rs. 2,547 million in 1973-74 (see appendix I, Table 12). In the next year there was a steep rise in both exports to and imports from the USSR and it became India's most important trading partner. In 1975-76 however, the USSR lost the top position to the US while exports to the USSR declined from Rs. 418.2 crores (12.7 per cent of the total) in 1974-75 to Rs. 412.8 crores (10.5 per cent) in 1975-76. The imports declined sharply during the same period from Rs. 402.5 crores (9 per cent) to Rs. 295.8 crores (5.9 per cent).<sup>1</sup> One can argue with some justification that such short-term reversals or fluctuations do take place and have taken place in trade between any two countries. It is possible that in the next few years this decline in

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1 R. H. Patel, "Emerging Possibilities in India's Bilateral Trade", Economic and Political Weekly, March 5, 1977.

trade may once again be reversed.

This chapter discusses (i) the features and (ii) the composition of Indo-Soviet trade, as also, (iii) the advantages and disadvantages for India of such trade. It concludes with a section on the question of the conversion rate between the rupee and the rouble and the recent rupee-rouble controversy.

### Features of Indo-Soviet Trade

There are four distinct features of Indo-Soviet trade. Firstly, the expansion in trade occurred within a framework of bilateral trade agreements. Trade agreements were not unique to the socialist countries. In the 1960s, India negotiated trade agreements with several other countries. However, most of them such as those with France, Greece, Indonesia, Iran and Iraq, were no more than a gesture of political goodwill and economic cooperation between the signatories. Although a list of tradable commodities was generally incorporated in the agreements, nothing was specified. The pattern and volume of trade were determined by the usual considerations of international commerce. As we shall show, bilateral trade agreements with the socialist countries were substantially different. It was felt that trade between India and the Soviet Union could get a boost if trade relations were based on bilateralism. In fact,

an increase in trade did take place. However, the expansion of trade with Eastern Europe itself is no gain and may be the result of diversion of exports from convertible currency areas to these countries. Whether expansion of trade with the USSR meant a net increase in exports shall presently be examined.

A second feature of these agreements was that payments for all transactions was made in rupees. Initially, in the early fifties, all payments were made in convertible currencies. Gradually, the emphasis of trade agreements shifted to bilateralism and, by 1956, the East European countries had adopted the rupee as the unit of account in their trade with India. In practice, however, trade did not balance each year and the surpluses or deficits which arose had to be settled in sterling. But with the foreign exchange crisis faced by India during the Second Five Year Plan these countries agreed that payments for all transactions were to be made in inconvertible rupees. Balances outstanding each year were to be settled through exports or imports of mutually agreed products. This brought about a complete shift to bilateralism. It also encouraged larger trade because any resulting trade deficits could always be settled without parting with convertible currency balances on which all these countries put a high premium.

The third feature of the bilateral arrangements is their long-term contractual character. The trading pattern is determined by the five-year trade agreements. The five-year period does not necessarily correspond with India's five-year development ~~of~~ plans. Yet these agreements do not ignore each other's requirements so that they normally fit broadly into the countries' development plans. However, the volume of trade forms a small proportion of the total trade of the USSR.<sup>2</sup> Moreover, since imports from India are dominated by comparatively simple or consumption-oriented commodities, non-realisation of trade plans is expected to create only minor disturbances in the overall development plans. On the other hand, India's imports from the USSR form an appreciable proportion of India's total imports and these consist largely of capital goods and intermediate goods. Therefore, India's needs for having trade ties with these countries are greater. This obviously implies that the USSR has a greater bargaining strength as compared to India. The foreign exchange constraints faced until 1975-76 put India in an even weaker bargaining position.

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India's share in the USSR's total exports ranged between 0.9 and 1.4 per cent during 1970-73 and in imports between 2.3 and 2.4 per cent.



Finally, the bilateral agreements make for an automatic conversion of aid, as well as debt repayments, into trade flows. Soviet exports of capital generally cover the cost of machinery and materials to be purchased for specific projects. Once the project has been set up there are the regular maintenance imports. Repayment of Soviet aid also takes the form of export of the locally produced commodities. In all these ways, Soviet aid acts to increase the volume of trade. Consequently, Soviet trade with those Third world countries to which capital was exported grew at a rate of 10% per annum, in the period from 1957 to 1967, while trade with other Third world countries grew at an annual rate of just 2%.<sup>3</sup> The pattern of relationship thus established between export of capital (aid) and flow of trade is not very different from the neo-colonial pattern of economic relationship between the West and Third World.<sup>4</sup> Whether a similar exploitation takes place, depends on the terms of trade obtained under the bilateral payments arrangements.

#### Composition of Trade

Indo-Soviet trade falls into the usual pattern

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3 Sebastian, op. cit., p. 45.

4 Brown, Michael, Barrat, The Economics of Imperialism, op. cit., p.

of trade between the Third World and the imperialist countries - exports are dominated by primary raw materials and imports by machinery and equipment. In fact, this division of labour trade is even more marked in the case of India's trade with the Soviet Union (and East Europe) than in the case of India's trade with all other countries. In 1967, and 1968, machinery and such items accounted for 88.5% and 90.9% per cent respectively of imports from the Soviet Union, while the corresponding figures for India's world trade were 50.2% and 54.6%. Similarly, jute, wool, hides and skins, coffee, tea, spices, cashew-nuts and leather footwear accounted for 80.6% and 66.6% of India's exports to the Soviet Union in 1967 and 1968, but only for 43.4% and 36.7% in India's world trade.<sup>5</sup>

This is not to say that the commodity composition of Indo-Soviet trade has not been changing at all. Tables (see Appendix I, Tables 13 & 14) show that, between 1960-1 and 1972-3, exports of manufactured goods grew very rapidly in absolute terms; exports of food, beverages, tobacco, etc. (a group consisting mostly of primary and semi-processed agricultural products) also increased substantially, but raw material exports were quite stagnant. However, it is the alteration in relative terms that is

more significant. In the early sixties, the bulk of India's exports to the socialist countries consisted of primary and semi-processed agricultural products and raw materials (74.5%). By early seventies the situation had substantially changed. Manufactured goods, which were only 15 per cent of the total in 1960-1/1962-3, increased their share to 40 per cent during 1970/1-1972/3. At the sametime, the share of raw materials fell sharply from 30 per cent to a little less than 8 per cent. This diversification was largely the consequence of specific clauses about increased exports of manufactures from India in the trade and payments agreements. Despite this change, however, the socialist countries absorbed a relatively lower proportion of manufactures as compared to the rest of the world.

As regards composition of imports (see Appendix I, Table 15), rupee trade provided India with high-priority imports. Machinery and transport equipment constituted the highest percentage of the total import bill, while intermediate goods such as base metals, chemicals, fertilisers and petroleum products constituted the second most important group.<sup>6</sup> There is no doubt that these capital goods

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In this context, it is worth noting that although the Eastern European countries provides a relatively small proportion of India's total imports, they were important suppliers in these commodity groups. For instance, in the period 1969/70-1971-2, the socialist countries accounted for only 14 per cent of India's total import bill, but supplied 34 per cent of the machinery and transport equipment, and 18 per cent of the said intermediate goods, bought by India (calculated from statistics published by IGCIS, Calcutta.

and intermediates were essential to India's development programme. They were definitely not low priority goods which India was forced to import in order to use up its rupee balances with the socialist countries. Alternatively, these goods could have been secured from the West. But India suffered from terrible shortages of convertible currency to make this a practical proposition.

### An Evaluation?

#### The attractions to India of bilateral rupee

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Before an evaluation is attempted, it is crucial to understand how the trade transactions actually take place. The procedure is rather complex. Each Eastern European country maintains four accounts with banks in India:

- (i) a central clearing account with the RBI;
- (ii) another special account with the RBI in which it deposits any credit extended to India as aid;
- (iii) a similar corresponding account, again with the RBI, in which debt repayments by India are deposited; and finally
- (iv) a current account with one or more commercial banks. In this system India pays for its imports from the socialist countries by depositing rupees into the first central account or by withdrawals from the second account. On the other hand, socialist countries finance their imports from India by incurring expenditure through their current account, with commercial banks. If they want to spend their credit in the third account, it must be transferred to their account with a commercial bank through the central clearing account. Despite the complexity in accounting, the equilibrating mechanism is quite simple. If the USSR exhausts

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trade are many. First, trade with the socialist countries could not have grown so quickly without bilateral agreements. Second, without such trade economic aid may not have been given by socialist countries. Third, rupee trade obviated the difficulty of the extreme shortage of foreign exchange in the Indian economy. It enabled trade to expand by adding to India's import capacity and also underwriting an expansion in exports.

Once it is established that India's imports from the USSR constituted high priority items, the benefits derived by India from its bilateral trade arrangements would depend on the net increase in exports and the overall terms of trade obtained. A cost-benefit analysis of Indo-Soviet trade, therefore, depends on answers to the following questions:

1. To what extent were the prices of India's exports and imports comparable to those it got from the rest of the world?

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its rupee balances, India extends temporary 'swing' credit facilities and the repayment is made as soon as possible. In the opposite situation, when the USSR accumulates a large rupee balance, India uses import licencing to restore the balance. Whatever happens, in the long run, the accounts are bilaterally balanced.

2. Were India's exports to the USSR in repayment of aid, additional to its exports elsewhere?<sup>8</sup>

3. How much credit, in the sense of unilateral transfer of goods instead of exchange, has India received?

In a comprehensive trade agreement the deficit on current account<sup>9</sup> should equal net capital receipts.<sup>10</sup> However, India might have been accumulating idle currency balances and such balances would represent a waste of credit finance. Such a waste was a serious problem with other developing countries in their economic relations with the USSR. In fact, one of the charges levelled against the Soviet Union's trade and credit programme has been its inability to deliver the goods. If the criticism is

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8 Diverted exports are obviously not a gain, but they do not by their very nature constitute a loss. That would happen only if the terms of trade actually worsen on account of bilateral trade. However, some economists argue that greater significance attaches to convertible foreign exchange earned. This means that even at equivalent terms of trade any diversion of exports constitutes a cost imposed by rupee trade. On the other hand, it might be said that the uncertainty and risk of convertible currency markets are largely eliminated in bilateral trade markets because of the long-term agreements. This yields a benefit. Although such arguments have some element of truth, such costs and benefits are extremely difficult to quantify.

9 The balance of payments of a country are divided into two broad groups: current account and capital account. The current account is made up of visible trade merchandise exports, re-exports and imports) and invisible trade (i.e. income and expenditure for services).

10 The capital account is made up of such items as the inward and outward flow of money for investment and international grants and loans.

justified, the utility of non-convertible payment arrangement is questionable.

1. The USSR conducts its foreign trade activities through state trading organisations. These foreign trading bodies function within the framework given them by their planning authorities. Naturally they must serve the needs of the changing production system and consumption requirements of the Soviet economy. On the Indian side, the bulk of the foreign trading operations is in the private sector. Thus where India's exports are concerned, the effective initiative lies with the state trading bodies of the USSR. They directly enter Indian markets and make their own purchases. For example, they enter tea auction at Calcutta or buy pepper directly from the wholesale dealers. The STC steps in only if the agents of the Soviet Union have any difficulties in purchasing the required quantities.

Experience reveals that the USSR (and other East European countries) actually prefer to deal with private agencies in India. The problem that India faced some time ago in case of Mica is a good example. The Soviet Union is the main buyer of Mica (the East European countries account for 60% of India's mica exports). With many Indian firms involved in the export business, the Soviet buying agency was able to buy at the most advantageous terms. Recently, it was decided that all exports would be canalised through the Mica trading agency. The

Soviet Union refused to accept the suppliers chosen by MITCO. It wanted freedom to contract the purchase with any supplier it chooses, i.e. to take full advantage of competition to beat down the price. At the same time, the Soviet Union also refused to allow MITCO to inspect MICA samples in the Soviet Union so that complaints about quality can be checked. This stand makes it likely that these were dubious complaints, deliberately lodged in order to beat down the price with the plea of poor quality.

It is also true that the Soviet purchasing agencies withhold their purchases and wait for good bargains, especially for commodities like pepper, oil-cakes etc., that are characterised by seasonal price fluctuations.

It is true that trade plans show commoditywise value/volume of exports from India to the USSR. But the effective initiative in fulfilling these trade plans lies with the Soviet trading agencies. India's exports to the Soviet Union are not on the same footing as its exports to the free market economies. For the latter reliable information regarding levels of stocks, current market prices, or anticipated levels of demand is available. No such equally reliable information is available to Indian exporters regarding the USSR. Therefore, the bargains struck by the USSR with Indian exporters are likely to be to the USSR's advantage. Besides, the effective



initiative regarding the overall value of exports thus remains with the Soviet Union. Since India's import capacity from the USSR is largely determined by the overall value of its exports to the latter, it means that the effective initiative regarding overall trade levels also rests with the USSR.

It must be said that India's imports from the Soviet Union constitute essential commodities. However, it has sometimes been pointed out that the USSR is overpricing its sales to India. This should not surprise us because the bargaining strength of these countries is greater. Firstly, Indian private importers for rupee trading areas do not have any alternative to importing from one of these limited number of countries. Secondly, the number of suppliers for any particular commodity in this region will be small. Because of the economic integration within the Council of Mutual Economic Assistance characterised by Soviet dominance, price competition among these countries is unlikely. Besides, these countries are aware of India's foreign exchange difficulties. In view of the balanced trade relations in which any deficit incurred by India is to be settled exclusively in terms of additional exports, these countries are conscious that over-pricing of their exports to some extent would not be very much resented by the Indian traders. Thus both in regard to India's exports

and its imports the Soviet Union has the upper hand.

It must be realised, however, that this is not a peculiar feature of imports from the rupee trading area. The prices quoted to importers getting import licences under country-tied aid arrangements can be equally higher than the ones quoted in the rupee trade area. Once sellers are sure that certain buyers have no alternative other than buying from them they are tempted to take advantage of their position. Thus, an a priori reasoning would indicate that the terms of trade are likely to be unfavourable in regard to India's trade with the USSR.<sup>11</sup>

Many studies<sup>12</sup> have pointed out that the East European countries offered higher prices for some exports and lower prices for others. For imports of raw materials, the prices of East European countries and others were comparable. Therefore, it might appear that for merchandise trade alone, India's net barter terms of trade were probably comparable. However, this comparison does not include

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11 See K.H. Patil, *op. cit.*

12 See S. Chisti, India's Trade with East Europe (New Delhi, 1973); N. Ambedkar, "India's Trade with East European Countries - Trends and Problems, IBI Bulletin (March 1974). All writers, however, admit the shortcomings of unit value comparisons.

imports of machinery and equipment. From the case studies (Bokaro, petroleum refineries, etc.) presented in Chapter 3 and other evidence, such as complaints from private investors, it appears that the prices of machinery and equipment from the East European countries were higher than prices offered by other countries. Imports of machinery constituted at least 50 per cent of India's total imports from East European countries. Therefore, taking into account all imports and exports, India's net terms of trade were probably worse with the East European countries than with the rest of the world.<sup>13</sup>

"Even government officials admit that the prices of machinery and equipment have sometimes been higher by 10 to 30 per cent, compared to the cheapest sources of supply", says Lata. Again evidence collected from the exporters and importers dealing with these countries leads to similar conclusions. We find such indirect evidence about the non-attractiveness of imports from these countries in the much lower preferences accorded by Indian importers to securing import licences in inconvertible rupees.

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It is a telling commentary on the state of thinking in the Government of India that a study of India's trade with Eastern Europe conducted by the Indian Institute of Foreign Trade (1966) arrived at the conclusion that for the items compared there is no evidence that the USSR charged higher prices than other countries.

2. Whether trade with the USSR has resulted in trade diversion or opened additional markets for our exports has been debatable point. Any attempt at a quantification of net export growth must determine two things: first, the degree to which India diverted export supplies from convertible currency areas to the USSR; and second, the proportion of Indian products re-exported by the latter (which is the phenomenon called switch trade).

As regards the first question, the conclusion of most of the studies is that, on balance, exports to the socialist countries are in the nature of trade creation. In fact one of the most important features of India's foreign trade during the last decades is the shifting of its trade pattern away from the old association with Commonwealth countries to new trade partners such as the USSR and other East European countries not to mention the US, the Asian countries and others. And because the USSR and East European countries purchased in large quantities, their purchases, on certain occasions, helped to stabilise the domestic prices of certain commodities, such as tea. Doubtless, there has been a certain amount of diversion. One commodity-wise study<sup>14</sup> of India's exports to the East European countries

shows that between 20 to 25 per cent of India's exports to them were diversionary. They could have been exported to hard currency areas. Another study<sup>15</sup> shows that 14.1 per cent of India's total exports to the rupee payment countries constituted a diversion on her part. This type of diversion arises because domestic production is inadequate to take advantage of the opportunities in all markets. This diversion by itself is a cost because it reduces the amount of free foreign exchange available. Proceeds from exports to East European countries cannot be used for importing goods and services from any other country or to settle debt repayments. Therefore, these earnings may be relatively less useful than exports receipts in hard currency. But despite this diversion, India's exports to Eastern Europe were largely additional to, rather than instead of, exports elsewhere.

Once we accept the conclusion that, on balance, the markets of Eastern Europe are trade creating and have helped in supporting prices of India's exports it would not be quite logical to argue that the terms of trade have been generally unfavourable to India. The undercurrent of the trade creation versus trade diversion argument is that the incremental import-earning capacity

gained by exporting to these countries is basically inferior because it does not earn convertible foreign exchange. At the same time, it is possible to argue that what is important is that these exports add to India's capacity for importing commodities essential for developmental purposes. Therefore, the net loss to the country would be negligible even if our importers had to pay higher prices. Even if it were accepted that there is some force in this argument one is still not sure whether advantages of trade creation and price-support effect do more than compensate for the possibility of paying higher prices for imports.

Switch-trading is another way in which the East European countries may have impeded a net growth in India's exports. It is well-known that most East European countries have re-exported Indian goods to western Europe in order to earn convertible foreign exchange.<sup>16</sup> The conclusions reached by the studies in the subject are as follows: (i) the volume of switch-trading is not very large in relation to the total quantum of India's trade with these countries; (ii) it is unlikely that manufactured

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16 Report of the Study Team on Leakage of Foreign Exchange Through Invoice Manipulation, Government of India, 1971.

goods imported from India could have been re-exported by the socialist countries; in such goods, product differentiation and brand names are rather important and exporting involves marketing expenses like advertising, etc., and (iii) as for primary and semi-processed agricultural products some of them were definitely re-exported, but it is impossible to assess the extent of such re-exports. A parliamentary committee specifically pointed to the resale of Indian cashew-nuts, oil-cakes, hides and skins, coffee, tea and species to East European countries in convertible currency markets.<sup>17</sup> The Indian Government was quite aware of this situation.<sup>18</sup> But since it had no definite proof, it was not in a position to do much about it.

What is, however, important from the point of view of this study is that the USSR is uniquely free from the practice of switch-trade. But apparently all the other East European countries had indulged in these

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17 Eleventh Report of the Fourth Lok Sabha's Estimates Committee, Utilisation of External Assistance (New Delhi, Lok Sabha Secretariat, August 1967), pp. 228-9.

18 When in August-September 1971, customs authorities in Madras and Cochin were asked to stop all shipments they suspected were being switch-traded all exports to Eastern Europe soon stopped. Of course, this action did not last long as the faithful compradors complained to Delhi and had the restrictions removed.

practices.<sup>19</sup> In his study on Pakistan's trade with Eastern Bloc Countries (New York, 1972), Michael Kidron also found that the USSR absorbed all its exports whereas the others indulged in switch-trade.

3. Datar has come to the conclusion that during the period from 1953/4 to 1965/6 India faced problems in purchasing goods from Eastern Europe, particularly from the Soviet Union. And since India is a net borrower from the USSR, we accumulated idle balances. This constitutes waste of credit finance.

This can be explained in the following manner. India utilised gross credits worth Rs. 3,215 million from the East European countries during the period 1956/7 to 1965/6. Its total recorded imports from these countries were Rs. 8,075 million. Therefore, India apparently needed Rs. 4,860 million to pay for its non-credit financed imports from Eastern Europe. India's export earnings during the same period were Rs. 7,450 million. It appears that after paying for current imports there were excess export earnings of Rs. 2,570 million. The question therefore, arises as to how these credits or excess export earnings were utilised. Under the rupee payment agree-

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For an interesting account of the switch-trading activities of these other East European countries, see Financial Express, "Switch-Trade: Secret of Growing Trade with East Europe", October 2, 1971.



ments these surplus earnings cannot be used for settling accounts with any third party. Excess balances have therefore to be converted into technical credits.<sup>20</sup> These constitute a waste of credit finance.

The need for India to give technical credit has arisen for two reasons: one, from India's difficulty in finding acceptable imports to absorb her export earnings from Eastern Europe, and two, from the slowness with which East European countries have fulfilled export commitments. It is not surprising that India should have experienced difficulties in obtaining goods from the USSR. Other developing countries too were faced with similar difficulties. A report on East European activities in developing countries prepared by the US Department of State in 1958 made an observation to this effect. Some

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20 See n. . . The trade and payments agreements with the USSR stipulate that trade should be bilaterally balanced. However, if a surplus on either side developed in any year, the country concerned could demand, before 1959 and 1960, settlement in convertible currency. Between 1959 and 1960, however, the agreements were revised. Trading partners agreed not to demand the balancing payments in sterling. They agreed instead to hold rupee balances or on India's side to allow an overdraft on the partner country's rupee account until trade could be adjusted to absorb them. Thus the surplus country has to give the deficit country a 'technical' or 'swing' credit. Its purpose is to iron-out short-term imbalances until accounts are restored to equilibrium.

LDCs had "found themselves with substantial export balances with the USSR because the Soviets are unwilling or unable to provide the types of import goods which these countries wish to purchase. For example, Argentina and Burma both found themselves with substantial bloc trade credits which they could not use for the types and quantities of goods they required."<sup>21</sup> The difficulty in finding goods has two possible consequences. First, India may have had to import unnecessary goods. Secondly, India may have prepaid her debts. It is difficult to ascertain whether and to what extent India had to buy unnecessary goods. However, the debt repayment schedules can throw light on the question of timely or premature payment. According to the original arrangement, India would have had to pay about Rs. 45 million annually in the sixties. In fact, India paid Rs. 226 million in the four years 1961/2 to 1964/5 or Rs. 86 million more than was stipulated in the original agreement.

As regard the quality of imports, any discussion must be inconclusive. This is because machinery and equipment have constituted the majority of the imports

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US Department of State, The Sino-Soviet Economic Offensive in the Less Developed Countries, No. 6632, USGPO (Washington, D.C., 1958), p. 43.

from East European countries. Unless the goods provided are identical to goods from other sources, comparisons are meaningless. The USSR and Czechoslovakia find it difficult to promote exports of machinery and equipment to western markets. Apparently their products are not good enough to compete with western products. In private discussions, government officials seemed to accept this as natural. They argue that unless the East European countries have some equipment they cannot sell in the convertible currency markets (because of comparatively poorer quality), they will not find the arrangement of repayment in kind convenient. Besides, the USSR looks upon credit agreements as a measure to promote exports.

Much has also been made of the reduced burden of repayment of credits because they can be paid in kind. It was stated earlier that loans repayable in hard currencies impose the heaviest burden, whereas loans repayable in domestic currency impose the least burden. Loans repayable in domestically produced goods fall in between, depending upon the terms of trade obtaining between the donor and the recipient. But in the case of India it is not clear that repayment in kind has been significantly less burdensome than repayment in hard currency. This is because of indirect costs, such as undesirable exports and the need to give technical credits. Since devaluation of the rupee in June 1966, the real burden of repayment

has increased because India's terms of trade with the USSR deteriorated somewhat.

Konrad Ilgen has formulated the salient points of Soviet bloc propaganda in the backward areas about the "advantages" of trading with the bloc members in these words: "The trade treaties <sup>of</sup> (the Soviet bloc) are based on the mutual exchange of goods of equivalent sum total value. They enable the weakly developed nations to obtain advantageous prices for the surpluses resulting from their monoculture. At the same time, they enable these nations to procure the installations and equipment required in the national buildup. The conclusion of these treaties on the basis of the weakly developed nations' currencies represents a marked saving in foreign exchange, which anyway, because of the non-equivalent nature of trade with the imperialist states, would hardly be sufficient to finance projects on a national scale. Additionally, the price-structuring of their economic interrelations with the socialist states often guarantees the weakly developed nations a higher export income, which serves by way of important capital accumulation for the national economy. This price structure is entirely different in nature from that of the crisis-prone capitalistic market in which the prices of raw materials and manufactured goods become

increasingly disproportionate."<sup>22</sup>

First, concerning the "marked saving in foreign exchange." As the example of India until late 1958 shows, trade agreements on the basis of the underdeveloped nations currency are no guarantee for the saving of foreign exchange. Indian debts in local currency had to be converted and paid in a foreign currency. Also, a review of twenty-four trade or payment agreements (upto 1967) between USSR and the LDCs reveals that only four provide for clearing in local currency.

Even more problematic than the foreign exchange question is the price structuring that is to assure the underdeveloped countries a 'higher export income.' True, at first in order to gain a foothold in the trade with the LDCs or to cut out western competition, the Soviet bloc countries offered more favourable price terms. Such prices, however, are only more favourable in relation to world market prices; they do not in any way provide a fundamental solution to the price squeeze between finished goods and raw materials. All Soviet bloc agreements with

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Konrad Illgen, *Freundschaft in Aktion East Berlin, 1961*, p. 160, quoted by Kurt Muller in *The Foreign Aid Programmes of the Soviet Union and Communist China, An Analysis* (New York, 1967), p. 186.

the LDCs stipulate that prices for goods to be delivered shall be fixed on the basis of world market prices. This, as some trade agreements put it, "is the basic market price for corresponding goods." G. Prochorov, a Soviet economist, laments: "The problem of equivalence in the exchange of goods is one of the most complicated question in the theory and practice of foreign trade relations. But, at the moment, the economically weakly developed nations are conducting their foreign trading largely within the framework of the capitalist world market. For this reason, the socialist camp, in its relations with the underdeveloped nations, must consider the price level of goods on the world market."<sup>23</sup> Perhaps this economist means that the LDCs must join the "socialist world market". In products like machinery and other manufactures the CMEA prices, in fact, are in excess of world market prices. Generally, the CMEA is regarded as a high price area for machinery. In normal times the USSR charges intra-CMEA prices for its exports to the Third world. Naturally therefore machinery imports is regarded as particularly beneficial.<sup>24</sup>

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23 Voprosy Ekonomiki (Moscow), no. 11/1962, pp. 78-80, quoted by Kurt Muller, op. cit.

24 Chandra, op. cit.

The price tag put by the Soviet bloc on the export goods of the underdeveloped nations are dependent on what is politically opportune. Same with its long-term purchasing commitments for these goods. It is true that the Soviet bloc usually concludes five-year agreements with the underdeveloped countries. But price and delivery terms are only generally outlined in these agreements. In annual protocols, prices and delivery dates are separately negotiated for each year. It is hardly necessary to point to recurring difficulties encountered in the negotiations of such protocols between the USSR and Egypt. They prove that price fixing and delivery agreements depend on the political climate of the time. The Soviet bloc itself furnishes apt examples of how shortsighted may be the hope of long-term purchases of goods. Yugoslavia and Albania are cases in point. The Sino-Soviet trade relations are also instructive in this regard. What happens to Indo-Soviet relations after the change of Government in India, especially in the light of the new Prime Minister Desai's statement that non-aligned India does not want any 'special relations' with any country, is anybody's guess.

There can be no question of a 'mutual exchange of goods of equivalent sum total value' between the Soviet bloc and the underdeveloped nations. Because world market conditions prevail in Soviet bloc trade with the

underdeveloped nations, the price structure of this market benefits particularly the industrially more advanced Soviet bloc nations. Soviet economists find: "In 1955-57 it was generally possible to buy 50% more raw material from the sale of one ton of finished exports goods than in 1948. This margin has increased even more during the years 1958-61."<sup>25</sup> The "socialist world market", which allegedly favour trade with the LDCs, has not solved this problem.

A. A. Arsumanyan, the late director of the Soviet Institute of World Economics and International Relations, attempted to prove that the west's trade with LDCs is not "equivalent". But about the Soviet bloc trade he remained silent. Arsumanyan wrote: "First of all, the gap that exists between the per capita production in the industrialised capitalist states and the states of Asia, Africa and Latin America has not closed but increased. According to available estimates, this rate in America is ten times, in England six times, that of India. England's rate is twenty times that of its American colonies. In so far as this gap in productivity level remains, there

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Mirovaya ekonomika i mezhdunarodnye otnosheniya  
(Moscow), no. 2/1962, pp. 30-31, quoted by Kurt Muller, op. cit.



also remains the basis for a non-equivalent trade exchange.<sup>26</sup>

N. Khrushchev, on the other hand, used to claim that the USSR had already surpassed several Western industrial states in labour productivity. It would surely catch up with and overtake the U.S. This, of course, means that the gap in labour productivity is widening between the USSR and the LDCs. Following Arsumanyana's argument, an "equivalent" exchange of goods between the Soviet bloc and the nations of Asia, Africa and Latin America is out of the question.<sup>27</sup>

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26 Mirovaya ekonomika i mezhdunarodnye otnosheniya, No. 12/1962, p. 12, quoted by Kurt Muller, p. 190.

27 It appears that the propaganda of the Soviet bloc is contradicted by its foreign trade practices. This fact unfortunately is not yet well-known in the underdeveloped countries. The actual advantages enjoyed by the backward nations in their trade with the Soviet bloc are temporary in nature, says Muller. They are:

1. An initial willingness of the Soviet bloc to accept an unfavourable trade balance in its trade with several underdeveloped nations. This condition is impossible to maintain indefinitely.
2. Soviet bloc purchase of goods not easily sold on the world market (Egyptian cotton, Burmese rice) which, because of re-exporting proves to be a two-edged sword.
3. Conditional long-term purchase agreements for the products of the underdeveloped countries which assure these countries of a market for long periods of time. But they also serve to supply the Soviet bloc with important raw materials.

Value of the rouble

A particularly thorny issue between India and the Soviet Union is the conversion rate between the two currencies neither of which is freely convertible.<sup>28</sup> The best way of determining the exchange rate in such a situation is the purchasing power parity (PPP).<sup>28</sup> While the Soviet Union correctly established the dollar value of the rouble in terms of the relative purchasing power, it has not shown the same readiness in pursuing its own logic in relation to the currencies of its trade partners in the Third world. The Soviets have insisted upon the cross rates (via the dollar) as revealed by the official exchange rates of rupee and rouble. And the rupee was undervalued against the dollar to the extent of over

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previous f.a.

4. A temporarily advantageous price structure for the purpose of cementing existing trade relations.
5. Facilitation of commercial transactions between the governmental and semi-governmental foreign trade organisations of the LDCs and the Soviet bloc nations.

250 per cent.<sup>29</sup> Thus the Soviets are taking full advantage of the considerable undervaluation of Third World currencies, particularly the Indian rupee, imposed by the Western imperialist powers and the international agencies like the IBRD and the IMF controlled by the latter.<sup>30</sup>

Why should the conversion rate between the USSR and India matter at all? If the two countries traded in only such commodities which have well-established international prices and if there were no invisible payments between them, then the exchange rate would become practically irrelevant. But in the case of India and the Soviet Union none of these conditions satisfy. To

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29 For India the GDP-based rates are available comparing the rupee with the US dollar. For 1970 it was found that India's per capita output was 2.0 per cent of the US level at the official rate of exchange but as high as 7.1 per cent in real terms. Thus, the rupee was undervalued to the extent of over 250 per cent. Indeed, while most currencies vis-a-vis the US dollar were undervalued, PPP-wise there is a strong tendency for conversions via the exchange rate to show a bigger under-statement for low income countries than for higher income countries.

30 See in this context T. Hayter, Aid As Imperialism, op. cit., and C. Payer, IMF and the Left Iran, op. cit.

a considerable extent Soviet exports consist of goods that find hardly any outlet in the West. The use of notional world market prices for these goods, as is the current practice, technically solves the problem - to the considerable benefit of the Soviet Union. Valuation of outstanding loans creates another set of problems. Every time the rupee gets devalued vis-a-vis other convertible currencies, the repayment burden for India goes up pari passu in financial as well as real terms. The much acclaimed advantages of 'soft' rupee loans are thus considerably whittled away in practice.

In 1966, India was forced to devalue its currency by 57.5 per cent. At that time India's exports to the Soviet Union were not protected by a gold clause, i. e. there was no automatic escalation of rupee values of Indian exports in the event of a change in the rupee's gold content (a reduction in which is devaluation). After negotiations the Soviet Union agreed to revalue outstanding export contracts. But using their superior bargaining position, they only accepted a 47.5 per cent revaluation. At the same time repayments of credits due to the Soviet Union were automatically revalued by 57.5%, thus, giving a net gain of 10% to the Soviet Union. The Soviets with their outstanding credits in India could now buy 10% more of Indian goods than before.

The entire monetary system established at the end of the Second world war was based on the hegemony of the United States. Thus, in the IMF, the US dollar had a status "as good as gold". But the recent capitalist crisis has knocked the dollar down from this pinnacle. As a result the entire currency system is in general disorder.

With no currency having a stable gold value, the Indian rupee has been, since December 1971, officially linked with the pound sterling. In other words, the rupee in relation to foreign currencies changes in value as the value of the pound sterling to these currencies changes. In the period since December 1971 (upto March 1975) the rupee has depreciated in varying degrees in terms of various currencies - the maximum being 60% in terms of the deutsch mark.

Taking advantage of the weakness of the Indian rupee, the Soviet Union has also imposed a unilateral devaluation on India, and has changed the rupee-rouble value by 39%. Since trade (including arms) is accounted for in rupees, the Soviet Union's unilateral devaluation affects only the non-commercial transactions. This includes the cost of training over 2,000 Indian defence and civil technical personnel in the USSR, expenditure on the Indian Embassy in Moscow, expenditure by Indian tourists in Russia, and part of the payment to Soviet

technicians in India, i. e., all rouble expenses by Indians, including the Indian Government. The total of all such expenses is reportedly not very large, just Rs. 3 crores.<sup>31</sup> But the unilateral action in devaluing the rupee indicate the Soviet motives.

Not being satisfied with a 39% profit on a mere Rs. 3 crores, the Soviets are now pressing for India's outstanding debt to be revalued to the same extent. This will amount to a further burden of about Rs. 400 <sup>crores</sup> on India. A high-powered Soviet team is reported to have put forward this demand.

One wonders if there is any justification in this demand. Indo-Soviet trade is valued in rupees. Commercial transactions are on the basis of international prices. Every year when the trade agreements are drawn up, the changes in the value of the rupee are also taken into account when calculating current international prices in terms of rupees. The Indian side in the negotiations in the matter is reported to have put forward this argument. And it must have been so, for if the changes in value had not been taken into account, it would have been more profitable for the Soviets to sell the commodities elsewhere. Thus, the changes in the international value of

the rupee are in effect being taken into account in the trade agreements, and will, therefore, also be reflected in the rupee balances held by the Soviet Union. To ask for a further increase in the value of these balances amounts to asking for double profit.

### Recent Developments

Beginning with cotton textiles, a number of conversion deals have been entered into with the Soviet Union. In the cotton deal, the Soviets supplied Sudanese cotton to Indian private mills. For turning these into textiles, the Indian mills were paid a conversion charge of Rs. 16.5 crores. The entire output produced <sup>was taken over</sup> (by ~~Indian~~ <sup>Soviet</sup> Union which had provided the capital (not all of it though) and <sup>which</sup> thus got the surplus value produced (minus the conversion charge).<sup>32</sup>

The net result of such deals is that the labour of the Indian working class will not even help the process of capital accumulation in India, since the surplus value (minus the conversion charge) flows directly to Russian owners of the capital with which they give employment.

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It was stated on 16 May 1972, in the Rajya Sabha that the Soviet Union would send 20,000 tons of cotton each to India for five years. The Minister of Foreign Trade, L. M. Mishra, denied that some textile mills in India were unwilling to process Soviet cotton into textiles.

While the past rate of growth of Indo-Soviet trade has been very high, the scope for further expansion along the same lines is rather limited. It was noted that India has had difficulty in finding the goods required most and was therefore having to extend technical credits to the USSR. The commodity composition of exports too must be widened if the arrangement of repayment of debt in kind is to be beneficial to India. Therefore, in the seventies a change in the trade policies of the Soviet Union was called for. It is for this reason presumably that conversion deals seem to have been resorted to.

But the Soviets proposed to extend the conversion deals to setting up "captive" units. This question was taken during the Moscow visit (May 1972) of the then Foreign Trade Minister, L.N. Mishra. He told the Rajya Sabha that the Soviet Union had agreed to assist India in setting up certain labour-intensive industries.<sup>33</sup> Later, reports revealed that the machinery for these units would be supplied by the Soviet Union and that the bulk of the products would be earmarked for export to the Soviet Union.<sup>34</sup> Here again the surplus value flowed to the Soviet Union. The captive units proposed were a 5 lakh ton alumina plant, leather goods worth Rs. 4 to 6 crores

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33 Financial Express, 16 May 1972.

34 Ibid., 2 March 1973.



annually, 5,000 tonnes of wood screws, 20,000 tonnes of nuts and bolts, machine tools, TV glass tubes, computer soft war and digital machines. The important aspect of the arrangement for setting up an aluminium plant was that the feasibility report would be prepared by Russian experts. If the project was found to be economically feasible, the cost would be shared equally by India and the USSR. If it was proved that the project was not feasible, its cost would be borne by India.<sup>35</sup>

Again, the specification of most of the products to be produced at the surgical instrument plant, Madras, were not acceptable to Indian doctors. Consequently, all the production piled up at the plant, or it lay idle. The Soviets then offered to buy the output for their own use. In this way they got a captive surgical instruments plant, the bulk of the factory's output being exported to the USSR. During the talks in May 1972 the Soviets offered to help adapt the factory's utilised capacity for mass production of cutlery - to be exported to the Soviet Union. This "captive" production of cutlery was to be in addition to the conversion deal already entered into

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It was rather strange that the government of India agreed to the Soviet experts preparing the feasibility reports of the aluminium plant. The project report of the Bharat aluminium plant was prepared by Indian experts.

with some private sector units, where the Soviets supplied steel to be converted into cutlery for a commission.

Along with the Soviet Union, the other East European countries have also offered to set up such captive units. In April 1972 Bulgaria offered to transfer whole plants for the manufacture of electric components, chemicals and food stuffs.<sup>36</sup> Similarly, Czechoslovakia was to make use of the Electronics Processing Zone, near Santa Cruz Airport, Bombay.<sup>37</sup> Hungary's requirements of seamless tubes will be met by setting up capacity in excess of India's needs.<sup>38</sup>

The projects mentioned above have on the whole not yet materialised. The snag was that, in view of India's growing self-sufficiency in capital goods, the Soviet contribution in the form of equipment and know-how would be small, and sizable rupee resources would have to be raised to finance these projects. To overcome this problem, India suggested that the Soviet Union should provide minerals like crude oil and non-ferrous metals on credit, and the sale of these in India would provide the rupee funds needed. This was not acceptable to the Soviet side.<sup>39</sup>

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36 Economic Times, 28 April 1972.

37 Ibid., 5 December 1974.

38 Ibid., 2 November 1974.

39 Swaminathan S. Aiyar, "Soviet-Aided Projects", in The Times of India, 29 April 1977.

During the Brezhnev visit (December 1973) to India a fifteen year economic agreement was signed. Besides the agreements to increase trade, the agreement had two significant features: a) exploring the possibility of production cooperation, and b) cooperation in the matter of supply of equipment and services for setting up plants in third countries. Besides, a separate agreement was signed on cooperation between the Indian Planning Commission and the State Planning Committee (Gosplan) of the USSR. Production cooperation does not seem to have materialised till date. Its too early to assess the progress of joint projects in Third World countries and cooperation in planning. However, when the agreement was signed, it was pointed out: "Though the agreement with the USSR does not indicate clearly that Indian plans will be so framed that they fit in with the overall economic relations among the East European countries, a careful reading of the agreements with the USSR and Czechoslovakia are pointers in that direction. Though India will not be involved in the production-sharing plans of the East European countries, for all practical purposes, it promises to emerge as something of an associate member of this group."<sup>40</sup>

## CHAPTER V

### SOVIET AID : A COMPARISON WITH AID FROM OTHER SOURCES

Generally speaking, while American aid to India has been concentrated in the agricultural sector (in terms of food aid), the Soviet aid has been oriented towards industrial development. A comparison of aid terms would appear clearly unfavourable to the USSR. In fact, if a comparison is made between Soviet and American aid on the one hand, and Chinese aid to the Third World, on the other, both the super powers would emerge unfavourably.

Let us briefly note the characteristics of American aid to India before proceeding with a comparison with Soviet Aid. Table 18 (see Appendix I) shows that America's primary contribution has been in food, though counterpart funds so created are used largely for development purposes by agreement with India. In broad economic terms American food aid supplies a vital deficiency, at the same time helping to maintain price stability. This fact is of no mean political significance. However, inspite of a widespread image to the contrary, the US has provided a significant proportion of its aid to India's industrial development (26.8 per cent including steel and iron ore) apart from infrastructure projects.<sup>1</sup> These latter constitute

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1 The term here refers to public utilities - specifically transport, communications, harbour development, irrigation, power and also technical, educational and social services.

17.2 per cent of the total, of which 5.3 per cent is devoted to grants for a wide variety of technical assistance projects.

As between various types of aid, assistance was divided in the following proportion upto 31 March 1976: Loans 96.5 per cent (approx. 38.7 per cent of which are repayable in rupees, the rest in dollars); Grants 3.5 percent. The main sources of loans have been the Export-Import Bank, the Development Loan Fund - replaced in 1961 by the Agency for International Development - and a variety of other programmes. The trend was towards 'softening' of loan repayment terms from the Second to the Third Plan. There was a clear recognition of India's difficult foreign exchange situation in the 1960s. An important experiment in coping with the foreign exchange situation was 'debt relief'.

Excluding PL 480 assistance, the United States has given 47.7 per cent of its aid in 'non-project' form. All non-project assistance has been provided subsequent to 1961, thus indicating a significant policy departure during <sup>the</sup> later period.

Overall contribution of the United States to the public and private sectors is indicated in Table 20 (see Appendix I). A clear pattern is established. Public sector loans are favoured for 'infrastructure' projects and private sector loans for industrial development, including the steel industry.

Having dealt with the features of American aid, we will now proceed with a comparison of Soviet and with American aid.

#### Volume of Aid

America has provided seven times the quantum of aid authorised upto 31 March 1976 as compared with the Soviet Union. While US aid to India constitutes 33.5 per cent of the total aid granted to India, the Soviet aid is a bare 4.7 per cent (see Appendix I, Table 19). Soviet loans, as we know, have been repayable in rupees ever since 1960. Even the quantum of loans provided by the USA which are repayable in rupees (Rs. 1983 crores) exceed the total loans given to India by the Soviet Union (Rs. 744 crores).

#### Net Inflow of Aid

So far we have discussed the gross flow of aid. Given that fresh aid commitments from the East European countries ceased after 1968/9, and that aid has to be repaid, how much net aid has been received by India from these countries? Some figures are given in Table 21 (see Appendix I), which shows the proportion of debt servicing to total aid utilised in particular years. Although there are wide fluctuations in the ratio from year to year, India has been receiving progressively less net aid from the group. Past loan repayments continue

in the absence of fresh commitments. In this context, the USSR and other socialist countries compare very unfavourably with the USA.

Thus the amount repaid upto 1973-74 were Rs. 392 crores for the Soviet Union, Rs. 474 crores for the USA, Rs. 204 crores for the U.K., and Rs. 335 crores for West Germany. The Soviet Union, then has upto now got the highest rate of repayment to aid given - almost 75% as against just 12% for the USA, 25% for the U.K., and 50% for West Germany.<sup>2</sup>

#### Terms of Aid

The question can be asked whether the East European countries have given aid to India on particularly favourable terms. One might expect this to have happened, given the widely-held belief that they are sympathetic to the 'socialist' policies followed by the Government of India. The actual terms of aid offered by the East European countries and by some of the western countries, are given in Table 22 (see Appendix I).

The USSR was the first donor to accept the principle of giving development loans on concessional terms. The concessional element depends on the rate of

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<sup>2</sup> All figures from Explanatory Memorandum to Central Government Budget for 1973-74, Government of India Press (New Delhi, 1974).

interest, amortisation period and currency of repayment. The USSR merely offered low interest rates. Loans have been given for much shorter period of time than those offered by the US and there have not been any significant grace periods for repayment. To a large extent, the short duration of the loans offsets the advantages of lower rates of interest and overall terms do not come out very favourably. For example, if we use the 'grant element',<sup>3</sup> as a ranking device, the USSR terms come out very unfavourably as compared not only to the US (AID/DLF) loans, but also the loans from ICA, West Germany and the UK.

In practice, the repayment of principal for Soviet loans does not start until a year after the final invoice for machinery and equipment for each project is received. However, notable exceptions to this were the credits for Ehilai and Bokaro. In the case of Ehilai, the repayment started a year after the receipt of the invoice for each instalment of equipment, and not after all the equipment had been received. These two credits constituted 33 per cent of the total granted by the

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The difference between the aid received today and the discounted value of future repayment obligations as of today will express, in money terms, what different writers have called the 'grant' or 'gift' element of aid.



Soviet Union during the period 1956/7 to 1965/6. This arrangement therefore, meant that India started repaying the credit even before the project was completed and production started.

For a country faced with a severe foreign exchange shortage, repayment in local currency would be a special concession. The Soviet loans are more accurately described as repayable in kind. To be accurately described as repayable in rupees, in the sense that there was no foreign exchange cost involved, it must be shown that India could not have exported these goods elsewhere. Most studies have concluded that exports to the USSR by and large have been in addition to exports elsewhere and the terms of trade not significantly worse than India obtained elsewhere. Therefore, the burden of repaying in kind has probably not been higher than the burden of repaying in convertible currency. But because of other indirect costs, such as undesirable exports and the need to give technical credits, repayment in kind has been almost as burdensome as repayment in convertible currency. Moreover, India had repaid only a part of its credit upto 1965/6. Since devaluation of the rupee in June 1966, the burden of repayment has increased because India's terms of trade with the East European countries deteriorated.

Debt Relief

Since devaluation, the debt servicing burden has sharply increased. This is a general occurrence but the difference between the USSR and the USA is that the latter has rescheduled debt repayments.

For the other East European countries as a whole, the ratio of debt service to total assistance utilised rose from less than 25 per cent in the pre devaluation period to 37 per cent in the post-devaluation period. However, in the case of the USSR, the debt service reached between 75 and 80 per cent of gross aid received. Between 1966/7 and 1969/70 there has been little net inflow of resources from the USSR. In fact, if defence credits are included, there has probably been a net outflow. But unlike the Consortium countries, the USSR did not consider it necessary to give debt relief. The explanation it gave was that its loans already carry concessional terms.

Tying of Aid

There is yet another example of the rigidity of the aid programme of the USSR. The USSR has shown no keenness to 'untie' its credits. Aid can be tied, as we have noted earlier, to purchases in the donor country or to a specific type of project or both. If the aided-projects have a high priority in India's development

programme, there is little danger of a distortion of priorities. Similarly, if the donor can provide credit-financed imports at competitive prices, there is not cost involved in tying credits to purchases in the country of origin. However, when a country like India tries to match the aid available from various countries to its requirements, 'tying' creates problems. As donors prescribe their do's and don'ts about the end use of funds it is impossible for India to obtain supplies from the cheapest sources or to get exactly what it needs. Consortium countries made efforts to meet India's special requirements during the Third Plan by granting her non-project loans. But the East European credits have all (100%) been tied both to source and to project.

"The direct costs alone of aid-tying are equivalent.... to as much as one-fifth of the value of tied aid."<sup>4</sup> While other donor countries tied most of their credits either to a project or to purchases in the country of origin, Soviet aid was tied both ways. Therefore, assuming the USSR paid the same prices for exports as others, the cost of tying may be higher in their case.

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J. Bhagwati and S. Chakravarty, "Contributions to Indian Economic Analysis: A Survey", American Economic Review Supplement, Part 2, September 1969.

One more factor that makes tied credit from the USSR more expensive is that there is only one supplier of equipment. Since the creditor and the supplier are the same, India does not even try to get a lower price from them. Of course, firms in the western conor countries may collude and quote price. This in fact has been the general practice in case of tied credits. But at least it may be possible to exercise choice in equipment produced by different firms. Even this possibility is ruled out in the case of Soviet credits, since there is no competition within the country. Moreover, the choice was restricted to what the partner country could offer, i.e. whether the equipment was suitable to India's requirement or not.

#### Technical Assistance

By taking an active part in the training of scientists, technicians and engineers, the USSR assures a "techno-industrial psychological bond between the backward nations's technical intelligentsia and the Soviet Union". What the Soviet Union expects from these personnel is appreciation of Soviet technology and methods of production. This is sought to be achieved through training programmes of these personnel in the Soviet Union or through training programmes in India provided by the Soviet personnel. Thus appreciation and

admiration of Soviet technology, through association with it, is considered the "key to political hay-making."<sup>5</sup>

There are two differences in the nature of assistance offered by the Soviet Union and the Consortium countries. First, very few outright grants are given. All technical assistance from the Soviet Union is paid for. Payments for project tied technical assistance came to nearly 10 per cent of the credits utilised. In addition, India paid Rs. 50 million for the salaries of foreign technicians upto 1965. There may well have been other payments and the true cost of technical assistance rendered may be nearer to 15 per cent of the development credits utilised. This is a sizable percentage.

Secondly, all aid is tied to delivery of equipment requiring technicians from the USSR during both installation and start-up periods. When foreign technicians work on a specific project or train Indian technicians for a specific job, it is easy to demonstrate

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The Chinese have felt that Soviet social imperialism operated in the garb of 'technical assistance' - a relationship of technological dependence on the Soviet Union was established and the technical elite of China was co-opted to Soviet interests. See Dennis Day, "Chinese Perceptions of Social Imperialism", Stanford Journal of International Studies, op. cit.

their usefulness. This in job training is suitable to India's needs, because the problem of utilising the skills thus acquired does not arise. However, the USSR does not offer opportunities for students to be trained in various fields comparable with the Fulbright or Commonwealth Scholarships and Travel Grants. Vassil Vassilev points out that "Aside from scholarships to universities or to technical institutes, assistance is on the payment basis, including training periods spent in firms. Cooperation is thus of an entirely commercial nature."<sup>6</sup>

As it has been discussed earlier, tying credits to imports very often results in an underutilisation of local skills, because the USSR insists on using its own technicians to design a project.

A technological wind of change has been blowing almost unnoticed through the public sector for the last few years. Most of the big public sector undertakings, set up partly or wholly with Soviet know-how, are now acquiring new technologies for their diversification and expansion programmes. And in the majority of cases they are going to non-Soviet sources for know-how.

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V. Vassilev, Policy in the Soviet Bloc on Aid to Developing Countries ( Paris, 1967 ).

Bharat Heavy Electricals used Soviet collaboration for manufacturing 200 Mw generating sets; it has now switched to West German technology for 500 Mw sets.

The Oil and Natural Gas Commission was created and run for more than a decade with Soviet assistance. This proved inadequate for offshore exploration, so the ONGC brought in American and French experts. Now even the onshore programme is going to be assisted by American and Hungarian companies.

Instrumentation Ltd., was created to supply Soviet-style instruments to Soviet-aided projects in the country. But soon the limitations of Soviet design became apparent, and the undertaking has therefore gone in for a new range of instruments using British, American and Japanese collaboration.

The Heavy Engineering Corporation was originally licensed to produce oil drilling rigs of a Soviet design. But the design was so obsolete that no such rigs were ever produced. The HEC has now switched to American technology to manufacture modern high-speed rigs in conjunction with BHEL and some other public sector undertakings.

The Mining and Allied Machinery Corporation is planning to sign five new collaboration agreements - one of which is with the Soviet Union.

The biggest area of Indo-Soviet collaboration has traditionally been steel. But there has been a marked change even here. The expansion of the Bokaro and Bhilai plants was originally based on Soviet assistance. Russian experts succeeded in preventing SAIL from making use of the American technology it had obtained for rolling mills. The new steel minister, Mr Eijū Patnaik, has now cried halt to Soviet collaboration, and SAIL will use its American know-how for the huge cold rolling mill which is the centre-piece of the Bokaro expansion.

Indian Oil Corporation set up its Barauni and Koyali refineries with Soviet technology. It looked to western sources for the special lubricants to be produced at the Haldia refinery. It was proposed to return to Soviet technology for the Mathura refinery, but later it was considered safer to supplement this with American know-how for some of the key units like the catalytic cracker.

Why is the public sector engaged in such a massive swing away from Soviet technology? One reason is, quite simply, that Soviet know-how is not good enough in a number of fields. The gap between western and Soviet technology has been growing steadily for the last thirty years, and the Soviet Union itself has now swallowed its pride and gone in for large-scale purchases of expertise



from the West.

In the 1960s, when the majority of Soviet-aided projects were set up, the technological gap was not so wide, and such gap as there was did not matter much from India's point of view. This country's heavy industry was in its infancy, and there was no need to go in for the latest know-how. Besides, Western technology was frequently not available on the terms and conditions wanted by the public sector. Western firms generally demanded equity participation as part of the price for supplying know-how, and were opposed to the basic philosophy of the public sector.

These were the kind of constraints that led to the collapse of talks with Western parties on the Bokaro steel plant and Korba and Koyna aluminium projects. Ultimately it was the USSR which stepped in and agreed to provide the know-how and equipment for all these plants.

The fact that Soviet technology was somewhat inferior did not matter much. But today the situation is quite different. Western firms have now shed their inhibitions about outright sales of know-how to the public sector, and they are backed up with government-to-government credits on terms far more generous than those offered by the USSR. For instance British aid is now in the form of outright grants, West Germany gives untied aid on the same terms as the International Development Association --

repayment over 50 years and 0.75 per cent interest.

Meanwhile Indian industry has also come of age, and is very particular about getting the best possible technology. Indeed there are now some fields where India is technologically ahead of the Soviet Union, such as fertiliser plants and offshore oil exploration. In this climate, it is no wonder that the popularity of Soviet collaboration has nosedived.

However, it would be wrong to exaggerate this state of affairs. Soviet technology is still world-class in several fields, such as metallurgy, low-temperature engineering, defence equipment, some categories of electronics, and certain types of mining equipment and electrical machinery. India continues to use Soviet expertise in a variety of fields, particularly mineral exploration, metallurgy, and heavy engineering.

Thus Soviet technology has by no means been thrown overboard by India. But it has certainly been cut down to size. Because of the special climate in the 1960s the public sector was forced into an overwhelming dependence on Soviet technology. The tilt towards Soviet know-how is now being rectified. The public sector can be said to have a new philosophy of technological non-alignment.

The Soviet Union on its part will have to

change its policies to attract more Indian interest. It will also have to show its willingness to part with technology in sensitive and sophisticated fields where it has tended to dig in its feet in the past.

### Sectoral Composition

Table 23 (see Appendix I) shows that Soviet aid is 100 per cent in the public sector. The American contribution in that direction, contrary to widely-held beliefs, is quite significant, especially when technical aid and projects financed from PL 480 counterpart funds are added. American propaganda fails to point out that its own overall contribution to the public sector is at least comparable to that of the USSR, but it is for infrastructure rather than heavy industrial purposes. With regard to distribution between public and private sectors, the Soviet Union leads only slightly in percentage contributions of authorised foreign currency loans to the public sector (28.5 per cent against 27.4 per cent). It is the American and World Bank abstention from public sector heavy industrial development that gives Soviet aid its special value in Indian eyes, though the British and West German contribution here has also been useful.

Table 24 (see Appendix I) gives the sectoral composition of Soviet loans and roughly compares it to the sectoral composition of project loans received from

the capitalist countries. While for the USSR project aid is equivalent to total aid, for the western countries project aid was roughly 60 per cent of the total in 1963-5. By the end of the sixties the ratio had fallen to somewhere between 10 to 30 per cent of loans from the USA, the UK and West Germany. While it is true to say that the sectoral composition of Soviet aid was different from that of capitalist aid, the differences do not conform easily to the pattern that is intuitively imagined. It is not the case that Soviet aid has been heavily concentrated on creating capital goods industries, while capitalist aid has gone into consumer goods industries. As far as the heavy machinery sector itself is concerned, there is not a great deal of difference between the two. This is especially so if we classified investment in mining financed by Soviet aid with heavy machinery. For the western countries, mining has been classified as part of the investment in power. This again will explain part of the discrepancy that we can see between the two groups. The significant differences lies mainly in that the proportion of aid given to the steel industry is very much higher for the Soviet Union. The western countries, including the IBRD, have given over more than a fifth of total loans to finance the building of an infrastructure of transport. The other interesting point is the significant share of Soviet aid devoted to the production and

exploration of oil in India.

The most striking contrast in the aid given by the United States and the Soviet Union is that the aid of the former though very large is, however, spread over numerous projects and food which is consumed immediately. On the other hand, the Soviet aid has covered a few but important and strategic projects which have a very large impact values in terms of popularity.<sup>7</sup> These projects have also an impact on economic development because investment in heavy industry, especially steel and machine building, give fillip to further investment in the economy.

In this context, Chinese economic aid to Third World countries deserves mention primarily for two reasons. First, it is offered by a country which will itself continue to be a developing country for years to come, and secondly, the conditions under which this aid is offered, is a

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7 In this manner, it has been alleged, they have gone about "capturing" the "commanding heights" of the economy. Unlike the much larger US investment (Rs. 7000 crores) which is widely dispersed, Soviet investment of Rs. 1000/- crores is concentrated in a few projects in some key sector of India's industrial economy. See CPI(M-L) Publication, op. cit.

model in itself.<sup>8</sup>

It would be unfair to belittle the significance

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Eight principles laid down by Premier Chou-en-lai during his visit to Africa in 1964, have formed the theoretical basis on which China has provided aid to other developing countries.

First, the Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual. Through such aid the friendly new emerging countries gradually develop their own national economy, free themselves from colonial control and strengthen the anti-imperialist forces in the world. This is in itself a tremendous support to China.

Secondly, in providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never asks for any privileges or attaches any conditions.

Third, the Chinese Government provides economic aid in the form of interest-free or low-interest loans and extends the time limit for the repayment so as to lighten the burden of the recipient countries as far as possible. (Strong contrast to the USSR).

Fourth, in providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark on the road of self-reliance step by step.

Fifth, the Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital. (Contrast to USSR).

Sixth, the Chinese Government provides the best quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government

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of Chinese aid by arguing that China sought to attain political aims by offering aid. This is more or less true of all donors of economic aid. However, what distinguishes China from other donor countries is its guiding principle that economic aid must not bring economic profit to the donor.<sup>9</sup> Of course, with western industrial nations the motive of profitability is known to be inherent. But it is difficult to understand that socialist countries, among them the Soviet Union, should also aim at making a profit out of their economic aid.

We live in a time of energy crisis. The costs of oil imports have risen to such an extent that they now exceed what the LDCs receive in the way of economic

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undertakes to replace them. (Contrast to USSR).

Seventh, in giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique. (Contrast to USSR).

Eighth, the experts dispatched by the Chinese Government to help in construction in the recipient countries will have the same standard of living as the experts of the recipient countries. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

(Source: 'Chinese aid in action: Building the Tanzania-Zambia Railway', World Development, Vol. 3, Nos. 7 & 8 (July-August, 1975).

aid loans. Even before the crisis, the burden of the interest to be paid on aid loans granted by capitalist and socialist donors lay heavily upon the recipients. Today, only China, who does not demand interest on her economic aid loans, meets the needs of developing countries.

88.5 per cent of the foreign aid given by China consists of interest-free loans (see Appendix I, Table 25).

China is outstanding not only because it offers economic aid without interest, but also because its terms of repayment are more favourable than those granted by any other country. In the case of relatively large loans, China has made it a habit to offer the recipients a period of grace of 10 years, beginning on completion of the economic aid project in question. Only after the lapse of this period does repayment begin, the instalments usually being distributed over 20 years.

Another unique feature is that all Chinese economic aid agreements contain a clause that the Chinese technicians and workers shall be paid in accordance with the standards of the receiving country. As the standard of living in most developing countries is low, the cost is thus reduced considerably. The expenses on salaries in a Chinese aided project will amount to far less than half the costs arising for the recipient countries. Chinese aid is certainly worth more than the same nominal sum (by at least 25%) when granted by the USA or the Soviet



Union, because the reduction in personnel costs results in an increase in the actual body of economic aid. Hence, the Chinese loans (upto December 1973) totalling US \$ 3,384 million are actually worth about US \$ 4,200 million.

An item of particular interest in Chinese economic aid are the donations, or non-repayable loans. Between 1956 and 1973 China gave a total of US \$ 309 million as a donation to Third World countries.

Next to the donations, the Chinese loans for which interest had to be paid, merit attention. When China began to offer economic aid, it still recognised the primacy of the Soviet Union, which has made it a rule never to grant economic aid without interest. However, China soon endeavoured to gain a certain independence from the Soviet model. While pursuing this policy, it did not adopt the Soviet principle with regard to interest on loans. The fact that China did demand interest on loans in five cases was probably due to her initial doubts as to the worthiness of the recipients to <sup>receive</sup> interest-free loans. In any case, only on 2 per cent of the total aid given does China charge interest (2.5%). After the Sino-Soviet breach, China has offered all economic aid without interest, which certainly sets an example to other donors.

The economic aid offered by all socialist countries together totalled US \$ 15,477 million (December

1973), of which the Soviet Union alone provided US \$ 8,229 million (or 53%), the socialist countries in Eastern Europe US \$ 4,110 m. (27%), and China US \$ 3,128 m (20%).<sup>10</sup> It is true that China ranks last here, but we must not forget that China is one of the less developed countries.

A comparison between the Soviet Union and China makes it quite clear where the Soviet centres of gravity are: in India (US \$ 1,593 m), Egypt (1,198 m), Afghanistan (826 m), Iran (526 m), Iraq (549 m), Turkey (534 m), Pakistan (474 m) and Algeria (421 m). These countries have received a total of 75 per cent of all loans offered by the Soviet Union. This shows, on the one hand, the political involvement of the Soviet Union and on the other, the great political importance of economic aid in general. In comparison to the Soviet Union, China's tendency to give the bulk of her economic aid to few countries is less marked.

This is not to say that China can be given a clean chit. China is almost as guilty as the USSR of giving economic and military aid to totally reactionary regimes: Yahya Khan's Pakistan when the generals were engaged in massacring hundreds and thousands of innocent and exploited East Pakistanis, Pinochet's Chile, a regime which every civilised nation in the world has condemned both inside and outside the United Nations; and the FNLA-UNITA combine in Angola long after it was established that the only progressive force there was the MPLA. The only reason for such an attitude on the part of China was its rivalry with the USSR. But in its attempts at deriving political advantage from its economic aid policies it was different from any other great power. At least it tried to derive no economic profit from the aid recipients.

We may conclude that in an epoch when the advanced industrial countries were getting richer and richer, while the poor ones were ~~gunk~~ sinking deeper and deeper into poverty, it was China, of all countries, that became a model donor of economic aid.

## CHAPTER VI

### CONCLUSION

While dealing with the objectives of Soviet economic cooperation with the Third World we had said that the Soviets felt that the state sector was the most capable instrument for mobilising resources if the objective is to eliminate backwardness and poverty. But what has been the actual economic impact of Soviet aid to India? While the USSR propagated and supported state capitalism as the most desirable path to development for the Third World, <sup>the state in India</sup> continued to protect the interests of the privileged classes. It is now widely accepted that the principal beneficiaries of state capitalism in the underdeveloped world have been capitalists in the private sector and not the majority of the people. Even Russian theoreticians have revised their earlier view and accept this position now.

The public sector could be an instrument for weakening and eliminating the hold of foreign capital and also for restricting and curbing the growth of Indian monopolies. But the policies pursued by the government during three decades of rule have belied such hopes. Increasing concentration of wealth and the rapid growth of Indian monopolies have become a pronounced phenomenon. Twenty family groups controlled 20 per cent of total

private capital in 1951. This had increased to 33 per cent by 1958. In 1965, the Monopolies Commission found out that 75 leading business groups owned 47 per cent of the assets of all non-government companies.<sup>1</sup>

The big capitalists have increasingly benefited from the state sector. The bulk of credit facilities from the state financial institutions have gone to build them up still further. All major contracts under the plan and otherwise emanating from government go to big business. It is big business again that controls the distribution of the products of several state undertakings. Apart from the growing links between the public sector and the monopolies, government now invites capitalists including foreign monopolists to participate in the share capital of state-owned undertakings.

It is also necessary to consider the effects of trade with the socialist countries on the structure of production and income distribution in India. Given the history of exploitation by the western imperialist countries, the USSR stresses that its intention is to eliminate backwardness and assist in the development of a dynamic

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1 Meghnad Desai, "India : Emerging Contradictions of Slow Capitalist Development", in R. Blackburn, ed., Explosion in Sub-continent (Pelican, 1975), p. 18.

modern sector in the poor capitalist countries offer an opportunity to change the historically determined patterns of production and trade in India? If so, India should have derived substantial benefits from its economic relations with the USSR. Within the economy, of course, the distribution of benefits might be rather unequal. This is, in fact, what did happen. The important question is whether or not trade and other economic relations with the socialist world place a poor capitalist economy on the road to self-reliant development, reducing its dependence on external finance. If that is the case, it must be reflected in changes both in the structure of production and pattern of trade remain the same, and the dependence of the Indian economy on external assistance continues to grow.

This cannot be attributed to socialist trade and aid because it was the outcome of factors internal to the Indian polity. Given the economic and political system the outcome was inevitable. But this does not absolve the Soviet Union of giving political support to the Congress regime during the Emergency (June 1975 to March 1977). That Soviet aid to state capital served to consolidate the position of the ruling elite is widely accepted. In this connection it is necessary to consider the "emergency" repression of the working class, the elimination of habeas corpus and the detention of repor-

tedly over 180,000 political prisoners among a host of other measures such as a ban on strikes and even on legal protection (forbidding petitions for injunctions) against employers who themselves break the law. These and other measures of Emergency Rule brought "an observable improvement in labour discipline" and a decline by more than half of man-days lost through strikes, with "the improvement.... more impressive in the public sector enterprises", which are precisely those most closely linked with Soviet aid. Aid to whom? We may ask. The only possible answer consistent with the facts is that this aid is to the big monopoly bourgeoisie<sup>2</sup> in India, which is the main economic beneficiary, first of the Soviet-supported public sector, and now of the emergency rule by their political representatives. That the Congress regime enjoyed the political support of the Communist Party of India and that Leonid Brezhnev in his visit to India has gone so far as to call Indira Gandhi a great socialist whose government is leading India to socialism changes nothing in these facts.<sup>3</sup>

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2 Consider, for example, the rapid rise of the Birlas and some other big business houses during the days of the Emergency.

3 Economic and Political Weekly, December 8, 1973, p. 2161.

On the other hand, the economic and political "independence" of the government was illustrated when after Sadat's break with the Soviet Union (and on the grounds that "business is business") India wanted to sell its Soviet-licenced, Indian-built MiG jet fighter spare parts to Egypt, "the Indian Government acknowledged.... that the Soviet Union blocked India from supplying Egypt with spare parts for MiG-21 fighters."<sup>4</sup>

All this is not to say that the presence of the USSR and other socialist nations on the international scene did not give rise to some advantages for India. The contrast between the volume of funds given to India before and after the USSR offered to set up a steel plant is remarkable.

Perhaps the influence of the East European credits on other donors is most evident in the field of industrial development. The USSR made available the first official credits for industrial projects in the public sector; such credits were made for drugs, oil refineries and heavy engineering industries. In each of these cases, the offers were followed by offers from Consortium donors, but mainly for the use of private firms. The volume of official funds available for industrial development increased during successive plans.

The initial effect of the availability of East European credits was to break the monopoly of private foreign investors in, for example, steel, the oil industry and pharmaceuticals. The fact that the position of foreign interests was being challenged roused the interest of the Consortium governments, which made funds available for the use of private firms in the same industries. What India actually benefited from was the cold war.

It is contended that in moments of crisis, the Soviet Union has stood by India and has afforded diplomatic support to the Indian stand over Kashmir, Goa and Bangladesh. But if the Soviet Union, has given us diplomatic support we have clearly paid a price for it in economic terms.

However, we have already stated that while important ties of economic interest have been established, foreign policy considerations have been dominant in Soviet objectives of aid policy towards India. Securing a base in state capital, dominating the heavy industrial sector, and having almost complete control over the supply of arms, the Soviets moved to establish their hegemony over India and South Asia. While simultaneously edging out American influence. Their first significant success in this venture was in 1965 after the Indo-Pakistan conflict. The peace that followed was under the Soviet aegis. This was the beginning of the Soviets having a say in the



affairs of the sub-continent. To establish its influence a Indo-Soviet treaty was proposed as early as 1969. The Soviets thought that since there was a dismantling of foreign bases in Asia, a collective security system backed by the Soviet Union would contribute to the security of the region.

The Indo-Soviet Treaty was unlike any earlier treaty signed by the Government of India. Article IX provided that "In the event of either party being subjugated to an attack or threat thereof, the High Contracting parties shall immediately enter into mutual consultations in order to remove such threats and to take appropriate and effective measures to ensure the peace and the security of their countries." The Indian armed forces were thus committed to joint military action with the Soviets.

Immediately after signing the Treaty, A. Gromyko, addressing the Supreme Soviet clearly stated that the Indo-Soviet treaty was the first step in the Brezhnev Asian Collective Security Plan.<sup>5</sup> The Indian Government, while acting to further Soviet interests as well as its own, did not, however, openly espouse the Brezhnev plan. We have stated that in its foreign economic policy, the USSR has tended to give high priority to its interest.

The Treaty was followed by closer economic relations with the Soviet Union, while the US began to be gradually edged out. Under the Treaty, commissions were set up to explore the possibilities of greater co-operation in various fields. Indo-Soviet trade took a leap forward. In the same period, large quantities of arms were provided, particularly naval vessels. In return the Soviets reportedly got anchoring, repairing and refuelling facilities for Soviet ships in two major Indian ports, Vishakhapatnam and Port Blair in the Andaman Islands. However, one has to be careful in giving total credence to this report.

Meanwhile, the United States was forced to retreat. In mid-1972 the massive US AID mission (1,000 employees) began to wind up.<sup>6</sup> From nearly a dozen projects, the US technical assistance shrank to just six. In June 1972, the Government of India terminated the arrangement by which the US Government used PL 480 rupees to meet expenses of US programmes in Nepal.

Simultaneously Indo-Soviet cooperation in science and technology took rapid strides. In June 1972 there were four joint projects and for 1973-74 a total of twenty joint research programmes were proposed. On the other side, D.G. Macdonald, US State Department

official administering the Indian programme, lamented that at the initiative of India, by March 1973, there was just one technical assistance programme.

The changed position of the two super-powers was dramatically reflected in changes in the direction of trade. There was a drastic fall in imports from the USA - from 30 per cent of India's imports in 1968-69 to just 12.6 per cent in 1972-73. (Of course, this went up to 16.9 per cent in 1972-73, proving that the U.S. still has a considerable base in India.<sup>7</sup> At the same time the total turn over of Indo-Soviet trade rose rapidly. In 1973 the turn over was Rs. 618 crores - an increase of Rs. 105 crores over 1972.<sup>8</sup> The Soviet Union became India's largest trading partner, for the first time displacing the US from the position it had held continuously from the Second World War onwards.

Brezhnev's visit to India in December 1973 led to a further series of pacts and agreements, notably one between the planning bodies of the two countries for drawing up a fifteen-year plan for economic cooperation. This plan contemplates the creation of capacity in Indian

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7 Figures from Report on Currency and Finance, Reserve Bank of India (1973-74).

8 Economic Times, 26 June 1974.

industry for exclusive Soviet use.

In Brezhnev's words, the visit led to a 'qualitative change.'<sup>9</sup> There was no mention of the Asian Collective Security plan in the joint communique. The reason was that the Asian countries were strongly resisting this Soviet attempt at domination. But in the joint declaration the Indian Government clearly accepted the Soviet Union as an Asian power. The Government of India thus accepted the Soviets' right to actively promote both "mutually beneficial cooperation" and the supposed strengthening of peace and stability in Asia. Thus, one of the important goals of Soviet diplomacy was achieved and it was this which Brezhnev described as a 'qualitative change' in Indo-Soviet relations.

During the visit, the Soviets offered to develop sheep breeding in the Ladakh region.<sup>10</sup> The intention possibly was to ensure a Soviet presence in the most strategic sector of the Sino-Indian border in order to get a centre which could be used for subversive activities against China. The CIA had, clandestinely, though with full agreement of the Indian Government, used India as a base for counter-revolutionary activities in Tibet. Now the Soviets have proposed to do the same.

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9 N. J. Nanporia, "The Strings are Very Much There", in The Statesman, December 1973.

10 Economic and Political Weekly, 22 December 1973.

One would have expected that the "special relationship" that has existed between India and the Soviet Union in the seventies would have suffered a setback with the coming to power of the new Janata Party Government. It was expected by the Soviet Union that the new Janata Party government would move towards the right,<sup>11</sup> and given the orientation of its dominant constituents, look more to America. To stall any such development, the Soviet Foreign Minister, Gromyko, visited India within a month of the assumption of office of the new government. The visit concluded with the signing of four new economic agreements including a Soviet credit offer worth Rs. 225 crores. This offer by the Soviet Union can again be explained in simple competitive terms. It is for the first time since 1966 that a Soviet credit has been given to India. What is more interesting is that the credit has been given on much softer terms than any loan granted by the USSR hitherto, though it still does not match up with the liberal terms given by western sources. The credit will carry an interest of 2½ per cent per annum and will be repayable over 20 years including an initial

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The Janata Party election manifesto for the Lok Sabha poll in March 1977 spoke against the further expansion of heavy industries in the public sector.

grace period of three years. For previous Soviet credits, the amortisation period has been twelve years, and the grace period only one year. What is equally interesting is that a part of the loan is non-project aid. It is for the first time that the Soviet Union has given non-project aid. The intention behind all this seems to be <sup>that</sup> the 'special relationship' between the USSR and India should continue.

The Russian agreement to export one million tonnes of crude to India in 1977 is no gift because the crude has been sold at prices charged by OPEC countries. This means Moscow is making substantial profits from a deal worth Rs. 86 crores. The crude will be available at A 13.10 per barrel, which is around the same as OPEC prices after the last hike in January 1977. If to this is added the higher cost of freight (because of longer distances), Soviet crude works out to be more expensive than Arab and Iranian crude. OPEC prices bear no relation to the cost of production and are based on arbitrary changes that have been made periodically since the first fourfold rise in 1973. Thus the Soviet Union is getting the benefit of international prices without being an OPEC member. The only advantage that India is getting out the deal is that Russia has agreed to take in exchange Rs. 86 crores of steel and pig iron, of which there is a glut in this country. The protracted

negotiations over the crude-for-steel deal have obviously been over the price that the Russians should charge for the crude.<sup>12</sup>

Thus, the Soviet Union seems to have derived considerable economic profit from its aid and trade relations with India. In the last analysis, however, we have seen that political factors were rather more important determinants of the relationship between the USSR and India. Economic ideology and political developments within India had little to do with the relationship, as has been proved by the Soviet attempt to woo the new government of India. International political objectives were far more important.

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The Statesman, 29 April 1977.

APPENDIX I

TABLE I

TRADE BETWEEN THE SOCIALIST COUNTRIES OF EASTERN EUROPE(a)  
AND THE THIRD WORLD

(in US \$ million)

	1952	1956	1960	1964	1968	1972
<b>(A) Less developed Capitalist Countries (b)</b>						
Exports to:	175	470	880	2100	3070	5080
Imports from: (d)	215	405	950	1520	1940	2820
Trade Turnover:	390	875	1830	3630	5010	7900
<b>(B) Less developed Socialist Countries (c)</b>						
Exports to:	860	1213	1767	1122	1717	2180
Imports from: (d)	610	1130	1722	1010	863	1160
Total Turnover:						

Notes: (a) Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania and the USSR.

(b) Corresponds to the UN category of developing market economies.

(c) China, Cuba, Mongolia, North Korea and North Vietnam.

(d) These figures are based on exports of the less developed capitalist/socialist countries to the socialist countries of Eastern Europe. Although this may not be entirely accurate, it does provide a reasonable approximation.

Source: United Nations, Year Book of International Trade Statistics, several issues.



TABLE II

ECONOMIC ASSISTANCE FROM THE SOCIALIST BLOC TO THIRD  
WORLD COUNTRIES:  
1954-1972

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	Gross Commitments (in US \$ millions)
Egypt	2327
India	1830
Iran	1401
Iraq	965
Algeria	907
Indonesia	794
Brazil	726
Pakistan	638
Syria	587
Afghanistan	576
Sudan	283
Tanzania	280
Sri Lanka	218
Chile	202
Argentina	174

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**Notes:** The data in this Table include Chinese aid, but among the countries listed above, only Pakistan, Tanzania and Sri Lanka received substantive aid from China.

**Source:** United Nations, Statistical Yearbook, 1973, p. 715.

## SOVIET EXPORTS OF SELECTED COMMODITIES TO LESS DEVELOPED COUNTRIES AND TO THE INDUSTRIAL WEST

(in thousand roubles)

Particulars	1958			1965		
	Quantity	Value at less developed countries prices	Value at Industrial West Prices	Quantity	Value at less developed countries prices	Value at Industrial West Prices
1. Bulldozers	-	-	-	586 pieces	9275	7325
2. Tractors	1843 pieces	11182	7019	4440 pieces	5315	4993
3. Motorcycles	186 pieces	111	165	2484 pieces	448	401
4. Coke	10000 tons	947	716	8000 tons	122	130
5. Crude Petroleum	2193800 tons	130935	129873	5400100 tons	55360	47719
6. Kerosene	305700 tons	34372	32863	-	-	-
7. Diesel Fuel	602800 tons	56640	59858	1806900 tons	30782	28525
8. Structural Steel	-	-	-	10400 tons	1177	1056
9. Zinc	3208 tons	2301	2259	12039 tons	3646	3347
10. Aluminium	3600 tons	7085	6548	1600 tons	727	520
11. Urea	-	-	-	314 tons	30	23
12. Newsprint	24500 tons	13388	12978	46825 tons	5325	4762
13. Bicycles	9313 pieces	652	466	9555 pieces	77	53

Source: Ministry of Foreign Trade, Planning and Economic Administration USSR Foreign Trade in 1958 and 1965, Statistical Appendix; J. R. Carter, The Net Cost of Soviet Foreign Aid, pp. 124-125.

TABLE IV

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## AUTHORISATION OF FOREIGN AID

(Rs crores)

Source	Type of Assistance	Upto the End of Third Plan									Total Upto 1973-74		
			1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74			
(1) Bulgaria	Loans	-	-	11.3	-	-	-	-	-	-	-	-	-
(2) Czechoslovakia	Loans	61.1	-	-	-	-	-	-	-	-	-	80.0	-
	Grants	0.4	-	-	-	-	-	-	-	-	-	-	-
	Total	61.5	-	-	-	-	-	-	-	-	-	80.0	-
(3) Hungary	Loans	-	25.0	-	-	-	-	-	-	-	-	-	-
(4) Poland	Loans	36.1	-	-	-	-	-	-	-	-	-	-	-
(5) Yugoslavia	Loans	18.1	31.2	-	-	-	-	-	-	-	-	-	-
(6) USSR	Loans	489.6	250.0	-	-	-	-	-	-	-	-	-	-
	Grants	5.0	2.5	0.8	0.7	-	-	-	-	-	-	-	-
	Total	494.6	252.5	0.8	0.7	-	-	-	-	-	-	-	-
(A) USSR and East European countries together	Loans	604.9	306.2	11.3	-	-	-	-	-	-	-	80.0	1002.
	Grants	5.4	2.5	0.8	0.7	-	-	-	-	-	-	-	9.
	Total	610.3	308.7	12.1	0.7	-	-	-	-	-	-	80.0	1011.
(B) Total for all donor countries	Loans	3808.8	1034.1	398.5	753.1	421.8	705.4	774.5	639.6	1129.5	9665.	-	-
	Grants	392.0	79.7	16.8	68.4	26.0	56.5	36.0	36.6	41.1	753.	-	-
	PL 480/665 etc, assistance	1510.8	392.7	303.5	135.3	186.5	-	118.7	-	-	-	-	2637.
	Grant Total	5711.6	1506.7	718.8	946.8	634.3	761.9	929.2	676.2	1170.6	13055.	-	-
(C) A as percentage of B	Loans	15.88	29.61	2.83	-	-	-	-	-	-	-	7.08	103
	Grants (including special assistance)	0.28	0.52	0.24	0.34	-	-	-	-	-	-	-	0.2

Notes: (1) All the above figures are taken from annual Economic Survey published by the Government of India. (2) Conversions in rupees are at the pre-devaluation rate of exchange ( $\$ 1 = \text{Rs } 4.7619$ ) upto the end of the Third Plan, and at the post-devaluation rate of exchange ( $\$ 1 = \text{Rs } 7.50$ ) for the subsequent years upto 1971-72. From 1972-73 rupee figures have been derived on the basis of the central rates which prevailed following the currency realignment of December 1971. From 1973-74, the quarterly average of the exchange rate of the rupee with individual donor currencies has been applied to the corresponding quarterly data of aids authorised. (3) Authorisation figures for 1973-74 excludes wheat assistance from USSR. (4) Constituent items may not add up to totals because of rounding.

TABLE V

DETAILED STATEMENT OF EXTERNAL ASSISTANCE (FROM USSR) FOR WHICH AGREEMENTS HAVE BEEN SIGNED, AND UTILIZED AND THE AMOUNT REPAID AS ON MARCH 31, 1970

Source and Name of the Loan	Purpose of the Loan	Total value of the loan for which agreement have been signed	Value of the order placed		Loan amount utilized		Expected Repayment*		Already Repaid		Outstanding Repayment liabilities: Total	
			Amount	Percentage to the total	Amount	Percentage to the total	Interest	Total	Principal	Interest		Total
1 Bhilai Credit (2-2-1955)	Financing Bhilai Steel Plant	101.6	101.96	100	101.96	100	17.31	118.67	100.59	9.39	109.98	8.69
2 Credit for Industrial Enterprises (9.11.1957)	Establishment of Industrial enterprises	91.75	79.77	86.9	72.49	79.1	11.89	84.38	33.77	8.79	42.56	41.78
3 Drugs Credit (29.5.1959)	Drug enterprises	14.99	14.99	100	14.99	100	2.60	17.46	10.59	1.51	12.10	5.36
4 Barauni Credit (28.3.1959)	Barauni oil refinery	18.75	18.75	100	18.42	92.9	3.04	21.46	7.57	2.37	9.94	11.52
5 Credit for Third Plan (12.9.1959)	For various development projects and programmes	281.26	252.47	89.8	238.58	83.8	39.13	277.71	65.59	25.86	91.45	186.26
6 Third Plan-2nd Credit (21-2-1961)	For various development projects and programmes	93.75	65.00	69.3	56.66	60.4	9.31	65.97	12.28	4.83	17.11	48.86
7 Bokaro Credit (25.1.1965)	Construction of Bokaro Steel Plant	166.67	166.67	100	115.61	69.4	18.95	134.56	6.53	3.14	9.67	124.89
8 300 mill. convertible credit (4th Plan) (10-12-1966)	To finance Various Development Project	250.00	16.66	67.0	14.11	5.6	2.32	16.43	1.12	0.92	2.04	14.39
<b>Total:</b>		<b>1,021.13</b>	<b>716.27</b>	<b>70.1</b>	<b>632.82</b>	<b>61.9</b>	<b>103.78</b>	<b>736.60</b>	<b>238.04</b>	<b>56.81</b>	<b>294.85</b>	<b>441.74</b>

TABLE VI

## THE USSR AMONG AID GIVERS TO INDIA: AS ON MARCH 31, 1976

(Rs crores)

Country/ Institution	Loans	Grants	Total	Per cent to total
USA	5,149(a)	189	5,338	33.5
World Bank Group	3,907	-	3,907	24.5
IDA	3,056	-	3,056	19.2
IBRD	851	-	851	5.3
UK	1,440	16	1,456	9.1
West Germany	1,058	36	1,094	6.9
Canada	433	420	853	5.4
USSR	747(b)	5	752	4.7
Japan	550	1	551	3.5
France	448	-	448	2.8
Sweden	164	62	226	1.4
Netherlands	173	5	178	1.1
Italy	160	-	160	1.0
Czechoslovakia	141	Neg.	141	0.9
Yugoslavia	65	-	65	0.4
Belgium	63	-	63	0.4
Iran	57	-	57	0.4
Australia	-	56	56	0.4
EBC	-	46	46	0.3
Kuwait	45	-	45	0.3
Switzerland	37	-	37	0.2
Austria	32	-	33	0.2
Hungary	30	-	30	0.2
United Nations	24	-	24	0.2
Poland	24	-	24	0.2
Denmark	20(c)	-	21	0.1
UAE	18	-	18	0.1
Norway	Neg	16	16	0.1
Bulgaria	10	-	10	Neg
New Zealand	-	5	5	Neg
Others	268	-	268	1.7
<b>Total</b>	<b>15,063</b>	<b>859</b>	<b>15,922</b>	<b>100.0</b>

Notes: (a) Of this, Rs 1,983 crores represent loans repayable in rupees. (b) Generally repayable through exports of goods. (c) Of this, Rs. 150 lakhs represent loans repayable in Rupees.

Sources: (1) Reserve Bank of India, Report on Currency and Finance: 1974-75, Vol. II. (2) Government of India, Ministry of Finance & Dept. of Revenue & Banking, Annual Report: '75-76

TABLE VII

## SHARE OF GRANTS AND UNITED CREDITS IN EXTERNAL ASSISTANCE UTILISED

(Amount in Rs crores)

Period	Total External Assistance	Grants	Share of Grants in Total Assistance (per cent)	United Credits*	Share of United Credits in Total Assistance (per cent)
Upto First Plan	317.7	110.6	34.8	53.2	16.7
During 2nd Plan	2252.6	253.0	11.2	516.0	22.9
During 3rd Plan	4531.0	167.0	3.7	603.3	13.3
1966-67	1131.4	97.1	8.6	183.1	16.2
1967-68	1195.6	60.7	5.1	253.0	21.2
1968-69	902.6	65.2	7.2	156.5	17.3
1969-70	856.3	26.1	3.0	196.3	28.9
1970-71	791.4	43.5	5.5	160.6	20.3
1971-72	834.1	50.5	6.1	177.9	21.3
1972-73	666.2	12.0	1.8	277.6	41.7
1973-74	849.3	20.7	2.4	451.1	53.1
Total	14328.2	906.4	6.8	3028.6	21.1

Note: All amounts expressed in foreign currencies have been converted into rupees at the post-devaluation rate of exchange (£ 1=Rs 7.50) upto 1970-71. For the year 1971-72, pre-May 1971 exchange rates have been retained for conversion into rupees. For 1972-73 the rupee figures have been derived on the basis of the central rates which prevailed following the currency realignment of December, 1971. From 1973-74, the quarterly average of the exchange rate of the rupee with individual donor currency has been applied to the quarterly data in respect of utilisation for arriving at the equivalent rupee figures.

TABLE VIII

ESTIMATES OF ASSISTANCE COMMITTED AND UTILIZED FOR INDIA'S  
DEVELOPMENT FROM APRIL 1951 TO MARCH 1970

(Rupees in crores)

Sources	Amount Autho- rised	Percent- age of the to- tal	Amount utili- zed	Percent- age of assis- tance utilized	Rank in the order of utili- zation
1 United States	4,591.8	47.6	4,477.7	97.3	3
2 World Bank and IDA	1,245.9	12.9	1,111.3	88.8	10
3 USSR	1,031.3	10.7	641.7	62.2	17
4 United Kingdom	661.3	6.9	604.2	91.4	9
5 W. Germany	655.0	6.8	599.8	91.6	8
6 Canada	506.7	5.2	424.8	83.8	12
7 Japan	261.9	2.7	257.8	98.5	2
8 France	139.4	1.4	90.9	64.9	16
9 Italy	128.0	1.3	123.3	96.3	5
10 Yugoslavia	78.2	0.8	21.5	27.5	21
11 Czechoslovakia	61.4	0.6	57.2	92.8	7
12 Netherlands	55.3	0.6	44.7	80.9	13
13 Australia	51.5	0.5	48.3	96.7	4
14 Poland	36.1	0.4	19.6	54.3	18
15 Belgium	25.9	0.3	11.8	45.6	20
16 Hungary	25.0	0.3	-	-	23
17 Sweden	23.1	0.2	12.1	52.4	19
18 Switzerland	22.8	0.2	20.2	88.6	11
19 Austria	17.8	0.2	17.6	98.8	1
20 Denmark	12.3	0.13	9.6	73.9	15
21 Bulgaria	11.2	0.12	-	-	22
22 Norway	8.9	0.10	6.8	76.4	14
23 New Zealand	4.4	0.05	4.1	93.2	6
Total	9,651.7	100.0	8,642.7	89.5	

Sources: External Assistance: 1967-68, Ministry of Finance, Department of Economic Affairs, Delhi, Appendix III, Reserve Bank of India, Report on Currency and Finance, 1969-70.

TABLE IX  
UTILISATION OF FOREIGN AID

(Rs crores)

Source	Type of Assistance	Upto the End of Third Plan	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	Total Up to 1973-74
(1) Bulgaria	Loans	-	-	-	0.2	0.2	-	-	-	-	-
(2) Czechoslovakia	Loans	12.6	13.4	7.4	16.1	8.2	1.3	1.4	6.7	6.6	-
	Grants	0.4	-	-	-	-	-	-	-	-	-
	Total	13.0	13.1	7.4	16.1	8.2	1.3	1.4	6.7	6.6	-
(3) Hungary	Loans	-	-	-	-	-	0.7	-	-	-	-
(4) Poland	Loans	11.3	1.0	1.8	1.4	4.2	2.8	2.4	0.6	2.4	-
(5) Yugoslavia	Loans	9.7	5.6	3.4	12.0	10.0	13.3	-	0.7	-	-
(6) USSR	Loans	282.1	36.1	46.4	56.6	49.4	36.8	14.0	9.5	14.7	-
	Grants	5.0	1.0	1.1	0.7	-	-	-	-	-	-
	Total	287.1	37.1	47.5	57.3	49.4	36.8	14.0	9.5	14.7	-
(A) USSR and East European Countries together	Loans	315.7	55.8	59.1	86.3	72.0	54.9	17.8	17.5	32.0	711.1
	Grants	5.4	1.0	1.1	0.7	-	-	-	-	-	8.2
	Total	321.1	56.8	60.2	87.0	72.0	54.9	17.8	17.5	32.0	719.3
(B) Total for all donor countries	Loans	2768.7	674.7	793.2	679.8	660.7	658.9	671.7	649.9	828.6	8386.2
	Grants	336.9	97.1	60.7	6.2	26.1	43.5	50.5	12.0	20.7	712.7
	PL 480/665 etc, assistance	1403.2	359.6	341.7	157.6	169.5	89.0	111.9	4.3	-	2636.8
	Total	4508.8	1131.4	1195.6	902.6	856.3	791.4	834.1	666.2	849.3	11735.7
(C) A as percentage of B	Loans	11.40	8.27	7.45	12.69	10.89	8.33	2.64	2.69	2.86	8.47
	Grants (including special assistance)	0.31	0.21	0.27	0.31	-	-	-	-	-	0.24



TABLE A

ESTIMATED SOVIET BLOC ASSISTANCE TO MILITARY AID RECIPIENTS:  
1955 through 1967

( In Millions of US Dollars)

	Military Aid	Economic Aid
Afghanistan	\$ 260	\$ 582
Algeria	200	254
Cambodia	5 to 10	30
Congo-Brazzaville	1	9
Congo-Kinshasa	1 to 2	0
Cuba	750	N. A. *
Cyprus	10 to 15	191
Guinea	at least 6	98
India	600 to 700	1,948
Indonesia	1,200	635
Iran	100	386
Iraq	at least 500	184
Laos	3 to 5	N. A.
Mali	at least 3	78
Morocco	20	79
Nigeria	10 to 15	14
Pakistan	5 to 10	234
Somalia	35	72
Sudan	NA.	49
Syria	at least 300	377
Tanzania	5 to 10	26
UAR	1,500	1,573
Uganda	N. A.	16
Yemen	100	109
Total Up To: \$ 5,770		\$ 6,944

Sources: ~~Data presented on military aid are based on sources documented in Chapters 2 through 5; see especially Tables 2-1, 3-1, and 4-1.~~ Soviet bloc military aid to the Middle East countries (Algeria, Iraq, Morocco, Syria, UAR, and Yemen) provided after the June 1967 war is not included. The economic aid data includes aid from 1954 through 1967. See U. S. Department of State, Aid and Trade in 1967, pp. 2-3.

\* Because much of the economic aid to Cuba takes the form of "hidden aid," such as subsidies of Cuban sugar exports to the Soviet Union, it is difficult to present an accurate estimate of Soviet economic aid to Cuba. For a discussion of Soviet bloc economic relations with Cuba see Goldman, Soviet Foreign Aid, pp. 160-67.

TABLE XI

## COMPARISON OF REGIONAL PRIORITIES IN SOVIET AND UNITED STATES MILITARY AID

Region	Estimated Total Aid		Percentage of Total Program		Number of Recipients	
	USSR	U. S.	USSR	US	USSR	U. S.
Middle East	\$ 2,748	\$ 2,602	48%	48%	8	10
South-Southeast Asia	2,185	2,148	38%	40%	6	10
Latin America	750	523	13%	10%	1	21
Africa	85	126	1%	2%	9	13

Source: ~~Soviet aid figures were compiled from data in the regional sections, Chapters 2 through 6. Aid to Congo-Kinshasa is omitted.~~ United States aid figures were copied from Table 8-1. All amounts given in millions of U. S. dollars.

TABLE XII

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## INDIA'S TRADE WITH USSR

Year	India's exports to USSR				India's imports from USSR				India's trade balance with USSR (Rs crores)
	(Rs crores)	Share in India's total exports (per cent)	USSR's total imports (Rs crores)	India's share (per cent)	(Rs crores)	Share in USSR's total exports (Rs crores)	India's share (per cent)		
1960-61	46	4.5	2,680	1.7	25	1.4	2,648	0.9	+ 21
1961-62	50	4.8	2,774	1.8	63	3.7	2,855	2.2	- 13
1962-63	60	5.6	3,073	2.0	93	5.2	3,347	2.8	- 33
1963-64	82	6.6	3,360	2.4	107	5.6	3,461	3.1	- 25
1964-65	123	9.6	3,682	3.3	125	5.9	3,657	3.4	- 2
1965-66	147	11.6	3,836	3.8	134	6.0	3,891	3.4	+ 13
1966-67	123	10.6	5,935	2.1	114	5.5	6,631	1.7	+ 9
1967-68	122	10.2	6,403	1.9	111	5.5	7,239	1.5	+ 11
1968-69	148	10.9	7,058	2.1	192	10.1	7,976	2.4	- 44
1969-70	176	12.5	7,745	2.3	171	10.8	8,741	2.0	+ 5
1970-71	210	13.7	8,799	2.4	106	6.5	9,600	1.1	+104
1971-72	209	13.0	9,472	2.2	87	4.8	10,479	0.8	+122
1972-73	305	15.6	12,420	2.5	114	6.3	11,889	1.0	+191
1973-74	286	11.3	16,657	1.7	255	8.6	16,934	1.5	+ 31
1974-75	418	12.5	19,638	2.1	402	8.9	21,623	1.9	+ 16
1975-76*	318	11.8	32,047	1.0	233	6.0	28,806	0.8	+ 85

\* April-December

Sources: 1. Government of India, Department of Commercial Intelligence and Statistics, Monthly Statistics of the Foreign Trade of India, Vols. I and II (various issues).

2. United Nations, International Financial Statistics (various issues).

TABLE XIII

## COMMODITY COMPOSITION OF INDIA'S EXPORTS TO THE SOCIALIST COUNTRIES

	Annual Average 1960/1-1962/3		Annual Average 1965/6-1967/8		Annual Average 1970/1-1972/3	
	£ m	%	£ m	%	£ m	%
1 Raw & crude materials	43.5	30.0	46.7	15.0	40.1	7.7
2 Food, beverages, tobacco, etc.	64.5	44.5	126.2	40.7	187.9	36.1
3 Manufactured goods	21.7	15.0	108.2	34.9	211.5	40.6
Total of above	129.7	89.5	281.1	90.6	439.5	84.4
Total rupee trade exports	145.0		310.4		520.7	

TABLE XIV

## INDIA'S EXPORTS TO U. S. S. R.

(Rs million)

	1973-74	1974-75
Oil cake	94.7	111.7
Groundnut	111.9	59.9
Castor oil	122.0	67.9
Tobacco (unmanufactured)	186.0	172.3
Spices	101.4	134.3
Cashew kernels	294.2	727.6
Tea	326.4	595.2
Coffee	8.1	187.3
Mica	52.2	71.2
Cotton Textiles	152.5	266.4
Jute manufacture	325.7	590.7
Coir manufacture	4.4	12.4
Footwear	38.0	44.3
Leather manufacture (excluding footwear)	429.9	323.2
Engineering goods	70.5	119.7
Iron and steel manufacture	81.5	16.2
Cotton apparel (i. e. clothing)	57.4	29.7
<b>Total (including others)</b>	<b>2858.9</b>	<b>4181.2</b>

TABLE XV  
INDIA'S IMPORTS FROM THE USSR  
(Rs million)

	1973-74	1974-75
Asbestos crude and waste	36.7	68.3
Organic chemicals	32.1	94.0
Inorganic chemicals	2.6	0.5
Petroleum products	-	1.3
Medicinal and pharmaceutical products	7.1	13.1
Fertilizer manufactured	46.8	425.1
Paper and paper board	77.8	156.4
Iron and steel	94.2	181.2
Zinc	88.8	157.6
Manufactures of metals	8.8	16.7
Non-electrical machinery	435.1	456.5
Electrical machinery, apparatus and appliances	75.3	105.5
Transport equipment	8.4	30.9
Professional and scientific instruments and equipment	70.9	27.1
<b>Total (including others)</b>	<b>2547.3</b>	<b>4024.9</b>

TABLE XVI

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## ORIGIN/DESTINATION OF USSR TRADE

Year	Origin/Destination	USSR exports (f.o.b.)		USSR imports (f.o.b.)	
		Value (\$ billion)	% share	Value (\$ billion)	% share
1	2	3	4	5	6
1970	Developed economies	2.7	21.1	3.1	26.0
	Developing economies	1.8	14.0	1.9	15.2
	(of which: India)	(0.136)	(1.1)	(0.270)	(2.3)
	All countries	12.8	100.0	11.7	100.0
1971	Developed economies	3.1	22.3	3.2	25.4
	Developing economies	2.0	14.5	1.7	13.7
	(of which India)	(0.129)	(0.9)	(0.284)	(2.3)
	All countries)	13.8	100.0	12.5	100.0
1972	Developed economies	3.3	21.3	4.5	27.9
	Developing economies	2.1	13.7	1.9	11.6
	(of which India)	(0.167)	(1.1)	(0.377)	(2.4)
	All countries	15.4	100.0	16.0	100.0
1973	Developed economies	5.6	25.9	6.7	31.6
	Developing economies	2.8	12.8	2.9	13.9
	(of which India)	(0.303)	(1.4)	(0.497)	(2.4)
	All countries	21.5	100.0	21.1	100.0

TABLE XVII

## MAJOR TRADE PARTNERS OF THE USSR: 1972

(Million roubles)

Country	USSR exports to	Percentage share in the USSR exports	USSR imports from	Percentage share in the USSR imports
East Germany	1,671	13.2	2,035	15.3
Poland	1,307	10.3	1,496	11.2
Czechoslovakia	1,254	9.8	1,372	10.3
Bulgaria	1,121	8.8	1,224	9.2
Hungary	904	7.1	972	7.4
Cuba	616	4.8	206	1.5
Rumania	470	3.7	583	4.4
Japan	382	3.0	434	3.3
U. K.	371	2.9	187	1.4
Finland	298	2.3	304	2.3
Yugoslavia	282	2.2	287	2.2
UAR	266	2.1	248	1.9
West Germany	256	2.0	571	4.3
Italy	228	1.8	236	1.8
France	194	1.5	350	2.6
Netherlands	154	1.2	68	0.5
India	138	1.1	313	2.4
Sweden	109	0.9	80	0.6
Belgium	108	0.8	67	0.5
China	100	0.8	111	0.8
Iran	96	0.8	134	1.0
Austria	83	0.7	81	0.6
USA	76	0.6	462	3.5
Switzerland	31	0.2	90	0.7
Canada	19	0.1	221	2.1
Pakistan	17	0.1	19	0.1
Bangladesh	9	0.1	8	Neg.
Others	2,174	17.1	1,078	8.1
Total:	12,734	100.0	13,303	100.0

SOURCE: Government of India, Department of Commercial Intelligence and Statistics, Indian Trade Journal, August 22, 1973 (information from Embassy of India, Moscow).



TABLE VIII

PERCENTAGE DISTRIBUTION BY PURPOSE OF AUTHORIZED AMERICAN  
AID (EXCLUDING THIRD COUNTRY CURRENCY ASSISTANCE) TO  
31 MARCH 1965

Purpose	Per cent	Purpose	Per cent
Railways	3.8	Steel, Iron Ore	1.8
Power, Irrigation	7.0	1951 wheat loan, ) PL 480, 665 food )	55.9
Transport, communica- tion	1.1	and commodity ) assistance )	
Industrial development	25.0	Grants for tech- ) nical assistance ) in health, agri- ) cultural, social, ) educational, etc. ) fields )	5.3

TABLE XIX

Revision of projects estimates of selected public sector enterprises  
credits from different donors (in Rs. million)

Name of undertaking	Original estimate	Actual anticipated expenditure	Percentage increase
(1)	(2)	(3)	(4)
Durgapur steel plant(U. K.)	1,150.0	2,052.5 <sup>a</sup>	78
Rourkela steel plant (W. Germany)	1,280.0	2,034.8 <sup>a</sup>	80
Bhilai steel plant(USSR)	1,100.0	2,023.4 <sup>a</sup>	83
Hindustan Teleprinters Ltd.	15.0	16.5	10
Gauhati refinery(Rumania)	130.6	145.1	11
Hindustan Antibiotics Ltd.			
Pimpri unit	115.0	1.5 <sup>a</sup>	38
Penicillin expansion	4.5	6.1	36
Streptomycin unit	17.3	20.8	20
Hindustan Photo Films Manufacturing Co. Ltd.	73.8	85.3	15.5
National Mineral Development Corporation Ltd. (Kiriburu iron ore project, Japan)	90.6	112.2	24
Hindustan Machine Tools Ltd. (many collaborators) (Watch factory, Japan)	25.0	36.8	47
Fertiliser Corporation of India Ltd. (Trombay unit (U. S.) Nangal (West Germany)	243.4 209.0	334.0 312.0	37 49
Heavy Electricals Ltd., Bhopal( U. K.)	352.5	493.0	39.9
Heavy Engineering Corporation Ltd. (USSR and Czechoslovakia)	1,259.5	2,065.0	64

<sup>a</sup>Revised estimate 1963.

Source: Committee on Public Sector Undertakings.

TABLE XX

PERCENTAGE US AID. ALLOCATION BY PURPOSE BETWEEN  
PUBLIC AND PRIVATE SECTORS

Purposes	Public sector	Utilised	Private sector	
	authorised		authorised	
Railways	100.0	100.0	5.5	8.9
Power, irrigation	94.5	91.1	5.5	8.9
Transport, communications	79.3	79.3	20.7	20.7
Steel, iron ore	35.4	34.0	64.6	66.0
Industrial develop- ment	23.3	24.6	76.7	75.4

TABLE XXI

## DEBT SERVICE AS A PERCENTAGE OF TOTAL AID UTILISED

	1966/7	1967/8	1968/9	1969/70
Czechoslovakia	4.0	38.4	56.7	82.8
Poland	76.9	137.5	255.6	77.0
USSR	98.7	135.5	76.3	121.9
Yugoslavia	9.4	100.2	114.6	27.6
U. K.	47.6	46.4	72.5	49.4
USA*	18.3	21.8	32.8	38.3
IBRD	247.7	188.6	200.1	195.0
IDA	1.9	2.3	8.1	6.4
West Germany	57.6	57.5	84.1	92.7
France	84.1	15.7	86.3	84.8
Japan	66.3	59.0	69.7	112.5

Source: Calculated from Economic Survey and External Assistance

\* Figures for USA exclude rupee payments.

TABLE XXII

## TERMS OF AID FROM SELECTED DONORS

	Interest Rates		Maturity (years)		Grace Period (years)	
	(1)	(2)	(1)	(2)	(1)	(2)
Czechoslovakia	2.5	2.5	4to6	8to12	1	nil
Hungary	2.5to4.5	2.5	10	10	1	nil
Poland	2.5	2.5	10	8to12	3	nil
U SSR	2.5	2.5	12	12	1	nil
Yugoslavia	3	3.0	6to8	11	nil	nil
France	5to6	3.5to8.0	10	10to25	nil	nil
West Germany	3to5.5	2.5	15 to 25	30	4to7	8
Japan	5.8	5.25	15	18	5	5
IBRD	5.5to6.0	7.0	10to20	30	nil	10
IDA	0.75	0.75	50	50	10	10
UK	3.5	nil	25	25	7	7
USA(1)	0.75	2to3	5to6	40	2	10
(2)	5.75	6	40	10 to20	10	3

Source: Government of India, Ministry of Finance, External Assistance.

Notes : Column (1) Up to 1966/7. Column (2) 1971.  
For USA, row (1) refers to DLF/AID Loans;  
row (2) to Eximbank loans.

TABLE XXIII

PERCENTAGE DONOR DISTRIBUTION BETWEEN PUBLIC AND PRIVATE SECTORS/PERCENTAGE DONOR CONTRIBUTION TO PUBLIC AND PRIVATE SECTORS (LOANS\* AUTHORISED TO 31st MARCH 1965)

Donor	Public sector	Private sector	mixed	Public sector	Private sector	Mixed
IBRD	61.7	38.3	-	14.7	46.1	-
IDA	81.4	18.6	-	11.1	12.8	-
United States	40.8	9.4	49.7	27.4	32.0	41.5
Canada	96.8	3.2	-	2.7	0.4	-
Soviet Union	100.0	-	-	28.5	-	-
West Germany	41.6	-	58.4	8.2	-	14.3
France	-	10.1	89.9	-	1.4	3.1
United Kingdom	22.9	3.2	79.2	4.4	3.2	17.8
Italy	-	-	100.0	-	-	4.7
Czechoslovakia	36.7	-	63.3	1.4	-	2.9
Yugoslavia	-	-	100.0	-	-	1.4
Poland	64.5	-	35.5	1.5	-	1.0
Switzerland	-	-	100.0	-	-	1.1
Austria	-	-	100.0	-	-	0.5
Belgium	-	-	100.0	-	-	0.7
Netherlands	-	-	100.0	-	-	1.2
Denmark	-	-	100.0	-	-	0.2
Sweden	-	-	100.0	-	-	0.2
Japan	2.6	9.2	88.1	0.2	4.0	9.4
				100.0	100.0	100.0

\*Excludes PL 480,665.

TABLE XXIV

SECTORAL COMPOSITION OF PROJECT AID UTILISED  
1956-70 (Percentages)

Sector	USSR	All donors
Steel	49.8	27.7
Heavy Machinery	9.0	11.5
Mining	5.0	-
Power	15.5	21.4*
Oil	17.8	-
Transport	-	23.5
Others	3.1	15.9
Total:	100.0	100.0

Sources: As for Table XXII.

Notes: 1. Figures may not add up to the total due to rounding.

2. The comparison is a rough one because the sectoral distribution for all donors includes the East European countries. However, as the percentage of loans from the latter is on average not higher than 10 per cent of the total, it is unlikely to alter our conclusions substantially if they were left out.

\* Includes investment in mining and irrigation.





APPENDIX II

SOVIET-AIDED PROJECTS IN INDIA

( including supply of machinery, know-how, etc )

Name of the project	Location	Controlling Indian company
<u>Metallurgy</u>		
1. Bokaro steel plant	Bokaro, Bihar	Bokaro Steel Ltd.
2. Bhilai steel plant	Bhilai, Madhya Pradesh	Hindustan Steel Ltd.
3. Aluminium smelter plant	Korba, Madhya Pradesh	Bharat Aluminium Co. Ltd.
4. Steel casting and sheet rolling plant	Arkonam, Tamil Nadu	Tamil Nadu Industrial Development Corporation Ltd.
<u>Engineering</u>		
5. Heavy machine building plant	Ranchi, Bihar	Heavy Engineering Corporation Ltd.
6. Heavy electrical equipments plant	Hardwar, Uttar Pradesh	Bharat Heavy Electricals Ltd.
7. Compressors and pumps plant	Allahabad, Uttar Pradesh	
8. Mining and allied machinery plant	Durgapur, West Bengal	Mining and Allied Machinery Corporation Ltd.
9. Precision instruments plant	Kota, Rajasthan	Instrumentation Ltd.
10. Central electrical and mechanical workshop	Korba, Madhya Pradesh	Bharat Aluminium Co. Ltd.
<u>Thermal power stations</u>		
11. Thermal power station	Neyveli, Tamil Nadu	Neyveli Lignite Corporation Ltd.

Name of the project	Location	Controlling Indian company
12 Thermal power station	Obra, Uttar Pradesh	Uttar Pradesh State Electricity Board
13 Thermal power station	Patratu, Bihar	Bihar State Electricity Board
14 Thermal power station	Harduaganj, Uttar Pradesh	Uttar Pradesh State Electricity Board
15 Thermal power station	Korba, Madhya Pradesh	Madhya Pradesh State Electricity Board
16 Thermal power station	Ehilai, Madhya Pradesh	
17 Thermal power station	Barauni, Bihar	Bihar State Electricity Board
18 Thermal power station	Ranchi, Bihar	
19 Thermal power station	Koyali, Gujarat	Gujarat State Electricity Board
20 Thermal power station	Hardwar, Uttar Pradesh	Uttar Pradesh State Electricity Board
21 Thermal power station	Durgapur, West Bengal	Damodar Valley Corporation

#### Hydro-power station

22 Hydro-power station (outlet right bank)	Bhakra, Punjab	
23 Hydro-power station	Mettur, Tamil Nadu	Tamil Nadu State Electricity Board
24 Hydro-power station	Hirakud, Orissa	Orissa State Electricity Board
25 Hydro-power station	Balimela, Orissa	Orissa State Electricity Board

Name of the project	Location	Controlling Indian company
26 Hydro-power station	Sileru, Andhra Pradesh	Andhra Pradesh State Electricity Board
<u>Oil industry</u>		
27 Oil prospecting (a) Gujarat - 24 oil fields (b) Assam - 5 oil fields (c) Bengal - 1 oil field (d) Himachal Pradesh - 1 oil field (e) Punjab - 1 oil field		Oil and Natural Gas Commission
28 Offshore Seismic Survey (Bay of Bengal and Kauvery Deltas)		Oil and Natural Gas Commission
29 Oil Refinery	Koyali, Gujarat	Indian Oil Corporation Ltd.
30 Oil Refinery	Barauni, Bihar	Indian Oil Corporation Ltd.
31 Oil Refinery	Mathura, Uttar Pradesh	Indian Oil Corporation Ltd.
32 Marketing of Petroleum products		Indian Oil Corporation Ltd.
33 Rajbara iron ore mine	Rajbara, Bilai Madhya Pradesh	Hindustan Steel Ltd.
34 Nandini lime quarry	Nandini, Bilai Madhya Pradesh	
35 Dallu mines	Near Rajbara, Bilai, Madhya Pradesh	Hindustan Steel Ltd.
36 Manikpur open-cast mine	Manikpur, Korba Madhya Pradesh	National Coal Development Corp. (Central Coal fields L
37 Banki underground mine	Banki, Korba Madhya Pradesh	National Coal Development Corporation Ltd.

Name of the project	Location	Controlling Indian company
38 Surakachar colliery	Surakachar, Korba Madhya Pradesh	National Coal Development Corporation Ltd.
39 Aluminium smelter plant	Korba, Madhya Pradesh	Bharat Aluminium Company Ltd.
40 Coal washery	Kathara, Bihar	National Coal Development Corporation Ltd.
41 Ramgarh, Pundi, Toping and Kediya mines	Bihar	
42 Malanjkhand Copper Project	Malanjkhand Madhya Pradesh	Hindustan Copper Ltd.
<u>Pharmaceuticals</u>		
43 Antibiotics plant	Rishikesh Uttar Pradesh	Indian Drugs and Pharmaceuticals Ltd.
44 Synthetic drugs plant	Hyderabad Andhra Pradesh	Indian Drugs and Pharmaceuticals Ltd.
45 Surgical instruments plant	Madras, Tamil Nadu	Indian Drugs and Pharmaceuticals Ltd.
46 Ophthalmic glass factory	Durgapur, West Bengal	Bharat Ophthalmic Glass Ltd.
<u>Tannery</u>		
47 Tannery and footwear plant	Kanpur, Uttar Pradesh	Tannery and Footwear Corporation of India Ltd.
<u>Transport</u>		
48 Calcutta Metro (subway) project	Calcutta, West Bengal	

Name of the project	Location	Controlling Indian company
<u>Agriculture</u>		
49 Central state farm	Suratgarh, Rajasthan)	State Farms Corporation of India
50 Central state farm	Jetsar, Rajasthan )	
51 State seed farm	Raichur, Mysore )	
52 State seed farm	Hissar, Haryana )	
53 State seed farm	Jharsuguda, Orissa )	
54 State seed farm	Cannanore, Kerala )	
55 State seed farm	Jullundur, Punjab )	
<u>Training</u>		
56 Indian Instt. of Technology	Bombay, Maharashtra	
57 Technical School	Cambay, Gujarat	Oil and Natural Gas Commission
58 Hind Oil Design Instt.	Dehradun, U.P.	Oil and Natural Gas Commission
59 Bhilai Technical Instt.	Bhilai, Madhya Pradesh	
60 School of Automation	Bangalore, Karnataka	Indian Institute of Science, Bangalore
<u>Miscellaneous</u>		
61 Prefabricated housing plant	Manore, Tamil Nadu	
62 Refractories plant	Bhilai, Madhya Pradesh	

Machine Building

"When its partners wish so, the Soviet Union helps them not only to develop separate industries but also set up economic complexes with regard to the specific conditions in these countries", says, S. Skachov, Chairman, State Committee of the Council of Ministers for External Economic relations, USSR. "One of the largest such complexes is being built in India. It includes powerful iron and steel plants, prospecting for and extraction of raw materials, power-generating stations, design institutions and other agencies. One proof of the effectiveness of this cooperation is the agreement to increase in the future the capacities of iron and steel plants in Bhilai to 7 million tons a year and in Bokaro to 10 million tons. Further proof is India's increased machine-building potential: major plants of heavy engineering in Ranchi, mining equipment in Lurgapur and heavy electrical equipment in Hardwar. These enterprises are making important contributions to the industrialisation of the biggest of the developing countries. These enterprises produce a considerable amount of equipment for the aluminium plant in Korba and other factories constructed with Soviet assistance. Whereas the share of Indian plant and equipment used in the construction of the first stage of the Bhilai plant was only 10%, it was 65% in the construction of the first stage of the plant in Bokaro."

Heavy Electrical Plant, Hardwar, Uttar Pradesh

The heavy electricals equipment plant at Hardwar - the biggest in South-East Asia - is now producing turbines with a capacity of 200 megawatts generating units and accounts for 60% of the capacity of hydro and turbo generators produced in the country.

Heavy Machine Building Plant, Ranchi, Bihar

A part of the Heavy Engineering Corporation, the machine building plant with a capacity of 80,000 tonnes of machinery a year was built with Soviet collaboration at Ranchi. The plant now produces sophisticated machinery for coking and chemical industries, steel-making, handling and hoisting equipment. Today, the heavy machine building plant is making a significant contribution to the construction of the Bokaro steel plant, the Bhilai works (expansion stage), the aluminium project in Korba and several other projects.

Mining and Allied Machinery Corporation, Lurgour, West Bengal

The plant, designed to manufacture 45,000 tonnes of equipment annually, is India's biggest enterprise of its kind. It manufactures machinery for the coal-mining and ore-mining industry. The role of this plant in our economy has greatly increased since the evolution of a fuel policy with coal as its main element.

Instrumentation Plant, Kota, Rajasthan

The plant produces various electrical devices and control systems for metallurgical, machine-building, power-engineering and other industries. The plant exports its sophisticated instruments to several foreign countries. It has contributed tremendously to the building of India's power infrastructure.

Power

Fifteen Soviet-aided power stations with a total capacity of a 3.2 million kilowatts have been built in India, or are nearing completion. Of these eleven stations with a generating capacity of 1.3 million kw are already in operation.

Neyveli Thermal Power Station, Tamil Nadu

The Neyveli thermal power station, set up under an Indo-Soviet credit agreement, is the second biggest collaboration venture after the Bhilai steel plan (commissioned 1962; capacity 600 mw). Besides the thermal power station, the complex includes a lignite quarry, a chemical fertiliser factory and a clay washing plant.

Korba Thermal Power Station, Madhya Pradesh

A 200 mw thermal power station has been completed



at Korba, and supplies most of the power required by the Korba aluminium plant, another Soviet-aided project. The station is fuelled with coal from the nearby coal-mine at Manikpur, which too was specially developed for this purpose with Soviet aid.

Lower Sileru Hydro-Electric Power Station, Andhra Pradesh

The first unit of the power station was commissioned in 1968. The plant is providing electricity to the north-east of U.P. It has a design capacity of 100 mw.

Hirakud Hydro-Power Station, Orissa

The plant is being built with Soviet cooperation, and has a capacity of 25 mw.

Bhakra Nigh Bank (Sutlej) Power Station, Punjab

A 600 mw capacity has been commissioned at this large hydro-power station. It was inaugurated in April 1969.

Obra Thermal Power Station, Uttar Pradesh

Work is under way on a large 250 mw thermal power station at Obra, where 4 out of 5 units of 50 mw each have already been commissioned.

Patratu Thermal Power Station, Bihar

The project has been started with Soviet technical assistance for up to 400 mw capacity. The balance of 220 mw capacity will come from indigenous effort. The Patratu station was designed in the Teploproyekt Institute in Moscow, whose engineers used the latest scientific developments.

Methur Hydro-Power Station, Tamil Nadu

The first generating unit was commissioned by August 1965. The full set of 4 units, with an installed generating capacity of 200 mw, supplies power during the irrigation period for about 7 months, that is from July to January.

Coal

Soviet assistance to India in the development of raw materials for the steel industry has been significant. The USSR has helped India to build the Rajhara, and Dalli iron ore mines, coal pits and quarries, as well as the coal washery at Kathara, the biggest in South-East Asia.

Kathara Coal Washery, Bihar

This was commissioned in October 1969, and has a input capacity of 3 million tonnes of raw coal. It is the largest and the first of its kind in the country.

Banki Underground Mine, Bihar

It started production in October 1967. On reaching full capacity, it will produce about 50,000 tonnes of coal per month. This is the first mine erected with foreign collaboration to reach the production stage.

Aluminium and CopperKorba Aluminium Plant, Madhya Pradesh

Work is now under way, in cooperation with the USSR, for the construction of an aluminium plant in Korba with a capacity of 1,00,000 tonnes of aluminium a year.

Copper Complex, Malanjkhand, Madhya Pradesh

The copper concentration complex in Malanjkhand, envisaged in the Soviet-Indian agreement of November 1973, bids fair to become another important project.

Agriculture

There were <sup>several</sup> other forms of aid, connected with agriculture, extended by the Soviet Union. A private party, the Ghaziabad Engineering Company, has built with Soviet collaboration, a tractor factory at Loni in UP at a cost of Rs 10 crores. The first batch of these tractors started rolling off the assembly line in May 1972.

Between the year 1972 and 1977 new ground has been struck in Indo-Soviet cooperation in the sphere of agriculture.

In the field of animal husbandry, the Soviet Union has helped India in a variety of ways. It has provided Merino-sheep for the development of cross breeds and helped also in the establishment of sheep and goat farms in India. An integrated sheep and wool development programme has been worked out covering eight centrally-assisted big farms, 85 State sheep farms and 800 sheep and wool extension centres spread over 8 States.

Keeping in view the importance of the vegetable oil industry in India, Soviet assistance in the cultivation of sunflower in the country should be regarded as another landmark in the growth of Indo-Soviet cooperation. Soviet scientists have supplied Indian research institutions with the best cotton varieties, particularly the long-stapled ones. The regular exchange of information in the sphere of cotton development is instrumental in effecting general improvement in textile products in India. Like cotton development, the cultivation of sugar beet with Soviet assistance is of considerable economic importance. The Soviet sugar beet variety, Ramonskaya, is already being used by Indian scientists to develop new strains suitable for cultivation in India.

#### Space Research

The Soviet Union has been helping many countries in space exploration under the auspices of Intercosmos.

Indo-Soviet cooperation in space research started with the establishment of the Thumba Equatorial Rocket Launching Station (TERLS) in 1963. Several countries namely the USSR, the US, the UK and France contributed equipment and know-how for the establishment of TERLS.

In 1970 the Indian Space Research Organisation (ISRO) and the Hydro Meteorological Service (HMS) of the USSR entered into an agreement for a systematic synoptic M-100 rocket sounding weekly from TERLS to study wind, temperature and pressure up to a height of 80-85 kms. So far 275 M-100 rockets have been fired. ISRO participated in MONEX I (Monsoon Experiment) in 1973 along with the HMS. In MONEX II (1977) too HMS and ISRO are collaborators. In this programme two Indian ships will join four Soviet ships in studying the monsoon mechanism over the Arabian Sea and the depression in the Bay of Bengal.

In 1972 India and the Soviet Union signed a formal agreement to work out the arrangements to help India develop and launch its own satellite with Soviet help. The end result of this agreement was the launching of India's scientific satellite Aryabhata on 19 April 1975. The satellite was placed in orbit using a Soviet launch vehicle from a Soviet cosmodrome. It was a remarkable feat for Indian space scientists for it was the heaviest first launch attempted by any country and it carried sophisticated system entirely made by Indian technicians.

In 1975, a new protocol was signed to launch a second satellite with Soviet help. The new satellite will be called SBO (Satellite for Earth Observations) and will be used to survey earth resources. A new satellite tracking station is being set up within the campus of the Indian Institute of Astro-physics at Kavaloor in Tamil Nadu with Soviet help. This station will study closely the earth in relation to other planets.

## APPENDIX III

### AGREEMENT

#### On Further Development of Economic and Trade Cooperation Between the Union of Soviet Socialist Republics and the Republic of India

The Government of the Union of Soviet Socialist Republics and the Government of the Republic of India,

DESIRING to further strengthen and develop friendship and cooperation between their two countries on the basis of the Treaty of Peace, Friendship and Co-operation between the Union of Soviet Socialist Republics and the Republic of India of August 9, 1971.

RECALLING that as a result of a wide range of cooperation between the two countries in many branches of the economy of India a number of major industrial enterprises and projects have been established and are being set up, such as iron and steel plants in Bhilai and Bokaro, machine-building plants in Ranchi, Hardwar, Durgapur, refineries in Barauni and Koyali, oil production projects, electric power stations and other projects, and that these conform to the programme of the Government of India for developing its economy and strengthening the economic independence of India,

PROCEEDING from their common aspiration for all possible expansion and deepening of mutually beneficial

economic and trade cooperation between the two countries and convinced that such cooperation will be in the interests of the people of both the countries in their struggle for economic and social progress,

HAVE AGREED to conclude this agreement which provides as follows:

#### ARTICLE I

The Parties to this Agreement shall continue to further develop and strengthen economic and technical cooperation as well as trade between the two countries on the basis of the principles of respect for sovereignty, territorial integrity, non-interference in internal affairs of each other, equality, and mutual benefit. Such cooperation shall be implemented and strengthened in the fields of industry, power, agriculture, geological surveys, training of personnel and trade, as well as in all other branches of the economy of the two countries where the necessary economic prerequisites are favourable for rapid development.

#### ARTICLE 2

The cooperation mentioned in Article 1 hereof shall aim at exploring the possibilities of developing the economies of the two countries in production collaboration and in the sharing and utilisation of up-to-date



technical and technological achievements on mutually favourable terms, particularly bearing in mind the following objectives:

(1) Cooperation in designing and construction of mutually agreed enterprises and projects in the field of iron and steel and non-ferrous metals production, prospecting, production and refining of oil, natural gas, coal and other minerals, power engineering, petro-chemical industry, shipping and other branches of industry, agriculture as well as providing facilities for training personnel will be effected by expanding projects previously undertaken with the assistance of the USSR, by setting up new industrial and agricultural and other projects, and also by assisting in establishing institutes for specialised training. The Parties will cooperate in the further expansion of iron and steel plants in Bhilai and Bokaro to increase their annual capacity to 7 and 10 million tonnes respectively, in the construction of the oil refinery in Mathura with the annual capacity of 6 million tonnes of oil, of the copper mining complex in Malanjkhand, of the Calcutta underground railway project, and also of other projects as may be further agreed upon between the two Parties, as well as in the development of manufacturing cooperation in the field of non-ferrous metals production, and light and other branches of industry;

(ii) For the aforementioned purposes, the Government of the Union of Soviet Socialist Republics will extend to the Government of the Republic of India credits, the amounts and terms and conditions of which will be settled by separate agreements;

(iii) Steady development of goods turnover, by increasing deliveries of complete and other equipment, expanding the nomenclature and increasing the quantities of goods of mutual interest will be furthered;

(iv) Methods of reciprocal settlement of accounts and terms of credit relations will be streamlined and improved;

(v) The two Parties shall cooperate in the matter of supply of equipment and services for setting up plants in third countries.

### ARTICLE 3

Attaching great importance to the scientific and technical cooperation between the Union of Soviet Socialist Republics and the Republic of India, contributing to the scientific and technical progress of both countries, including in the fields of atomic energy for peaceful uses, space, electronics, as well as to the development of economic relations, the two Parties deem it necessary to further develop and strengthen this cooperation.

ARTICLE 4

The Parties to this Agreement shall promote in every possible way cooperation between the concerned organisations of the Union of Soviet Socialist Republics and the Republic of India in the field of economic and trade relations, as well as facilitate the conclusion of appropriate long-term agreements and contracts on the basis thereof, consistent with the mutual interests of the Parties and in conformity with the laws in force in each of the two countries.

ARTICLE 5

The Parties to this Agreement, noting that the promotion of exports of each country to the markets of the other remains their common aspiration for the future, shall, consistent with their international obligations, further grant mutual advantages, privileges, facilities and favourable terms in the field of trade and economic relations in compliance with the agreements and treaties in force between them.

ARTICLE 6

The Parties to this Agreement shall regularly consult each other on matters of mutual interest pertaining to economic and trade relations between the two

countries.

ARTICLE 7

This Agreement shall enter into force on the date of signature.

The present Agreement is signed for a term of FIFTEEN years and shall be prolonged automatically for every subsequent period of five years unless one of the Parties declares its intention to terminate its operation by notifying the other Party six months before the expiration of the term of the Agreement.

Done in New Delhi on November 29, 1973, in two original copies, each in the Russian, Hindi and English languages, all texts being equally authentic.

On Behalf of the Government  
of the Union of Soviet  
Socialist Republics

I. Brezhnev

On Behalf of the Government  
of the Republic of  
India

I. Gandhi

Text of agreement on Co-operation <sup>between</sup> the Planning Commission of the Republic of India and the State Planning Committee of the Union of Soviet Socialist Republic (GOSPLAN of the USSR).

APPRECIATING the importance of planned development of economies and guided by Article 6 of the Agreement between the Government of India and the Government of the USSR on the setting up of the Inter-governmental Indo-Soviet Commission on Economic, Scientific and Technical Cooperation, the contracting Parties have agreed as follows:

1. There shall be established a Joint Indo-Soviet Study Group on cooperation in the field of planning within the framework of the Inter-Governmental Indo-Soviet Commission on Economic, Scientific and Technical Cooperation.

2. (1) The Study Group will be composed of the Members of the Planning Commission of India assisted by such representatives of Central Ministries or State Governments as may be deemed necessary from time to time by the Government of India and the responsible officials of the State Planning Committee (GOSPLAN).

(11) Specialists of other organisations and institutions connected with planning can be enlisted in the capacity of advisers and/or experts.

3. (1) The main functions of the Study Group will be the exchange of experience and knowledge in the

following fields:

- (a) economic forecasting,
- (b) methodology of annual, medium and perspective planning,
- (c) formulation of projects and programmes,
- (d) methods of monitoring and evaluation of planned programmes and projects,
- (e) planning the supplies of materials,
- (f) exchange of published reports and materials.

(ii) The scope of problems to be reviewed by the Study Group may be enlarged by mutual agreement.

(iii) The Study Group shall also examine and report on any matter referred to it by the Inter-Governmental Commission referred to in paragraph 1.

4. Meetings of the Study Group will be held, as a rule, not less than once a year in New Delhi and in Moscow by turn.

5. (1) Leaders of the Indian and Soviet sides of the Study Group shall by mutual agreement determine the agenda and the time-limit of each meeting.

(ii) In order that discussions of the Study Group are fruitful, both sides shall circulate material and documents in advance of each meeting.

6. (1) Agreed minutes reflecting the results of the discussions shall be drawn up at the conclusion of each meeting of the Study Group.

(ii) The agreed minutes will be submitted to the Inter-Governmental Commission referred to in paragraph 1 for its consideration.

Done in New Delhi on November 29, 1973, in three originals each in Hindi, Russian and English, all the texts being equally authentic.

Sd/-

( D. P. DHAR )  
Minister for Planning,  
Government of the  
Republic of India

Sd/-

( N. K. BAIBAROV )  
Chairman of the State  
Planning Committee of  
the Union of Soviet  
Socialist Republics

#### APPENDIX IV

This section contains tracts from the party programmes of the Communist Party of India and the Communist Party of India(Marxist), stating the position of the two parties on the question of Soviet aid to India.

#### Communist Party of India

Our programme defines the Indian state as an organ of class rule of the national bourgeoisie as a whole. The Indian state represents the entire bourgeoisie and not just the monopoly bourgeoisie. Our party also notes that in this state the big bourgeoisie holds "powerful influence". The programme notes also the fact that the state has "strong links" with the landlords.

But the programme rejects the view advanced by the CPM that this is a state of the bourgeoisie and landlords led by the big bourgeoisie. If the landlords were full-fledged partners in state power and the big bourgeoisie had the leading role, it should have been a right reactionary state. The state would have followed a policy of fully protecting feudal and semi-feudal interests and not of curbing them substantially by fostering capitalism in agriculture. If the big business was the leader, there would not have been nationalisation of banks, insurance, coal, etc. or creation of a public sector which certainly was opposed by them. India would have been a close ally of the USA and not a non-aligned country, as the big business is always advocating.



The aim of the national bourgeoisie is to build an independent economy on a capitalist basis. Industrial development even by the capitalists goes against the interests of imperialism. It also comes into conflict with the interests of the landlords and princes. Hence it is anti-imperialist and anti-feudal.

Indian monopolists wanted the state sector to be limited to defence industries, transport and public utilities so that the entire range of industries is left to them. Hence they do not like the growth of the state sector.

The state sector is an important factor in the industrial development of India. Without a state sector, such development as has been achieved would not have been possible.

The state sector is a progressive factor because by building independent national industries, it weakens the grip of monopolies and to a certain extent of Indian monopolies also.

The left sectarians also have the same hostile attitude to the state sector. They dub it as 'bureaucratic capital' and declare it as reactionary. That is how the 'left' sectarianism leads them to subserve the interests of right reaction.

Our party has a positive attitude to the state sector. Socialist sector? No. The state sector is not a socialist sector, as many Congress leaders claim. It

is state-capitalist sector. The socialist system in India is capitalist and the state is a capitalist state. Under these conditions, the state sector cannot be a socialist sector.

The aid from the Soviet Union and other socialist countries is of great importance to India. It laid the foundation of heavy machine-building industry, steel, oil, etc. - huge industrial complexes. It helps to eliminate the legacy of colonial past and reduces India's dependence on the capitalist world. Without the aid from the socialist world there could not have been a strong state sector either.

Because of this the policy of the imperialists to keep Indian economy within semi-colonial bounds has received a rebuff.

Maxalites of all hues, echoing the leaders of the Communist Party of China, denounce socialist aid, equate it with imperialist aid. In opposing socialist aid, they are in the company of the most rabid reactionary elements in India.

The CPM does not see the positive role of socialist aid either. It says socialist aid only enables the national bourgeoisie to bargain for better terms with imperialists. Some 'left' sectarians oppose socialist aid under the argument that it strengthens capitalism in India. This is

a wrong conception. It does not strengthen the national bourgeoisie vis-a-vis the people. On the other hand, it strengthens the spread of socialist ideas among the people. It, of course, strengthens the whole nation, including the national bourgeoisie vis-a-vis foreign monopolies.

Those who allege that the CPI does not want replacement of Congress government are only slandering it. Our party considers it a prerequisite to replace the Congress or any other form of bourgeois rule by a government capable of discharging these three democratic tasks (anti-imperialism, anti-feudalism, and anti-monopoly capitalism). Such a government would be a government of national democracy.

These measures will unshackle the productive forces and ensure rapid economic growth and raise the living standards of the people. These measures are not socialist measures. Capitalist relations will still be there. But capitalism will not be allowed to follow its path of development. Measures will be taken to progressively restrict the growth of capitalism both in agriculture and industry and reversing the present process of development of capitalism. It is this totality that our programme defines as the non-capitalist path. Obviously this is different from the non-capitalist path in countries

where capitalism has not developed or scarcely developed.

This is a transitional stage in which measures taken by the national-democratic government though not yet socialist in nature are directed towards creating the prerequisites for socialism. This is what is called non-capitalist path of development in our programme. It leads to socialism.

#### Communist Party of India (Marxist)

The present Indian state is the organ of the class rule of the bourgeoisie and landlord, led by the big bourgeoisie, who are increasingly collaborating with foreign finance capital in pursuit of the capitalist path of development. This class character essentially determines the role and functions of the state in the life of the country.

In the years after independence, despite repeated pleading by the bourgeoisie, the imperialists refused to help the building of a heavy industry, the basis of industrialisation. Under the pretext of helping to save foreign exchange, they imposed deals with foreign monopolists detrimental to our national interests, as in the case of oil refineries, ship-building, chemical industries, etc. with the emergence of the world socialist

system, while utilising socialist aid for building certain heavy industries, it actually uses it as an extremely useful bargaining counter to strike more favourable deals with the imperialist monopolists.

Thus the dual character of the bourgeoisie which manifested itself during the years of the freedom struggle in the policy it pursued of mobilising the people against imperialism on the one hand and compromising with imperialism on the other, manifests itself in a new way after achieving independence..... While not hesitating to utilise socialist aid to build certain heavy industrial projects, and to bargain with imperialists to build itself up, it is anti-people and anti-Communists in character and is firmly opposed to the completion of the democratic, anti-imperialist tasks of the Indian revolution.

The economic planning that the government has resorted to is a part of this effort at building capitalism. Economic planning in an underdeveloped country like India, backed by the state power in the hands of the bourgeoisie, certainly gives capitalist economic development a definite tempo and direction. The most outstanding feature of these plans is to be seen in the industrial expansion, particularly in the setting up of certain heavy and machine-building industries in

the state sector. This noteworthy gain would not have been possible, but for the disinterested aid from the socialist countries - mainly, from the Soviet Union.

△ See, Ideological Debates Summed Up, a CPI(M) publication for a statement on "Soviet Economic Aid."

The statement condemns the "ultra-left deviationists" in India (the Maoists) who are critical of Soviet economic aid. The CPM rejects the thesis of "social imperialism" and does not subscribe to the view that like the USA, the USSR too has become hegemonistic.

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