From New Delhi

Indo-Soviet trade: rubles and rupees

by Susan Maitra

The celebrated 1953 Rupee Trade Agreement between Moscow and New Delhi is undergoing stress and strain. Though the agreement on economic and technical cooperation signed on the occasion of Mikhail Gorbachov's state visit to New Delhi Nov. 25-28, 1986 was billed by some as opening a "new chapter" in Indo-Soviet economic cooperation, it might be more accurate to say that the Soviet 1.2 billion ruble credit covering four large projects was sufficiently dramatic to prevent the book from being closed.

The announcement a week later that the Soviet Union had decided to increase crude oil exports to India in 1987 from 3.5 to 4 million tons, and had a proposal for another .5 million ton boost under consideration, is more revealing of the actual state of Indo-Soviet economic relations, which for the last six years or so have been a battleground. At issue is a large trade imbalance in India's favor, which reflects the divergent requirements of the two nations' economies.

In 1979, with an accumulation of Soviet ruble balances resulting largely from defense supplies, Indian exports to the Soviet Union began to soar. The Soviet demand for agricultural raw materials such as cashews and mangoes and for consumer goods—from soap and detergent to textiles and shoes—appears insatiable, and whole industries sprang up on the strength of the Soviet market. An Indian trade surplus with the Soviet Union of nearly $200 million grew to about $550 million by 1983. While total trade turnover doubled from 1981-84, by 1986 India's surplus stood at $700 million.

Though in real terms, the Indian surplus represents a kind of surplus to the Soviet economy, Indian officials have been in no special hurry to restore balance. In 1983, India began accepting "technical credit" to cover the imbalances—credits that jumped from $35 million in 1980 to some $1 billion in 1983. At the same time, India continued to press for increased imports of Soviet crude oil, fertilizer, and several other items that would otherwise cost India precious foreign exchange on the international market.

For their part, the Soviets' anxiety to redress the trade imbalance has been coupled with a determined reluctance to part with the crude oil and other products that are dollar productive for themselves. They have continued to periodically flex their considerable muscle in the form of arbitrary denial of orders to Indian producers almost entirely dependent on the Soviet market. The warning shots came in 1983, when orders for cashew nuts, textiles, and other staples of the trade plunged. Even today, in spite of a promise to raise textile imports from India to 500 million meters per year, the 1987 annual trade plan projects imports of just 100 million meters, down from 220 million meters last year.

Nonetheless, Rajiv Gandhi and Mikhail Gorbachov have announced a commitment to raise trade turnover by 2.5 times by the year 1992. A special committee set up on the Indian side to carry through on this commitment has produced a list identifying more than $1 billion worth of Soviet products appropriate for export to India. At the top of the list is crude oil, steel, diesel locomotives, and chemicals. Also identified by the Indian side are some 70 areas that offer good potential for production cooperation, including the automotive and textile industries. So far, according to first reports, India's efforts to enter joint-venture projects with the Soviet Union have been hamstrung by the Soviet demand for a 51% participation in the equity capital of the ventures, implying Soviet control of the ventures which India cannot accept.

The trade pattern

The backdrop to the difficulties is actually the development of India's economy. In the mid-1950s, when India's economic relationship with the Soviet Union began, the cooperation focused on the development of basic industry, and the bulk of India's imports from the Soviet Union consisted of equipment and machinery. Since India's economy has developed a fairly broad industrial base, the requirements for machinery imports have fallen considerably, and India's main preoccupation in the Rupee Trade Agreement is to increase the import of those items which would otherwise cost hard currency.

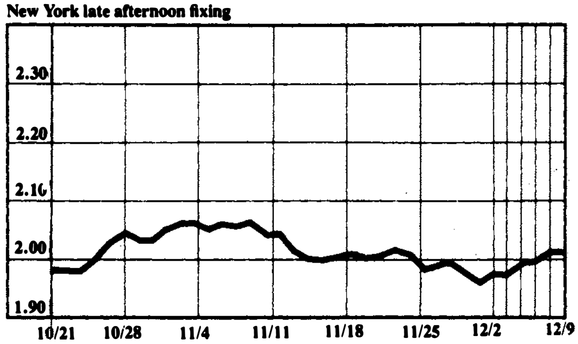
In this sense, the large new Soviet project credit announced during the Gorbachov visit shifts attention from the real difficulties in the trade relationship, and recalls the best of the Soviet economic relationship to India. It was, after all, in the 1950s, when Indian requests for assistance in building up a steel industry were rejected by the United States, that the Soviet Union stepped into the breach. Since then, out of 220 public-sector enterprises in India, mostly in heavy industry, 83 have been built either wholly or partly with Soviet assistance. Projects constructed with Soviet aid account for 40% of India's iron and steel production, 80% of its metallurgical equipment, about 40% of mining equipment, about 55% of power-generating equipment, and some 10% of electric power generating capacity, besides a significant share in the oil and oil products sector.

The latest credits have been extended for the construction on a turnkey basis of four projects: one, a large, 2,400 megawatt hydropower project in the Tehri region, the modernization of the Bokaro steel plant, the setting up of four underground mines to raise annual coke and coal production capacities by about 8 million tons, and, finally, on-shore oil exploration in West Bengal. The Soviet credits carry an interest rate of 2.5%, repayable in 17 years in equal installments, due three years after the date of utilization. The Soviet credits also include the provision for financing of local expenses of the Tehri power project.

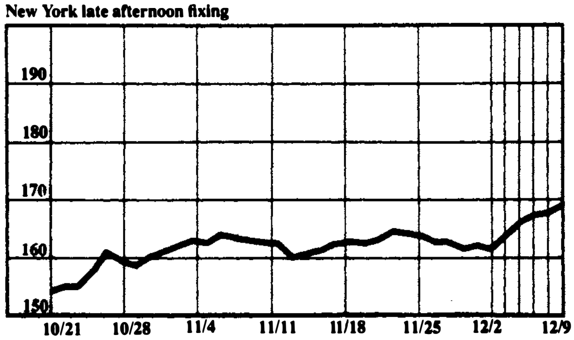
Large as it is, the Soviet credit has been criticized in some quarters for being a lot of "show." The critics point out that, based on past experience, Soviet credits take years to materialize, and the economic effect is not as dramatic as it might seem. On past experience, the credits are actually used only for the purchase of equipment, something that tends to be the last phase of the project, and delays have been frequent. The critics also point out that, for this very reason, there is already a large amount of Soviet credits that are as yet unused. They also point out that the turnkey provision of the assistance leaves relevant Indian industrial capacity out in the cold. In response, the government has argued that, since its own ability to proceed with these projects is limited by a lack of financial resources, the Indian capacity would not in any case be used, and therefore it is better to take advantage of the Soviet credits to get these projects going.

Currency Rates

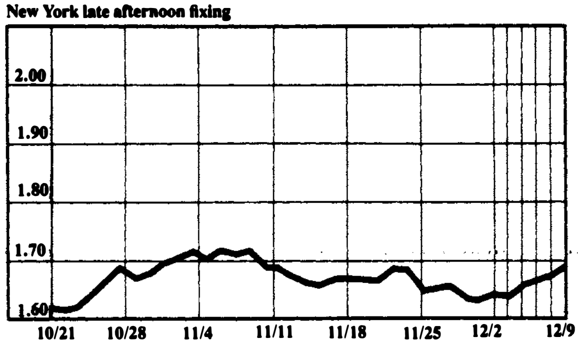
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing