

SOVIET FOREIGN AID TO INDIA

BALWANT BHANEJA

The importance of Soviet economic relations with India becomes significant when one realizes that in the 1960's it was with India the U.S.S.R. had the largest amount of trade (outside the satellite countries).¹ Before the fifties, Soviet Union's trade with India was virtually nil and no agreement of aid was signed. But one notices a rapid rise in figures from 1953 to 1964, the last year for which the figures have been used in this paper.² Such rapid change in economic relations between two countries within fifteen years is extremely significant.

Before proceeding with analysis of the significance of the question, let us examine the causes of rapid shift of Soviet policy towards India. The causes can be divided into two interrelated groups: (i) Politics and (ii) Economics.

Soviet historians trace back their interest in underdeveloped countries to Lenin's time when he proclaimed that "for only when the Indian, Chinese, Korean, Japanese, Persian, Turkish workers and peasants join hands and march together in the common cause of liberation — only then will decisive victory over exploiters be ensured."³

The active interest of the Soviet Union in India only developed in the fifties, during the era of the Cold War. Undoubtedly, up to 1961, before the Indo-Chinese war, India was in its heyday, enjoying the status of leader of the Third World's non-aligned countries. Because of its political stability, non-aligned policy, largeness and strategic geographical position, both of the super powers wanted to exert their influence on India. Since World War II, Russia had been competing with the U.S. to prove that she was no less than her in almost every sphere of economic, diplomatic and military matters. Prior to 1950, during Stalin's regime Russia had followed a policy of isolation at the governmental level that had deprived her of having any meaningful footing in Asia.

¹ Goldman, M. I., *Soviet Foreign Aid*, p. 107.

² *Ibid.*, p. 108 — The growing trade relations with India can be shown by the following figures (in millions of dollars): —

	1953	1964
<i>Trade</i>		
Exports	0.5	235.0
Imports	0.4	156.0

<i>Aid</i>		
loans and grants	.08 (1955)	81.0 (1963)

³ Lenin, V. I., *The National-Liberation Movement in East*, p. 248.

With the growing importance of using the United Nations as a propaganda platform during the Cold War era, the Soviet Union realised the necessity of strengthening an anti-western block wherein she could assume effective leadership.

The Western powers had been successful in the formation of alliances such as the Baghdad Pact and SEATO. The Russians did not wish to see Americans reaping a rich diplomatic harvest in their own backyard. The Soviets wished to counteract growing American influence in the Middle-East which started to evolve during the last days of Stalin. Also, from an economic point of view, by 1950, through a Stalinized programme of reconstruction Russia had recovered the heavy setbacks it had suffered during World War II and was arriving at a stage when it could look outside its boundaries.

With new leaders in power, the Soviet Union realised that its goal could be effectively pursued through co-operation with the nationalist governments of Asia rather than their overthrow and replacement by Communist parties.⁴ In June 1954, when Nehru and Chou-en-Lai chalked out the policy of "Five Principles of Co-existence" between India and Red China, the Soviet Union congratulated the two countries, and readily accepted the five principles, saying that she agrees to "Peaceful Co-existence of states irrespective of their social or political systems."⁵

The countries with which Russia trades presently in the Third World vary from traditional kingdoms like Ethiopia and Afghanistan to a military dictatorship like Egypt.* Like the United States' influence in Latin America the desire of the Soviet Union to be a dominating power in Asia can be felt when one observes Moscow's keen desire to be a mediator or peacemaker in regional disputes. This can be seen in the case of Arab-Israel, India-Pakistan and Vietnam war.

Peaceful co-existence as a part of new foreign policy brought a postponement of the objective of the Communist revolution as an immediate goal. It was proclaimed that the final revolution would be achieved at the end of the class struggle which would be the next stage to present socialism in the Soviet Union.

The new tactics included in the policy towards the underdeveloped countries, were economic weapons. The Soviets realised that the economic weapon of industrialization had much more impact than military coercion. The new line was that the rise of industry would foster the growth of a working class proletariat. And in Soviet terms, it is the growth of this proletariat that would eventually lead to the rise of revolutionary ferment in developing countries.

⁴ Bromke, A., *The Communist States and the West*, p. 209.

⁵ Vasilyev, D., *Soviet Trade with South-East Asia*, p. 20.

* Between 1955 and 1962, the trade turnover of the U.S.S.R. increased by some 100%. However, trade with the less developed countries of non-communist countries rose by 266%. Bornstein Fufeld — *The Soviet Economy*, p. 250.

Though the main purpose of this paper is not to examine the politics of U.S.S.R. foreign relations, one notices that in the Soviet Union there is a definite relationship between economics and politics. Soviets today believe that it is the requirements of economics that makes it necessary to examine the economy of every country against the background of its international inter-relations. Vasilyev points out that the "trade policy of the Soviet Union fully conforms with the Soviet Union's foreign policy."⁶

The U.S.S.R. presently follows a centralized model of economic planning. In this model, the main aspects of foreign trade and aid lie in decisions taken at the top level. It is in relation to these decision-makers' "macroeconomic state preferences"⁷ that the selection of trading partners, terms of individual transactions, terms of payments are carried out. Macroeconomic state preferences can range from fulfillment of supplies required for a Plan, to some important political gain.

Like the U.S. and other Western powers, the main object of Soviet foreign aid to India appears to be political, that is, to influence the foreign and domestic policies climate and long term course of events within the Indian government as far as possible. As far as Western countries are concerned, one finds a certain distinction between aid and trade in these countries, because the latter is carried out by private enterprises. In the Soviet case, the issue becomes ambiguous as both aid and trade are carried out by the State and has to satisfy macroeconomic preferences of policymakers.

The aid is a two way mechanism. Unless given through a multi-lateral agency such as the United Nations, the donor country anticipates that it will be able to achieve certain gains from the recipient countries — at least the goodwill of the receiving country and a better image for the giver. The significant point is reached when the goodwill is transformed into influence on the part of the donor country.

Many Western countries in the past have passed on their aid-programmes with "String Attached" (e.g. U.S. aid in Greece and Latin America). Though the Russians claim that their aid is without strings, yet in most cases one notices that Russians usually contract with the public sector rather than private business. Most of their projects in India have been limited to heavy engineering projects such as building steel mills, power plants, oil refineries in the public sector. These industries remind one of the Soviet example of its own development — the revolution that was achieved through public sector industrialization. Though India's trade relations with Russia in recent years have been improving most of the trade is based on bilateral agreements of equal

⁶ Vasilyev, *Soviet Trade with South-East Asia*, p. 22.

⁷ Soldaczuk, J., *International Trade and Development: Theory and Policy*, p. 22.

reciprocity. In most cases buying of Indian goods is done through credits given to India in the Aid Programme.

The remaining part of this paper deals with the explanation of two aspects: a) aid and b) trade in some detail. We shall examine whether Soviet relations with India have an economic gain for the U.S.S.R. or have the benefits been more of a political nature in the context of our analysis.

a) Aid: In India, Soviet aid has been extended to almost every sector of heavy industry. These capital construction projects are financed by the Soviet Union under medium or long term credits that may range from five years to twelve years, in terms of repayment. The interest charged on the loans, in comparison to 5 to 6% in the free market rate is between 2½ and 3%. Furthermore, Soviet agreements, unlike the capitalist countries, stipulate that all repayments could be made in Indian currency.

Under these agreements, the Soviet Union undertakes to provide the equipment and engineering skills for the construction and the installation of the heavy industry projects and the locally produced material and labour is supplied by the government.

One of the most important projects financed through Russian aid is the Bhilai Steel Plant. On 2 February 1955 the Soviet Union announced that it would build Bhilai Steel Plant—the first plant in the public sector to be built and also the first one that was being installed in India under India's first Five Year Plan. The Russians decided to assist India when the Indian government was asking English and German firms to give their estimates on building of one million-ton steel mill projects. Eventually, the Russians undertook to build Bhilai of the three plants. In comparison to the English and West Germans, the Russians had lower construction costs, less operating problems and the number of technical staff were fewer. Bhilai cost \$275 million. The Russians accepted the repayment of the loan in rupees at the rate of 2.5% repayable over a period of twelve years. The stipulation of payments was to begin one year after the delivery of the bulk of the equipment.

The Russian acceptance was followed by Britain and Germany for building other plants at Durgapur and Rourkela respectively. The German one cost \$375 million and the British Durgapur amounted to \$290 million.

The Bhilai steel plant, the biggest Russian investment in India, provides one with how the Russians use their business acumen which may benefit primarily the Soviet state and then secondarily the aid recipient state. The Russians were shrewd enough to pick up the plant that was the easiest to build and operate. It was the plant in which the Soviet technicians had the maximum experience. The steel products of Bhilai were less sophisticated in nature. It produced only merchant

steel and rails. But the main point is of creating an excellent public image of the Soviet Union on the Indian mind when the Germans and the English were cribbing and were hesitant to invest into these projects, the Russians jumped in to pick up the best bargain; the Russian plant has made an extremely favourable impression on both the government and the masses in India because of their favourable credit terms, speedy completion of the first phase, shipping of 12,500 tons of rails to Sudan (the first exports of the Indian steel industry), the mills operating at 115% of rated capacity. It was the first gigantic project that the Russians had decided to build in South Asia.

Another good example of Soviet business acumen can be seen in their handling of oil refineries projects in India. Like other capitalist countries, the Russians have not failed to take advantage of a monopolistic situation when they have found that they are the only ones left to be asked to undertake a certain project. Goldman mentions that in the absence of Western competitors, the Russians did not miss the opportunity to bid very high for the installation of an oil refinery in Barauni. He says: —

... more important was the question of cost. There was considerable evidence to indicate that the Indians had paid an exorbitant price for Russian help. By the time the Indians decided to build their third refinery at Koyali, the Western companies realised the seriousness of the situation and began to make counteroffers... this made it possible to compare Russian's cost with those from Western companies.⁸

The Soviets have also been competing with other western countries in the rice market trying to play the price game to sell their products. Obviously the Russians are more flexible and faster in manipulating their prices to suit their economic or political interests. Up to the late fifties, in India, there was a complete monopoly by two private Americans and a British firm on the supply, refining and distribution of petroleum products. At this point, Russia offered to supply crude oil to India at 25¢ a barrel below the posted industrial price. The Russian offer forced the Western companies to lower their prices by about 27 cents a barrel.⁹ The Indian government accepted the Russian offer to break the western stranglehold and decided to build their own refineries.

Discussing the patterns of Soviet economic relations with the developing countries, Berliner states:

where trade and construction contract can be secured on favourable terms, the Soviet Union strives to operate on mutually favourable terms, usually signifying trade at world prices. Yet on the other hand, where it seems necessary to subsidize trade, offers or contract bids, economic losses can be accepted for political gain.¹⁰

⁸ Goldman, M. L., *Soviet Foreign Aid*, p. 98.

⁹ Goldman, M. L., *Soviet Foreign Aid*, p. 96.

¹⁰ Berliner, J. S., *Soviet Economic Aid*, p. 171.

The Russians seem to have greater short run maneuverability in comparison to firms in the free market. They seem not to be bound by detailed budget appropriations, and seem to be able to capitalize quickly on favourable situations that arrive suddenly.

b) Trade: As have been mentioned earlier, in the Soviet Union aid and trade are interdependent. The loans and credits that are given as part aid give first rise to Soviet exports and then to Soviet imports purchased with the currencies received in payments of the loans. The Soviet Union emphasizes that it sincerely wishes to help developing countries. Unlike the capitalist countries they are gladly willing to sell capital equipment in return for raw materials. Whereas in the case of trade with Western nations, they say that the capitalist countries have a built-in bias in the theory of comparative advantage which tends to keep the economy of developing countries constrained to specialization of raw materials.

The Russians usually refer to their bilateral trade and aid agreements to be based on equality and be "strictly balanced" — each party's purchases from the other equalling the level of its sales. This is done by each side drawing up the list of exports of approximately equal value.

One look at Table 11 showing India's balance of payments in relation to its trade with Russia indicates that bilateralism in spite of slogans of "strictly balanced" equality has proven rather to leave surpluses in favour of the Soviet Union.

The Communist bloc economists, especially Polish ones, in recent years have been stressing the sectoral division of labour (the one they had presumably within the CMEA) that will bring for the Communist countries the benefits of a more open economy.¹¹ They suggest that the trade with an underdeveloped country will "enrich the pattern of consumption on the home market". This means that in addition to staple imports, the home market will get such "attractive goods as beverages and tropical fruits". The living standards in the Soviet Union and its other satellite countries are rising rapidly. With such a rise in living standards, one expects that there will be greater scope for higher consumption of many commodities in which their consumption has been far below the saturation point. In this context, in exchange of capital machinery, the Soviet Union will tend to trade with imports such tea, tobacco, textiles and vegetable oils from a country like India. The new theories have been suggesting that in relation to India and other underdeveloped countries, a CMEA type of economic model will eventually bear fruits. That is, every country agrees to develop all the main branches of the economy but there should also be specialization

¹¹ Soldaczuc, J., *International Trade and Development: Theory and Policy*, pp. 301-303.

among various countries as to production of various goods within each branch.¹²

Table 11 Balance of Payments with India (in Rs. Lakhs)

	Soviet Imports	Soviet Exports	Surplus
1961-62	32,21	39,94	+ 7,73
1962-63	38,25	58,64	+ 20,39
1963-64	52,25	63,99	+ 11,74

Sources: *India 1965: A Reference Annual*, pp. 328-329, published by the government of India, publication Division, New Delhi.

Again, in practice one finds no significant encouragement has been provided to India in importing Indian manufactured goods. The Soviet Union in recent years has attempted to buy some Indian products from their own installed projects such as various types of machine tools and railway wagons manufactured at Heavy Engineering projects in Ranchi and Bhilai. "Statesman", an Indian newspaper, mentioned in one of its reports that the Russians and authorities have come into sharp conflict over the sale of railway wagons that the Russians had agreed to buy from India. At present, the Russians are in disagreement with Indian prices. The Indian authorities comment that the price suggested by the Russians is too low and is even below the manufacturing cost.¹³

The above wagon deal indicates that the Russians are hard bargainers. They can at any time disrupt trade relations with an underdeveloped country if they are unable to settle a deal on their own terms.

One notices that the main Indian exports to Russia are the same as the ones India trades with the Western countries. The Russian exports to India are different from Western merchandise in the sense that the bulk of Soviet exports are oriented to industrial development. India alone accounts for about 40% of Soviet commitments for industrial development in underdeveloped countries. Forty five per cent of this has been allocated to heavy industry in India.¹⁴

¹² Uren, P. E., *East-West Trade*, p. 84.

¹³ Commercial attache, High Commission of India, Ottawa; Directorate of Commercial Publicity, Ministry of Commerce.

New India, p. 41— the manual shows that India exports machine tools like RL Geared Head Lathes, Hindustan Lathes, Hindustan Radial drilling machines, Hindustan Milling machines.

The State Trading Corporation of India had negotiations with the Soviet Union for the supply of 46,000 wagons. Out of this quantity, 16,000 prototype wagons were to be sent during 1969 itself. The Russian price offer was no more than Rs. 56,000 a wagon, whereas Indians pointed out that only the cost of raw materials build in such wagon would be Rs. 74,000. The Indian total price is almost double the Russian offer, about Rs. 116,000. Contracts signed by India during 1969 for wagon deals with other Communist countries included 1,000 for Hungary and 500 for Poland.

¹⁴ U.S. Congress, *New Directions in Soviet Economy*, p. 955.

Conclusion

One might conclude from the above facts that the purpose of Soviet aid to India is not mainly of a development nature. The Soviet Union has its own political and economic interests like any other country before the fulfillment of humanitarian development aims. In the hierarchy of objectives, it seems that the politics and ideology rest on top, economics in the middle and the development on the lowest level.

We have seen from our preceding analysis that though political objectives appear to have priority in Russia's policy makers minds, economic considerations have been taken very much into account. Although their domestic economy is based upon the centrally planned model, in practice of foreign trade and aid, their attitude and behavior in the world market does not appear to be much different from any other members of the world community. As Goldman states, "the Soviet experience with less developed countries of the world differs only in emphasis from that of the U.S."¹⁵

The Soviet Union has adopted economic strategy of every sort to win a place in India's foreign trade. As noted earlier, this has been done through cut-throat competition, bargaining, bilateral agreements, use of credit and inducement of repayment in soft currency. All this has become a very important means of displacing Western merchandise from its traditional markets in the underdeveloped countries. The Soviets have undoubtedly been able to gain entry into the new market and as Schwarz mentions "an entry which can later be expanded if relations go well".¹⁶

It would be naive to assume that it is only the Western countries like the U.S. that have political interests in India. As mentioned earlier, the Russians have a more immediate cause in Asian involvement than have the Americans. From the Soviet point of view, the Russians propagate that their aid to India has helped to keep India free from the economic and political policies of the Western nations. As Goldman mentions, "from the Soviet viewpoint, perhaps the most important contribution of the foreign aid programme was that it made neutralism a practical alternative."¹⁷ Looking from the American viewpoint, the Russians have thwarted the market of Western countries and has become more active and significant focal point for the Asian nations in the last twenty years. India with its economic interest entangled in the Soviet Union is becoming more dependent on the Soviet aid and trade.

¹⁵ Goldman, M. I., *Soviet Foreign Aid*, p. 185.

¹⁶ Schwarz, H., *The Soviet Economy since Stalin*, p. 204.

¹⁷ Goldman, *ibid*, p. 192.

In spite of these similarities in relation to economic practices and political motivations between the Soviet Union and other aid giving countries to India, one finds the main difference lies in the allocation of resources. Unlike the U.S., the Soviets, because of the structure of their domestic production, stress strongly that their aid be allocated to the public sector and that the type of projects chosen should be of heavy industrial nature.

Unlike aid from most of the other Western countries the Soviet aid is not concentrated on food, health or education programmes.

The Soviet importance in widening the public sector base can be seen in the growth of large public sector enterprises in India where the Soviet Union decided to assist the Indian government such as in the case of Indian Oil Refineries Ltd., Hindustan Steel Ltd., Heavy Engineering Works Ltd., Hindustan Aircrafts Ltd., etc. A U.S. report in 1966 showed that the total Communist expenditures during India's second Five year Plan (1956-1961) accounted for about 20% of public investment in the industrial sector. And it was estimated to represent almost one fourth of the total public investment in industry planned for the third Five Year Plan.¹⁸

Summarizing, the Soviet Union's such public sector conscious aid policy towards India shows three fold advantages for the Russians: 1) The Russians have been to a large extent successful in implementing their own industrial ideology of development in India. India is the first Asian country that took to the Russian model of planned economic development. The industrialization as the Soviets think will inevitably result in the development of a conscious communist proletariat in the long run. In fact, industrialization and expansion of the state sector are viewed as a step toward the gradual adoption of the communist model. They believe that such industrialization will enable India to achieve economic independence from Western capitalism.¹⁹ 2) It is in the capital intensive industries that the Soviets at present undoubtedly have a comparative advantage over India. Since 1964, in collaboration with their satellite countries, the Soviets have adopted a policy of specialization in capital goods and importing raw materials not mainly from the satellite countries but also from the developing countries.

The Soviet Union may be self sufficient enough but with the demand for consumer goods and Soviet trade with bloc countries, one has to consider the self sufficiency of the Soviet bloc as a whole.²⁰ The imports of raw materials from the developing countries has helped the Soviet Union in the "removal of bottleneck" type of trade for

¹⁸ U.S. Congress, *New Directions in the Soviet Economy*, p. 957.

¹⁹ Rymlov, V., *Soviet Assistance to Underdeveloped Countries*, in *International Affairs* (Moscow), No. 9, 1959.

²⁰ Uren, P. E., *East-West Trade*, p. 75.

their plans.²¹ India with its traditional pattern of exports very well suits Soviet economic needs. 3) The Soviet Union has not only been able to concentrate on construction of heavy industrial projects in the public sector in India but this also has resulted in getting wider national goodwill from Indians. These heavy engineering projects are huge and monumental. The preconstruction publicity and its permanent establishment on the soil enhance the prestige of the recipient country. And therefore it keeps these factories as a symbol of Russian friendship fresh in the minds of the people. Goldman rightly points out: —“The Russians seem to have a knack for the spectacular. Much of the Soviet success has been due to concentrating on certain key projects, which are generally industrial in nature. These major impact projects not only excite the imagination, but result in productive and visible monuments.”²²

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²¹ Fallanbuch, Z. M., *Some Structural Aspects of Soviet Type Investment Policy*, *Soviet Studies*, April, 1965.

²² Goldman, M. I., *Soviet Foreign Aid*, p. 191.