A Review of the Rupee Trade

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"Free Enterprise was born with man and shall survive as long as man survives."

— A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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by

Dr. Jayashekar*

Recent changes in the Indian economy and the world economic situation make it imperative for us to undertake a thorough review of India's trade under the Rupee Payments Arrangement. India's deteriorating balance-of-payments position, its massive borrowing from international institutions and capital markets, and its repayment obligations call for an immediate reorientation of its trade policies to generate enough foreign-exchange earnings. Also there has been a shift in the official policy towards trade and industrialization from import substitution to export promotion. The rationale behind this shift is, as the Tandon Committee on Export Strategy puts it, that "rapid export growth will undoubtedly help the overall rate of growth of the economy because of efficiency gains obtained from the pursuit of dynamic comparative advantage and the flexibility regarding foreign exchange availability". The success of this outward-looking policy depends on the competitiveness of India's export industries in the world markets. An improvement in the competitive abilities of India's export industries would entail large-scale infusion of modern technology. Then there is also the need to modernize Indian industries in both public and private sectors and to make them more efficient by updating technology. All this requires a redirection of India's foreign trade in the near future.

From the perspective of the 1980s, however, trade policy options for India are difficult. Now, after several decades of historically high expansion of international trade, there is global stagnation or even a decline. Markets in the major developed market economies are depressed. Talk of protectionism is rampant; tariff and non-tariff barriers are being intensified. Currency fluctuations are substantial. In these conditions, Indian policy-

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makers may be tempted to choose the "soft-option" of expanding trade with the East European countries and the Soviet Union in disregard of the country's long-term interests. It is in this context that review of India's experience in the last quarter of a century with Rupee Trade assumes significance.

DIMENSIONS OF RUPEE TRADE

India's trade with Eastern Europe and Soviet Union under the the Rupee Payments Arrangement has increased by over five-and-a-half times between 1970-71 and 1981-82. In value terms, the total trade turnover between India and Eastern Europe and the Soviet Union rose from Rs. 589.9 crore in 1970-71 to Rs. 2,782.6 crore in 1980-81 and to Rs. 3,307.7 crore in 1981-82. India's exports to the area expanded from Rs. 1,782.9 crore during the period. (See Table I.) Imports from these countries rose from Rs. 277.6 crore to Rs. 1,524.8 crore during the same period.

The data incorporated in Table I suggest first of all that India's trade with the Rupee Payments Area has risen substantially, albeit with wide fluctuations, over a number of years. Secondly, a large part of the increase in this Rupee trade has occurred in the last three years, i.e. from 1979-80 to 1981-82, and Indo-Soviet trade has contributed overwhelmingly to this increase, particularly since 1979-80. Thirdly the most distinguishing feature of these developments is that the balance of trade has been in favour of India. India has had a trade surplus during as many as ten years in the 12-year period beginning 1970-71. As of today the accumulated surplus in India's favour amounts to over 1,145 million roubles, according to Soviet statistics.

However, the growth of India's Rupee trade is less impressive than that of its trade with other countries. India's overall exports expanded at the rate of about 16 per cent between 1970-71 and 1980-81. Its exports to the general currency area increased by 19 per cent and 16.3 per cent respectively during the same period. In contrast its trade with the Rupee Payments Area expanded only at the rate of about 10 per cent in the 1970s and by about 14.5 per cent between 1970-71 and 1980-81. Similarly India's overall imports increased at the rate of 21 per cent during the 1970s and at the rate of 22.5 per cent between 1970-71 and 1980-81. Its imports from the general currency area grew at the compound rate of about 21 per cent in the 1970s and at the rate of 23 per cent between 1970-71 and 1980-81. Its imports from Eastern Europe and the Soviet Union, however, expanded at the rates of 19 per cent and 18.5 per cent respectively during the same periods. Thus, over long periods, the growth in India's Rupee trade has been lower than that of its trade with other countries. This slower growth in Rupee trade in spite of the manifestly strong political urge to promote it is perhaps indicative of its serious limitations.

DEPENDENCE & INSTABILITY

The share of Eastern Europe and the Soviet Union in India's total trade is substantial though widely fluctuating. The share of Eastern Europe and the Soviet Union in India's exports declined steadily from about 23 per cent in 1970-71 to 10.6 per cent in 1978-79 but shot up to about 23 per cent in 1981-82. Further, in respect of a number of commodities, India was dependent on the East European and Soviet markets for exports to an uncomfortably high degree. Whetblue chrome tanned leather 97.5; Knitwear (Acrylic) 96.8; Pepper 69.0; Cashew-nut 65.0; Coffee 45.0; Textiles 23.0; Tobacco 41.6; Drugs and pharmaceuticals 42.0; Cosmetics detergents, and toiletery 83.0 and Mica 76.0

The share of Eastern Europe and the Soviet Union in India's imports has oscillated between 9.33 per cent and 14.7 per cent. In 1981-82 these countries accounted for about 11 per cent of India's total imports. The dominant aspect of the pattern is the wide fluctuations in the share of Eastern Europe and the Soviet Union in India's trade. The range of fluctuations, in terms of percentage, is from 10 per cent to 23 per cent for exports and from 9 per cent to 14 per cent for imports. The sudden variations in the share of Eastern Europe and the Soviet Union in Indian trade show that far from being counter cyclical in nature India's Rupee trade has actually introduced a high degree of instability into India's trade.

INDO-SOVIET TRADE

The position of the Soviet Union in India's Rupee trade is predominant. About four-fifths of India's Rupee trade is with the Soviet Union. A detailed examination of Indo-Soviet trade would, therefore, be necessary to bring out the changing nature and the limitations of India's Rupee trade. The total trade turnover between India and the Soviet Union increased eight-and-a-half times between 1970-71 and 1981-82; the value of the trade increased from Rs. 316 crore in 1970-71 to Rs. 2,661 crore in 1981-82. This growth in Indo-Soviet trade was, however, marked by sharp fluctuations till 1978-79 and by a dramatic increase in the volume of trade in the last three years. (Table II.) The value of India's exports to the Soviet Union increased from Rs. 209 crore in 1970-71 to Rs. 1,504 crore in 1981-82. There was a sudden spurt in Indian exports to the Soviet Union in the period from 1979-80 to 1981-82. India's imports from the Soviet Union increased from Rs. 106 crore to Rs. 1,156 crore betwen 1970-71 and 1981-82.

TRADE IN SOVIET MIRROR:

In a recent study based on Soviet data, R.G. Gidadhubli of the University of Bombay has analysed India's exports to the Soviet Union. A brief summary of this analysis seems to be worth the effort here. Between 1965 and 1980 the average rate of annual growth of Indo-Soviet trade was about 25 per cent; as against this, the average rate of overall growth of Soviet foreign trade was 36 per cent. This relatively slow growth led to a decline in India's share in Soviet foreign trade. For instance, India's share in Soviet imports declined from 2.34 per cent in 1965 to 1.35 per cent in 1979, although it rose to 1.85 per cent in 1980.

The composition of India's exports to the Soviet Union by major commodity groups underwent considerable change between 1965 and 1980. (See Table III.) The combined share of "agricultural raw materials" and "agricultural consumer goods" in India's exports to the Soviet Union was about 80 per cent in 1965, but it declined to about 47 per cent in 1980. The share of manufactured industrial goods increased from 9.6 per cent in 1965 to 19.4 per cent in 1980. This means agricultural products still dominate India's exports to the Soviet Union and strongly influence the terms of trade between the two countries.

Gidadhubli's study examines the main trends in Soviet imports in respect of twelve selected Indian commodities, analyses the major sources of supply of these commodities for the Soviet Union and India's share in Soviet imports, compares the unit values realized by the major suppliers to the Soviet market, and notes the trends in Soviet domestic production of these commodities. It also compares the unit values of Soviet imports with world market prices.

The share of the twelve Indian commodities in the Soviet imports of those commodities has declined over the period 1965-80. However, India is still one of the leading and cheap suppliers of those commodities. Within this overall picture there were variations in respect of specific commodities. In the case of tea, coffee, black pepper, cotton textiles, jute bags, and jute packing materials, there was an increasing trend though a fluctuating one. In the case of raw wool, jute, shellac, raw leather, and cashew, however, there was a declining trend in Soviet imports.

The most significant development in Indo-Soviet trade in recent years has been the large trade surplus in India's favour during as many as ten years in the 12-years period since 1970-71. In consequence, India has accumulated a large net trade surplus, a phenomenon that ought not to have come about under the Rupee trade system. The continuous balance of trade in India's favour (except in two years) reflects a growing lack of complementarity between the Indian and Soviet economies and restricts the growth of commodity exchanges on a mutually advantageous basis.

DRAMATIC EXPANSION

The dramatic expansion in the volume of Indo-Soviet trade in recent years is due largely to a sudden increase in the Soviet demand for Indian agricultural products and consumer goods such as cosmetics, textiles, etc. Interestingly the change in the Soviet demand for Indian goods coincided with acute economic difficulties in the Soviet Union. There was a sharp drop in the economic growth of the Soviet Union beginning 1979. For instance, the rate of growth in GNP declined to an average of 1.2 per cent in 1979 and 1980, the lowest in Soviet history. The low economic performance of the Soviet economy continued through 1981 and 1982. This was certainly a reflection of four consecutive years of agricultural failure on account of bad weather. Bad weather and agricultural failure, however, were not the only causes of the economic difficulties of the Soviet Union. Industrial growth too slowed down. There were reports of serious failures both in the capital goods industry and in the consumer goods industry. For the first time in the peace-time history of the Soviet Union steel output fell in 1979; it fell again in 1980. Textile industries failed to meet the production targets set in the plan. Side by side with this sharp decline in economic growth there was a worsening of growth of labour and capital productivity largely for want of adequate incentives.

These economic failures were grave enough to touch off a political crisis, especially in view of a revolt of workers in Poland. Supplies from other Communist countries were disrupted in the wake of poor economic performance in countries like the German

Democratic Republic, Hungary, and Romania, economic dislocations in Poland, and a decline in imports from China in 1981. In order, therefore, to avert a political crisis and provide incentives, the Soviet Government met the domestic demand through massive imports of foodgrains and technology by spending and/or borrowing hard currency.

In this situation, India was an attractive source of supply to meet the Soviet domestic demand. It was a major trade partner capable of satisfying the Soviet demand without the expenditure of scarce hard currency. Short-term factors thus seem to have brought about the recent changes in the Soviet demand for Indian goods. This might well mean that the sharp increase in the Soviet imports from India witnessed in the last three or four years would not long continue. Indeed, there is already enough indication of a decline in Soviet orders for Indian goods.

THE PROTAGONISTS VS. CRITICS

The protagonists of the Rupee Payments Arrangement argue that the growth of Rupee trade is beneficial to India. They point out how the demand for India's traditional exports in the developed market economies is inelastic and how Eastern Europe and the Soviet Union can provide expanding markets for such exports. They also point out how India's overall exports increased by about Rs. 886 crore during 1978-79 and 1980-81, the East European countries and the Soviet Union accounting for over Rs. 783 crore or 88 per cent of the total increase. Further, according to them, the East European countries and the Soviet Union help in the diversification of exports by providing access to their markets for the industrial products of India. Trade with Eastern Europe and the Soviet Union also helps stabilize Indian exports and realize better terms of trade which would otherwise not be possible. Rupee trade enables the country to obtain much-needed development imports.

On the other hand, the critics of the Rupee Payments Arrangement doubt the real benefits of Rupee trade. They contend that there has been a substantial trade diversion from the general currency area to the Rupee Trade Area and that this has only resulted in a loss of markets and convertible currency. Large-scale switch trade has added to the loss of markets and affected hard currency earnings. And then there is the loss of foreign exchange caused by the high import content of India's exports to the Soviet Union. India is constrained to spend its scarce foreign-exchange resources to import machinery, equipment, and raw materials just to produce products for Soviet market. Second, Rupee trade has failed to make any impact on the country's terms of trade. As a matter of fact, India's terms of trade with the countries of Eastern Europe and the Soviet Union are disadvantageous. For one thing, these countries buy cheap and sell dear. The disadvantages of the terms of trade also flow from the composition of imports and exports and the artificial determination of a Rupee-Rouble exchange ratio. Thirdly, the diversification of India's exports to the East European and Soviet markets has been slow and tardy because of the reluctance of these countries to import manufactured goods from India.

Both the protagonists and the critics of the Rupee Payments Arrangement are, however, agreed that Rupee trade is more unstable than India's trade with the developed market economies. Instead of stabilizing Indian exports and improving the terms of trade it has only added to the fluctuations in India's trade with all its serious consequences. Also, Rupee trade has often led to the import of lower-quality technology and unwanted products.

RIGHT TO INFORMATION

The intensity of the controversy over Rupee trade thus appears to be proportionate to the growth of such trade. However, the controversy is maintained without a philosophy of trade and often without a proper theoretical framework. This renders any assessment of the gains accruing from Rupee trade difficult. A proper way to assess the gains accruing from trade would be to undertake a measurement of it, but economists have unfortunately not evolved any method of measuring the gains a country makes from its foreign trade. In the case of Rupee trade the matter is made worse by the utmost secrecy surrounding it. In terms of secrecy, Rupee trade rivals defence matters in this country. No other democratic country in the world carries on a quarter of its foreign trade in such a secret manner as India does. This secrecy renders infructuous the citizen's right to information in matters relating to the Soviet Union, a very friendly country. One can understand a Government's desire to maintain secrecy about its current trade deals with another country, but it is beyond anybody's comprehension why a Government could maintain secrecy about past and deny an opportunity to its own people to assess the gains for the country. In the absence of adequate and reliable data, one is left with no alternative but to make a qualitative and somewhat impressionistic assessment of the gains of Rupee trade. An alternative would be to undertake extensive field work to collect data. Such a task, however, is impossible without institutional support.

PROBLEMS OF CRITERIA

In addition to these difficulties, there is the question of criteria. What criteria can we use to evaluate India's gains from its Rupee trade? Most people seem to believe that any expansion of trade is preferable to no expansion. They, therefore, think that any expansion of India's trade with the Rupee Trade Area must benefit the country. To hold such a view is to equate bilateral trade with multilateral trade, or a primitive barter system with an efficient money-based exchange system. Any equation of this sort would be theoretically amazing. Some others believe that any expansion of exports under the Rupee Payments System would benefit the country by helping finance imports. This is typically the Soviet view. Under the Soviet autarkic system exports are meant to finance imports; in other countries an expansion of exports is regarded as "the engine of growth".

A country generally seeks to expand its foreign trade for its static and dynamic effects. The static gains relate to an improvement in the allocation of resources in the economy; the dynamic gains are the effects on saving and investment, improvement of productivity, realization of economies of scale, and the technical changes, resulting from trade expansion. In discussing India's Rupee trade it is necessary to keep in mind whether these static and dynamic effects cannot be secured efficiently through an alternative trade strategy. In any case, the effects of Rupee trade on allocative efficiency are uncertain. The dynamic effects arising from an expansion of exports to the Rupee Trade Area are also either absent or weak. Take, for instance, the effects on savings and investment. Expansion of exports to the Rupee Trade Area should have favourable effects via profits and wages. However, given the unfavourable land-man ratio in the country and the dominance of resource—based products in the composition of the exports, the expansion of exports to the Rupee Trade ought to have resulted in diminishing returns raising the cost of production and depressing the profits. This means that there can hardly be any impact on savings and investment. Similarly there has been very little impact on productivity.

The effects of export expansion on economies of scale are negligible for two important reasons. First, India's exports to Eastern Europe and Soviet Union consist largely of agricultural products. And in the agricultural sector economies of scale are unimportant. Second, the demand from these countries for India's industrial products is too small, unstable, and diffused. A slow expansion of exports cannot, therefore, make any impact and allow export industries to reap the advantages of economies of scale. As for the effect on technical change, there is no substantial evidence of any technical change having taken place in India's export industries on account of the expansion of trade with the Rupee Trade Area.

ADVERSE TERMS OF TRADE

A country's gains from trade also depend on the terms of trade obtained and the stability of its exports. The terms of trade are in their turn influenced by such factors as the composition of exports and imports, the degree of stability, particularly in the field of exports, trade dependence, etc. As pointed out earlier, the terms of trade obtained by India on its trade with the countries of Eastern Europe and the Soviet Union are unfavourable. India's exports to the Rupee Trade Area consists of agricultural products, especially cash crops, to a larger extent than its exports to other countries. A recent study on behaviour of the prices of agricultural products in world markets show that throughout the post-war period the prices of cash crops have been stagnant. In contrast the prices of food and beverages have risen substantially. As the prices of Indian exports to the Rupee Trade Area have tended towards the world prices, the prices of cash crops exported under the Rupee Payment Arrangement have also been stagnant. On the other hand, India's imports from the countries of Eastern Europe and the Soviet Union consist of machinery and equipment, with oil and oil products predominating. The prices of these products have multiplied in world markets. Thus India has received progressively less and less imports for each unit of its exports. Further, Soviet data suggests that the unit values realized by India for most of its exports to the Soviet market are the lowest or among the lowest. This means that the modern terms of trade obtained by India are lower than the prices obtained by its competitiors in the Soviet market, not to speak of world prices.

Experts working in the Government and in Government affiliated institutions like the Indian Institute of Foreign Trade and the Planning Commission have presented impressive statistics from time to time on the unit values realized by India in the Rupee Trade Area to show that the terms of trade are favourable to India. Others have used the same unit values to arrive at the conclusion that India's terms of trade with the countries of Eastern Europe and the Soviet Union are better and no worse than its terms of trade with the developed market-economy countries. What is publicly not known, however, is the fact that these unit values conceal larger subsidies than we realize. Not only are Indian exports to the Rupee Trade Area subsidized, but India has of late started subsidizing its imports from this area. Recently, in a rare newspaper report, the Ministry of Commerce has asked the Ministry of Shipping and Transport to provide freight concessions to render the import of fertilizers from the Soviet Union competitive.

India's gains from trade expansion are considerably constrained by the extreme year-to-year fluctuations in its exports to the countries of Eastern Europe and the Soviet Union. A number of studies made of this subject both in India and abroad conclusively show that there is greater fluctuation in India's trade with the Rupee Trade Area than in its trade with the developed market-economy countries. They also prove that Rupee trade is not countercyclical in nature and that the "protection ratio" is only 30 per cent in the case of India. As is well known, a high degree of instability in the field of exports reduces profits, postpones investment in export industries and other related activities, leads to loss of markets, and causes unemployment. These consequences occur not just in the year in which fluctuations are conspicuous but also over longer periods. We need not go into the details of these repercussions here. Suffice it to mention one or two recent examples of the effects in instability. A sudden change in the Soviet demand has caused distress in several industrial units at the Kandla Free Port. The abrupt withdrawal from the market by the Soviet Union has had ruinous effects on the country's cashew industry. Over 120 cashew factories are lying idle in Kerala. It is estimated that about two lakhs of workers are jobless. Nearly 4,800 tonnes of raw cashew nuts are rotting in the godowns; another 6,000 tonnes of processed kernels are being allowed to go bad for want of buyers. The crisis has also affected another three lakh cashew-growers outside Kerala. Earlier the Soviet purchases of cashew kernels had caused a loss of markets in the United States of America. One can come across such distress stories in several other fields as well — such as cosmetics, textiles, and mango juice.

In the absence of a better alternative, India imported substantial quantities of machinery, equipment, and technology from the countries of Eastern Europe and the Soviet Union in the 1950s and the 1960s in order to build its industrial structure. These imports undoubtedly played an important role in the country's attainment of self-sufficiency in the capital goods sector. However, not all the goods imported from the countries of Eastern Europe and the Soviet Union were essential for the country's development even in the 1950s and the 1960s. Can it be said that the shiploads of Marx's Das Capital or Lenin's Collected Works or Brezhnev's speeches that came from the Soviet Union were essential for India's economic progress? Import of defective or unsuitable machinery and equipment as in the field of drugs and pharmaceutical and surgical instruments, or of plants which are economically unviable in spite of being technically excellent, has not only not promoted economic development but actually hindered it. The value of poor-quality fertilizers imported for the sake of increased agricultural production is less than what the relevant statistics would suggest. The computers that never work or lie without spare parts are a drain on our national resources. We may also mention here that several Soviet-aided projects such as BHEL, HEC, MAMC, IDPL, and Instrumentation India Ltd languished for long periods before they were made economically viable through large-scale infusion of better technology from other sources at considerable cost of the country. Those who argue that an expansion of our exports to the countries of Eastern Europe and the Soviet Union is called for in view of its usefulness in financing our imports should take all these factors into account.

LIMITS OF RUPEE TRADE

Whatever may have been the role of imports from the Rupee Trade Area in India's economic development in the past, they seem to have an increasingly restricted role to play in the present changed circumstances. Through a policy of industrialization with an emphasis on heavy industry India has succeeded in building a production structure that has drastically reduced the need for the import of capital goods and created potentialities for self-sustained and self-accelerating process of technical change and development. The expansion and diversification of the production structure has resulted in important changes in the import basket of India. Two-thirds of India's imports now consist of intermediate products or what are called maintenance imports.

Thus, the requirements of India's economy have undergone radical change.

The Soviet response to the changing needs of the Indian economy is, however, reluctant, tardy, and inadequate. Instead of adapting its economic policy, aid, and trade, to the changed situation in India, the Soviet Union has sought to exert pressure with a view to reorienting India's development process and making it meet the requirements of its own economy and/or exportable surpluses. Such changes as have taken place in Soviet policy are due to intervention at a very high level.

If the economic policy of the Soviet Union has not adapted itself to the changed economic situation in India, there is nothing surprising about it at all for several reasons. First, slow adaptability, or even a lack of it, to shifts in external conditions is inherent in the Soviet system. Highly centralized planning systems do not easily admit of adjustment in the country's imports and exports in accordance with changes in external situations.

Second, for a variety of reasons the Soviet Union is faced with the problem of surplus production in its capital goods industry: (1) inconsistencies in planning often results in excess production of certain commodities; (2) technological factors create surplus capacity in several capital goods industries to realize economies of scale; (3) rapid technological advances in many of these industries create obsolescence and pose the problem of disposing of obsolete goods; and (4) frequent policy shifts in recent years have also caused surplus production. For instance, the sudden shift from an atomic energy policy to a coal-based energy policy and then to a gas-based energy policy in the 1970s has created surplus capacity in the manufacturing units of nuclear plants, power plants and mining equipment. This has caused the Soviet Union to offer atomic power plants, thermal power plants, and mining equipment, to India. Similarly, the Soviet Union is engaged in modernizing its textile industry through import of advanced technology from the West. This seems to have caused surplus capacity in the domestic textile-machinery industry. The Soviet Union, therefore, wants to persuade India to buy its obsolete textile machinery. In fact, the Soviet Union has put direct and indirect pressures upon India to make it buy the products of its capital goods industry. Such pressures are likely to mount because of the current fall in oil prices and the consequent increase in the Soviet trade deficit with India. However, India cannot import on large scale those products in respect of which it has achieved self-sufficiency. If it does so, it would affect its domestic industries. Besides, in areas such as steel mills, power generation, power distribution, and textile machinery India has emerged as a leading exporter of technology in the Third World.

Another factor limiting imports from the Rupee Trade Area is the recent shift in India's development and trade policies. In India's development strategy there is now greater emphasis on agricultural development, irrigation, housing, and nutrition. India's industrial development programme is geared to acquire a modern industrial structure capable of withstanding competition in the world markets. The Soviet Union is not equipped enough to provide assistance to India in these areas. One cannot, for instance, think of the Soviet Union providing assistance to India in developing agriculture. The role of Soviet technology in developing India's export capability too is not significant. Only the steel products of Bhilai and Bokaro continue to be exported to the hard-currency markets and that too at prices well below the cost of production. Of course export orders for the products of the Heavy Engineering Corporation are received occasionally but these are only from other Socialist countries like Cuba and Yugoslavia. We may also mention here that so far India's export of technology is in such fields as power generation, power distribution, cement, textiles, steel mills, machine tools, and sugar. The direct foreign investments of Indian firms are in such sectors as food processing, textiles, paper manufacturing, truck and jeep assembling, precision tools for electronic industries, rayon, palm-oil fraction, and so on. In none of these sectors can the Soviet Union or any of the countries of Eastern Europe be of much help. While the countries of Eastern Europe and the Soviet Union are good at helping a country in building a nineteenth century industrial model, they are incapable of assisting in the development of a twentieth-century industrial structure consisting of electronics, communication technology, bio-technology, and technology relating to the automative and chemical industries, as well as a variety of industries producing consumer gadgets.

It is argued that the countries of Eastern Europe and the Soviet Union are important to strengthen India's bargaining power vis-a-vis the developed countries. This argument, however, exaggerates the ability of the countries of Eastern Europe and the Soviet Union to provide alternatives to India in the relevant areas. It also ignores the vast changes that have taken place in the developed world since the 1950s and the 1960s and the emergence of new economic Powers in Western Europe and Japan. India today can choose from better alternatives than in the 1950s if only its policy-makers are capable of skilfully exploiting the opportunities that are available. The question before us, therefore, is: Can India's policy-makers break themselves of the habit they have cultivated over the last two decades of looking to the countries of the Soviet bloc for solutions of India's economic problems and seize these opportunities?

PROPOSAL FOR MODIFICATION

From this analysis, it is clear that it is the East European countries and the Soviet Union which gather the lion's share of the benefits of the Rupee trade; India's gains are progressively on the decline. Any attempt to give the Rupee trade an artificial boost would only hurt our country in increasing measure. After all, the Rupee trade originated in certain special circumstances of acute shortage of foreign exchange and the Western refusal to help in the development of the capital goods industries in the public sector. If, however, in the changed circumstances of today, India is to maximize its benefits from its trade relations with Socialist countries of Eastern Europe and the Soviet Union, the Rupee payment arrangements must give way or at least undergo radical change.

Some of the serious limitations on India's gains from the Rupee trade arise from such factors as large-scale trade diversion, switch trade, artificially high exchange rate of the Rouble, and the rising import content of India's exports. These limitations can be removed by progressively switching over to convertible currencies with the ultimate goal of attaining multilateral trade based on convertible currencies. A beginning can be made with the conversion of the trade surplus into convertible currencies. This is already provided for in the trade arrangements. It is worth noting here that the trend in the economic relations of the developing countries with the Socialist countries is towards the use of convertible currencies. We have already referred to the growing demand for convertibility and multilateralization of trade within the COMECON.

Another limitation on India's gains from the Rupee trade is the adverse terms of trade on account of composition of trade. India should insist on a speedy diversification of its exports. It should include a proposal to change the weight of agricultural and agriculture-based products in the exports to the Rupee Trade Area in the next five years. At the end of this period of five years about 70 per cent of India's exports should consist of manufactured goods.

On the import side, India should resist Soviet attempts to dump unwanted machinery and equipment. It should insist on buying only those goods which it needs badly. India can maximize its gains if all its imports of machinery and equipment are secured through global tenders in which the East European countries and the Soviet Union also participate.

Instability in our exports to the Rupee Trade Area is playing havoc with our export industries. It is, therefore, desirable for us to make provision in the trade agreements for lower ceilings on the export of individual commodities to the East European countries and the Soviet Union on the model of the Soviet-US Grain Trade Agreements.

If the East European countries and the Soviet Union do not agree to settle trade surplus in convertible currencies, India should treat surplus as loans and start charging interest at the modest rate of 2.5 per cent. It would be justified in charging such interest in view of the fact that it pays interest on the loans it has taken under the aid programme.

India should make available all data, including those relating to prices during the period 1954-80, so that India's gains from the Rupee trade may be evaluated by independent scholars.

India's trade relations with Eastern Europe and the Soviet Union are mature enough to withstand all the changes mentioned here without adverse effects. For India, the time is opportune to switch over to convertible currency trade with the Soviet Union.

TABLE I

INDIA'S BALANCE OF TRADE WITH EAST EUROPEAN COUNTRIES

(In Crores of Rupees)

Year	Exports	Imports	Trade Balance
1970-71	362.3	227.6	+ 134.7
1971-72	343.4	209.4	+ 134.0
1972-73	469.5	231.0	+ 238.5
1973-74	487.3	400.4	+ 86.9
1974-75	684.0	664.3	+ 19.7
1975-76	674.8	546.1	+ 128.7
1976-77	740.9	472.7	+ 268.2
1977-78	886.4	617.6	+ 248.8
1978-79	608.6	646.0	− 37.6
1979-80	844.5	1102.4	− 257.9
1980-81	1468.3	1296.2	+ 190.1
1981-82	1782.9	1524.8	+ 258.1

Source: DGCI & S, Calcutta, Economic Survey, 1982-83.

TABLE II

INDIA'S TRADE BALANCE WITH THE SOVIET UNION

(In Crores of Rupees)

Year	Exports	Imports	Balance of Trade
1970-71	209.8	106.1	+ 103.7
1971-72	208.7	87.3	+ 121.4
1972-73	304.8	114.4	+ 190.4
1973-74	286.00	254.7	+ 31.3
1974-75	421.3	408.9	+ 12.4
1975-76	416.69	309.78	+ 106.91
1976-77	454.00	316.00	+ 138
1977-78	656.73	442.00	+ 214.73
1978-79	410.59	469.00	− 58.41
1979-80	638.23	824.23	− 186.0
1980-81	1226.29	1013.71	+ 212.58
1981-82	1504.89	1156.36	+ 348.53

TABLE III

COMPOSITION OF EXPORTS

Group Code	Commodities	1965	1980
		(In terms of percentage)	
5	Agricultural raw materials	51.4	23.8
7	Agricultural consumer goods	28.0	22.8
8	Manufactured agriculture-based products	8.2	10.2
9	Manufactured Industrial goods	9.6	19.4

Source: R.G. Gidadhubli, "India in the Soviet Union's Import Trade", EPW, 19 December 1982, p.2055.

TABLE IV
SHARE OF THE SOVIET UNION AND OTHER ECONOMIC REGIONS IN INDIA'S EXPORTS,
1970-71 TO 1981-82
(In Terms of Percentage)

Country	1970-71	1981-82
Soviet Union	13.66	15.0
United States	13.50	11.0
East European Countries	23.60	22.9
European Economic Community	18.21	19.6
ESCAP	24.67	20
OPEC	6.70	11.9

Source: Government of India, Ministry of Finance, Economic survey (New Delhi), for the years 1979-80 and 1982-83.

TABLE V
SHARE OF THE SOVIET UNION AND OTHER ECONOMIC REGIONS
IN INDIA'S IMPORTS
1970-71 TO 1980-82
(In Terms of Percentage)

Country	1970-71	1981-82
Soviet Union	6.40	8.5
United States	27.71	10.5
East European Countries	13.93	11.2
European Economic Community	19.50	22.2
ESCAP	10.55	8.6
OPEC	7.70	28.6

Source: Government of India, Ministry of Finance, Economic Survey (New Delhi), for the years 1979-80 and 1982-83.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

— **Eugene Black**

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The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

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