From New Delhi by Susan Maitra

The price of perestroika

Gorbachov's reform schemes put the Indo-Soviet economic relationship into a new light.

During his mid-September visit to Moscow, Indian Finance Minister S.B. Chavan flatly rejected the Soviet Union's request to redesignate Indo-Soviet bilateral trade and credit in Indian rupees instead of Soviet rubles.

Behind the request, forwarded months ago, is the Kremlin's plan to devalue the ruble by 50% in preparation for making it convertible. It would also make it easier for India to repay Soviet ruble credits, a windfall that would be wiped out with a redesignation of credit agreements in rupees.

Though India has frequently adjusted the value of the rupee vis-à-vis the basket of currencies that determines its external value, the ruble-rupee exchange rate has been kept fixed for more than ten years. This has enforced an overvalued ruble, a fact which has helped India maintain an export surplus with the U.S.S.R., but which cost the Indian treasury precious foreign exchange in areas where those exports were linked to imports involving hard currency.

Since it has borne the liability of higher repayments owing to the overvalued ruble for all these years, India sees no reason to accommodate the Soviets at this point. That was the conclusion of extensive discussion on the matter in both the prime minister's office and the Finance Ministry.

But, if Soviet moves are any indication, this is not the last of it. While Chavan and Co. were in Moscow, Soviet Minister for Foreign Economic Relations Igor Khotsialov was in New Delhi preparing for the visit of a high-level Soviet delegation in October for the second formal meeting of the Indo-Soviet Working Group on New Forms of Economic Cooperation. Khotsialov told the Delhi press that the October meeting would go into the ruble-rupee revaluation issue "in greater depth."

Khotsialov said a reassessment of the arrangement was necessary in view of changed conditions and the high volume of Indo-Soviet trade which was slated to increase more than two-fold. Indeed, trade turnover, which was $2.2 billion in 1986, appears to be headed for achieving the target of a 2.5-fold increase by 1992. In 1989, trade turnover had jumped to $4.2 billion, compared to $700 million in 1953 when the rupee trade agreement was signed—an annual increase of 25%.

Still, Indian analysts point out, even when Indo-Soviet trade turnover reaches its target, at some $5.5 billion, it will not amount to more than 2-3% of total Soviet trade—compared to some 30% of India's total trade. As the Kremlin looks increasingly to the West, does India stand a chance? they ask.

Moscow has already made clear it is not willing to do India any special favors where foreign exchange is concerned. India's request to increase the supply of crude oil and other petroleum products beyond the 4.5 million tons agreed upon for 1989-90 was turned down in July, as all Soviet supplies are committed to the hard-currency markets. As a result, India will have to meet 75% of its 18 million ton oil import requirement this year with hard currency.

Another spat had erupted a month earlier. Soviet officials declined to supply foundry-grade pig iron to India, as specified in the bilateral trade plan for 1989, on the grounds that India had failed to supply alumina as promised. The Soviet officials made clear to Indian Commerce Secretary A.N. Verma at a meeting in Moscow, that the pig iron would be exported to other countries to earn foreign exchange, and Moscow threatened to suspend non-ferrous metal suplies to India as well, if the alumina was not forthcoming promptly.

Foreseeing the changing geometry, Indian and Soviet planners began exploring "new forms of cooperation" several years ago—focusing on co-production, joint ventures, and collaboration in third countries. But so far, not much has materialized.

Of the Indo-Soviet joint ventures in the Soviet Union, only one is actually in joint operation. That project, an Indian Tourism Development Corporation (ITDC) restaurant in Moscow, does not exactly hold promise for future breakthroughs. Though a success among Moscow's restaurant-goers, ITDC officials and the Indian government are watching the buildup of blocked ruble profits with growing distress.

Soviet laws do not allow repatriation of profits made by joint ventures on sales within the U.S.S.R., and according to analysts here, there is no clear policy on repatriation of profits made from sales to third countries. Western businessmen have jumped at the *perestroika* policy to the tune of setting up nearly 1,000 joint ventures in Russia; but unlike Indian entrepreneurs, they are mainly interested in taking advantage of the relatively cheap Soviet labor to produce for their international operations.