

A STUDY OF INDIA'S TRADE PATTERN WITH THE
EAST EUROPEAN COUNTRIES (1960-75)

GOKHALE INSTITUTE OF POLITICS & ECONOMICS
PUNE 411004

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**A STUDY OF INDIA'S TRADE PATTERN WITH
THE EAST EUROPEAN COUNTRIES (1960-75)**

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C O N T E N T S

	<u>Page</u>	
ACKNOWLEDGEMENTS	(i)	
LIST OF TABLES	(iii)	
 <u>Chapter</u>		
I	INTRODUCTION	1
II	BILATERALISM IN PAYMENT AND TRADE	11
III	THE GROWTH OF INDIA'S FOREIGN TRADE	40
IV	PROBLEMS AND ISSUES OF INDO- EAST EUROPE TRADE	123
V	CONCLUSION	159
BIBLIOGRAPHY		170

LIST OF TABLES

<u>Table No.</u>	<u>Title</u>	<u>Page No.</u>
2.1(a)	Percentage of Share of Three Continents in Socialist Blocs Trade with Developing World	23
2.1(b)	Absolute Share of Three Continents in Socialist Bloc, Trade with Developing World	23
3.1	India's Foreign Trade (1960-61 to 1975-76)	46
3.2	India's Exports of Principal Commodities	48
3.3	India's Imports of Principal Commodities	55
3.4	Share of Economic Regions in India's Exports (Percentage and Absolute)	59
3.5	Share of Regions in India's Imports (Percentage and Absolute)	64
3.6	India's Balance of Trade with East European Countries (1960-61 to 1975-76)	68
3.7	Rate and Pattern of Growth of India's Exports to and Imports from East European Countries and Rate of Overall Growth (1960-61 to 1975-76)	69
3.8	Share of India with East European Countries in her World Trade	70
3.9	Exports to East European Countries Share of Individual East European Countries in Indian Exports/Imports from East Europe and their Share in India's Imports (1960-61 - 1975-76)	73

<u>Table No.</u>	<u>Title</u>	<u>Page No.</u>
3.10	India's Exports to East European Countries (Principal Commodities) (Percentage & Absolute Figures) 1960-61 to 1975-76	76
3.11	Share of East Europe in India's Export of Selected Commodities (1960-61 to 1975-76)	77
3.12	Composition of India's Import from East European Countries from 1960-61 to 1975-76	83
3.13	Share of East Europe in India's Imports of Selected Commodities	84
3.14	Unit Value Index of Major Exports to Imports from East European Countries and World (1968-69 to 1972-73)	96
3.15	Indo-Soviet Trade	101
3.16	Share of Exports and Imports of India with USSR and with World Market (Absolute & Percentage)	103
3.17	India's Major Exports to USSR	105
3.18	India's Import from USSR	107
3.19	Unit Value India's Exports to and Imports from USSR and the World - 1960-61 to 1969-70	110
3.20	India's Foreign Trade with East European Countries (excluding USSR) (1960-61 to 1975-76)	113
4.1	Soviet Exports of Selected Commodities to the Less Developed Countries and to the Industrial West	128
4.2	Unit Values Realised for Selected Commodities Exported to the USSR and the East European Countries vis-a-vis Rest of the World	136

(v)

<u>Table No.</u>	<u>Title</u>	<u>Page No.</u>
4.3	Unit Value Realised on Imports of Selected Commodities from USSR and Other Countries	137
4.4	Unit Value of Selected Commodities Exported by India to Selected Countries	139
4.5	Unit Value of Selected Commodities Imported into India from Selected Countries	140
4.6	Unit Values Realised on for Selected Commodities Exported to Different Countries of East Europe Vs Rest of the World	143
4.7	Unit Value Realisation of Imports by East European from India Vs Rest of World for Selected Commodities	145

CHAPTER I

INTRODUCTION

1.1 Prior to Independence, the foreign trade policy of India was guided mainly by the interests of Britain and hence all her economic activity and trade were closely connected with British colonial system. But just after Independence, steps were taken to diversify India's trade in the direction of other countries with which Britain had trading relations like Western Europe, North America and Japan. During fifties, India had endeavoured to develop a dynamic trade policy, aimed at increasing export earnings through diversification of exports and initiated measures to develop economic relations beyond traditional markets. In her quest for new markets, East European countries had emerged as significant trading partners and started extending their support to India, in accelerating the process of her economic development through economic and technical assistance. The economic ties between the East European countries and India had become quite strong. Transactions were frequently carried out in terms of inconvertible currency. Given that, export earnings from such trade could be utilised to finance imports of goods and services from the East European countries.

1.2 It is now apparent why India sought to establish

economic ties with Eastern Europe. But what interest did these East European countries have in developing such extensive economic relations with developing countries, particularly with India? There were mainly two sets of objectives which prompted relationship with them. They were on the one hand their own economic interest and on the other hand relating to the needs of a poor country like India.

1.3 So far as the first objective is concerned, it was the attitude of the East European countries towards the trade with outside world which had undergone a significant change over the years. In early years of socialist transition, foreign trade was assigned a minimum role but, of late, it had assumed an increasingly important factor in the strategy of growth. Such a change in their basic economic philosophy was due to the fact that plans of all the East European countries assigned trade and international division of labour important roles in shaping their economy.

1.4 Under such circumstances, it is imperative to look into the features of the centrally planned economies (CPEs) that influence their foreign trade which led to develop their interest for establishing trade relations with India and with other developing countries, even though, these countries are belonging to a different economic, social and political systems.

1.5 One of the most important characteristics of CPEs is state monopoly. The socialist countries or CPEs manage their foreign trade mainly on the basis of state monopoly which is based on the uniform economic and trade policy in the field of external economic relations. The commercial relations with other countries by CPEs are established by number of organisations. They are foreign trade enterprises, joint stock foreign trade companies, production enterprises and cooperatives. All these foreign trade organisations (FTOs) are authorised to buy and sell abroad in conformity with the growth of the annual foreign trade plan which is prepared by the Ministry of Foreign Trade. The day to day operations of FTOs are controlled primarily by their operational short term import and export plans, which are drawn up quarterly and in some cases monthly, in cooperation with the Ministry of Foreign Trade, Suppliers and end-users. With this feature, in understanding trade relations of India with CPEs, the superior marketing arrangement for the former is also very important. Under such circumstances, the State Trading Corporations, established by the Government of India in 1956 admirably suited for this purpose. Prior to 1955, India's trade with the CPEs and the USSR was negligible. The STC has been making concerted efforts since the date of its inception for promoting exports of difficult goods, and making barter arrangements for imports of essential commodities,

which could suit the CPEs, because they also took barter type of approach to foreign trade and viewed exports and imports as interdependent. Besides, trade with India offered them an opportunity of importing goods which were either too expensive to produce at home or could not be produced at all, so that, such imports from India were financed through exports without parting with convertible currency.

1.6 The other important characteristic of CPEs is inconvertibility which refers to the impossibilities of the holder of a currency to exchange it for 'gold' or 'hard' currencies. Now the question is why currencies of CPEs are inconvertible? Over valuation, though sufficient condition for inconvertibility in capitalism, is not relevant in socialism due to Foreign Trade Institutions. But the currency inconvertibility in CPEs was in part a reaction to balance of payment pressures and lack of sufficient foreign exchange reserves. Given limited access to convertible currency, developing countries were the only useful sources of imports and also obvious market outlets for exports. So these East European countries, tried to import from India as also from other developing countries, so that these might serve as a reserve for the purchase of items from convertible currency areas particularly when they were having no other items for earning foreign exchange. The socialist countries or CPEs sold machinery, transport equipment and other manufactured

goods to India and to other developing countries in exchange for primary products and industrial raw materials without the use of hard currency. Till mid seventies the CPEs of Eastern Europe exported more than 50% of machinery and equipments etc. to India, and, primary products and raw materials accounted for 50% of India's export to socialist countries which could be facilitated, due to currency inconvertibility of both the partners.

1.7 The next important feature of centrally planned economies is bilateralism. The percentage of bilaterally conducted trade was higher in these countries than it used to be in West European countries or developing nations. Institutionally, bilateralism was accomplished by means of annual and long-term trade and payment agreements which aimed at keeping trade between two participating countries in balance over the years and all transactions commercial and non-commercial were financed by non-convertible domestic currencies. These agreements were implemented of course, by direct control of governments over the level and composition of exports and imports. A question might be raised why despite the recognition of the advantages of multilateral trade by the CPEs, the bilateralism was strongly adhered to? This can be attributed in answer, to currency inconvertibility. Since no nation was willing to hold balances in roubles, payments of the CPEs must be balanced in so far as they are

unable to produce gold or develop export surpluses with nations having convertible currencies. But CPEs did not find it easy in convertible currency areas (developed market economies) by exporting their machinery and other manufactured goods, because of low quality of their products and higher cost of production which in turn was due to their autarkic approach to development and highly centralised planning where resource allocation was not guided by the price mechanism. In addition to this, these countries may not find raw materials which are needed for their development strategy. All these factors led them to conclude bilateral trade and payment agreements with developing countries and with India because these countries were also interested to meet their developmental demands generated by the efforts of economic planning.

1.8 Another important feature of the foreign trade practices in the CPEs is the long term contractual agreements signed by two governments concerned in order to avoid fluctuation and maintain stability. Fluctuations in the level of prices and of demand are common features of world commodity markets and an inherent characteristic of capitalist system. The centrally planned economies are less prone to fluctuations in the level of economic activity. In such a case the economic relations under long term agreements with the CPEs could give rise to immense benefits. These agreements are signed for a period of five years. On the basis of

these five year agreements yearly agreements are made, indicating not only commodities but also value and quantity of items to be imported and exported by the trading partners, that is, within the framework of long term agreements, annual trade plans are negotiated between the trading partners, which regulates each country's foreign trade. During the implementation, the size of turnover is usually higher in practice than that forecast for more important commodities, this leads to the conclusion of supplementary protocols. All these practices are not only aimed at achieving balanced trade over a period of time, but have a high degree of certainty about the disposal of commodities by the trading partners. Without such agreements the plan would be unworkable. This is one of the most important features of the CPEs which led India to conclude trade agreements bilaterally. The value and quantity of each item to be traded by bilaterally was ascertained their prices stabilised and the dependence on uncertain traditional markets reduced. Besides, India could be sure of enjoying a stable market for a period of at least five years whatever the world market conditions, as also her East European trading partners, due to these agreements.

1.9 So far we have been dealing with the economic interests of East European countries which prompted the relationship with India and with other developing countries. But looking at the interests of developing countries,

socialist countries of Eastern Europe had also made attempts to assist poor countries including India in building up a modern industrial sector and elimination of their backwardness. While pursuing their own economic interest the socialist countries also wanted to establish stable economic as well as political relations with newly independent nations. India was not an exception to this. Given the history of exploitation by Western capitalist countries, these communist countries of Eastern Europe tend to stress the equality of trading partners. As a result bulk of aid was channelled into the development of basic industries and infrastructural projects. For political as well economic reasons such assistance may not have been available from industrialised countries. Most of the aid from East European countries was given to public sector industries of India which was prompted by the belief that the state sector is most capable of mobilising resources.

1.10 The trade of East European countries or CPEs was dictated by International Division of Labour, which is fundamentally different from capitalist division of labour. The division of labour of CPEs is based on "equality, respect for sovereignty, friendship, mutual assistance, fraternal co-operation and mutual advantage". Only socialism provides for all possibilities to make comprehensive use of the International Division of Labour. So the East European countries argue that their trade is generally advantageous to the trade

partners and therefore excludes any sort of exploitation. Bilateral trade is dictated by this International Division of Labour and long run dynamic comparative advantage. In this context, it may be noted that India's trade with East European countries has increased, so that the advantages of International Division of Labour can be reaped by both the partners. It is hoped that this would ultimately raise the standard of a poor country like India. Through this long run comparative advantage, it would enable her to find sources of imports at a cheaper rate as also in turn it would enable India to repay it back by her export surpluses at higher rates.

1.11 This remarkable growth in economic cooperation between the East European countries and India has taken place largely in the framework of bilateral agreements. Economic aid, development credit, technical assistance, etc. and trade are incorporated into long term agreements. In fact bilateralism is an integral part of the overall system of economic relations between India and the East European countries. This is the first analytical and comprehensive account of an important aspect of India's trade policy. Hence, as a starting point it is necessary to outline the bilateral trade and payment agreements.

1.12 The Chapter II is divided into four parts where Part I covers an analysis of the nature of bilateral trade and payment arrangements. Part II discusses these arrangements for

developing countries, while in Part III of the same chapter, bilateralism, in general, as a trade policy for a particular developing country like India is examined. In Part IV attempts are made to analyse India's trade relations with a particular region, that is, the East European countries under bilateral channels.

1.13 Chapter III highlights the growth in India's exports to and imports from East European countries from 1960-61 to 1975-76 with a brief survey of her global trade in Part II. Part III of the said chapter is devoted to review the trends in India's trade with the East European countries with their changes in compositions and directions. Countrywise study of India's trade with the East European region is made in Part IV with special emphasis on trade with USSR, because the percentage share of our exports to USSR had increased from a mere 0.54 in 1955-56 to 10.3% in 1975-76. Thus it is evident that the USSR has become our leading partner in international trade. An attempt is made in that section to look into Indo-Soviet trade relations. Chapter IV is presented with a limited study of available literature over the problems and issues on the terms of trade between the East European countries and India. The final chapter is dedicated to some broad conclusions of Indo-East European trade.

CHAPTER II

BILATERALISM IN PAYMENT AND TRADE

I. An Overall View

What Does it Really Mean?

2.1.1 "Bilateralism in payment and trade consists in carrying out between two countries, the exchange of goods and services and lending or borrowing capital, without using or using only to a limited extent transferable or convertible currencies. Broadly speaking, bilateralism assumes in practice two main forms, settlement of payment between two countries through an account in a currency which is neither transferable nor convertible, or barter i.e. direct exchange of goods and services between two countries. This system of payment and trade arrangement has got a considerable appeal in the recent period as it has got attractions in particular circumstances." (Swidrowsky, 1968, p.18). Now the question is, why do countries enter into this type of arrangement?

2.1.2 Looking back to the history of bilateral arrangements, we find that when there was economic disorder and a crisis in Europe during the 1930s and after World War II, some countries preferred bilateral trade and payment arrangements which were expected to help them for carrying out trade and settlement at a time when the multilateral system of trade and payment failed

to function, and balance of payments difficulties were acute. The flow towards bilateral trade and payment arrangements was supported by three major factors during the post war period. The first was the belligerent countries did not have enough dollars to purchase essential goods from foreign markets during this period, for, dollars alone enjoyed convertibility. Secondly, these countries were unwilling to spend their gold and silver for financing the intra-European trade and finally, in order to maintain the export market, they decided to export to non-dollar countries.

2.1.3 It was the hope of countries entering to bilateral trade and payment arrangements that such arrangements would help them in expanding, diversifying and redirecting their trade. Some countries started this type of arrangement with the idea to improve their terms of trade, to stabilise their export markets and prices of exports. Besides, others expected that this system would help them to find out new markets for their exports and additional markets from which they can draw their imports, so as to become less dependent on traditional markets. In order to obtain credit and other loan facilities available under payment arrangements this system was expected to be helpful. The introduction of bilateral payment arrangements might serve to liquidate funds of a given country which were blocked by another country by channelling specified payment through bilateral accounts. Certain

developing countries, who were carrying out economic plans for development, favoured this type of arrangement with the idea to make plans successful. Some state trading countries concluded this bilateral arrangement with other countries in order to demonstrate their willingness to cooperate with these countries in economic and other fields.

II. Bilateral Trade and Payment Arrangement and Developing Countries

2.2.1 Hence, bilateralism in trade and payment arrangements is one among the more recent systems some countries have adopted during the past few years. But the developmental contents of this arrangement is more important than discriminatory and protectionist implications. In mid-fifties it was not very important for developing countries to implement their commercial policy towards a pattern that minimised the used of convertible or scarce currencies, on the other hand, they found it more important to devise a rational approach towards their external policy. The set of forces leading to introduction of the technique in the countries of central Europe at the close of the depression, or those making for its revival in the post-Second World War European economy were completely different in nature from those operating to make it a popular device for developing countries of South Asia, Middle East and Latin America. So, it was imperative to reorient this trading technique for the developing countries in terms of an

alternative set of premises suited towards developmental programmes. Many developing countries are now taking recourse to bilateral trade and payment arrangements to expand their trade. This instrument has been accepted mainly in their trade with the centrally planned economies as the former wants to take an increasing share in growing trade of the latter. The bilateral arrangements are found necessary for improving the bargaining strength of the developing countries, vis-a-vis the developed countries. The developing countries, having persistent balance of payment difficulties caused by the need for accelerated economic development tend to reduce imbalances by enforcing a kind of reciprocity through these arrangements. Under bilateral trade and payment arrangements, the system of payments are often left with an option or even make it absolutely non-essential for bilateral partners to use foreign currency for the purpose of their financial transactions. The developmental programmes inevitably led to an overall shortage of foreign currency for newly industrialising countries. This bilateral device is a useful thing to their external and internal economic policies. It is often been proved convenient for the developing countries to strengthen their export promotion programmes with more effective utilisation of their bilateral channels. This implies the need for diversifying their traditional export structure which can increase the prospect of exports in at least three ways. The first is, by strengthening the bargaining power of the countries exporting such

products, secondly by increasing export potentialities of the more important export commodities and finally, by imparting some amount of flexibility in the rigid structure of production of these commodities.

2.2.2 The developing countries release more and more domestic resources for the production of import substitutes and thus utilise to the best of their advantage the exchange resources available in any particular period. Discrimination in the commercial policy can be adopted by a country faced with balance of payments problem with minimum restrictions over its total volume of trade and minimum distortion to the normal pattern of such trade. This arrangement of bilateral trade and payment has recently gained much popularity in underdeveloped countries which has not only helped such countries to tide over their balance of payment difficulties but also assisted the programme of their economic development. Further "the possibilities of obtaining credit from abroad increases the trading relations along bilateral channels and the countries concerned do not overlook the profitabilities of expanding trade connection with bilateral partners willing to lend financial assistance for short and long periods." (Gunnar Myrdal, 1956, p. 228).

2.2.3 The main feature of trade and payment arrangements as distinct from merely trade arrangements is that they seek to introduce external non-convertibility of export earnings. It was recognised that for better economic relations it was not

enough for the developing countries to rely mainly on trade arrangements. The payment arrangements (which generally formed the constituent or supplementary part of trade arrangements) were also often used to dispose of temporary surplus commodities on the one hand and to market overvalued commodities on the other.

2.2.4 Bilateral payment arrangements were an improvement over clearing arrangements. To reduce the length of the "waiting period" for an exporter in the creditor country, the clearing account arrangement always aimed at a balance between payment flowing in and out of such accounts. This bilateral clearing arrangement during post Second World War period was accompanied by some readjustment in accounting device and it was no longer necessary for exporters in either country to wait for actual payment by the importers. The countries could make their requisite payment to their exporters in domestic currencies. This payment arrangement was designed to relieve the payment problem between parties. "Under bilateral payment arrangements the partner countries undertake to effect their reciprocal current settlement in a way that would minimize the use of convertible exchange and gold."* (de Looper, 1955, p. 339). Since the later half of the fifties it was agreed to include

* Quoted from Johan H. C. de Looper's article, "Current Usages of Payment Agreements and Trade Agreement," IMF Staff Papers, Vol. IV, No.3, August 1955, p. 339.

within its scope the "tied export" programme of underdeveloped countries under long term credit contracts, then the payment arrangements were "an agreement which establishes a general method of financing trade between two countries giving rise to credit which are available for use in making payment over a wide range of imports from country or for other specified purpose."* (Trued & Mikesell, 1955, pp. 1-2). To conclude "these arrangements even if they cover several commodities represent barter transaction and involve no foreign exchange payment." (ibid). Hence bilateral arrangements, generally accompany the trade agreement between the partners, not necessarily mean that the scope of payment arrangements were restricted to the financing of merchandise items only. Such arrangements could easily cover settlement of any kind of commercial and non-commercial payment between agreement partners. These agreements aimed at bilateral balancing of exports and imports over a period of time. These agreements could be extended over to the commodities which had not even been included.

2.2.5 In recent economic literature, this bilateral trading agreement is treated as the extension of the theory of discriminating monopoly in a general equilibrium framework.

* Quoted from M. N. Trued and R. F. Mikesell, Post War Bilateral Payment Agreements, Princeton N.J. 1955, pp. 1-2.

Attempts have been made in many discussions to provide explanations that, this type of trade agreement is a "preferential agreement". Murry Kemp (1969) and Jaroslav Vanek (1965) have also advanced the theories on 'Preferential Trading Agreements'. The most interesting work on this is done by Richard Caves (1973) on his topic 'The Economics of Reciprocity, Theory and Evidence of Bilateral Trading Arrangements'. In that article he pointed out that the theory of discriminating monopoly provides some of the interesting hypotheses to explain bilateral trading arrangements between developing and the centrally planned economies. Arguments, given to prove it, show some sort of consistency with trading arrangements among the partners with monopoly and monopsony power. This analysis is carried out normally in terms of reciprocal demand which reflects the willingness of each party's trade at any given price ratio after the optimal adjustment of production and consumption. The monopolist may exercise his discriminating power through bilateral trade arrangements. It (arrangement) specifies the quantity of each individual commodity to be exchanged and allows transactions in terms of non-convertible currency.

2.2.6 It may be noted that bilateral trading under inconvertible framework is quite different from trading under discriminating monopoly framework, particularly when the power of monopoly is exercised by one side only. It does not give

sufficient explanation where both the trading partners are resorting to discrimination.

2.2.7 Still, this hypothesis constitutes some of the basic issues in trade arrangements between developing countries and the centrally planned economies which in ^s straight way derived from discriminating monopoly. Bilateral trading agreements have been used extensively among developing countries and with the centrally planned economies. This agreement could serve in reducing uncertainties, a way to reduce fluctuation in the international reserves or as a way of accommodating the administrative necessities of the centrally planned economies. It also pushed up the exports of the developing countries of Middle East, South Asia and Latin America.

2.2.8 Hence, bilateral arrangements may therefore have multiple objectives like increasing the volume of trade, removing the payments problem, reducing trading deficits, improving terms of trade, changing composition of trade and mixing mutual advantages.

2.2.9 In recent years, economic ties between socialist countries and the Third World or less developed countries have become quite strong. In the world, today they represent an important part of the development strategy for several poor countries. This occurrence as discussed in the first chapter is interesting for two reasons. Briefly, such trade is one of the most dynamic component of world commerce, it represents

a strengthening of ties between two sets of countries with entirely different political and economic systems. This remarkable growth in economic cooperation between socialist countries and the less developed or developing countries has taken place largely in the framework of bilateral arrangements. In other words, bilateralism is an integral part of overall system of economic relations between the East European countries and developing countries. As a result of these arrangements, economic aids, development credits, technical assistances, scientific cooperation, and trade are incorporated into long term agreements. The main features of these arrangements between socialist countries and less developed countries in a nutshell are,

- 1) it specifies the objectives of economic cooperation for both partners and attempts to set out planned needs accurately,

- 2) trade balances outstanding at the end of the period are settled in exports and imports of mutually agreed products, or in inconvertible currency,

- 3) socialist partners pledge to provide economic assistance in form of capital equipments and technology etc.

- 4) aid and debt repayments are automatically converted into trade flow, credits extended to poor countries can be repaid in inconvertible domestic currency.

- 5) all transactions are carried out in terms of world prices.

2.2.10 When we examine the implication of this type of trade agreement we find it obvious that benefits accrue to both the parties. For poor countries, in absence of this trade, economic assistance in the form of development credit may not have been extended by the centrally planned economies of Eastern Europe. Besides, the introduction of bilateralism adds to import capacity and expansion of exports in spite of extreme shortage of foreign exchange reserves. In addition to this, the existence of special payment arrangements reduce the burden of debt as payment could be made in exports, domestic currency or output of aided finance projects instead of scarce convertible currencies. Likewise if we see the implication of trade agreements of the East European countries we find that this tie was due to their own economic interests i.e. importing goods which were expensive to produce at home, and exporting those goods which could not compete with the developed markets due to inferior quality. Secondly, they tend to stress equality by elimination of backwardness of those (less developed) countries by assisting development of dynamic and modern sectors and to raise the standard of living of poor countries.

2.2.11 The relationship between the two groups of countries had strengthened considerably in subsequent years. This can be proved from the available evidence. From 1952 to 1968, the trade turnover virtually doubled. In absolute terms the increase was substantial between 1960 and 1970, the share of

developing countries in Soviet Union and East European exports rose from 8.1% to 14.8% while imports increased from 8.8% to 11.1%. During 1971-73 developing countries absorbed 14.7% of exports from European socialist countries and were responsible for 10.6% of their imports. In Tables 2.1(a) and 2.1(b) it is seen that Asia accounted for 40% of trade turnover while Africa and Latin America accounted for 30% each. Major trading partners of socialist countries are Argentina and Brazil in Latin America, Algeria, Egypt, Ghana, Sudan and Tanzania in Africa, Afghanistan, India, Iran, Iraq, Malaysia, Pakistan and Sri Lanka in Asia. These countries, taken together, were responsible for a little more than 70% of socialist trade during the decade that ended in 1970. Among them India and Egypt were overwhelmingly important.

2.2.12 The above account clearly shows the growing importance of trade of underdeveloped countries with socialist countries. Trade with socialist countries is a net addition to the total trade. It is thus concluded that there should be a proper integration of trade agreements among these countries with the general plan of the economy, so that input requirements of plans are adequately met. Bilateralism, as a means of expanding trade is now widely accepted, though there was a time when multilateral trade and multilateral convertibility of currencies was considered to be best suited for international trade. The most important advantage of this bilateralism in

Table 2.1(a) : Percentage of Share of Three Continents in Socialist Blocs Trade with Developing World

	1960	1965	1970	1972
Africa	30.2	27.3	30.7	30.0
Asia	43.3	40.5	37.7	41.8
Latin America	26.5	32.2	31.6	28.2

N.B. : It should be noted that relatively high share of Latin American countries is attributable to trade with Cuba, which is included in above statistics as a part of Latin American Continent.

Source : UNCTAD Secretariat, calculated from document No. TD/B/505 Supp. 1, Annex. P.L. collected from "Economic Relations between Socialist Countries and the Third World" Deepak Nayyar, EPW Spl. Number, August 1976, p. 1329.

Table 2.1(b) : Absolute Share of Three Continents in Socialist Bloc, Trade with Developing World

	(in US \$ million)(absolute)			
	1954-60	1961-65	1966-70	1971-72
Africa	933	1735	1566	1240
Asia	2096	1539	2951	1179
Latin America	111	285	394	582
Total	3140	3559	4911	3001

N.B. : Re. 1 = \$ 0.1303 for 1972-73.

Source : Ibid.

trade and payment is that it ensures fixed supply of goods at fixed prices without the element of competition.

As the scope of our discussion is limited to India, a developing country, let us focus our attention on India only.

III. India and Bilateralism

2.3.1 While bilateralism among the more recent devices the countries have adopted during past few years, the technique has assumed considerable significance in India as a useful supplement to the general structure of the government policy regarding trade and payment. The significance of bilateral trade and payment arrangements stems from the trepidational facts that foreign exchange came to occupy the place of major determinant of economic development of developing economies more so in India after the launching of five year plans for it was directly restricted for acquiring capital goods from other countries.

2.3.2 The stress of India's planned economic development arising out of paucity of foreign exchange resources which had been reflected in her persisting balance of payments disequilibrium. Her developmental needs had resulted in increased imports, but the export earnings were not keeping pace with this growth. Though foreign aid had assisted India in overcoming its difficulties temporarily, a better solution could be found only in expanding export earnings. To increase exports and to make possible a large volume of imports of capital

and intermediate goods, the Government of India had taken various export promotion measures such as, conclusion of bilateral agreements, establishment of export promotion councils for principal export items, concession regarding inland freight etc. Besides, India had constantly endeavoured to develop a dynamic trade policy aimed at increased export earning through diversification of exports and exploring new markets. Bilateral trade and payment arrangements had become an important instrument in achieving these two main objectives. Most of the bilateral agreements were signed by India aimed at promoting trade on the "principle of equality and mutual benefits" with the rules and regulation prevailing in both the trading partners. They intended to raise the level of trade to a higher level on the principle of balanced trade.

2.3.3 The full implication of the governmental decision in India like the conclusion of bilateral trade and payment agreements would not be clear unless one refers back to a related set of facts in historical perspective. Since independence the system of bilateral arrangements had undergone some structural changes. Such alteration in the structure of arrangements were often preceded by important changes in the state of the economy. The principal elements, that characterised the Indian scene after the World War II, were those of overall and specific shortage of commodities and dollars. The outcome was a restrictive trade policy. The Government of India

felt, it was necessary to bring about some deliberate adjustments in the licensing system. The restrictions over purchase of nonessential commodities and particularly over her purchase from the dollar areas were accompanied by a relatively flexible arrangement for her imports from soft currency areas.

2.3.4 Since 1948, India considered it was convenient to extend her trade relations along bilateral channels. During that period the trade quota arrangements were associated with a general programme of the Government of India with regard to trade policy. Thus a large number of agreements were made with soft currency area countries. The trade agreements generally involved quota commitments without any provision regarding the procedure of payment. The payment mechanism attached to trade arrangements passed through a number of stages. The payment mechanism is more effective than trade arrangements. So the former is taken for discussion only. While India did not conclude a formal payment agreement before 1953, bilateral commercial arrangements with number of countries, during an earlier period, included provisions for an "automatic transferability" of the bilateral balance, owned by both the parties. It was often specified in different bilateral arrangements that the rupee or the sterling was to be used as a currency for financing trade between bilateral partners. On the other hand, the gradual improvement in the resource position of the world since 1952 (when India could liberalise

her trade policy to a significant extent) led to the conclusion of non-quota type of agreements. It was appreciated that India should extent her commercial relations along direct channels and the list type of non-quota arrangement proved convenient for the purpose.

2.3.5 The gradual depletion of the country's sterling balance increased the popularity of bilateral arrangements and since 1953, a number of rupee payment arrangements were concluded by India with her trade partners. (The first payment agreement was concluded with Bulgaria in June 1953). During 1953-56 these arrangements generally stipulated an exchange settlement of the net bilateral balance while the rupee was the accepted unit for accounting purpose. It had to be converted into sterling for the purpose of settlement of such balance.

2.3.6 The general objective was to increase export earnings and lessen the incidence of fluctuations in world markets on such earnings. In the early fifties there was a pressing need for establishing direct contact with the state managed economy. Diversification in the structure of country exports - both in destination and composition was also considered highly desirable. The year following middle fifties witnessed unprecedented stress and strain in Indian economy. There was shortage of agricultural and industrial product which was to be met by importing from abroad. But the external finance taken as a stock or net flow was inadequate. Meanwhile the

sterling earned by residents outside sterling area was declared convertible in December 1959. Due to the widening deficit in her balance of merchandise earning and depletion of sterling reserve, India was forced to give up "exchange settlement" type of payments. The overall shortage of foreign exchange led to stricter control in the rupee-sterling and dollar link so an "offset settlement" type of payment was negotiated after June 1957, to arrest the drain of foreign exchange reserves. Under this settlement any outstanding balances in the bilateral accounts in favour of either of the partners was settled by additional shipment of goods from the debtor country. Then India could settle the claims of the bilateral partners in Indian rupees. The prospect of obtaining an increased amount of loan and capital goods from trade partners in the Eastern bloc made it worthwhile to conclude these arrangements. It was expected that, whenever the inconvertible rupee account with any agreement partner was credited against India, there would be an incentive for automatic expansion of India's exports.

2.3.7 Nonetheless, India's share in the world trade has by no means been encouraging. It fell from nearly 2% in 1951 to less than 1% in 1968. Likewise the percentage of exports to her net national product fell from 5% in 1951 to 4.3% in 1968 (Monthly Bulletin of Statistics U.N. Oct. 1969, p. 114). The performance of exports remained almost stagnant over years

because of lack of dynamism in export sector. Our exports consisted of those goods whose demand was either attenuated or unchanged, and increase in demand, if any, was immaterial in India exports due to severe competition of similar exports from other countries. On the other hand, imports were rising rapidly and touched a high of Rs. 1908.0 crores in 1968-69 against Rs. 650 crores in 1951 indicating an increase by 194%. The heavy deficit was met either by reduction of sterling balances or by collection of large quantum of foreign aid. Payment arrangements were entered into East European countries to match exports to additional imports of the country. The change in network of destination of exports marked an improvement in our export performance. The East European countries proved a sufficiently dynamic sector of our foreign trade. The augmentation of Indian exports to the existing level could not have been possible without bringing about some changes in the direction.

2.3.8 Under such circumstances it was imperative to establish trade connection with the East European countries. The conclusion of such agreements not only enabled us to increase the value of our exports but also made it possible to import various types of machinery and equipment and chemicals besides other goods needed for our developmental purposes, in absence of these agreements we would have to pay hard currency. Hence, let us pinpoint how the bilateral trade and payment agreements

with the East European countries were beneficial for India's economic development in the next section of our discussion.

IV. An Arrangement between India and the East European Countries

2.4.1 India's efforts at planned economic development resulted in continuous increase in demand for imports, both developmental and maintenance. But export earnings which were stagnant till the midsixties resulted in an ever increasing adverse trend in her balance of payments. One reason for her stagnant export position was that demand for some Indian exports in traditional markets of U.S.A., U.K., Canada and Japan was not satisfactory. Inflation, export restrictions, quota fixation by developed countries and competition of synthetic substitutes acted as a stumbling block for the growth of India's exports. Besides, due to slow production, production of inferior goods and increased domestic demands, India could not increase her export earnings. Our exports to developing countries had been less significant as compared to developed countries. Our share to the developing countries has slumped from about 35% during first five year plan to 26% during 1974-75. The main reason was inherent weakness and problems in the economy of these countries. External assistance flowed steadily into our economy to bridge the balance of payment deficit, but this helped in overcoming difficulties temporarily. Under these circumstances, India began reorienting her trade policy in the context of growing needs for

export earnings to meet developmental requirements.

2.4.2 Persistent disequilibrium in the balance of payments due to the existence of demand bottlenecks for India's export items in developed market economies, necessitated the location of a new market for her traditional goods. East European countries appear to be an important region on which India focussed her attention. The demand for a number of goods which could be supplied by us was also on the increase under the stimulus of planned developmental programme of East European countries. The Government of India took major steps to trade with the East European countries. Besides our trade with these countries was based on the argument of "International Socialist Division of Labour". The brief summary presented earlier in Chapter I has indicated that India could be able to use bilateral trade and payment arrangements effectively in developing trade with East Europe. The main features of these transactions are in non-convertible Indian rupees.

2.4.3 To be more clear, the basis of bilateral trade between India and East European countries, to a great extent, are reflected in other features of these trade agreements. Besides the nonconvertibilities argument, we find that this arrangement laid down the objectives of economic cooperation between the trading partners and giving more emphasis on the planned requirements and fulfilment of them to the maximum possible extent. Other features were

1) Trade balance outstanding at the end of period were settled either by the movement of commodities or by the movement of inconvertible currency.

2) It also relied on the flow of aid from the East European countries.

3) All transactions were carried out in world prices. Fluctuation in world prices had no impact on trade between these two partners.

2.4.4 The features of trade and payment arrangements were reflected in the objectives of bilateral trade, which could be classified into the following categories.

1) obtaining goods and industrial raw materials without additional withdrawal of on foreign exchange resources of convertible currencies,

2) stabilising prices of traditional exports,

3) utilising imports for automatic expansion of export,

4) reducing dependence on traditional export markets,

5) opening up new markets for some non-essential exports,

6) it should be additional to the existing trade of India not just a simple diversion.

7) institutional factors like state trading and export promotion scheme have effected the trade flow between India and East European countries.

2.4.5 The East European countries have also got their own objectives and the actual trading between these two countries depends upon reciprocal demand of the two partners. (Discussed in Chapter I).

2.4.6 Hence East European countries being centrally planned economies found this instrument appropriate, as they would provide a trading channel and normally ensure the flow of goods in a planned manner to facilitate the achievement of their trade. The two main instruments successively used by the Government of India have been trade agreements and trade and payment agreements.

2.4.7 Before 1958, India's trade with East European countries was guided by bilateral trade agreements. For closer economic relations like trade and aid with these countries it was not enough to rely mainly on trade agreements. Consequently Government of India took recourse to bilateral trade and payment agreements or (clearing arrangements) in India, it was known as "Rupee Payment Agreements".

2.4.8 The origin and evolution of India's trade relations with the East European countries since 1948 is discussed in Section III. Between December 1948 to March 1951 bilateral trade agreements were concluded with Yugoslavia, Czechoslovakia, Hungary and Poland for obtaining essential goods and promoting exports in India. Trade agreements were regulated by their respective governments. These agreements were limited to grant

export and import licences and transactions in commodities listed in the schedules. Because at that time Indian rupee was not used as medium for payment or settlement of balance. The main purpose of these agreements was regulating trading arrangements. Since 1951 a number of bilateral trade and payment agreements were signed with the East European countries. Today these agreements cover the whole import/export trade and payment mechanism of both commercial and non-commercial transaction in non-convertible Indian rupee.

2.4.9 Bilateral payment arrangements with the socialist countries of East Europe passed through at least three distinct stages. These payment arrangements had been influenced by change in Indian economy and to a certain extent by dwindling status of sterling as hard currency. As has been discussed earlier, the purpose of these payment arrangement was to pave the way for large imports of developmental goods by increasing exports earnings as well as to reduce the fluctuations in price for traditional commodities in international markets. In addition to this, these arrangements facilitated our export diversification. This system of payment evolved over the years and had undergone considerable changes which could be classified automatic transferabilities, exchange settlement scheme and offset settlement schemes in the case of trade with the East European countries. Upto 1953, the bilateral commercial arrangements was through "automatic transferability of

bilateral balance i.e. the first stage, where payment was made in dollar or sterling. During 1953-56, payment agreements of India were concluded with all socialist countries of the Eastern Europe through "exchange settlement" of bilateral balance in which the payment was made in sterling by converting rupee into it and the third stage was offset settlement scheme in June 1957, was a self-liquidating system in which the mechanism of repayment was based on the basis of reciprocity. This was a stage of payment agreement which was concluded in the midst of the shortage of foreign exchange resources. (Detail had been discussed in Section III over the evolution of the bilateral payment arrangement).

2.4.9 The complete switch over from "exchange settlement" mechanism to "offset settlement" mechanism introduces genuine element of bilateralism in Indian trade with the East European countries. This payment arrangement had played an important role in stimulating trade exchange and balancing mutual turnover. This offset settlement gave a stimulus to India's trade with these countries. The socialist countries of East European region showed a positive response to India's initiation on new type of payment settlement system. Accordingly, a series of settlements were concluded after 1958 with these countries. In addition to this, it was spelt out that all payments commercial and non-commercial should be made in inconvertible rupee and outstanding balance at the expiry of the

agreement would be settled by exports of mutually agreed items.

2.4.10 According to the agreements, all transactions commercial or noncommercial between India and the East European countries were to be accounted in 'Central Account' maintained by Reserve Bank of India on behalf of Central Bank or Foreign Trade Bank of agreement partners and one or more accounts with some commercial banks with the permission of the Reserve Bank of India. The 'Central Accounts' according to agreements would be used for depositing the rupee balance and for replenishing the accounts with the commercial bank and for operating the transaction relating to technical credit.

2.4.11 Before 1959, any outstanding balances in the rupee account maintained in the authorised bank was to be converted either at demand or at the expiry of the agreements into pound sterling at the prevailing exchange rates. But according to new form of payment signed in 1959, all payments were to be made in non-convertible Indian rupee. The balance at the expiry of agreements would be settled by the movement of commodities or inconvertible currency within a period from six months to one year. The tenure of trade and payment was for a period of five years in each agreement. The countries of Eastern Europe which have extended credit to India maintain a separate account with R.B.I. Technical credit was a device

to facilitate smooth flow of trade between trading partners when there was imbalance in trade. Under this, surplus country was expected to provide a credit to make purchase by a deficit country through Reserve Bank of India. There was also a "Special Account" with R.B.I. When there was shortage in "Central Account", the amount was transferred from Special Account.

2.4.12 Reciprocal commitments expressed in a currency other than Indian rupee were to be converted into Indian rupee at the official parity.

2.4.13 The contracting parties had agreed to give the most favoured nations treatments (MFN) in all agreements with respect to custom duties and other local charges.

2.4.14 These agreements also performed the task expected by aid agreement i.e. facilitating inflow of capital goods, technology and repayment of aid. The aid extended to India by those East European countries since 1951 was approximately Rs. 1000 crores. The share of these countries in total aid to India had been 5.5%. The repayment of aid had to be made in Indian rupee to be used for the export of Indian goods and services.

2.4.15 To channelise imports and exports in accordance with the trade and payment agreements, annual trade plans were drawn indicating the composition of goods to be traded with

their quantum and values. Besides that, a "joint commission" for India and the East European countries had been established to examine the issues arising in trade and aid flows, the respective governments being suggested to take appropriate measures regarding this. In addition to this trade and aid agreements, shipping agreements were endorsed between India and East European countries. In 1976 a new shipping agreement was negotiated again after a lapse of 20 years between India and Soviet Union. Similarly India had agreements with GDR and Poland. Under this agreement the trading partner would undertake the transport of their goods in the ships of their national flags. The Indo-Polish trade was initiated by trade agreements in April 1949 and a direct shipping line was established under most favoured nations treatment (MFN) in 1956. Payments were made in term of sterling till 1956. After offset settlement, an agreement in 1959 was made among both the countries to make trade deficit payment by increased exports. Indo-Czechoslovakia agreement in 1953 was also signed on the same principle. Likewise number of agreements were signed between different CMEA countries like Bulgaria, East Germany, Hungary, Rumania for the payment in inconvertible rupee in the years 1958, 1956, 1959 and 1959 respectively. The USSR was the pioneer of bilateral arrangements. Large number of agreements have so far been made with this country. Details will be discussed afterwards.

2.4.16 As a result of all these agreements, especially under bilateral trade and payment agreements India's trade with East European countries expanded substantially. The growth of trade with this region has been unparalleled in the trade of the post-independence India.

2.4.17 But the use of bilateral trade payments for trade promotion had always been controversial, because it was argued that it hindered some of the advantages of international trade which could be achieved under multilateral trade i.e. buying from cheaper source and selling to dear market/economical utilisation of resources. Besides that a number of arguments were also levelled against the bilateral trading practice which will be discussed in the Chapter IV dealing with problems and issues. The brief review presented before indicated that India had been able to use bilateral trade and payment arrangement effectively in developing trade with the East European countries. Against this background, the growth of India's trade with these countries has to be viewed in the next chapter.

CHAPTER III

THE GROWTH OF INDIA'S FOREIGN TRADE

3.1 An attempt has been made in this chapter to review the growth of India's trade with the East European countries. This has been reviewed both in the context of India's trade with the world as a whole and trade with the East European countries. This review is made from 1960-61 to 1975-76 that is for a period of 16 years.

I. Background

3.1.1 This period is significant due to several national and international changes. Besides, it is also important to start from 1960, because bilateralism in the strictest sense started from the said period. Prior to this, India's trade with the East European countries was negligible when it was compared to the total trade turnover. India's trade with the East European countries had grown both in dimension and depth actually from the above period. Taking the global picture into consideration, we find, there were major changes in the world trade. The oil crisis in 1973, global inflation which came in the wake of the devaluation of dollar, collapse of the Brettonwoods agreement on fixed exchange rates which had aggravated the balance of payments crisis, closure of the Suez canal for a long period due to Arab-Israeli conflict, and

gradual revival of economic activities in most developing countries, were some of the major changes during this period.

3.1.2 In the national sphere steps were taken by the Government of India to accelerate the growth of exports during the third plan period because it was observed that there were hardly any growth in exports during first and second plan period. To be more clear, the annual average exports were Rs. 609 crores in the second plan which was equal to the first plan average i.e. Rs. 606 crores. But on the other hand imports increased on an average of Rs. 723 crores in the first plan to Rs. 976 crores in the second plan. To avoid the deficit in the balance of payments, the exports were to be increased. It was seen that exports were increased after devaluation in June 1966, and due to an export policy resolution by the Government of India during 1970. Number of export promotion measures were taken, like subsidies, import entitlements etc., as a result of which in the process of development planning the rate of exports were increased to 4.6% in the third plan period in place of 0.3% in the first plan and 1.1% in the second plan period. In relation to our GNP the exports were roughly 6% in 1975-76. This growth in exports was due to rise in world prices, domestic production and diversification.

3.1.3 It is against this background, the period (1960-61 - 1975-76) is intended to be reviewed. The latter trends have

not been covered up due to lack of material, statistical information and the time constraint. This review of the trade pattern and structure has been made only from the side of India.

II. A Global View of India's Foreign Trade

3.2 In any developing country, the achievements of development planning result in demand for imports of mainly capital goods. This necessitated the enlargement of exports for the payment of imports. Surplus of a country enables her to acquire desired imports, helps to maintain the balance of her trade position and makes her self-reliant. In light of this, the study of imports and exports position of an under-developed country like India is imperative.

3.2.1 Trend in Exports

3.2.1.1 Table 3.1 reveals the trends in India's export for the period 1960-61 to 1975-76. The exports which were Rs. 642.32 crores in the year 1960-61 have steadily gone up to Rs. 1413.2 crores in 1969-70, again to Rs. 4043 crores in the year 1975-76. The sluggishness of our exports could not be overcome during the first half of the sixties. As a result of the devaluation of the Indian rupee by 36.5%, our export earnings could be increased. The rate of 4% to 5% in the first half of the sixties, increased to more than 10% in the second half of sixties. The figure shows the impressive rate of growth at the

rate of more than 20% during 1970-76. Despite the tremendous boost in export efforts like incentives, subsidies and export promotion etc., India's share in the world trade had not amounted to more than 0.5% in 1975-76 as against 1.0% in 1965, 0.7% in 1970 and 0.5% in 1974. Though there were some formidable barrier like prevalence of protectionist policies, lingering recessionary conditions in industrially advanced countries, growing competition, raising cost of our imports, stupendous increase in oil prices since 1973, and internal inflation, but if we compare our export performances with other countries of Asia it was not satisfactory. Countries like Singapore, Pakistan, Malaysia have increased their exports, besides Philippines, Thailand, Hongkong, Taiwan and South Korea also registered a spectacular increase in their exports.

3.2.2 Trend in Imports

3.2.2.1 Table 3.1 shows that the value of imports in the year 1960-61 was Rs. 1121.62 but during the third plan i.e. 1961-62 to 1965-66 our annual average import was around Rs. 1240 crores as against Rs. 741 crores of our exports. This was due to accentuation of our defence needs, consequent upon Chinese aggression in the year 1962 and the Pakistan war in the year 1965. Accompanied with devaluation, the Government of India announced a policy of liberalising imports in case of 59 industries, so the import bill had gone up to Rs. 1992 crores in the year 1966-67. Although exports had increased during the

period but, due to relative inelasticity of imports, the import bill was higher. In percentage terms the import bill had gone up by 41.4% during the period 1965-66 to 1966-67. But during 1968-69 the import bill had declined to Rs. 1908 crores due to better crops, resulting in less foodgrains imports. The picture after 1973 changed due to rise in oil prices and heavy demand for fertilisers and it had gone up to Rs. 2925.3 crores in 1973-74 as against Rs. 1867.4 crores in 1972-73. In percentage terms the growth rate of import was 56.7% which was the highest in the years. Though the rate of growth of imports declined to 54.5% in 1974-75 and 14.4% in 1975-76 but in absolute terms it had increased to Rs. 4518.5 crores in 1974-75 and Rs. 5265 crores in 1975-76.

3.2.3 Balance of Trade

3.2.3.1 Figures in Table 3.1 show that India had an unfavourable balance of trade throughout the period excepting the year 1972-73. As a consequence of the policy of import restrictions, reduction in foodgrain imports coupled with measures of export promotion the countries had favourable balance of trade for the first time in the year 1972-73 after independence. Besides, the devaluation had healthy effect on export earnings and foodgrain imports declined in the year 1969-70, as a result of which, our deficit the balance of payment also shranked to Rs. 99 crores in 1970-71. This favourable balance of trade did not last long. In the year 1973-74 the deficit

had gone up to Rs. 432.3 crores and it went on increasing year after year to Rs. 1222 crores till 1975-76. This was due to rise in our import bill. Although the spurt in the prices of exports helped to boost them up but the imports rose much more steeply. During 1975-76, though recession in the advanced countries slackened, rate of growth of our exports could not pick up. Hence the deficit further increased to Rs. 1222 crores.

3.2.3.2 The figures show the oppressive burden of oil imports on the Indian economy. The import bill of crude oil was no more than 9% of our export earnings in 1970-71 but it had gone up to 80% of our export earnings in 1975-76. The imperative need of stepping up our export drive is all the more real, when one considers the predominant share of petroleum imports in our export earnings. We needed additional export earnings also to pay for vital imports like technology and raw materials which were not domestically available. As a result of an unfavourable trade position India signed a bilateral trade agreements with East European Countries which ensured saving of hard currency needed for capital good imports. In addition to that Government had made special efforts like cost incentives, export promotion etc., and establishment of the State Trading Corporation to raise export earnings.

3.2.3.3 The picture will be more clear if we focus our attention on the composition and direction of foreign trade.

Table 3.1 : India's Foreign Trade (1960-61 to 1975-76)

(Rs. in crores)			
Year	Imports	Exports	Balance of trade
1960-61	1121.62	642.32	-479.30
1961-62	1090.06	660.34	-429.72
1962-63	1131.48	685.48	-445.99
1963-64	1222.85	739.24	-429.61
1964-65	1349.03	816.30	-532.73
1965-66	1408.0	805.64	-602.36
1966-67	1992.0	1086.0	-906.0
1967-68	2008.6	1199.6	-809.0
1968-69	1908.0	1357.8	-550.2
1969-70	1582.5	1413.2	-169.3
1970-71	1634.2	1535.2	-99.0
1971-72	1824.5	1608.2	-216.3
1972-73	1867.4	1970.6	+103.2
1973-74	2955.3	2523.0	-432.3
1974-75	4518.5	3328.8	-1189.7
1975-76	5265.0	4043.0	-1222.0

Source : (1) RBI, Report on Currency & Finance, 1970-71, 1973-74 and 1976-77, Vol.II.

(2) Statistical Outline of India (Various Issues).

Composition of trade indicates commodities exported and imported. The developing countries import capital goods and export non-industrial goods. On the other hand the industrialised countries would import raw materials and export largely industrial goods. So to know the trade pattern of an industrialising country like India one has to look at the changes in composition and direction of trade.

3.2.4 Composition of Commodities

Exports

3.2.4.1 Table 3.2 shows the absolute and percentage contribution of some of India's exports to her total export earnings. This table reveals, how the share of our traditional exports are declining, though in absolute terms the exports of some of them like tea, cotton textiles, coffee, manganese ore, mica, jute and coir products had increased. For example the export earnings from tea had gone down from 19.15% in 1960-61 to 12.8% in 1965-66 and 8.6% in 1969-70 to 5.8% in 1975-76. Likewise the share of cotton textiles had declined from 9% in 1960-61 to 5.3% in 1975-76. From the figures it is evident that during the period under review, the share had remained the same in absolute terms for most of the items like mica, manganese ore, coir and coir products etc. even though our total export earnings had increased by more than six times from the period 1960-61 to 1975-76 that was from about Rs. 642 crores to Rs. 4043 crores. The share of non-traditional items like

Table 3.2 : India's Exports of Principal Commodities

Commodities	(Rs. in crores)								
	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
I. Food & Live Animals	195 (30.4)	241 (29.9)	346 (24.5)	413 (26.9)	436 (26.4)	530 (26.9)	479 (26.9)	1019 (30.6)	1239 (30.9)
1. Fish and fish preparations	5	7	31	31	41	54	88	65	125
2. Fruits and vegetables	7	6	13	13	9	12	16	18	35
3. Cashew kernel	19 (2.9)	27 (3.34)	57 (4.03)	52 (3.38)	61 (3.8)	69 (3.5)	74 (2.93)	118 (3.54)	96 (2.37)
4. Coffee	7	13	20	25	22	33	46	51	67
5. Tea (black)	123 (19.15)	103 (12.8)	122 (8.6)	145 (0.4)	155 (0.9)	145 (7.4)	142 (5.6)	221 (6.6)	234 (5.8)
6. Spices	17 (2.6)	23 (2.85)	34 (2.4)	39 (2.54)	36 (2.23)	29 (1.47)	55 (2.17)	61 (1.82)	71 (1.75)
7. Oil cake	14	35	41	55	40	75	171	96	86
8. Sugar	3	11	9	29	31	14	43	340	475
9. Others	3	16	18	-	-	-	-	-	-
II. Beverages & Tobacco	16	22	33	33	45	64	71	82	98
of which									
1) Tobacco unmanufactured	15 (2.3)	20 (2.5)	33 (2.3)	31 (2.0)	42 (2.6)	61 (3.1)	68 (2.7)	80 (2.4)	93 (2.3)
III. Crude materials, Inedible except fuel	112 (17.4)	135 (16.7)	231 (16.3)	252 (16.4)	241 (15.0)	254 (12.9)	362 (14.3)	432 (13.0)	527 (13.0)
1. Hide and skin (raw)	9	10	8	4	1	1	1	-	-
2. Wool and other animal hair	8	7	5	5	4	7	9	9	5
3. Cotton (raw and waste)	12	13	18	16	18	25	37	17	45
4. Mica	10	11	15	16	15	17	13	18	15
5. Iron ore (including concentrate)	17 (2.6)	39 (4.8)	95 (6.7)	117 (7.6)	105 (6.5)	110 (5.6)	133 (5.3)	160 (4.8)	214 (5.3)
6. Manganese ore (including concentrate)	14	11	11	14	11	9	9	17	18

Contd...

Table 3.2 : (Continued)

Commodities	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
7. Lac	6	4	5	5	7	6	14	24	13
8. Others	36	39	75	-	-	-	-	-	-
IV. <u>Mineral Fuels, Lubricant & Related materials</u>	7	9	9	13	12	32	15	20	36
V. <u>Animal & Vegetable oil and Fat</u>	10	5	5	7	8	26	32	34	35
of which									
1. Vegetable oil	9	4	5	7	8	25	32	34	33
VI. <u>Chemicals</u>	7 (1.09)	11 (1.36)	30 (2.12)	36 (2.3)	35 (2.04)	40 (2.03)	58 (2.3)	104 (3.1)	90 (2.3)
of which									
1. Dyeing, tanning and colouring materials	4	2	4	7	5	9	12	23	19
2. Medicinal and pharmaceutical produce	1	3	6	8	10	10	15	23	22
VII. <u>Manufactured goods</u>	263 (40.96)	343 (42.55)	630 (44.6)	616 (40.1)	665 (42.2)	816 (41.4)	1071 (37.7)	1169 (35.1)	1336 (34.4)
1. Leather and leather manufactures	25	28	82	72	91	175	172	145	201
2. Cotton textiles	58 (9.03)	63 (7.81)	86 (6.2)	97 (6.3)	100 (6.4)	127 (6.4)	240 (9.5)	215 (6.5)	213 (5.3)
3. Textile yarn and thread	11	15	41	37	28	37	31	38	23
4. Jute manufactures (includes yarn and thread)	135	183	207	190	265	250	227	297	248
5. Woollen carpets and rugs	5	5	11	10	13	22	25	36	43
6. Coir and coir products	-	-	-	13	13	14	15	18	19
7. Pearls and precious and semi-precious stones, unworked or worked	2	15	42	42	53	79	108	98	123

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Table 3.2 : (Continued)

Commodities	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
7. Manufactured of metals (n.e.s.)	2	5	24	28	24	30	40	69	82
8. Iron & steel	10 (1.55)	12 (1.48)	87 (6.2)	91 (5.9)	41 (2.9)	42 (2.13)	61 (2.42)	88 (2.6)	117 (3.02)
9. Others	17	17	50	-	-	-	-	-	-
VIII. <u>Machinery & Transport equipments</u>	7 (1.09)	11 (1.36)	56 (3.96)	83 (5.4)	76 (4.7)	87 (4.4)	118 (4.7)	216 (6.5)	258 (6.4)
1. Machineries other than electric	3	5	24	28	25	31	47	91	110
2. Electrical machineries apparatus and appliances	1	3	15	16	19	24	29	57	64
3. Transport equipments	3	3	17	39	32	33	42	67	84
Total exports (including miscellaneous commodities)	642	806	1413	1535	1608	1971	2523	3329	4043

N.B. : (1) To avoid fractions full number is taken on the basic of .5 as the margin, above it full number (higher), below it full number (lower).

(2) Percentages of some of the important items is calculated.

Source : (1) RBI, Report on Currency and Finance, 1973-74 and 1976-77

(2) Monthly Statistics of the Foreign Trade of India, D.G.C. & S.

engineering goods, iron ore, leather, oil cake, chemical, iron & steel had increased significantly. In the case of engineering products like machinery and transport equipment their shares in our total export earnings was substantial. The share of these items had increased percentage terms from Rs. 7 crores to Rs. 258 crores or from 1% in 1960-61 to 6.4% in 1975-76.

3.2.4.2 One of the traditional export items like cashew kernel which had a moderate contribution to the share of our total export earnings 1960-61 (2.9%) had gone upto 3.5% in 1974-75, its share reducing to 2.4% in 1975-76. But the contribution of coffee, tobacco and spices remain unchanged. In the case of sugar, its contribution to the national exchequer was substantial during the period 1974-75 and 1975-76. The share of the sub-group machinery and transport equipment had gone up, relative to the other groups. Some manufactured goods like iron & steel, leather and leather manufactures also went up, while the share of most of the other manufactured goods came down during the period 1960-1975.

3.2.4.3 The reasons for the declining share of tea in world exports were due to the loss of traditional markets like U.K., besides the tea industry had suffered from the deteriorating cost competitiveness and faced an increase in demand. The USSR had emerged as a large buyer of our tea. In the case of cotton textiles, the exports of this product was affected due

to lack of competitiveness, increase in the price of raw cotton and rising labour costs. Besides, the share of manganese ore declined due to domestic demand for industrialisation and exhaustion of mines. Decline in sugar exports till 1973-74 could be attributed to the fluctuation in domestic production. Due to the demand of iron ore from Japan for steel making, its growth in our exports increased. As a result of import liberalisation of inputs, and heavy subsidisation, the share of chemical and allied products had gone up steadily. Though we find the acceleration in the share of iron ore, but it had not increased in the same proportion to the increase in our total exports. When our export, since 1960-61, had increased more than 6 times, till 1975-76, our export earning from iron ore had increased two times i.e. from 2.6% to 5.3% only. That was due to relatively inefficient mining, inadequate transport, poor port facilities, which acted as constraint on potential export supplies of iron ore.

3.2.4.4 Compared to some other developing countries, exports of our engineering goods grew rapidly. The main reasons for this were heavy subsidisation and active assistance by the East European countries for rapid industrialisation, closure of the Suez canal in 1967 and recession in the domestic market.

3.2.4.5 Restrictive trading practices in industrial countries, and domestic constraints on production as a result of

infrastructural bottlenecks resulted in sluggish growth in our exports.

3.2.5 Imports

3.2.5.1 Table 3.3 shows that, like exports, Indian imports are also broadly classified into nine groups where the absolute and some of percentage contributions to total imports are given. The table reveals that India imported a large quantity of foodgrains particularly wheat, due to drought in 1965-66. In the year 1972-73 because of self-sufficiency in foodgrains our imports were reduced to Rs. 81 crores or 4.3% of total imports. Again foodgrain imports had touched the height of Rs. 1338 crores i.e. 25.4% of our total import bill in 1975-76. Rice imports had declined as a result of increased domestic production and buffer stocks.

3.2.5.2 Consequent upon the rise in oil prices in 1973 the import bill for mineral fuel and petroleum products had gone up to 23.3% in the year 1975-76, which took away a major portion of our export earnings. The share of iron and steel imports which was one of the largest items had gone up in absolute terms in 1974-75 but in percentage terms, it had not increased as compared to 1960-61. The financial commitment for the import of machinery and transport equipment especially non-electrical machinery was high, which taken as a whole was one of the biggest import items. But the share of non-electrical machinery in our import bill was not very much

(10.9%) in 1975-76 compared to 1960-61 figure (18.1%). This was due to the increased industrialisation. India had been trying to become self-sufficient for the aforesaid items. With the acceleration in the rate of industrialisation the import of transport equipment had increased. But its share gradually decelerated in the total imports.

3.2.5.3 Among other items, imports of fertiliser manufactures also showed a rise of Rs. 436 crores and Rs. 434 crores in 1974-75 and 1975-76 respectively, as compared to Rs. 10 crores in 1960-61 and Rs. 81 crores in 1970-71 in absolute terms, in percentage term it rose from 0.9% in 1960-61 to 9.6% in 1974-75 but its share was slightly declined to 8.24% in 1975-76. This was due to increased domestic production consequent on better utilisation of installed capacity and encouragement provided for the use of organic manures and also large accumulated stocks. So the reduction in volume accompanied by the fall in world price resulted in a sharp drop in the value of imports of fertilisers.

3.2.5.4 The study of imports and exports composition gives us the idea, how the structure of our foreign trade has undergone significant changes during the period under review. Considerable diversification is found in our exports and imports. How diversification has brought changes in the direction of our foreign trade is next studied.

Table 3.3 : India's Imports of Principal Commodities

Commodities	(Rs. in crores)								
	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
I. <u>Food and Live animals</u>	214 (19.0)	354 (25.14)	321 (20.3)	272 (16.6)	197 (10.8)	160 (8.6)	547 (18.5)	855 (18.9)	1424 (27.1)
1. Cereal and cereal preparation	181 (16.1)	322 (22.9)	261 (16.5)	213 (13.0)	131 (7.2)	81 (4.3)	473 (16.0)	764 (16.9)	1338 (25.4)
a) Wheat	153 (13.64)	264 (18.82)	184 (11.7)	173 (10.6)	103 (5.7)	48 (2.6)	346 (11.7)	698 (15.4)	1207 (23.0)
b) Rice	22 (1.96)	42 (2.98)	58 (3.7)	30 (1.8)	18 (0.9)	11 (0.6)	6 (0.2)	12 (0.3)	45 (0.89)
c) Others	6	15	18	10	11	22	121	53	86
2. Cashew nut	10	15	27	29	28	32	29	37	34
3. Spices	2	6	7	-	1	1	1	1	1
4. Others	21	16	31	29	37	46	44	54	51
II. <u>Beverages & Tobacco</u>	1	5	1	-	-	-	-	-	-
1. Tobacco (unmanufactured)	-	-	5	-	-	-	-	-	-
III. <u>Crude materials, Inedible except fuels</u>	155 (13.82)	123 (8.73)	177 (11.18)	200 (12.23)	213 (11.67)	190 (10.17)	184 (6.22)	220 (4.86)	210 (3.98)
1. Hides and skins (raw)	2	2	2	2	1	1	1	1	1
2. Copra	12	6	3	3	2	1	-	-	-
3. Crude rubber	11	5	10	4	4	4	4	7	7
4. Cotton raw and other than linters	82	46	83	99	113	91	52	27	28
5. Jute raw including cutting & waste	8	9	1	-	-	1	12	4	3
6. Wool raw and other animal hairs	10	5	17	16	14	12	21	27	26
7. Others	31	49	62	77	79	81	94	154	145
IV. <u>Mineral fuel, Lubricants and Related materials</u>	70 (6.24)	68 (4.82)	138 (8.72)	136 (8.32)	195 (10.8)	204 (10.9)	561 (18.9)	1157 (25.6)	1226 (23.3)
1. Petroleum crude and partly refined	17	35	96	106	147	145	417	955	1052

Contd...

Table 3.3 : (Continued)

Commodities	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
2. Petroleum product	52	33	41	30	47	59	143	202	174
3. Others	1	-	-	-	-	-	-	-	-
V. <u>Animals & Vegetable oil & Fat</u>	5	14	30	38	46	25	65	35	18
VI. <u>Chemicals</u>	86 (7.7)	105 (7.5)	195 (11.8)	192 (11.8)	218 (12.1)	259 (12.9)	357 (12.1)	731 (16.2)	721 (14.4)
1. Chemical elements & components	39	36	67	68	72	91	110	186	177
2. Dyeing, tanning and colouring materials	13	7	7	9	8	9	10	11	12
3. Medicinal and pharmaceutical products	11	9	18	24	27	23	26	34	36
4. Fertilisers, manufactured	10 (0.9)	39 (2.76)	77 (4.9)	61 (3.7)	81 (4.43)	96 (5.14)	163 (5.5)	436 (9.6)	434 (8.24)
5. Others	13	15	25	30	31	39	48	63	62
VII. <u>Manufactured goods</u>	234 (20.8)	216 (15.3)	230 (14.6)	345 (21.1)	440 (24.4)	450 (24.1)	539 (18.2)	771 (17.1)	605 (11.8)
1. Paper, paper board & manufactures thereof	12	13	24	25	35	31	29	60	56
a) News print	6	6	19	19	28	21	18	45	38
2. Art silk yarn & thread	14	5	2	4	6	3	3	10	10
3. Iron & steel	123 (10.97)	98 (6.96)	82 (5.2)	147 (8.9)	238 (13.2)	226 (12.1)	249 (8.4)	424 (9.4)	306 (5.9)
4. Non-ferrous metals	47	68	74 (4.7)	119 (7.3)	102 (5.6)	108 (5.8)	139 (4.7)	177 (3.9)	96 (1.9)
5. Metal manufactures	23	18	7	9	12	19	22	28	29
6. Others	16	13	41	40	48	62	97	74	109

Contd...

Table 3.3 : (Continued)

Commodities	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
VIII. Machinery & Transport equipments	333 (29.7)	492 (35.0)	391 (25.1)	395 (24.2)	471 (25.1)	532 (28.5)	652 (22.1)	696 (15.4)	882 (17.8)
1. Machineries, other than electric	203 (68.1)	334 (23.7)	280 (17.8)	258 (15.8)	271 (14.8)	298 (15.9)	427 (18.2)	404 (8.9)	564 (10.9)
2. Electric machinery apparatus & appliances	57 (5.1)	88 (6.25)	64 (4.1)	70 (4.3)	105 (5.7)	134 (7.2)	130 (4.4)	161 (3.6)	187 (3.8)
3. Transport equipments	72 (6.4)	71 (5.0)	51 (3.2)	67 (4.1)	95 (1.1)	100 (5.4)	95 (3.2)	131 (2.9)	130 (2.9)
a) Railway vehicles	25	25	12	14	20	25	25	25	28
b) Others	47	46	39	53	75	75	70	106	102
IX. Miscellaneous manufactured articles	17	19	25	33	33	37	42	47	52
Total amount of imports (includes miscellaneous transaction and commodities)	1122	1408	1583	1634	1825	1867	2955	4519	5265

N.B. : (1) To avoid fraction full number is taken on the basis of .5 as the margin, above it is full number (higher), below it is full number (lower).

(2) Percentages of some of the important items are calculated.

Source : (1) RBI, Report on Currency & Finance, 1973-74 and 1976-77.

(2) Monthly Statistics of the Foreign Trade of India, DGCI&S.

3.2.6 Direction of Trade

3.2.6.1 Tables 3.4 and 3.5 reveal the directional pattern of India's foreign trade with percentages by major groups of countries and regions for the period under review. From here we find that the bulk of our trade was tied up with the Western European (mainly U.K.) and North American countries, because the higher purchasing power of the world was concentrated in those areas, rather than from developing regions.

3.2.6.2 Trade with the European continent can be divided into three broad categories - Western Europe, Eastern Europe and other European countries. The most important among them were, Western Europe which occupied the first position among trading regions, socialist Eastern European countries coming next in continent of Europe. Western Europe is further divided into ECM (European Common Market) and EFTA (European Free Trade Area) countries.

3.2.6.3 Table 3.4 shows that the Western European countries (ECM & EFTA) contributed a major portion of our export earnings i.e. Rs. 230.04 crores or more than 35% of our exports in 1960-61. Out of that the share of U.K. was 26.85%. Traditionally U.K. was the most important market for our exports. The share of EEC was negligible till Britain's entry into ECM in 1971. Till that time the share of EFTA was much higher

Table 3.4 : Share of Economic Regions in India's Exports (Percentage and Absolute)

Regions	(Rs. in crores)								
	1960-61	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Africa									
Value - absolute	48.99	61.84	88.12	139.29	132.06	101.12	100.91	257.61	270.42
Percentage of total	(7.62)	(7.68)	(6.2)	(9.1)	(8.4)	(5.1)	(4.0)	(7.1)	(6.8)
North America									
Value	120.15	168.04	264.3	235.3	302.5	303.9	373.6	419.1	550.2
Percentage of total	(18.70)	(20.85)	(18.7)	(15.3)	(15.8)	(15.4)	(14.9)	(12.6)	(13.9)
ESCAP Region									
Value	142.72	158.97	375.9	409.6	424.5	568.1	730.8	910.8	1177.8
Percentage of total	(22.21)	(17.73)	(26.6)	(26.7)	(26.5)	(28.8)	(29.3)	(27.4)	(29.9)
Eastern Europe									
Value	49.55	156.55	307.48	362.31	343.48	469.5	487.39	684.02	674.88
Percentage of total	(7.7)	(19.45)	(21.8)	(23.6)	(21.4)	(24.0)	(19.3)	(20.5)	(16.7)
EEC Countries (excluding UK till 1970-71)									
Value	51.57	55.26	100.5	99.01	302.98	407.7	594.3	698.97	819.1
Percentage of total	(7.72)	(16.86)	(7.12)	(6.5)	(18.9)	(20.8)	(23.5)	(21.0)	(20.9)
EFTA (including U.K. till 1970-71)									
Value	178.47	155.6	183.4	189.4	16.27	27.8	31.9	38.1	78.3
Percentage of total	(27.8)	(9.32)	(12.97)	(12.34)	(1.0)	(1.4)	(1.3)	(1.2)	(2.0)
U.K.									
Value	172.48	145.71	165.07	170.43	-	-	-	-	-
Percentage of total	(26.85)	(18.01)	(11.7)	(11.1)	-	-	-	-	-
Total (including other countries)									
	642.32	805.64	1413.2	1535.2	1608.2	1970.6	2523.0	3328.8	4043.0

N.E. : U.K. joined in EEC from 1971-72.

Source: RBI, Report on Currency & Finance, 1969-70, 1970-71, 1973-74 and 1976-77, Vol.II.

in our exports earnings compared to EEC in the continent of Europe. But then this region was not an important buyer of Indian goods, their exports being a mere 1% to 2% since 1971.

3.2.6.4 Our share of the vast and rapidly growing market like ECM is at present 0p3% of her world trade. The progress of EEC towards a common market and its association and agreements with so many countries meant increased hurdles for India's marketing in relation to those countries. While imports from those countries were passing duty free entry at that time India had to pay high duties. Besides, the common agricultural policy of EEC was also detrimental to India's exports. Apart from these handicaps, our exports were also affected by qualitative restrictions and heavy fiscal charges. So Indian exports have been modified from time to time to suit international commitments and international needs. Some drastic changes were found since 1974 in our exports to the EEC. Upto 1973-74 the share in absolute and percentage terms was increasing as it is clear from the table from 7.72% to 23.5%. But gradually it declined to 21.0% in 1974-75 and 20.9% in 1975-76. This was due to the relationship with U.K. which had undergone some dramatic changes. The main reasons behind the down trend in our exports were, large number of traditional items which

faced competition in market economies, unsophisticated products and continuous dilution of common wealth preferences. In spite of all these factors EEC countries, including U.K., had occupied the second position next to ESCAP countries among India's customers in 1975-76.

3.2.6.5 India had strong trade relations with North America especially with the U.S.A. and Canada. Its share in the world trade was about 20% on an average during the period 1970-71. But Latin American countries did not develop significant trade relations with us. Table 3.3 reveals that our exports to North America was 18.7% in 1960-61 which had shot up to 20.85% during 1965-66, but in the years 1974-75 and 1975-76 it declined to 12.6% and 13.9% respectively. This was due to the fact that the sophisticated demand did not allow India to take advantage of its products in the vast market. India's exports to Canada were also rising at a low rate because of high freight charges and improved quality of similar products from other areas. Existence of competition from higher import duties on certain items like footwear, jewellery and engineering goods held down the growth of exports to this region. Our exports to this region were restricted mainly to traditional items.

3.2.6.6 India's exports to the ESCAP (Economic and Social Commission for Asia & Pacific) region were mainly agro-based and semi-processed products. They were major buyers of our

goods. Three major countries viz. Japan, Iran and Australia were very important in this region. The trade with this region was more than 1/4th as it can be seen from the table. In the year 1975-76 it was about 30%. Then the trend of exports had been changing towards machinery, transport equipment, iron & steel and chemicals towards this region. India was developing her trade relations with Middle East countries by exporting manufactured goods and importing mainly raw materials. Africa, too did not provide an important outlet for our export. Her contribution was only 6.8% in 1975-76.

3.2.6.7 Exports to the East European countries had developed in subsequent years. The main items of exports to this region were tea, cashew kernel, spices, tobacco, oil seed, leather and jute manufactures. Bilateral trade and payment arrangements with them were one of the main reasons for rising trend in India's exports in that direction. Its share had increased from mere 7.7% in 1960-61 to 20.5% in 1974-75 and 16.7% in 1975-76 (details will be discussed in Part III).

3.2.7 Imports

3.2.7.1 Table 3.5 gives the picture of India's imports from different regions with their changes in absolute and percentage terms.

3.2.7.2 Developed market economies still occupied important

positions to meet the requirements of India. Western Europe was one among the important sources of our imports. Out of our total imports in the year 1972-73 and 1973-74 the share of the import bill from the EEC region was 31% and 34% respectively. But in recent year their importance was declining owing mainly to subdued industrial demand for capital goods and intermediate raw materials.

3.2.7.3 The share of EFTA, Africa and Latin America was negligible i.e. about 2% to 3% during 1975-76 for each of these regions. Upto 1972-73 the share of Africa was within the range of 8% to 10% because of large purchase of certain items like diamond, raw cotton and copper etc. by India. Likewise upto Britain's membership with EFTA the share of this region was 11% to 13% in 1970-71.

3.2.7.4 North America had got a massive share in India's imports. It rose from about 31% in 1960-61 to 40.13% in 1965-66. Since 1969-70 it was declining sharply due to cut-back of food imports and reduced purchase of fertilisers. Still it occupied the first position in our import bill compared to different regions. In 1975-76 its share in the import bill was 29%.

3.2.7.5 Despite the sharp decline in imports from Japan of

Table 3.5: Share of Regions in India's Imports (Percentage and Absolute)

Region	(Rs. in crores)									
	1961-62	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	
Africa										
Value	70.68	55.82	141.4	169.8	143.7	165.1	167.3	151.0	112.9	
Percentage	(6.3)	(3.96)	(9.0)	(10.4)	(7.9)	(8.8)	(5.7)	(3.3)	(2.2)	
North America										
Value	347.11	565.35	533.8	570.2	532.0	342.5	614.3	867.4	1497.8	
Percentage	(30.9)	(40.13)	(34.1)	(34.2)	(29.2)	(18.7)	(21.0)	(19.2)	(29.0)	
WSCAP Region										
Value	179.35	219.40	260.03	264.4	361.4	400.6	673.1	1128.8	1053.8	
Percentage	(16.0)	(15.6)	(16.6)	(16.2)	(19.8)	(21.5)	(25.0)	(25.0)	(20.4)	
Eastern Europe										
Value	44.31	155.99	283.66	227.65	209.44	231.07	400.49	664.3	546.16	
Percentage	(3.95)	(11.07)	(18.00)	(13.9)	(11.5)	(12.4)	(13.6)	(14.7)	(10.4)	
EEC Countries (excluding U.K. upto 1970-71)										
Value	195.9	206.4	170.4	188.4	447.7	576.4	704.0	867.8	1044.4	
Percentage	(17.46)	(14.65)	(10.9)	(11.5)	(26.2)	(30.9)	(34.1)	(19.2)	(20.2)	
EFTA Region (including U.K. upto 1970-71)										
Value	247.5	182.6	129.2	156.02	26.9	38.7	52.4	79.4	138.3	
Percentage	(22.06)	(13.0)	(8.2)	(9.6)	(1.5)	(2.1)	(1.7)	(1.8)	(2.7)	
U.K.										
Value	217.15	150.1	100.4	126.8	-	-	-	-	-	
Percentage	(19.36)	(10.65)	(6.4)	(7.8)	-	-	-	-	-	
Total (including all other countries)										
	1121.62	1408.0	1582.5	1634.2	1824.5	1867.4	2955.3	4518.5	5265.0	

N.B. : U.K. became a member of EEC from 1971-72.

Source: RBI, Report on Currency & Finance, 1969-70, 1970-71, 1973-74 & 1976-77, Vol.II.

fertilisers and chemical the total value of imports from the region of ESCAP was higher and it occupied the second position, next to North America. The share of our imports from that region increased upto 25% in 1974-75 but it had fallen to 20.4% in 1975-76.

3.2.7.6 Imports from the East European countries, though, reduced to 10.6% in 1975-76, but the table reveals a rising trend from 4% in 1960-61 to 11% in 1965-66 and 14.7% in 1974-75. This deceleration was mainly due to the domestic production of import substitutes. The jump from 4% to 11% during six years, i.e. from 1960-61 to 1965-66, of our imports from this region, was due to bilateral trade and payment agreements accompanied by increased economic activity after the Chinese aggression of 1962 and the Pakistan war of 1965. Besides, the availability of goods of requisite quantity at cheaper prices, trade deficit and foreign exchange difficulties with capitalist countries and decline in the amount of tied aid and grants from the West necessitated trade with Eastern Europe.

3.2.7.7 Taking an overall view, it can be stated that India had a more diversified pattern of foreign trade. Her excessive dependence on Western Europe and North America was gradually declining and there was a shift of trade in favour

of ESCAP and Eastern European countries. As one of the leading trading partners, Eastern European region requires sufficient attention in our discussion.

III. India's Trade with East European Countries - General

3.3.1 An attempt has been made in this part to present an overall picture of India's trade relations and its growth with the socialist countries of East European region, and the growth of the former's trade with some of the countries in the latter which can be discussed according to their relative importance.

3.3.2 As pointed out earlier, prior to 1960, Indo-Eastern Europe trade was negligible when compared to total trade turnover. For instance in the year 1950-51 the total exports to the socialist countries accounted for less than 1%, but India's trade with this region has been growing both in dimension and depth since 1960 i.e. after the conclusion of bilateral trade and payment agreements or rupee payment agreements. Continuous disequilibrium in the balance of payments resulting from decline in demand from traditional markets of our commodities coupled with rapidly growing demand for imports to meet developmental needs, and an acute shortage of foreign exchange, forced us to establish economic and trade

relationships with those countries. "This trade had enabled India to find a market for some of her non-traditional items and also maintained the unit value of her export of traditional items, by providing an assured alternative market for such goods. The tying up of trade and aid credit between India and the major partners in the East European bloc had also made the burden of repayment of such credit manageable." (Ambegaokar, 1974). To be more clear, India had to repay credit by exporting goods and it also provided some additional outlet for her exports.

3.3.3 As a result of these arrangements India's trade with the East European countries expanded substantially since 1960. The figures in Tables 3.6, 3.7 and 3.8 reveal that during 1960-61 to 1975-76 our exports had grown more than thirteen times i.e. from Rs. 49.5 crores to Rs. 674.9 crores. From a negligible share of 7.71% in 1960-61 (Table 3.8) to total exports, our share to East European countries had gone up to 23.6% in 1970-71 and 23.82% in 1972-73. But it declined to 16.69% in 1975-76. Moreover, the annual rate of growth of exports from the East European countries were generally higher than overall annual growth in exports excepting few years. (Table 3.7). The same was the case with imports. In imports, it is visible (Table 3.8) that the share of the East European countries grew from less than 4%

Table 3.6 : India's Balance of Trade with East European Countries (1960-61 to 1975-76)

(Rs. in millions)			
Year	Import (-)	Export(+)	Trade balance
1960-61	443.1	495.5	+52.4
1961-62	867.2	644.3	-213.9
1962-63	1101.3	926.8	-174.5
1963-64	1292.6	1089.1	-203.5
1964-65	1449.9	1438.8	-11.1
1965-66	1559.9	1565.5	+5.6
1966-67	2301.5	2256.7	-44.8
1967-68	2222.0	2259.4	+37.4
1968-69	3095.7	2663.1	-432.6
1969-70	2836.6	3074.8	+238.2
1970-71	2276.5	3623.1	+1346.6
1971-72	2094.4	3434.8	+1340.4
1972-73	2310.7	4695.0	+2384.3
1973-74	4004.9	4873.9	+869.0
1974-75	6643.0	6840.2	+197.2
1975-76	5461.6	6748.8	+1287.2

Note : Includes member countries of CMEA and Yugoslavia.
Exports do not include re-export.
Figures upto 1965-66 are in pre-devaluation rupees.

Source : (1) Foreign Trade Review Special Number Apr-June 1977.
(2) Statistical Outline of India (Various Issues).
(3) Monthly Statistics of the Foreign Trade of India, DGCI&S, Calcutta.

Table 3.7 : Rate and Pattern of Growth of India's Exports to and Imports from East European Countries and Rate of Overall Growth (1960-61 to 1975-76)

(Rs. in crores)								
Year	India's exports to E.E. countries	Rate of growth of India's annual exports	India's imports to E. countries	Rate of growth of India's annual imports	India's overall exports	Rate of growth of overall exports(annual)	India's imports	Overall growth of India's imports (annual)
1960-61	49.55	-	44.31	-	642.32	-	1121.62	-
1961-62	64.43	+30.10	86.72	+95.71	660.34	+2.8	1090.06	-2.81
1962-63	92.68	+43.94	110.13	+26.98	685.48	+3.8	1131.48	+3.79
1963-64	108.91	+17.47	129.36	+17.34	739.24	+7.8	1222.85	+8.07
1964-65	143.88	+32.13	144.99	+12.22	816.3	+10.42	1349.03	+10.31
1965-66	156.55	+8.75	155.99	+9.5	805.64	-1.3	1408.00	+4.37
1966-67	225.67	+44.21	230.15	+47.5	1086.0	+34.8	1992.0	+41.47
1967-68	225.94	-	222.2	-3.43	1199.6	+10.46	2008.6	+0.8
1968-69	266.31	+17.97	309.57	+39.33	1357.8	+13.18	1908.0	-5.08
1969-70	307.48	+15.45	283.66	+8.36	1413.2	+4.08	1582.5	-17.84
1970-71	362.31	+17.83	227.65	-19.73	1535.2	+8.63	1634.2	+4.2
1971-72	343.48	-5.19	209.44	-8.03	1608.2	+4.75	1824.5	+11.64
1972-73	469.5	+36.7	231.07	+10.36	1970.6	+22.5	1867.4	+2.35
1973-74	487.39	+3.81	400.49	+75.46	2523.0	+28.03	2955.3	+58.25
1974-75	684.02	+40.33	664.30	+65.86	3328.8	+31.94	4518.5	+52.9
1975-76	674.88	-1.21	546.16	-17.77	4043.0	+21.45	5265.0	+16.5

Calculated from

Source : (1) Foreign Trade Review, April-June, 1977.

(2) Statistical Outline of India, 1978.

Table 3.8 : Share of India with East European Countries in her World Trade

Year	(Rs. in crores)							
	Imports from E.E. countries 1	Exports to E.E. countries 2	Trade balance (E.E. countries) 3	Imports from world (Total) 4	Total export (world as whole) 5	Trade balance (whole) 6	Share of E.E. countries in total imports(1 as % in 4) 7	Share of E.E. countries in total exports(2 as % in 5) 8
1960-61	44.3	49.5	+5.2	1121.62	642.32	-479.30	3.95	7.71
1961-62	86.7	64.4	-21.3	1090.06	660.34	-429.72	7.95	9.75
1962-63	110.1	92.7	-17.4	1131.48	685.48	-445.99	9.7	13.52
1963-64	129.2	108.9	-20.3	1222.85	739.24	-429.61	10.56	17.47
1964-65	145.0	143.9	-1.1	1349.03	816.30	-532.73	10.74	17.76
1965-66	156.0	156.5	+0.5	1408.0	805.64	-602.36	11.07	19.36
1966-67	230.1	225.7	-4.4	1992.0	1086.0	-906.0	11.55	20.78
1967-68	222.2	225.9	+3.7	2008.6	1199.6	-809.0	11.06	18.83
1968-69	309.6	266.3	-43.3	1908.0	1357.8	-550.2	16.22	19.61
1969-70	283.7	307.5	+23.8	1582.5	1413.2	-169.3	17.93	21.76
1970-71	227.7	362.3	+134.6	1634.2	1535.2	-99.0	13.93	23.60
1971-72	204.4	343.5	+134.1	1824.5	1608.2	-216.3	11.47	21.36
1972-73	231.1	469.5	+238.4	1867.4	1970.6	+103.2	12.37	23.82
1973-74	400.5	487.4	+86.9	2955.3	2523.0	-432.2	13.55	19.31
1974-75	664.3	684.0	+19.7	4518.5	3328.8	-1189.7	14.70	20.54
1975-76	546.2	674.9	+128.7	5265.0	4043.0	-1222.0	10.37	16.69

Note : Including trade with Yugoslavia. N.B.: For easy calculation one digit in decimal is taken for E.E. Countries exports & imports.

Source : Foreign Trade Review Special Number April-June 1977 and Monthly Statistics of Foreign Trade of India, DGCI&S, Calcutta.

in 1960-61 to the peak of 17.79% in 1968-69 and 17.93% in 1969-70 then it declined to 10.37% in the year 1975-76. The share of imports (Table 3.8) had gone up in absolute terms from Rs. 44.31 crores in 1960-61 to Rs. 546.16 crores in 1975-76. It reached a height of Rs. 309.6 crores in 1968-69 then it started falling upto 1971-72. But since 1972-73 it was assuming an upward trend. Among East European countries the share of Soviet Union in Indian exports increased substantially. While, out of total imports from these countries, nearly half was from the USSR. Out of the 16 years of review, India had surplus in her trade balance for ten years with this region. It is visible from Table 3.6 that our trade position with the East European countries was almost balanced. So the trade of India with this region proved to be beneficial and always this balance of trade surplus was not possible with rest of the world. Excepting one year i.e. in 1972-73 our total trade balance was not favourable and that favourable balance was due to a large trade surplus with this region. A similar trend is exhibited with each of the East European countries in Table 3.9. However, all members in the East European region were not equally important trading partners. According to priority USSR was the top trading partner. It had been mentioned that foreign trade varied in degree from one country to another in the East European region. From this region countries comprising USSR, Poland

Czechoslovakia, GDR, Rumania, Bulgaria and Hungary have formed a CMEA bloc who had concluded bilateral trade and payment agreements with India excepting Yugoslavia which is not a member of this group. To spot out the importance of trading partners in the East European region let us see the trends in their foreign trade with India. Table 3.9 shows the percentage and absolute share of individual East European countries in India's exports to and imports from the Eastern Europe.

3.3.4 As it is mentioned earlier USSR is one of our important trading partners in the East European region. Her share in India's total exports to East European countries increased from 58.14% in 1960-61 to 61.16% excepting the year 1970-71. During the same period the share of imports from USSR had increased from 35.8% in 1960-61 to 54.15% in 1975-76. It may be noted from this table that growth rate of the USSR for both exports and imports were consistently higher than those for the East European countries. The above account shows the growing importance of Indo-Soviet trade (which will be discussed in detail in Part IV). Rapid growth had also occurred in Indian exports to Czechoslovakia, Bulgaria, Poland and Rumania. However, the share of these countries with exception to Poland did not rise over the period. The share of India's imports from USSR to her total

Table 3.9 : Exports to East European Countries Share of Individual East European Countries in Indian Exports/Imports from East Europe and their Share in India's Imports (1960-61 - 1975-76)

Countries	(Rs. in crores)									
	Exports					Imports				
	1960-61	1965-66	1970-71	1974-75	1975-76	1960-61	1965-66	1970-71	1974-75	1975-76
1. Bulgaria	0.19	2.19	9.58	17.12	22.92	0.54	4.00	15.48	29.09	21.83
Share percentage	(0.38)	(1.41)	(2.64)	(2.50)	(3.40)	(1.22)	(2.56)	(6.80)	(4.38)	(4.00)
2. Czechoslovakia	7.30	15.82	29.44	60.18	34.28	8.76	21.15	20.20	33.38	52.21
Share percentage	(14.73)	(10.17)	(8.13)	(8.80)	(5.08)	(19.77)	(13.56)	(8.87)	(5.02)	(9.56)
3. GDR	3.29	13.73	24.48	34.76	24.29	3.31	13.04	18.63	34.28	35.36
Share percentage	(6.64)	(8.83)	(6.76)	(5.08)	(3.60)	(7.47)	(8.36)	(8.18)	(5.16)	(6.47)
4. Hungary	1.37	6.93	13.78	19.49	14.32	2.02	7.60	14.95	22.03	23.99
Share percentage	(2.76)	(4.46)	(3.80)	(2.85)	(2.12)	(4.56)	(4.87)	(6.57)	(3.32)	(4.38)
5. Poland	3.87	9.12	22.12	76.97	84.73	4.42	13.67	28.03	94.33	72.69
Share percentage	(7.81)	(5.86)	(6.11)	(11.25)	(12.55)	(9.98)	(8.76)	(12.31)	(14.20)	(13.31)
6. Rumania	1.39	4.51	13.70	24.50	53.09	4.95	2.15	16.58	31.28	34.00
Share percentage	(2.81)	(2.90)	(3.78)	(3.58)	(7.87)	(11.17)	(1.38)	(7.28)	(4.71)	(6.26)
7. USSR	28.81	91.97	209.85	421.30	412.78	15.87	82.53	106.13	408.92	295.76
Share percentage	(58.14)	(59.13)	(57.92)	(61.59)	(61.16)	(35.82)	(52.81)	(46.62)	(61.56)	(54.15)
8. Yugoslavia	3.33	11.28	39.36	29.71	28.47	4.44	11.58	7.65	11.00	10.17
Share percentage	(6.72)	(7.75)	(10.86)	(4.34)	(4.22)	(10.00)	(7.60)	(3.36)	(1.66)	(1.96)
Total E.E. countries	49.55	156.55	362.31	684.02	674.88	44.31	155.99	227.65	664.30	546.16
Share percentage	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source : (1) Foreign Trade Review Special Number, April-June 1977.
 (2) RBI Bulletin, March 1974.

import from East European countries had gone up from 35.82% in 1960-61 to 54.15% in 1975-76. Excepting Poland the share of other countries in our total imports from the said region was negligible.

3.3.5 To be more clear about the growth of India's trade with the East European countries, the change in composition of commodities in trade and their diversification needs to be reviewed.

3.3.1 Composition of Commodities in Trade

3.3.1.1 An important aspect to be studied is the composition of exports and imports from East European countries to India, and the change in the composition over the years from 1960-61 to 1975-76. Here two things are to be stressed upon, the first one is, what were the important items exported to and imported from these countries and how did they change over the time, and the second point is, what were the changes in the composition of important commodities over the period. These points are to be examined in the context of India's overall trade.

3.3.2 Exports

3.3.2.1 So far as the above points are concerned, if we take

the composition of our trade regarding exports from Table 3.10 we find that our exports to these countries consisted of coffee, tea, jute, textiles, leather, cashew kernel, coir & coir products, oilseed cake, coffee, mica and iron ores. But in 1967-68 onwards, we see that some items were included to this category and the share of some other items increased. This growing list of exports to this region accounted for a considerable portion of India's total exports. As it is revealed from Table 3.10 that in 1960-61, oilseed cake, coffee, spices, tea, mica, iron ore, cashew kernels, jute manufactures and footwears were some of the important items in our exports to the East European countries. Among them the exports of oilseed cake, coffee, mica, footwear and iron ore (concentrate) to these countries were major items in India's overall export as can be seen from Table 3.11. But the share of our traditional items like jute goods, tea and leather and leather products were negligible in our total exports i.e. in case of leather it was only .48% of our total leather exports in 1960-61 (Table 3.11). So also for jute manufacture it was 3.4% of our overall exports of jute and tea was 6.58% of our total tea exports in the said year to the East European region. Coming back to Table 3.10 in the year 1967-68 and 1970-71 we see more items were added to this categories. In the year 1967-68 the share of those items i.e. jute manufacture, oilseed cake, coffee, cashew kernel, tea, leather and

Table 3.10 : India's Exports to East European Countries (Principal Commodities) (Percentages & Absolute Figures) 1960-61 to 1975-76

Commodities	(Rs. in crores)							
	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Cashew kernel	2.5 (5.04)	11.1 (4.9)	18.5 (5.1)	20.2 (5.09)	27.1 (5.76)	31.0 (6.71)	74.9 (11.45)	26.3 (4.07)
2. Coffee	2.1 (4.23)	10.5 (4.64)	19.8 (5.6)	12.6 (3.66)	15.2 (3.32)	9.4 (2.03)	25.8 (3.94)	33.2 (5.14)
3. Tea	8.1 (16.33)	23.1 (10.23)	29.8 (8.22)	40.2 (11.70)	38.18 (8.13)	38.20 (8.34)	70.55 (10.8)	85.9 (13.3)
4. Spices	4.6 (9.27)	10.0 (4.41)	10.2 (2.81)	12.4 (3.6)	10.8 (2.23)	13.3 (2.38)	23.83 (3.64)	23.76 (3.68)
5. Oil cake	2.34 (4.64)	33.69 (14.9)	36.06 (9.96)	26.19 (7.62)	43.6 (9.54)	58.9 (12.72)	78.1 (11.93)	43.7 (6.76)
6. Tobacco & beverage	0.7 (1.41)	5.3 (2.35)	6.3 (1.73)	17.5 (5.04)	30.3 (6.63)	19.3 (4.16)	18.7 (2.85)	30.5 (4.72)
7. Mica	2.0 (4.00)	6.7 (2.93)	8.9 (2.45)	10.1 (2.94)	11.0 (2.41)	7.1 (1.53)	10.3 (1.57)	10.1 (1.57)
8. Iron ore (including concentrated)	6.6 (13.31)	12.7 (5.62)	17.4 (4.8)	15.75 (4.6)	16.0 (3.45)	18.7 (4.04)	26.6 (4.07)	36.8 (5.7)
9. Groundnuts	0.7	1.2	4.5	4.2	4.13 (0.9)	15.5 (3.34)	10.6 (1.62)	13.13 (2.03)
10. Leather and leather products	0.2	14.26 (6.33)	34.8 (9.6)	31.36 (9.13)	41.7 (9.13)	55.3 (11.94)	47.6 (7.27)	55.0 (8.51)
11. Cotton textiles	0.2	2.0	18.1 (5.0)	13.4 (3.9)	30.3 (6.63)	17.2 (3.71)	24.1 (3.7)	28.2 (4.36)
12. Jute manufactures	4.6 (9.27)	42.1 (18.63)	47.4 (13.7)	45.5 (13.24)	67.0 (14.67)	48.0 (10.37)	75.6 (11.55)	88.7 (13.72)
13. Coir manufactures (and yarn)	0.3	2.7	5.1	5.0	1.8	1.65	1.9	3.0
14. Footwears	1.6 (2.23)	4.14 (1.83)	4.62 (1.27)	3.51 (1.06)	5.0 (1.11)	4.2 (0.9)	4.8 (0.73)	4.5 (0.70)
15. Engineering goods	-	6.41 (2.83)	14.46 (4.0)	12.44 (3.61)	16.94 (3.7)	16.85 (3.63)	17.96 (2.75)	20.85 (3.22)
Total (including others)	49.55	225.94	362.31	343.48	469.5	487.39	684.02	674.88

Note : Figures after 1972-73 is excluding Yugoslavia only in case of engineering goods. But total figure is for all the 8 countries.
Source : (1) RBI Bulletin, March 1974. (2) Foreign Trade Review Special Number, April-June, 1977.

Table 3.11 : Share of East Europe in India's Export of Selected Commodities (1960-61 to 1975-76)

Commodities/Products	(Rs. in crores)							
	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Cashew kernel								
Total export	19.0	43.0	52.0	61.0	69.0	74.0	118.0	96.0
Export to E.Europe	2.5	11.1	18.5	20.2	27.1	31.0	74.9	26.3
Percentage share of E.Europe	(13.15)	(25.80)	(35.57)	(33.11)	(39.42)	(41.77)	(65.43)	(27.38)
2. Coffee								
Total export	7.0	18.2	25.0	22.0	33.0	46.0	51.0	67.0
Export to E.Europe	2.1	10.5	19.8	12.6	15.2	9.4	25.8	33.2
Percentage share of E.Europe	(30.0)	(57.69)	(79.2)	(57.27)	(46.08)	(20.48)	(50.26)	(49.85)
3. Tea								
Total export	123.0	179.1	145.0	155.0	145.0	142.0	221.0	234.0
Export to E.Europe	8.1	23.1	29.8	40.2	38.18	38.7	70.55	89.9
Percentage share of E.Europe	(6.58)	(12.89)	(20.55)	(25.93)	(26.33)	(27.25)	(31.92)	(38.41)
4. Spices								
Total export	17.0	27.2	39.0	36.0	29.0	55.0	61.0	71.0
Export to E.Europe	4.6	10.0	10.2	12.4	10.8	13.3	23.83	23.76
Percentage share of E.Europe	(27.05)	(36.74)	(26.15)	(34.44)	(34.24)	(24.28)	(38.86)	(33.50)
5. Oil cake								
Total export	14.0	45.5	55.0	40.0	75.0	171.0	96.0	86.0
Export to E.Europe	2.34	33.69	36.06	26.19	43.6	58.9	78.1	43.7
Percentage share of E.Europe	(16.71)	(74.04)	(65.56)	(65.0)	(58.13)	(34.55)	(81.60)	(55.60)
6. Tobacco								
Total export	15.0	35.6	31.0	42.0	61.0	68.0	80.0	93.0
Export to E.Europe	0.7	5.3	6.3	17.5	30.3	19.3	18.7	30.5
Percentage share of E.Europe	(4.6)	(14.88)	(20.32)	(41.66)	(49.67)	(28.38)	(23.37)	(32.8)
7. Mica								
Total export	10.0	15.0	16.0	15.0	17.0	13.0	18.0	15.0
Export to E.Europe	2.0	6.7	8.9	10.1	11.0	7.1	10.3	10.0
Percentage share of E.Europe	(20.0)	(44.66)	(55.62)	(67.33)	(64.70)	(55.94)	(57.22)	(67.33)

Contd...

Table 3.11 : (Continued)

Commodities/Products	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
8. Iron ore								
Total export	17.0	74.8	117.0	105.0	110.0	133.0	160.0	214.0
Export to E.Europe	6.6	12.7	17.4	15.75	16.0	18.7	26.6	36.8
Percentage share of E.Europe	(38.82)	(16.97)	(14.87)	(15.0)	(14.54)	(14.06)	(16.62)	(17.19)
9. Groundnuts								
Total export	-	-	-	-	53.52	32.52	25.56	49.83
Export to E.Europe	0.7	1.2	4.5	4.2	4.13	15.5	10.6	13.13
Percentage share of E.Europe	-	-	-	-	(77.28)	(45.57)	(41.35)	(26.36)
10. Leather & Leather products								
Total export	25.0	53.0	72.0	91.0	175.0	172.0	145.0	201.0
Export to E.Europe	0.2	14.26	34.8	31.36	41.7	55.3	47.6	55.0
Percentage share of E.Europe	(48.0)	(26.90)	(48.33)	(34.46)	(23.8)	(32.15)	(32.8)	(27.3)
11. Cotton textiles								
Total export	58.0	79.4	97.0	100.0	127.0	240.0	215.0	213.0
Export to E.Europe	0.2	2.0	18.1	13.4	30.3	17.2	24.1	28.2
Percentage share of E.Europe	(0.34)	(2.5)	(18.65)	(13.4)	(23.85)	(7.16)	(11.2)	(12.23)
12. Jute manufactures								
Total export	135.0	234.0	190.0	265.0	250.0	227.0	297.0	248.0
Export to E.Europe	4.6	42.1	47.4	45.5	67.0	48.0	75.6	87.7
Percentage share of E.Europe	(3.4)	(18.0)	(24.94)	(17.16)	(26.8)	(21.14)	(25.45)	(35.36)
13. Coir manufactures								
Total export	N.A.	13.3	13.9	14.9	15.0	15.6	17.6	19.4
Export to E.Europe	0.3	2.7	5.1	5.0	1.8	1.65	1.9	3.0
Percentage share of E.Europe	-	(20.3)	(36.7)	(33.3)	(12.0)	(10.6)	(10.8)	(15.46)

Contd...

Table 3.11 : (Continued)

Commodities/Products	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
14. Footweares								
Total export	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Export to E.Europe	1.6	4.14	4.62	3.51	5.0	4.2	4.8	4.5
Percentage share of E.Europe	-	-	-	-	-	-	-	-
15. Engineering goods								
Total export	7.00	21.79	83.0	76.0	87.0	118.0	216.0	258.0
Export to E.Europe	-	6.41	14.46	12.44	16.94	16.85	17.96	20.85
Percentage share of E.Europe	-	(29.41)	(17.42)	(16.36)	(19.47)	(14.27)	(8.31)	(8.08)
Total Exports (including others)								
Total Exports (including others)	642.32	1199.6	1535.2	1608.2	1970.8	2523.0	3328.8	4043.0
Export to E.Europe	49.55	225.94	362.31	343.48	469.5	487.39	684.02	674.88
Percentage share of E.Europe	(7.71)	(18.83)	(23.60)	(21.36)	(23.82)	(19.31)	(20.54)	(16.69)

Source : (1) RBI Bulletin, March 1974.

(2) Foreign Trade Review Special Number April-June 1977.
(from DCCI&S, Calcutta).

footwear which constituted major items in 1960-61 (about 45%) had gone upto 60% of total exports to East European countries. But there were not much progress in the exports of engineering goods.

3.3.2.2 From Table 3.11 we also find that the rate of growth of exports to East European countries was exceptionally high in India's total exports in 1967-68 compared to 1960-61, the items were tea, coffee, cashew kernel, oil cake, jute manufacture, mica and coir products. Compared to the share of 1967-68, in the year 1970-71 the share of the East European countries in our total exports increased, as it is clear from the said table.

Again coming back to the Table 3.10 it is visible that the share of some of our traditional items to the East European countries in our total exports had increased during the period 1960-61 to 1975-76. For example the share of jute manufactures had increased from 9.27% in 1960-61 to 13.72% in 1975-76 again the share of tea, leather, oilseed cake & etc. had also increased. In the year 1975-76 the absolute share of East European countries in our total exports of those items still accounted for considerable proportion, though their relative shares declined. The export of engineering goods from India to this region under bilateral

rupee trade plan was seen growing slowly. Though there was an absolute increase to this region, the growth had not been consistent in all the countries except USSR.

3.3.2.3 While estimating the rate of growth of individual commodities to individual East European countries it was not possible and feasible due to discontinuity in time series in many cases, but it was only possible to point out countrywise and commoditywise analysis which were responsible for India's trade with these countries. The major items exported to different countries in East European region are mentioned below.

3.3.2.4 More than half of India's export, during the period under review, to USSR consisted of jute manufactures, tea, cotton textiles, cashew kernel, tobacco (unmanufactured), spices, oilseed cake and meal, coffee, iron ore, leather, clothing, castor oil and footwear (details in the Section IV of this chapter).

In case of other countries of this region the main exports to Poland were tea, cotton textiles, iron ore, oilseed oil cake and meal engineering goods and leather.

Exports to GDR consisted of jute manufactures, oilseed cake and meal leather goods and engineering goods.

For Hungary oilseed cake and meal, jute manufactures and spices were our main exportable items.

Bulgaria purchased jute manufactures, oilseed cake

and meal, iron ore, groundnut (HPS) and engineering goods from India.

Jute manufactures, cotton textiles, iron ore, oilseed cake and meal, coffee, leather and groundnuts (HPS) were the main exports to Czechoslovakia from India.

Rumania was the country within the East European region, who purchased iron ore and leather from us.

Lastly Yugoslavia purchased tea, spices, engineering goods, leather and HPS groundnuts from India.

3.3.2.5 Thus from commoditywise and countrywise composition we found that India's exports to the East European countries had undergone considerable change during the period under review and share of some of her exportable items in her total exports was rising tremendously. The exports of traditional items like jute goods, tea, leather, oilseed cake etc. rose considerably. At the same time these countries imported an increasing share of India's non-traditional items like clothing, cashew kernel, tobacco (unmanufactured) etc.

3.3.3 Imports

3.3.3.1 On the other hand India's imports from those countries were mostly concentrated in machinery, iron & steel fertilisers, organic chemicals, paper, medicine and pharmaceutical product and petroleum products.

3.3.3.2 Tables 3.12 and 3.13 present the data relating to imports from the East European countries and from world

Table 3.12 : Composition of India's Import from East European Countries from 1960-61 to 1975-76

Commodities	(Rs. in crores)							
	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Petroleum product	0.3 (0.67)	5.0 (2.24)	10.9 (4.78)	10.0 (4.77)	N.A.	N.A.	N.A.	N.A.
2. Chemical element & compounds	2.0 (4.51)	11.8 (5.28)	16.4 (7.20)	16.0 (7.64)	13.8 (6.16)	15.4 (4.00)	39.2 (6.01)	40.8 (7.61)
3. Sulphur	N.A.	N.A.	N.A.	N.A.	6.0 (2.69)	2.1 (0.56)	1.2 (1.88)	7.9 (1.47)
4. Medical and pharmaceutical products	0.6 (1.35)	2.9 (1.30)	7.0 (3.07)	6.9 (3.29)	4.5 (2.03)	6.0 (1.56)	8.7 (1.34)	11.3 (2.11)
5. Zinc	N.A.	N.A.	N.A.	N.A.	5.4 (2.42)	3.8 (0.97)	13.1 (2.01)	7.8 (1.45)
6. Fertiliser and manufactures	1.7 (3.84)	16.5 (7.4)	15.8 (6.98)	19.4 (9.26)	16.2 (7.23)	26.8 (6.95)	124.1 (18.99)	110.5 (20.61)
7. Paper, paper board & manufactured thereof	0.2 (0.45)	3.9 (1.75)	6.2 (2.81)	7.0 (3.34)	6.9 (3.07)	9.2 (2.38)	18.3 (2.80)	11.6 (2.17)
8. Iron & steel	11.1 (25.05)	21.4 (9.5)	26.6 (11.68)	29.7 (14.18)	31.8 (14.23)	33.5 (8.71)	54.4 (8.32)	50.6 (9.44)
9. Manufactured metal (n.e.s.)	1.5 (3.38)	2.1 (0.94)	1.8 (0.79)	0.9 (0.43)	2.3 (1.03)	2.1 (0.56)	3.6 (0.54)	4.0 (0.78)
10. Machineries other than electric	12.9 (29.12)	89.7 (40.18)	85.8 (37.68)	57.5 (27.45)	49.6 (22.16)	80.1 (20.82)	84.6 (12.94)	110.5 (20.62)
11. Electrical appliances	3.0 (6.77)	9.0 (4.3)	13.0 (5.75)	12.8 (6.11)	19.5 (8.70)	15.3 (3.99)	24.8 (3.80)	16.8 (3.14)
12. Transport equipments	0.9 (2.03)	6.9 (3.09)	6.4 (2.81)	10.9 (5.22)	12.7 (5.66)	9.8 (2.55)	11.0 (1.70)	8.6 (1.61)
Total	44.31	222.2	227.65	209.44	223.07	400.49	664.3	546.16

Source : (1) RBI Bulletins, March 1974, (2) Foreign Trade Review, April & June 1977, (3) DGCI&S, Calcutta.

Table 3.13 : Share of East Europe in India's Import of Selected Commodities

Commodities/Products	(Rs. in crores)							
	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Chemical Element & Compounds								
Total import	39.0	77.0	68.0	72.0	97.0	110.0	186.0	177.0
Import from E. Europe	2.0	11.8	16.4	16.0	13.8	15.4	39.2	40.8
Percentage share of E. Europe	(5.12)	(15.32)	(24.11)	(22.22)	(15.16)	(14.0)	(21.07)	(23.05)
2. Medical & Pharmaceutical Products								
Total import	11.0	17.5	24.0	27.0	23.0	26.0	34.0	36.0
Import from E. Europe	0.6	2.9	7.0	6.9	4.5	6.0	8.7	11.3
Percentage share of E. Europe	(5.45)	(16.57)	(29.16)	(25.55)	(19.56)	(23.07)	(25.58)	(31.38)
3. Fertiliser Manufactures								
Total import	10.0	13.9	61.0	81.0	96.0	163.0	436.0	434.0
Import from E. Europe	1.7	16.5	15.8	19.4	16.2	26.8	12.4	110.5
Percentage share of E. Europe	(17.0)	(11.87)	(25.90)	(24.0)	(16.9)	(16.44)	(28.44)	(25.46)
4. Paper, Paper Board & Manufactures Thereof								
Total import	12.0	17.7	25.0	35.0	31.0	29.0	60.0	56.0
Import from E. Europe	0.2	3.9	6.2	7.0	6.9	9.2	18.3	11.6
Percentage share of E. Europe	(1.66)	(22.03)	(24.0)	(20.0)	(22.25)	(31.72)	(30.5)	(20.71)
5. Iron & Steel								
Total import	123.0	106.3	147.0	238.0	226.0	249.0	424.0	306.0
Import from E. Europe	11.1	21.4	26.6	29.7	31.8	33.5	54.4	50.6
Percentage share of E. Europe	(1.66)	(20.13)	(18.09)	(12.5)	(14.1)	(13.45)	(12.83)	(16.53)
6. Manufactured Metals (n.e.s.)								
Total import	23.0	14.2	9.0	12.0	19.0	22.0	28.0	29.0
Import from E. Europe	1.5	2.1	1.8	0.9	2.3	2.1	3.6	4.0
Percentage share of E. Europe	(6.5)	(14.8)	(20.0)	(7.5)	(12.1)	(9.5)	(12.85)	(13.79)

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Table 3.13 : (Continued)

Commodities/Products	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
7. Machinery Other Than Electric								
Total import	203.0	336.5	258.0	271.0	298.0	427.0	404.0	564.0
Import from E.Europe	12.9	89.7	85.8	57.5	49.6	80.1	84.6	110.5
Percentage share of E.Europe	(6.35)	(26.65)	(33.25)	(21.2)	(16.64)	(18.75)	(20.9)	(19.6)
8. Electric Machinery & Appliances								
Total import	57.0	84.6	70.0	105.0	134.0	130.0	161.0	187.0
Import from E.Europe	3.0	9.0	13.0	12.8	19.5	15.3	24.8	16.8
Percentage share of E.Europe	(5.26)	(10.6)	(18.57)	(12.2)	(14.55)	(11.76)	(15.4)	(9.0)
9. Transport and Equipments								
Total import	72.0	61.0	67.0	95.0	100.0	95.0	131.0	130.0
Import from E.Europe	0.9	6.7	2.81	5.22	5.66	2.55	1.70	1.61
Percentage share of E.Europe	(1.25)	(8.5)	(4.2)	(5.5)	(5.66)	(2.7)	(1.3)	(1.22)
Total imports (including others)								
Total imports (including others)	1121.62	2008.6	1634.2	1824.5	1867.4	2955.3	4518.5	5265.0
Import from E.Europe	44.31	222.2	227.65	209.44	231.07	400.49	664.3	546.16
Percentage share of E.Europe	(3.95)	(11.06)	(13.93)	(11.47)	(12.37)	(13.55)	(14.70)	(10.37)

Source : (1) RBI Bulletin, March 1974.

(2) Foreign Trade Review, Special Number April-June 1977.

(3) DGCIS, Calcutta.

market. Table 3.12 indicates the composition of imports from the East European region and changes therein over the period, and Table 3.13 reveals the share of East European countries in India's overall imports from world market.

3.3.3.3 Regarding India's imports from the East European region Table 3.12 shows that in the early stage of industrialisation the imports of iron and steel machinery other than electricity accounted for about 45% of our total imports in 1960-61 from this region. Out of that, the share of machinery and equipment or engineering goods (comprising of machinery other than electric, electrical appliances and transport equipment) was about 38% of our total imports from this region. Besides, items like fertilisers, chemical elements and compound and medical products were also some of the imported items accounted for say 10% of our total import bill for the East European countries.

Compared to India's total imports in 1960-61, imports from socialist countries in respect of items like fertilisers, and machinery (electrical & non-electrical) were major items. For fertilisers and machinery it was 17% and 5.06% respectively (Table 3.13).

3.3.3.4 Coming back to Table 3.12 we find in 1967-68 the imports of machinery and equipments other than electric, pharmaceutical products increased from East European countries. On the other hand if we see the shares of the East

European countries in our total imports (Table 3.13) we find that the engineering products, iron & steel manufactures, paper and paper boards, medicine and pharmaceutical products had increased considerably. Out of our total imports of iron & steel one fifth of it was imported from East European countries. Again in the year 1970-71 the share had gone upto one fourth of our total imports. The share of medicines and chemicals were about 29% and 24% respectively in our total import bill for the said years from the East European countries. Out of the total imports from the East European countries the share of fertiliser was 11.87% in 1967-68 which increased to 25.90% in 1970-71, Table 3.12 shows that in 1975-76 the imports of fertilisers, chemical and chemical products increased to 20.61% as against 3.84% in 1960-61 and 7.61% as against 4.51% in 1960-61 respectively from the East European countries. Again the percentage share of machinery other than electric to our total imports from the East European countries had gone up to 20.62% 1975-76 against 12.94% in 1974-75 though there was a downward trend from 1967. We find the share of the East Europe in India's imports of the items like medical and pharmaceutical products, fertilisers etc. increased, but the share of other items had decreased from Table 3.13. In 1975-76 major items of imports from these countries were non-electrical machinery, manufactured fertilisers and iron & steel. It appears that over time that India is importing an increasing proportion of fertilisers from these countries.

3.3.3.5 It must however be noted from Table 3.12 that the trend of sixties were not repeated in the seventies. When we consider imports from socialist countries we find that iron & steel manufactures and machinery are as the major items accounting for more than half of India's imports from these countries in 1960-61. We did not find much changes in the composition of imports in 1970-71 compared to 1960-61. But in 1975-76 the trend in the composition had already been changed. There had been a consistent endeavour to diversify imports because of India's capacity to meet domestic demand through domestic production and the need for more technically sophistication in various sectors which the East European countries were not in a position to supply at that time. Efforts had been made to import goods such as industrial raw materials & crude petroleum.

3.3.3.6 In examining India's trade with East European countries it is pertinent to study the change in the direction of trade.

3.3.4 Direction of Trade
(Refer to Tables 3.4 & 3.5)

3.3.4.1 Data relating to the change in the direction of India's trade with the East European countries and rest of the world already been presented in Tables 3.4 and 3.5. These tables gave us India's exports and imports of the said region and the rest of the world during the period 1960-61

to 1975-76 with regional breakdown. (Details have already been discussed in Part I while discussing regional patterns of trade, but here the attempt has been made to see, how a considerable diversion had been taken place at the cost of trade with convertible currency regions towards the East European region.)

3.3.4.2 With the introduction of rupee payment trade with the East European countries, particularly in the sixties a calculated boost was given to India's foreign trade. As it can be seen from Table 3.4 India's exports to the East European countries was negligible upto 1960-61. But since India was adopting the path of planned economic development, the complementary of India's economy with those of centrally planned East European countries the bilateral trade and payment agreements was signed, which facilitated to raise our share of export, from 7.7% in 1960-61 to 24% in 1972-73. Subsequently, our export to the East European countries however, declined to 20.6% in 1974-75 and further to 17.2%. Moreover, annual rate of growth of export to this area increased much faster than India's total exports as it was clear from Table 3.7 excepting some years. Starting with a total export of Rs.49.5 crores in the year 1960-61, exports to this area reached a level of Rs. 675 crores in 1975-76 registered a growth of 20% per annum. The incremental ratio of India's exports to the East European countries to her exports during the period was much higher than for exports to any other

major regions. Table 3.4 revealed, if we compare our share to East European countries with North America and E.E.C. (including U.K.) we find that in case of North America our share remained more or less fluctuating within the range of 13% to 21% and, in case of, EEC countries it varied within the range of 20 to 30%. But in case of East European countries our exports had increased from 7% to 24% where the range was higher excepting our exports to ESCAP region. Like the East European countries this region was also one of our leading trade partners.

3.3.4.3 Such an analysis was carried out, taking into consideration the external demand for the commodities that India exported, the degree of competitiveness for these products in these markets and domestic supply constraints. We had assumed that such diversion could have taken place only in case of traditional commodities which had an international market.

3.3.4.4 In order to find out the degree of diversion to this region that had taken place in India's exports during the period 1960-61 to 1975-76 some export commodities have been selected for further analysis in view of importance in different regions.

3.3.4.5 In case of coffee India did not show any significant increase till 1970-71. During 1960-61 exports of coffee from India was near about 20% to East European countries but for

rest of the world only 80% but during 1975-76 it had increased to 50% for East European countries and this region emerged as an important market for coffee in the world. Import of coffee from India to total imports by some of major importing countries like North America, U.K. and East European countries as a whole was insignificant. It was due to inadequacy of domestic supply and consequent limited availability of export surplus. Besides, increase in export of coffee to multi-lateral market could only take place within the export quotas stipulated under the International Coffee Agreement of 1962.

3.3.4.6 In case of tea there was an increasing trend of export to East European countries but it was a declining trend in case of rest of the world. The declining trend of the developed countries was due to low income elasticity of demand for tea by them. Besides, the emergence of African countries as a cheap source of supply of tea and high labour cost in our countries were some of the causes of declining in the world demand particularly the U.K. As a result of deceleration in the export earnings from other regions and quantity commitments of India to export specified amounts diversion of our tea export to East European countries region.

3.3.4.7 So far as the export of jute manufactures was concerned, the East European countries absorbed about 2.2% of our total jute exports in 1960-61. However, over the years

this region started absorbing more and more jute manufactures during 1975-76 it was about 35.36% of total export of jute manufactures. Till 1960 U.S.A. was the important market for our jute manufactures. Nearly 50% of Indian production was absorbed by U.S.A. But due to emergence of jute industry in Pakistan our share declined in regions like U.S.A., U.K. and E.E.C. This led her to divert jute exports to the East European countries.

3.3.4.8 Likewise the exports of pepper, cashew kernel etc. showed a systematic increase to East Europe, correspondingly there was a continuous decline to the other countries. In case of pepper U.S.A. was our major exporter in early sixties but due to uncompetitive price we lost that market. On the other hand large purchase made by the East European countries might have led to an artificial price rise and making India unwilling to export to other countries. The export of cashew kernel also declined due to competition from Brazil and African countries who were able to strengthen their foothold in India's traditional markets like U.S.A. and the E.E.C. due to geographical proximity and tariff concessions offered by East European countries. This led India to divert her exports of the above items to East European countries.

3.3.4.9 Besides commodities like unmanufactured tobacco, manganese ore, iron ore, mica and others were considered as additional in nature. Very often, various aspects like full

utilisation of capacity, employment and fair prices to growers had been influenced by offtake of East European countries.

3.3.5 Imports

3.3.5.1 Table 3.5 gives the share of other economic regions and the East European countries in our imports. During 1960-61, the share of India in her total import bill was 3.95% but the shares of other regions particularly from the convertible currency area were exceptionally high. North America commanded about 31% of our import bill, U.K. 19.36% and EFTA 22.06%. The whole Western Europe commanded about 60% of our total imports in the same year. But due to the trade agreements, India was committed to utilise its export earnings to purchase goods and services from the partner countries. So the picture changed considerably in 1965-66 when our imports from the East European countries had gone up by 11% then to 18% in 1969-70. Since 1970-71 it was gradually falling. Because the trade agreements included a wide variety of goods but some of these were not special, in the sense that only the East European countries could have provided them.

3.3.5.2 The East European countries were dominant suppliers of capital goods, machinery and some of the major raw materials such as non-ferrous metals and crude petroleum. As a result of steady expansion of domestic capital goods industries the demand for import of machinery and other capital

goods is shrinking. Therefore, India was finding it difficult to import the goods which the East European countries were capable of supplying us. Besides, the share of petroleum products in our import bill was also increasing. All these factors led to a decline in imports to 10.4% in 1975-76. On the other hand there had been a consistent endeavour to diversify imports from North America, which was the highest i.e. 29% in the year 1975-76, and ESCAP which had 20.4% of our import bill in the same period. Whatever may be the stage of imports from socialist countries both parties aimed at balanced trade. The volume and type of such imports were predetermined or preplanned on the basis of certain priorities. In addition the price paid by India on her imports from East European countries were lower than imports from non-agreement countries. Besides, the shipping agreements were also made by India with those countries which specified that all exports and imports should be carried by both parties in their national carriers. It was the desire of India to import large quantities of raw materials, petroleum products, fertilisers, steel, non-ferrous metals, basic chemicals for several projects financed by the East European countries.

3.3.5.3 However, looking at the import position from 1960-61 to 1975-76 we find there was a diversion of trade i.e. from a negligible share of 4% to more than 10%, even though the trend was not progressing due to factors discussed above.

3.3.6 Terms of Trade

3.3.6.1 In discussing India's terms of trade with East European countries it was important to distinguish whether the prices India paid for her imports and received for her exports from trade partners are comparable to those it would have paid to and received from other countries.

3.3.6.2 As we have discussed earlier bilateral trade agreements in inconvertible currencies generally aimed at balancing trade over the trade-plan period. The flows of exports and imports between the trading partners are interdependent.

Negotiation on prices of exports and imports took place on the size of the trade plan. In the course of our discussion we found that there was no distortion in India's terms of trade with the East European countries. However, if there was any distortion in terms of trade it could be examined by looking at the question of net barter terms of trade.

3.3.6.3 With regards to gains from trade, from socialist countries we had to see it in the context of unit value comparison of socialist countries and rest of the world. Table 3.14 gives the unit value index of exports to and imports from East European countries vis-a-vis her overall trade. In that table "net barter terms of trade"* concept

* Symbolically net barter terms of trade is $P_x/P_m \times 100$ (Price of exports divided by price of imports multiplied by 100).

Table 3.14 : Unit Value Index of Major Exports to Imports from East European Countries and World (1968-69 to 1972-73)

(Base 1968-69 = 100)

Year	Unit value index of export		Unit-value index of imports	
	Exports to E.E. countries	Total export	Import from E.E. countries	Total imports
1968-69	100.00	100.00	100.00	100.00
1969-70	103.33	99.05	101.50	91.11
1970-71	109.20	102.81	97.88	92.53
1971-72	103.99	104.80	89.00	108.22
1972-73	117.25	114.25	86.60	88.18
% change 1972-73/1968-69	+17.25	+14.25	-10.40	-11.82

N.B. : Net barter terms of trade $P_x/P_m \times 100$ (Price of export/price of import $\times 100$)

Source : (1) RBI Bulletin, March 1974.
(2) Foreign Trade Review Special Number, April-June, 1977.

was used for calculating the terms of trade. We consider the ratio between the unit value of exports and unit value of imports. The higher unit value index of exports as compared to the unit value of imports would mean we were getting more goods from abroad for the same quantity of foreign exchange. It revealed that the unit value index of exports to the East European countries increased by 17.25% points and unit value index of imports declined by 10.4 between 1968-69 and 1972-73 (Base : 1968-69 = 100). Hence according to the principle $(P_x/P_m \times 100)$ the net barter terms of trade was 130.85 or it increased by 30.85% say 31% during the same period, on the other hand the unit value index for rest of the world for exports had increased by 14.25% points, and for import decreased by 11.82% points. As a result of which the net barter terms of trade with other countries improved by 29.56%, which was less than the improvement in terms of trade with East Europe. The condition of terms of trade was unfavourable in 1971-72 for rest of the world when our net barter terms of trade with East European countries improved by 16.85% in the same period. This led us to the conclusion that average price realisation of India from East European countries was generally higher than from rest of the world.

3.3.6.4 The above account clearly shows the growing importance of trade with East European countries. In the light

of this discussion it is essential to examine India's trade with some of important countries of East European region.

IV. India's Trade with East European Countries - Countrywise Study

3.4.1 We had given an overall picture of India's trade with East European countries. The trends in trade, that we had seen before, were exhibited in India's exports and imports performance with this region. In this section we would examine India's trade with some of the countries in the CMEA (Council of Mutual Economic Assistance) bloc including Yugoslavia according to their relative importance. The most important trading partner in the CMEA group was USSR.

3.4.1 Indo-Soviet Trade

3.4.1.1 One of the recent developments in India's foreign trade was the growing trade relationship with Soviet Union which was due to the expansion and strengthening of economic ties between the two countries.

3.4.1.2 Looking at the history of Indo-Soviet relationship, we found that when India launched her first five year plan after independence, she required capital goods to meet her industrial development. But the western countries (particularly U.K.) were not prepared to encourage India's industrialisation, on the other hand, they wanted raw materials from India, and made an attempt to continue India's dependence on them for manufactured goods. Consequently, India tried to

establish long term bilateral trade relations with the Soviet Union and other East European countries. After independence, Indo-Soviet trade slowly revived, and as the years rolled on, it assumed new dimensions. The first steps to promote trade were taken in 1950, when the two countries signed a regular sea communication agreement which was followed by a barter deal in 1951, under which the Soviet Union agreed to send wheat to relieve serious food shortage in exchange for tea and jute from India. In the year 1953, both the countries signed an official trade agreement on 5 years term basis. Consequently, the provision for clearance in the Indian rupee and self-balancing system made it obligatory on both parties to increase trade according to their mutual requirements. No foreign exchange was involved in these transactions. All accounts were maintained in Indian rupees which was operated by the Reserve Bank of India. Hence bilateral agreements with socialist countries in general and the Soviet Union in particular, incorporating the provisions for payments in rupees, came to our rescue when we were passing through a critical period of shortage in foreign exchange reserves. The chances for procurement of capital goods, raw materials and some goods for our industrialisation provided an outlet for our traditional products to this country through bilateral agreements. Deficit in our trade with Soviet Union could be taken as an automatic credit repayable in goods. So the rapid growth in Indo-Soviet trade was made possible through

bilateralism. This trade with Soviet Union provided an alternative channel against western monopoly over the supply of capital goods. Other than trade relations, she provided long term credit to purchase heavy machinery for setting up plants and projects. The trade was carried in term of annual trade plans.

3.4.1.3 After the signing of the second bilateral trade and payments agreements in November 1958 which provided for settling of the balance in non-convertible Indian rupees, the actual growth could be recorded from that period. Table 3.15 reveals that our exports to Soviet Union was Rs. 28.81 crores in the year 1960-61 as against imports of Rs. 15.87 crores, keeping a balance of Rs. 12.94 crores in our favour. The trend in the table shows that from 1961-62 to 1964-65 we had a deficit in our balance of trade with USSR. Since 1965-66 till 1975-76 India had a surplus in her trade balance with USSR. In the initial stage of her industrial development India had to import large quantities of capital goods from the USSR which led her to run trade deficits. If we look at the overall picture of Indo-Soviet trade (total trade turnover) we find that under the second five year trade agreement i.e. 1958-59 to 1962-63 the average annual turnover was Rs. 60.88 crores and India had an export surplus for the first three years. But under the third agreement the total trade turnover increased from Rs. 120.56 crores in 1963-64 to Rs. 216.33 crores in 1967-68 and to Rs. 347.70 crores in

Table 3.15 : Indo-Soviet Trade

(Rs. in crores)					
Year	Imports	Exports	Trade balance	Total trade turnover	Average annual trade turnover during the period
1958-59	17.21	25.90	+8.69	43.11	60.88
1959-60	17.19	30.38	+13.19	47.57	
1960-61	15.87	28.81	+12.94	44.68	
1961-62	39.94	32.21	-7.73	72.15	
1962-63	54.64	38.25	-20.39	96.89	
1963-64	68.46	52.10	-16.36	120.56	
1964-65	77.98	77.92	-0.06	155.90	227.51
1965-66	83.13	92.89	+9.72	176.02	
1966-67	113.80	122.27	+9.57	236.07	
1967-68	95.82	120.51	+24.69	216.33	
1968-69	191.70	148.31	+43.39	340.01	
1969-70	171.33	176.37	+50.14	347.70	
1970-71	104.68	209.85	+105.17	314.53	514.24
1971-72	81.66	208.70	+127.04	290.36	
1972-73	105.72	304.82	+199.10	410.54	
1973-74	254.70	286.02	+31.32	540.67	
1974-75	402.50	418.17	+15.67	820.67	
1975-76	295.80	412.80	+117.00	708.60	

Source : (1) Compiled and calculated from the different issues of Eastern Economists and Annual 1974.
 (2) Statistical Outline of India (Various Issues).
 (3) RBI Bulletin, March 1974.

1969-70 (as the term was extended for two more years) making an average of Rs. 227.51 crores. During the operation of the fourth agreement the total volume of trade increased from Rs. 314.53 crores in 1970-71 to Rs. 820.67 crores in 1974-75 and came down to Rs. 708.60 crores in 1975-76.

3.4.1.4 On the other hand from a negligible share of Rs. 15.87 crores in 1960-61 our imports had reached a height of Rs. 295.80 crores in 1975-76 with Soviet Union.

3.4.1.5 If we look at the Table 3.16 in relative terms the exports of India to USSR increased from 4.5% of her total exports by 1960-61 to 11.5% in 1965-66 and again increased to 13.6% in 1970-71. However, it came down to 10.5% in 1975-76. On the other hand imports from USSR increased from 1.4% in 1960-61 to 5.8% in 1965-66 and again to 6.4% in 1970-71 but it remained at 5.7% of our total imports in 1975-76. The relative position shows that the trade relationship of India with USSR was comparatively favourable. When we compare the relative position of Indo-Soviet trade with U.S.A., U.K. and Japan (the advanced countries in the world), we find from the same table that out of her total exports, India exported 15.9% to U.S.A., 26.9% to U.K., 5.5% to Japan and 4.5% to USSR in 1960-61. The exports to these countries in 1965-66 were 20.9% to U.S.A., 19% to U.K., 8% to Japan and 11.5% to USSR and again in the year 1970-71, the figure shows that the shares of exports were 13.5% to

Table 3.16 : Share of Exports and Imports of India with USSR and with World Market (Absolute & Percentages)

	(Rs. in crores)										
Country	1960-61	1965-66	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
<u>USSR</u>											
Exports	28.81 (4.5)	92.89 (11.5)	120.51 (10.0)	148.31 (10.9)	176.37 (12.5)	209.85 (13.6)	208.70 (13.0)	304.82 (15.5)	286.02 (11.3)	418.17 (12.6)	412.80 (10.5)
Imports	15.87 (1.4)	83.13 (5.8)	95.82 (4.8)	191.70 (10.00)	171.33 (6.4)	104.68 (6.4)	81.66 (5.0)	105.72 (5.7)	254.70 (8.6)	402.50 (8.9)	295.80 (5.7)
<u>USA</u>											
Exports	102.53 (15.9)	147.75 (20.9)	207.4 (17.3)	234.4 (17.6)	238.00 (16.8)	207.3 (13.5)	263.1 (16.35)	275.7 (14.0)	342.8 (13.6)	375.0 (11.6)	508.0 (12.6)
Imports	327.6 (29.2)	535.1 (38.0)	776.6 (38.66)	572.4 (30.0)	467.2 (29.5)	450.0 (27.53)	418.7 (23.0)	234.9 (12.6)	493.4 (16.7)	737.0 (16.3)	1270.0 (24.1)
<u>UK</u>											
Exports	172.5 (26.9)	145.7 (19.0)	229.1 (19.1)	201.5 (14.84)	165.1 (11.7)	170.4 (11.09)	168.7 (10.46)	172.5 (8.75)	285.4 (11.3)	312.0 (9.38)	404.0 (10.0)
Imports	217.2 (19.36)	150.1 (10.65)	162.7 (8.10)	127.5 (6.7)	104.4 (5.55)	126.8 (7.75)	220.8 (12.1)	237.2 (12.7)	224.8 (7.60)	220.0 (4.26)	268.0 (5.2)
<u>Japan</u>											
Exports	35.3 (5.4)	57.1 (8.0)	135.92 (11.33)	158.3 (11.65)	179.4 (12.7)	203.0 (13.2)	217.0 (13.5)	217.2 (11.02)	359.0 (14.20)	297.0 (8.9)	433.0 (10.7)
<u>All Countries</u>											
Exports	642.32	805.64	1199.6	1357.8	1413.2	1535.2	1608.2	1970.6	2523.0	3328.8	4043.0
Imports	1121.62	1408.0	2008.6	1908.0	1582.5	1634.2	1824.5	1867.4	2955.3	4518.5	5265.0

Source : Calculated from RBI Reports on Currency & Finance, from 1970-71, Vol.II and 1976-77, Vol.II.

U.S.A., 11.09% to U.K., 13.2% to Japan and 13.6% to USSR from us. But the figures changed in 1975-76 with 12.6% to U.S.A., 10.2% to U.K., 10.8% to Japan and 10.5% to USSR.

3.4.1.6 The available data shows that from our total imports in the year 1960-61 the share of U.S.A. was 29.2%, U.K. 19.36%, Japan 5.4% but USSR only 1.4%. But subsequently the trend changed in favour of USSR due to bilateral trade and payment agreements. As a result of which, the share of the USSR had gone upto 5.8% in 1965-66 as against 38% for U.S.A., 10.65% for U.K. and 5.6% for Japan. The corresponding figures, for the year 1975-76 were 24.1% for U.S.A., 5.2% for U.K., 6.8% for Japan and 5.7% for USSR.

3.4.1.7 From the above analysis of the important provisions of various Indo-Soviet agreements it was evident that India's trade with USSR had been growing consistently during the period under review. U.S.A. and U.K. who were once the largest trading partners are relegated to second and third position. USSR is the major purchaser of our goods now.

3.4.2 Composition of Commodities in Indo-Soviet Trade

3.4.2.1 An important aspect to be examined was the composition of commodities exported to and imported from the Soviet Union. The list of exportable items from India to Soviet Union can be seen from Table 3.17. Our exports to Soviet Union consisted mainly of jute manufactures, coffee, tea,

Table 3.17 : India's Major Exports to USSR

Commodities	(Rs. in crores)							
	1960-61	1967-68	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Tea (black)	7.95	19.80	26.99	32.99	35.41	32.64	59.52	72.60
2. Oil cake	-	3.43	4.36	3.44	8.26	9.47	11.17	2.41
3. Cashew kernel	2.25	9.20	14.68	18.01	27.40	29.42	72.76	25.07
4. Tobacco (unmanufactured)	0.67	3.06	5.54	15.28	34.45	18.60	17.23	28.91
5. Cotton piece goods	-	0.66	10.29	7.37	28.88	14.58	23.49	18.32
6. Jute manufactures	3.67	31.76	34.42	31.48	42.25	32.57	59.07	67.33
7. Coffee	1.02	4.09	6.92	7.46	12.97	0.81	18.73	19.61
8. Spices	2.61	7.00	4.43	7.59	3.81	10.14	13.43	16.65
9. Leather & leather manufactures	-	8.87	18.05	16.69	25.77	42.99	32.34	39.37
10. Iron & steel	-	2.71	17.68	7.77	9.42	8.24	1.69	0.01
11. Engineering goods	-	3.10	6.84	5.04	7.62	8.13	10.95	19.28
12. Caster oil	0.92	1.35	4.49	5.54	5.51	12.20	6.79	N.A.
Total (including others)	28.81	120.51	209.85	208.70	304.82	286.02	418.17	412.80

Source : (1) Report on Currency & Finance, 1976-77. (2) Handbook of Statistics, 1977 and (3) RBI Bulletin, March 1974.

tobacco, spices, cashew kernel, cotton textiles, leather & leather manufactures, castor oil and engineering goods, etc. This list of exportable items from India to USSR increased, because the Soviet Union was one of the biggest importers of Indian goods. The table shows that there was practically no exports of leather, iron & steel, engineering goods, and cotton textiles to USSR in 1960-61, and tea and jute accounted for 40% of total exports to this area. The picture changed considerably in 1967-68 and 1970-71. Because the share of tea and jute exports in total exports to USSR increased further to 42%, engineering goods, leather, iron & steel, cashew kernel were added to the list. Cashew kernel, coffee, iron & steel, leather & leather manufactures exports to USSR accounted for more than 17% of our total exports. The composition of commodities were changing in favour of non-traditional items. The share of engineering exports were also increasing due to different trade agreements. Thus the increased industrial strength was reflected in trade agreements. Still our exports, till recently, were made up of mostly traditional items as it was seen from the table. They were mainly agricultural goods.

3.4.2.2 Regarding imports from USSR in 1960-61, iron & steel manufactures and non-electrical machinery accounted for nearly 50% of total imports from Soviet Union as it is seen from Table 3.18. From 1970-71 to 1972-73 the share of these items in total imports increased. Petroleum products were also an important

Table 3.18 : India's Import from USSR

Commodities	(Rs. in crores)				
	1960-61	1967-68	1970-71	1971-72	1972-73
1. Electrical machinery apparatus and appliances	0.92	4.41	6.28	8.09	13.81
2. Iron & steel manufactures	5.05	6.2	8.04	6.86	8.26
3. Machinery other than electric	2.9	57.74	50.45	30.54	22.08
4. Transport equipment	0.7	1.05	2.16	2.82	7.80
5. Fertiliser manufactures	1.05	5.08	4.22	2.17	5.40
6. Organic chemical	0.12	1.3	0.74	1.92	2.76
7. Petroleum product	0.15	3.18	5.62	7.92	-
8. Paper and paper board	0.04	2.83	5.20	5.57	5.55
9. Medical and pharmaceutical products	0.08	0.42	0.76	0.51	0.1
10. Inorganic chemicals	0.16	0.7	0.19	0.12	0.02
11. Zinc & zinc alloys	0.53	1.47	3.44	2.23	5.52
12. Professional scientific and controlling instruments	0.9	1.04	1.67	1.17	1.85
13. Manufacture metals	0.63	0.96	0.98	0.2	1.05
14. Cinemato graphic materials	0.01	0.01	0.01	0.03	0.02
15. Asbestos	0.02	1.46	2.26	2.85	4.53
16. Special transactions*	0.06	4.21	6.42	0.07	0.27
17. Others	3.99	4.39	6.24	8.59	26.70
Total (including others)	15.87	95.82	104.68	81.66	105.72

* Related to samples, defence stores, etc. classified according to kind.

Source : RBI Bulletin, March 1974.

item in total imports from USSR. Fertiliser, petroleum and crude oil were also important items imported from USSR. But due to expansion of India's capacity to meet domestic demand by domestic production of machinery and equipments by Soviet assistance there was consistent endeavour to diversify imports from the Soviet Union. (The study is made of imports from 1960-61 to 1972-73. Due to non-availability of material, the latter periods upto 1975-76 could not be covered up.)

3.4.2.3 Thus the commodity composition in trade between India and Soviet Union revealed that, it enabled India to import goods, and export some of the Indian goods facing an unfavourable international market situation. She found an assured market in the USSR. Besides, import capacities of a country that was limited by its export earnings could be removed only if the latter was raised. India's export prospects and import capacities, linked as they were, improved and reduced India's painful dependence on two major capitalist countries like U.K. and U.S.A. These markets with their periodical economic crises and monetary disturbances inevitably introduced the elements of uncertainty, instability and disturbances in Indian economy which could be eradicated by Indo-Soviet ties.

3.4.2.4 To sum up, in sphere of jute, tea, leather, tobacco, coffee and spices India found an assured market in the USSR. Then the Soviet Union took a wide variety of products

including traditional and non-traditional items. From Table 3.17 it was found that, the Soviet Union was interested in importing agricultural products year after year and there was considerable scope for such expansion. Still the growing exports of non-traditional goods to the Soviet Union was also of great importance for the development of India's industries whose share during 15 years had doubled. All these changes in the composition of trade was due to trade agreements between USSR and India. The changes in the composition of imports from Soviet Union enabled us to save a considerable amount of foreign exchange which was rather scarce. Our country had progressed a long way on the road of industrial development and achieved a large measure of diversification in both production and trade due to import of machinery and equipment from the Soviet Union. Besides, during 1973 when India faced food shortage due to a bad harvest the USSR gave two million tons of wheat loan to get over the crisis. The increase and diversification of trade between India and the USSR made a remarkable impact on the Indian economy.

3.4.3 Terms of Trade

3.4.3.1 India's terms of trade with the USSR has been presented in Table 3.19 for the period 1960-61 to 1969-70. From this table we find that India had been enjoying favourable terms of trade with the Soviet Union. An analysis of the unit value index of exports and imports from the USSR vis-a-vis the rest

Table 3.19 : Unit Value India's Exports to and Imports from USSR and the World - 1960-61 to 1969-70

Year	Unit value index of overall export	Unit value index of export to USSR	Unit value index of overall import	Unit value index of imports to USSR	Overall terms of trade	Terms of trade with USSR
1960-61	100.0	100.0	100.0	100.0	100.0	100.0
1961-62	110.3	99.0	103.9	102.3	106.1	96.3
1962-63	111.4	98.2	90.8	78.1	122.7	125.7
1963-64	110.5	101.4	106.2	97.1	104.0	104.4
1964-65	123.6	99.4	118.7	65.1	104.1	143.4
1965-66	125.5	100.0	160.0	100.0	78.4	100.0
1966-67	122.7	142.50	136.2	133.0	90.1	107.09
1967-68	117.6	103.70	137.2	93.81	85.7	109.89
1968-69	117.8	124.07	134.0	91.35	87.7	135.75
1969-70	-	122.50	-	135.75	-	93.96

Source : (1) Indian Institute of Foreign Trade, India's Trade with Europe.
(2) Indian Economic Journal Conference Number, 1976, p. 302.

of the world reveals that trade with the USSR was favourable to India. When our terms of India was unfavourable with the rest of the world i.e. from 1965-66 onwards the position of the USSR was quite favourable. In the year 1966-67 the unit value index for exports to the USSR was 142.50 and the unit value index for imports was 133.00. India's net barter terms of trade improved by 7.89%. That year unit value index of overall exports was 122.7 and unit value index of overall revealing imports was 136.2 a declining trend in the net barter terms of trade by 9.9%.

3.4.2.2 This gave us a general idea that our trade relations with the USSR was not at a loss rather it was extremely favourable. But it had been alleged that the policy of Soviet Union was to maintain on the contrary, a balance in her favour, and the pricing in the exports and imports was a point of doubt, which would be discussed in Chapter IV while discussing the problem and issues of Indo-Soviet trade.

3.4.2.3 A similar trend was exhibited with other countries in the East European region. However, all members in this region were not equally important trading partners of India. The share of individual East European countries in our exports to and imports from Eastern Europe would be discussed in brief, as their share was negligible to the total share of India in her world trade.

3.4.3 Indo-Czechoslovak Trade

3.4.3.1 Among the member countries of the CMEA bloc - Czechoslovakia occupied the second position in its trade with India next only to the USSR upto 1970-71 but in the year 1974-75, 1975-76 the share of Poland was more than Czechoslovakia i.e. 11.25% in 1974-75 and 12.55% in 1975-76 for Poland, against 8.80% and 5.08% for Czechoslovakia in the same year. Between the period of the end of Second World War i.e. 1945 till 1950, the economic ties between India and Czechoslovakia grew primarily through bilateral trade and subsequently, it became stronger.

The first trade agreement between Czechoslovakia and India was signed on 1949 which contained a specific quota target for a number of commodities. But it was replaced by a non-quota list type of agreement in 1953 under which payments for the mutual operations were to be made either in rupee or pound sterling with the option of converting any balance left, into rupee unit or to any freely convertible currency. As a result of this a long term three year agreement was concluded in 1957 and it was supplemented by a protocol in 1959, stipulating to make payment in non-convertible Indian rupees. Again in 1960 an agreement was signed which provided for settlement of accounts in non-convertible rupees and the status of most favoured nations was accorded to each other by both countries.

3.4.3.2 With this background right upto 1970-71 Czechoslovakia the largest trading partner next to USSR among East European countries. Table 3.20 shows that from 1960-61 to 1975-76 the

Table 3.20 : India's Foreign Trade with East European Countries (excluding USSR)
(1960-61 to 1975-76)

(Rs. in crores)								
Country	1960-61	1965-66	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
1. Czechoslovakia								
Exports (+)	7.30	15.82	29.44	30.5	46.10	41.6	60.18	34.28
Imports (-)	8.76	21.15	20.20	10.2	15.90	26.5	38.38	52.21
Balance	-1.46	-2.33	+9.24	+20.3	+30.20	+15.1	+21.80	-17.93
Trade turnover	16.06	36.97	49.64	40.7	62.0	68.1	98.56	86.49
2. Poland								
Exports (+)	3.87	9.12	22.12	19.9	44.2	48.9	76.97	84.73
Imports (-)	4.42	13.67	28.03	50.5	36.2	45.8	94.33	72.69
Balance	-0.55	-4.55	-5.91	-30.6	+6.0	+3.1	-17.36	+12.04
3. GDR								
Exports (+)	3.29	13.73	24.48	18.0	15.1	21.6	34.76	24.29
Imports (-)	3.31	13.04	18.63	20.3	19.2	24.8	34.28	35.36
Balance	-0.02	+0.69	+6.85	-2.3	-4.1	-3.2	+0.48	-11.07
Trade turnover	6.60	26.77	43.11	38.30	34.3	46.4	69.04	59.65
4. Hungary								
Exports (+)	1.37	6.93	13.73	15.6	12.3	23.8	19.49	14.32
Imports (-)	2.02	7.60	14.95	8.7	14.9	10.8	22.03	23.99
Balance	-0.65	-0.67	-1.22	-6.9	-2.6	+13.0	2.54	9.67
Trade turnover	4.39	14.53	28.68	24.2	37.2	34.6	39.52	38.29
5. Bulgaria								
Exports (+)	0.19	2.19	9.58	15.5	18.9	16.6	17.12	22.92
Imports (-)	0.54	4.00	15.48	13.8	9.5	13.8	29.09	21.83
Balance	-0.35	-1.81	-5.90	+2.7	+9.4	+5.8	-11.97	+1.09
Trade turnover	0.73	6.19	25.06	29.3	27.61	33.4	46.19	44.75
6. Rumania								
Exports (+)	1.39	4.51	13.70	11.1	15.9	15.2	24.50	53.09
Imports (-)	4.95	2.15	16.58	13.3	13.6	13.4	31.28	34.20
Balance	-3.56	+2.36	-2.88	-2.2	+2.3	+1.8	-6.78	+18.89
Trade turnover	6.34	6.66	31.28	24.4	29.5	28.6	55.78	87.29
7. Yugoslavia								
Exports (+)	3.33	11.28	39.36	24.37	12.45	N.A.	29.71	28.47
Imports (-)	4.44	11.85	7.65	5.44	6.75	N.A.	11.00	10.17
Balance	1.11	-0.57	+31.71	16.93	11.76	-	+18.71	+18.30
Trade turnover	7.77	23.13	47.01	30.81	19.24	N.A.	40.71	38.64

Source : (1) Foreign Trade Review, Special Number April-June 1977. & Oct-Dec. 1975
(2) RBI Bulletin, March 1974.

trade turnover with Czechoslovakia had increased by more than five times. The trade balance during the period was favourable excepting some years. Imports to India from Czechoslovakia had increased from a negligible share of Rs. 8.7 crores to Rs. 21.15 crores in 1965-66 and Rs. 20.20 crores in 1970-71, but in the year 1971-72 it was reduced to Rs. 10 crores only. Since then it is assuming an increasing trend. During the period 1960-61 the shares of imports from Czechoslovakia were negligible to the total imports of India, the same was also in the year 1975-76. The share for exports during the same period was also negligible. In the year 1975-76 it was less than 1% in our total exports. But the share was 5.08% of our total exports to the East European countries and 9.56% of our total imports from that region in 1975-76.

3.4.3.3 The composition of Indian exports to Czechoslovakia reveals a high degree of concentration. For many years iron ore concentrate constituted more than 60% of our total exports to Czechoslovakia. In recent year there is some degree of diversification. But still iron ore concentrates, jute manufactures oil cake and meal, manganese ore and coffee accounted for more than 65% of our total exports to Czechoslovakia. Other important items exported in recent year are pepper, cashew kernel, machinery - other than electric, iron & steel, tea, clothing, rubber manufactures, coir products etc. The trade and payment agreement signed during 1969 provided for

diversification of commodity composition.

3.4.3.4 Our main imports from Czechoslovakia were electrical machinery, iron & steel manufactures, machinery other than electric, transport equipment and paper & paper boards.

3.4.3.5 Besides, Czechoslovakia has been rendering technical assistance for building some of its largest enterprises for production of electrical machines and equipment in India. The bilateral agreements between India and Czechoslovakia opened a new prospect for expanding and deepening all forms of economic cooperation between the two countries.

3.4.4 Indo-Polish Trade

3.4.4.1 The third important country in India's trade with East European countries was Poland. The trade with Poland started rising rapidly since 1959-60 with the signing of trade and payment agreements in November 1959 and the payments were made in nonconvertible Indian rupees. Although the formal trade agreements between these two countries started with the conclusion of a trade quota-agreements in March 1949 but the amount of trade was negligible. From a negligible share of 7.81% in our total exports in 1960-61 it rose to 12.55% in 1975-76 to the East European countries as is clear from Table 3.9. From 1974-75 it showed an upward trend in our exports to this country. During 1975-76 Poland was second in the list of the trading partners of the East European region (Table 3.9). During 1975-76 exports from India

to Poland was Rs. 84.73 crores.

3.4.4.2 The composition of our export reveals that, we export a few items like oil cake, tea, spices, mineral ore etc. In the list, oil cake, jute manufactures, tea, mica and iron ore constitute 75% of our total exports to Poland. Leather, iron & steel and engineering goods had assumed significance in our exports to Poland. The trade agreement in 1969-73 had provided for increased exports of non-traditional items like textile machinery, steel product etc. India's imports of transport equipments from Poland had considerably increased towards the end of 1960's mainly due to Indo-Polish cooperation in the production of tractors and motor cycles. The beginning of 1970's witnessed the trend in India's declining imports from Poland, the reason was that projects of cooperation had been completed and Polish credit was fully utilised. Still the share of general machine building items chemical fertilisers and apparatus began to increase.

3.4.5 Trade with the Rest of the Countries in Eastern Europe

3.4.5.1 In addition to this India's trade with other East European countries like German Democratic Republic, Hungary, Bulgaria, Rumania, and Yugoslavia was assuming significance after 1960-61.

3.4.5.2 India's exports to GDR started rising since 1959-60 after the introduction of offset settlement. The average

value of our exports rose from Rs. 3.29 crores in 1960-61 to Rs. 24.29 crores in absolute term. But its relative position in East European countries had declined, in 1960-61 its share was 6.64% of our total exports to the East European region but it declined to 3.6% in 1975-76. As regards imports its relative position declined from 7.47% in 1960-61 to 6.47% in 1975-76.

3.4.5.3 The composition of trade shows that India's exports to the GDR reflected a general inclination of the East European countries to lift an increasing volume of India's raw materials like iron ore, manganese ore and traditional items like tea and jute. Besides, gradually the composition had widened to few more commodities like oil cake, coffee, cashew kernel, leather, jute manufactures, tobacco manufactures and mica. The trade and payment agreements during 1969-71 had provided for exports of items like engineering goods, aluminium ingots and wire rope etc.

3.4.5.4 The imports of India from the GDR at present consist of products of general engineering, chemical fertilisers, photographic and cine materials and electro-technical equipments.

3.4.5.5 Hungary was the first socialist country, who started official trade operation with India on the basis of inter-governmental contacts in the middle of 1948. This agreement, to which latter a provision was added that the accounts would

be settled in non-convertible Indian rupees. In the year 1960, the long term agreement was signed which promoted the trade relations between these two countries. Our exports to Hungary was increased from a negligible share of Rs. 1.37 crores in 1960-61 to Rs. 14.32 crores. But its relative position in East European countries was stagnant i.e. within 3% excepting the year 1965-66 and 1970-71 which was 4.46% and 3.80% respectively. In the case of imports, the share of Hungary in total imports from the East European region to India was 4.56% in 1960-61 its share was increased to 6.57% in 1970-71, but it again declined to 4.38% in 1975-76.

3.4.5.6 The main items that India exported to Hungary were oil cake, jute goods, iron ore and leather. Apart from these some manufactured items like cotton textiles, chemical goods, and engineering goods were added to the export list subsequently.

In case of imports, we purchased from them non-ferrous metals, engineering products, chemical and transport equipment. India's imports during 1975-76 was Rs. 23.99 crores from this country.

3.4.5.7 As for Bulgaria the rupee payment agreement was signed in January 1960 and exports started rising rapidly since 1961-62. Considerable impetus to the expansion of trade relations between two countries was given by 3 years agreement on trade and payment in 1960. This agreement envisaged

more favourable terms of trade, switched over to the settlement of accounts in non-convertible Indian rupees. As a result of implementation of this agreement the trade increased further from Rs. 0.54 crores in 1960-61 to Rs. 21.83 crores in 1975-76 and exports increased from Rs. 0.19 crores in 1960-61 to Rs. 22.92 crores in 1975-76.

3.4.5.8 The main items exported from India to Bulgaria were oil cakes, spices, coffee, coir products, leather, footwear and jute manufactures. In addition to these, other items were also added, like iron & steel, machineries other than electric, transport equipments etc. The trade and payment agreement during 1969-73 provided for a considerable increase of exports of rubber manufactures, engineering goods and various other type of non-traditional items apart from the increase of traditional items.

3.4.5.9 Rumania did not figure in the list of countries having international trade with India till the end of fifties. It assumed prominence only since 1959-60, when a long term trade agreement between India and Rumania was signed. In the year 1960-61, out of India's total exports to East European countries the share of Rumania was only 2.81% or Rs. 1.39 crores, but gradually it touched the peak of 7.87% or Rs. 53.09 crores in 1975-76 as is visible from Tables 3.9 and 3.20. In the case of imports, Rumania was one of the major importing countries to India among the East European countries. Its

import bill was 11.17% of total import bill to the said region during 1960-61 but with the rise in importance of the USSR and Czechoslovakia, its share came down to 6.26% in 1975-76.

3.4.5.10 India's main exports to Rumania were iron ore, spices, and jute goods. Again the list of items were increased to spices and coffee, etc. The main imports of India from Rumania were engineering products, (machine buildings industry etc.) chemical fertilisers and ferrous metals, etc.

3.4.5.11 So far as Yugoslavia is concerned the trade started rising between India and Yugoslavia with the introduction of offset settlement type of payment mechanism in March 1959.

As a result of this settlement the share of exports from India had gone up from 6.72% of her total exports to the East European countries in 1960-61 to 10.86% in 1970-71 but after that it declined to 4.22% in 1975-76. As the rupee trade and payment agreements with Yugoslavia terminated on December 1972 it was decided to switch to multilateral trade and payment agreement system from January 1973. Consequent upon this, the imports from Yugoslavia also declined from 10.02% in 1960-61 to 2% in 1975-76. This change was due to Yugoslavia's disillusionment with bilateralism and its policy of freeing imports as far as possible. Under this free import policy Indian goods had to face keen competition from West European countries which had been offering goods at very attractive terms. But due to the Tripartite Agreement between India,

Yugoslavia and U.A.R. India enjoyed tariff preferences of 50% over a number of items in this market. This were a good prospects for pushing up India's exports of non-traditional items like iron & steel products, aluminium, chemicals and pharmaceutical products, rayon, textiles and auto-components etc.

3.4.5.12 Prior to multilateral trade and payment system, the principal items of export from India to Yugoslavia were iron ore, mica, tea, coffee, jute manufactures, spices, cotton textiles, tanned leather, and various engineering goods.

3.4.5.13 The principal items imported by India from Yugoslavia were iron & steel manufactures, machinery other than electric, transport equipment, electrical machinery & organic chemicals, etc.

3.4.5.14 From above analysis it is clear that India's exports to and imports from the various East European countries started rising at rapid rate only after the inclusion of offset settlement type of payment mechanism in the trade and payment agreements with these countries. The conclusion of such agreements enabled us to increase the value of exports and also made imports possible of various types of machinery and chemicals needed for development of our industries without bothering about hard currency. This agreement also saved us from competitiveness of the market economy and enabled us to export certain commodities which would not have been possible otherwise.

3.4.5.15. In spite of factors that led to the growth of the Indo-East European trade, there were some problems in our trade pattern and rupee payment agreements, which require further clarification in the next chapter.

CHAPTER IV

PROBLEMS AND ISSUES OF INDO- EAST EUROPE TRADE

4.1 This chapter is devoted to an assessment of the gains from Indo-East European trade under the bilateral trade & payment arrangements. Indo-Soviet trade should be considered important, to assess the applicability to all the East European countries. An analysis of these arrangements are important not only for assessing the direction of future policies but also for finding out some sort of strategy about the advantages to the developing countries like India from bilateral trade with the centrally planned economies. As a background for the analysis, discussion of the theoretical position of bilateralism in trade and payments should be made.

4.2 The use of bilateralism in trade and payment has always been controversial, and it is argued that multilateral trade accompanied by multilateral convertibility of currencies has long been considered as the best method for trade promotion i.e. buying from cheaper sources and selling to dearer markets and economic utilisation of resources. In general, these arrangements have not fulfilled the optimistic expectation and hopes of those who set them up. The most important common difficulties have been that these arrangements have been used by the stronger partners to the detriment of weaker

ones, particularly, through accumulating debit balance on bilateral accounts. The economically more powerful country can gradually obtain extensive control over the weaker partners. The first step is to insulate these weak partners from world markets by raising the prices of raw materials and agriculture products purchased through bilateral channels. Such a step might well seem to be advantageous to the weak country in the short run, as, its terms of trade would be improved and production employment would be expanded. But as soon as the stronger partner becomes a major factor in the entire export strategy of the weaker partner, it can increase the price of its own exports to that partner.

4.3 In addition to this, these arrangements also produce arbitrary changes in the direction, composition and volume of exports and imports and movement of capital and services. It can bring about fluctuation in the foreign trade of the bilateral country which may also affect other countries. According to the degree of their monopolistic position, the countries can influence the prices of goods - both exports and imports through these arrangements. Most of the countries participating in bilateral trade and payment arrangements are exposed to dangers and losses. Developing countries, particularly, face the danger as their bargaining position is limited. Frequently they conclude bilateral arrangements with the state trading countries or centrally

planned economies because they can obtain credits and loans easily from the later with repayment assured, through planned delivery of locally produced, agricultural goods and raw materials instead of free convertible currencies. But, while buying on credit under bilateral arrangements the developing countries commit a percentage of future domestic production and preclude the possibility of future choice regarding the most advantageous export markets for these products. If they are unable to fulfil their delivery commitment to bilateral partners they are obliged to make payment in free currencies. Moreover, another indirect harmful effect of this is that, in order to earn freely convertible currency some specific bilateral imports have been found reselling in the free market.

4.4 These issues form the basis of controversies regarding the gains accruing to third world countries, particularly to India, from her trade relations with the socialist countries under bilateral channels.

4.5 Keeping all these problems in mind arising from bilateral trade and payment arrangements, there have been allegations that, this type of trade arrangement between India, a weaker country, and the East European countries particular USSR, a stronger one, are not very useful, because it has been proved by many economists to be costlier from the point of view of financing imports and it does not prevent the reexport of commodities exported by India to the East

European countries. It has also been alleged that the growth of India's trade with the centrally planned economies of the countries was at the cost of her trade with the free market economies.

4.6 In light of these arguments bilateral trade relations between India and the East European countries in general, and the USSR in particular, raises certain issues relating to gains from such trade which have been summarised as follows:

1) Did India sell 'cheap' and buy 'dear' from the East European countries, and the Soviet Union?

2) Whether India's trade with the East European countries and the USSR could be termed as mere diversion and does it constitute a net addition to trade?

3) Whether these countries indulge in 'switch trade' or re-export of commodities to the free market economies?

The evidence on some of these issues will be given in the following section from the available literature.

I. Price Realisation

4.1.1 On the question of India selling 'cheap' to and buying 'dear' from the East European countries particularly from the Soviet Union, it has been accused by some critics that the Soviet Union charged higher prices for its exports and paid lower prices for its imports from the developing

countries in general and India in particular than those charged to developed countries at the prevailing world prices.

On the other hand most of the authors making a comparative study of unit values of similar commodities and found that there is no exploitation of India or any other developing country like selling cheap and buying dear.

4.1.2 We now propose to analyse the contention of the western authors (Carter(1971), Berbiner (1950), Vassil Vassilev (1969), Goldaman (1969) and Kurt Muller (1970), who argue that the Soviet Union sells her commodities 15% to 20% higher than world prices and buys mostly primary commodities from developing countries paying 15% to 20% lower than the world market prices. In support of this remark Carter (1971) the chief exponent of discriminating price practices by the Soviet Union tried to prove by using Soviet data for the year 1958 and 1965. He studied 80 common commodities entering into Soviet trade with the developed and the developing countries. But only 13 commodities are selected out of those for the explanation in Table 4.1. Studying those commodities he confirmed that the Soviet Union practices price discrimination in all its trade relations with the developing countries including India because these countries are economically weak and consequently lack strong bargaining power. Table 4.1 reveals that the less developed countries bought 1843 tractors for 11.18 mn. roubles from the Soviet Union

Table 4.1 : Soviet Exports of Selected Commodities to the Less Developed Countries and to the Industrial West

(In '000 roubles)

Particulars	Unit	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
Bulldozers	Pieces	-	-	856	586	9275	7325
Tractors	Pieces	1843	11182	7019	4440	5315	4993
Motor cycles	Pieces	186	111	165	2484	448	401
Coke	Tons	10000	947	716	8000	122	130
Crude petroleum	Tons	2193800	130935	129873	5400100	55360	47719
Kerosene	Tons	305700	34372	32858	-	-	-
Diesel fuel	Tons	602800	56640	59858	1806900	30782	28525
Structural steel	Tons	-	-	-	10400	1177	1056
Zinc	Tons	3208	2301	2259	12039	3646	3347
Aluminium	Tons	3600	7085	6548	1600	727	520
Urea	Tons	-	-	-	314	30	23
Newsprint	Tons	24500	13388	12978	46825	5325	4762
Bicycles	Pieces	9313	652	466	9555	77	53

Source : J. E. Carter, 'The Net Cost of Soviet Foreign Aid', pp. 124-25. based on Ministry of Foreign Trade Planning and Economic Administration, 'USSR Foreign Trade in 1958 and 1965'.

but the western countries paid 7.2 mn. roubles for the same amount of tractors to the Soviet Union with a difference of 4.16 mn. roubles in the year 1958. In 1965 the difference was reduced to some extent. In case of newsprint the cost for the less developed countries was 13.39 mn. roubles for 24,500 tons while the same quantity was purchased at 12.98 mn. roubles by western countries in the year 1958 with an excess of 41 million roubles. The same was the case with petroleum, aluminium, zinc and bicycles for both the years. From these figures he concluded that there had been a price discrimination against the less developed countries. This view was supported by other western economists too.

4.1.3 According to the report of the U.S. State Department as quoted by Vassil Vassilev (1969) the value of Soviet weapons exported to India were higher than the quoted prices. The Mig-21 supersonic aircraft figures were valued at \$ 1 million while the actual price was 0.83 million in 1968. He again added that the main reason behind this was to create a deliberate surplus with the developing countries which would be utilised for financing her deficit created in western countries because of the purchase of machinery and technical knowhow on the one hand and limited prospects of expanding their exports to those countries on the other hand.

4.1.4 Some Indian authors (Datar (1972), and Chandra (1977)) would agree that the prices of commodities imported from and

exported to the East European countries and the USSR were not necessarily discriminatory and some times might have been even favourable to India. But the Soviet exports consisted of machinery, whose prices were hiked by one thirds to two thirds as compared to prices obtained from the West. The Soviet Union enjoyed substantial net gain in overall exports to India. The percentage of gain obtained had been higher than the gain from exports to the Soviet Union. It was also contended that, the USSR was one of the higher cost economies of the world as its production system was based on intensive utilisation of capital rather than an inefficient utilisation of capital. Besides, as their export agency was controlled by the state and there was no free plan of the forces of supply and demand, price was fixed arbitrarily. Hence that dominant trade partner dictates the interest of the weak partner.

Examining the gains from trade of India with the East European countries with special reference to the USSR, Datar (1972) points out that even though India bought 15% higher than elsewhere export prices, she received, were still 15% higher than those elsewhere. Again, she argued that when both export and import prices are higher, India may lose in both ways. Because the rise in export prices might result in domestic price being raised and therefore make other markets less attractive to the exports even if there is no supply constraint. On the other hand, the centrally planned

economies lose nothing because if they pay higher prices for their imports from India, they receive higher prices for their exports because their external trade is handled by central authorities who fix prices arbitrarily. Besides, Indian importers have to accept the price, quoted by these countries even if these prices are higher than those quoted in the competing free currency area. They do not have a wider choice to select their suppliers, when they are granted import licences valid only for rupee trade area. Once sellers are sure that certain buyers have no option other than buying from them they are tempted to quote prices much higher than their normal quotation. Thus, on a priori reasoning, the terms of trade are likely to be unfavourable in respect of Indian trade with East European countries and the USSR.

4.1.6 Datar (1972) had also taken pains to study from 1953 to 1965, unit value comparison of India's exports to and imports from the East European countries, particularly the USSR. Though there were many difficulties in doing this because of quality difference and inadequacies of trade statistics, still taking an overall picture, she had pointed out that unit values were higher for raw wool, coffee, black pepper, tea, raw skin and hides and jute manufactures, but the unit value of iron and cashew kernel, were lower for some years compared to other countries.

4.1.7 A comparison of unit value of certain important

exports to USSR, USA and UK were made by her for the period 1958 to 1965 as pointed out that unit value of exports to USSR was higher than UK or the USA for tea, coffee, and raw wool except black pepper, goat skin (undressed) groundnut meal, and castor oil. The USSR paid lower price for tobacco (un-manufactured), cashew nut in some years. Broadly speaking, India obtained slightly higher prices for her exports to East European countries for some commodities. "but", she alleged, "because of the quality difference it is not possible to say whether these prices are really significantly higher than elsewhere except for raw skin and hides and possibly iron ore and groundnut meal." (Datar, 1972, p. 175).

4.1.8 Similar comparisons concerning import unit value were also studied by her. She alleged that there was little information about the prices of machinery and equipment which constituted a little more than 50% of India's total imports from these countries. But government officials admit that the prices of the said items had been higher by 10% to 30% compared to the cheapest source of supply. As a significant portion of these items from East European countries and the USSR were financed by tied credit she pointed out that it was not fair to compare these prices with the prices offered by the cheapest source. But the evidence available, according to her, shows that East European countries and the USSR offered higher prices for some exports but lower prices for

others. In case of imports of raw materials the prices of East European countries and other areas were comparable, but the comparison excluded the imports of machinery and equipment whose prices were higher than prices offered by other countries. Therefore taking into account all imports and exports, she argued that India's net terms of trade were probably worse with East European countries and the USSR than with the rest of the world.

4.1.9 Chandra (1977) alleged that gains from trade are unequally distributed between USSR and the third world countries. Examining unit value realised by the third world (developing countries) he pointed out that the latter group received prices barely higher than what they got from the West while the USSR was able to extract considerably higher prices from the third world countries than what it had been able to obtain from the Western countries. He admitted "we do not dispute the findings of Indian and other scholars who worked on different Third World countries. 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%." (Chandra, (1977), p.371).

4.1.10 A comparative study also made by most of the authors (Sebastian,(1973), Narain (1971), Bhagawati and Padma Desai (1970), Ambegaokar (1974) and Chishti (1977) showed that

there is no exploitation by the USSR and East European countries of India. For further clarification over the problems and issues we should review the work of some of other authors.

4.1.11 Sebastian (1973) tried to refute the ideas of Carter (1971) and others. He pointed out that India was not selling 'cheap' and buying 'dear' by making a comparative study of unit value of some of the important items exported to and imported from the USSR and other regions. He had covered the period sixties, because during that period the Indo-Soviet trade prospered. He had examined the unit value of ten exported commodities during that period, like jute manufactures, tea, footwear, cashew nut, hide and skin, tobacco (unmanufactured) coffee, pepper, vegetable oil and raw wool. Out of these items only in case of jute manufactures and tobacco, Soviet values were lower than other countries. Similarly in case of imports he examined 24 commodities but he had presented 12 items like fertilisers, newsprint, iron & steel, copper bar and plates, tubes and pipes, refractory bricks, copper alloys, tractor plough, drilling machinery, rotary printing press and bulldozers etc., and pointed out that unit values, except few cases like copper alloys, were lower than the unit values of other countries compared. He came to the conclusion after studying unit value of all these items, that India sold dear to and bought cheaper from Soviet Union. In trade with Soviet Union India had been a net

gainer. Similar conclusion had been reached by Narain (1971) who after comparing unit value in two markets, rupee payment area and market economies carefully and rejecting as many non-comparable items as possible found that unit value for exports to the socialist countries were generally more favourable to India rather than favourable and the prices paid by some of the socialist countries had been 5% to 10% higher for that India's internationally traded commodities. Phagawati and Desai (1970) also reached the same conclusion.

4.1.12 Among numerous studies on unit value comparisons the exercises undertaken by Ambegaokar (1974) and Chishti (1973 & 1977) were painstaking. Both of them have found several instances that indicate interesting results, in the sense that while prices of certain imports from these countries were competitive, they were not so in respect of others. Sometimes these results differed from year to year in respect of some import commodities. As regards price obtained from India's exports, there was not much scope for prices to differ.

4.1.13 Ambegaokar (1974) carefully examined the unit values of some commodities exported to and imported from the USSR and East European countries vis-a-vis other countries by India for a period of four years i.e. from 1968-69 to 1971-72 as it is clear from tables 4.2, 4.3, 4.4 and 4.5. He examined the unit value of 21 commodities in exports and 17 commodities in imports, and argued that terms obtained from India's exports and

Table 4.2 : Unit Values Realised for Selected Commodities Exported to the USSR and the East European Countries vis-a-vis Rest of the World

Commodities/ Places	Unit	1968-69	1969-70	1970-71	1971-72
Cashew kernel whole					
	Rs/Kg				
USSR		10.53	10.23	11.07	10.73
E.E.Countries		10.53	10.12	11.07	10.77
Other Countries		10.16	10.15	11.03	10.88
Coffee arabian plantation 'A'					
	Rs/Kg				
USSR		6.88	6.88	8.78	6.66
E.E.Countries		6.81	6.69	8.28	6.66
Other Countries		6.46	6.46	7.84	6.31
Tea black leaf in bulk					
	Rs/Kg				
USSR		9.21	8.12	8.26	8.09
E.E.Countries		8.29	7.98	8.14	8.06
Other Countries		7.69	6.97	7.34	7.37
Black pepper garbled					
	Rs/Kg				
USSR		5.08	7.59	8.52	7.75
E.E.Countries		5.12	7.44	5.86	7.33
Other Countries		5.27	7.06	8.63	7.96
Solvent extracted groundnut oilcake					
	Rs/Tons				
USSR		632.02	671.39	694.30	594.99
E.E.Countries		626.31	660.81	674.92	572.00
Other Countries		577.53	613.82	667.17	552.00
Solvent extracted cotton seed decorticated					
USSR		-	627.11	-	-
E.E.Countries		506.41	533.95	529.35	517.52
Other Countries		462.62	441.62	508.81	432.32
Tobacco (virgin flue cured)					
	Rs/Kg				
USSR		6.42	6.41	7.93	8.13
E.E.Countries		5.85	6.18	7.29	8.01
Other Countries		7.60	7.32	7.62	7.97
Mica (Bihar & Rajasthan stained good black)					
	Rs/Kg				
USSR		112.77	109.83	124.04	112.04
E.E.Countries		119.81	102.49	108.63	110.35
Other Countries		72.09	55.20	116.32	41.84
Iron ore					
	Rs/Tonnes				
USSR		100.51	59.17	63.45	75.29
E.E.Countries		60.66	62.03	62.31	64.33
Other Countries		55.38	55.56	54.04	49.94

Source : RBI Bulletin March, 1974.

Table 4.3 : Unit Value Realised on Imports of Selected Commodities from USSR and Other Countries

Commodities/ Places	Unit	1968-69	1969-70	1970-71	1971-72
<u>Kerosene</u>					
	Tonnes				
USSR		-	220.38	252.52	267.72
E.E.Countries		-	220.38	252.52	267.72
Other Countries		-	204.67	262.65	248.04
<u>Lubricants</u>					
	Tonnes				
USSR		-	-	-	-
E.E.Countries		-	593.46	864.80	545.99
Other Countries		-	705.76	685.67	766.69
<u>Nepthaline</u>					
	Kg.				
USSR		-	0.89	0.89	-
E.E.Countries		2.19	1.25	0.89	1.64
Other Countries		2.13	1.71	0.82	0.98
<u>Chloroform</u>					
	Kg.				
USSR		2.69	2.57	2.79	-
E.E.Countries		2.61	2.40	2.41	-
Other Countries		2.38	2.26	2.10	2.49
<u>Octanol</u>					
	Kg.				
USSR		-	-	-	-
E.E.Countries		3.04	2.77	2.50	3.07
Other Countries		2.79	2.31	2.30	2.51
<u>Urea</u>					
	Kg.				
USSR		0.66	0.62	0.61	0.55
E.E.Countries		0.67	0.68	0.61	0.51
Other Countries		0.85	0.63	0.70	0.52
<u>Sulphonamide</u>					
	Kg.				
USSR		-	13.00	-	-
E.E.Countries		9.00	9.74	8.98	-
Other Countries		6.23	8.57	29.51	-
<u>Titanium dioxide</u>					
	Kg.				
USSR		-	-	-	-
E.E.Countries		4.20	4.68	4.65	3.44
Other Countries		3.28	3.52	3.13	3.73
<u>Sulphathizole</u>					
	Kg.				
USSR		27.84	28.99	31.92	27.44
E.E.Countries		33.61	29.97	33.52	32.80
Other Countries		29.98	25.88	34.10	39.34

Contd...

Table 4.3 : (Continued)

Commodities/ Places	Unit	1968-69	1969-70	1970-71	1971-72
Sulphadiazine					
	Kg.				
USSR		-	50.49	-	-
E.E.Countries		51.77	54.07	63.47	100.63
Other Countries		41.90	39.34	51.21	67.23
Urea (containing not more than 45% nitrogen)					
	Tonnes				
USSR		613.77	160.62	570.97	433.96
E.E.Countries		667.48	582.78	532.45	473.93
Other Countries		659.82	637.92	623.89	521.13
Potassium					
	Tonnes				
USSR		331.45	349.77	-	287.35
E.E.Countries		388.93	359.23	357.58	387.70
Other Countries		383.56	325.92	409.12	350.65
Newsprint					
	Kg.				
USSR		1.11	1.33	1.31	1.40
E.E.Countries		1.11	1.32	1.30	1.40
Other Countries		1.15	1.14	0.92	1.31
Heavy Plates etc. boiler quality					
	Tonnes				
USSR		1080.10	1103.40	1877.38	-
E.E.Countries		1081.93	1059.96	1898.60	1559.42
Other Countries		1059.96	1104.64	1832.32	2056.91
Plates & Sheets (Below 3 mm thick iron & steel uncoated)					
	Tonnes				
USSR		1121.03	-	1930.67	-
E.E.Countries		1130.07	1300.13	1826.07	1637.25
Other Countries		3061.72	2620.35	3379.88	2945.65
Tubes & Pipes of Iron & Steel (except cast iron) stainless tubes & pipes					
	Tonnes				
USSR		2362.77	3535.49	2933.59	6635.56
E.E.Countries		2338.73	3227.62	3235.42	4935.49
Other Countries		4102.08	3724.09	3539.29	4639.38
Tinned Plate & Sheets					
	Tonnes				
USSR		1620.44	1224.84	1875.51	-
E.E.Countries		1573.16	1489.75	1638.06	1637.54
Other Countries		1179.44	1306.68	1393.94	1610.00

Source : RBI Bulletin, March 1974.

Table 4.4 : Unit Value of Selected Commodities Exported by India to Selected Countries

Year	(Rs. per kg)														
	Tea			Coffee			Cashew kernels			Footwear			Unmanufactured tobacco		
	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA
1968-69	9.21	8.00	7.21	6.88	6.88	5.73	10.53	9.93	10.10	32.0	4.0	6.8	6.4	8.2	6.7
1969-70	8.12	7.06	7.18	6.46	6.58	5.10	10.23	9.82	10.07	31.4	4.2	6.8	6.4	7.9	6.0
1970-71	8.26	7.41	7.66	8.78	8.42	7.00	11.07	11.07	10.98	33.5	7.1	8.2	7.9	9.2	2.7
1971-72	8.09	7.34	7.49	8.66	6.11	6.17	11.73	10.84	10.88	-	-	-	8.2	8.9	-
Year	Mica block			Mica-stained			Black pepper garbled			Sandal wood oil					
	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA			
	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA			
1968-69	112.7	105.04	25.47	100.51	19.88	27.02	5.08	3.91	5.36	267.41	256.17	243.82			
1969-70	109.83	35.55	22.07	59.17	22.72	35.30	7.59	6.08	7.98	247.06	260.30	257.42			
1970-71	124.04	112.36	78.74	63.45	21.24	27.00	8.52	7.55	8.61	230.04	255.97	233.34			
1971-72	112.04	37.72	22.85	75.29	37.63	26.33	7.75	9.28	8.06	207.27	239.39	214.16			

Source : Reserve Bank of India Bulletin, March 1974.

Table 4.5 : Unit Value of Selected Commodities Imported into India from Selected Countries

Year	Newsprint (Rs. per kg)			Urea (Rs. per kg)			Urea not more than 45% nitrogen (Rs. per tonne)			Chloroform (Rs. per kg)			Sulphathio role (Rs. per kg)		
	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	UK	USA	USSR	West Germany	USA
1968-69	1.11	1.73	1.18	0.66	0.64	0.95	613.77	555.74	678.62	2.69	2.67	3.15	27.84	30.21	-
1969-70	1.23	1.20	1.23	0.62	0.64	0.80	610.62	631.77	677.86	2.57	3.24	2.89	28.99	28.04	-
1970-71	1.31	1.54	1.23	0.61	0.56	0.80	570.97	555.74	763.30	2.79	2.71	3.81	31.92	32.53	52.89
1971-72	1.40	1.36	1.32	0.55	0.50	0.95	433.96	494.84	663.83	2.57	2.80	3.81	27.44	32.66	52.89

Year	Tinned plates and sheets (Rs. per tonne)			Potassium chloride commercial (Rs. per tonne)				Tubes and pipes of iron and steel (except cast iron) (Rs. per tonne)					
	USSR	West Germany	USA	USSR	Canada	West Germany	USA	USSR	Netherlands	USA	France	West Germany	Italy
1968-69	1513.04	1357.55	1498.68	331.45	373.15	383.01	387.10	2362.77	5001.20	5534.90	5692.00	3925.90	5664.29
1969-70	1620.44	1508.98	1657.96	349.77	317.36	394.09	356.44	3535.49	7545.67	5010.83	3317.20	4255.18	2531.66
1970-71	1224.84	1018.62	2228.08	287.35	347.04	365.54	356.44	2933.59	2999.37	5925.06	3851.14	4453.37	3172.33
1971-72	1875.51	2876.40	2288.46	-	-	-	-	6635.56	8174.47	7387.99	8055.16	6725.13	8058.47

Source : Reserve Bank of India Bulletin, March 1974.

imports from East European countries and the USSR were more favourable in some cases, but less favourable in other cases as compared to other countries. In case of commodities like coffee, tea, solvent extracted cotton seed, coir yarn and sheeting carded yarn, the price realisation from these countries were favourable for the said period as compared to others. But in case of commodities like goat skin, cotton yarn and jute sacking bag etc. the prices were higher in most years of the period. Five out of 21 commodities like jute sacking cloth, hessian, black pepper sheep and lamb skin and tobacco had realised mostly lower unit values. But for cashew kernel the difference was negligible for this period.

4.1.14 As regards the unit value of imports a mixed picture also emerged. For major part of the period the unit value of imports from East European countries and the USSR were higher in case of 12 out of 17 commodities compared to the rest of the world. These are chemicals, newsprint, heavy plants, tin plates and sheets etc. On the other hand, unit value of certain items such as lubricants, urea, tubes pipes, iron & steel etc. was lower from East European countries than from all other countries during the period. She aptly described the result of the exercise of unit value comparison as "too vague and therefore unsatisfactory, the exercise suffered from several limitations which discourages drawing of any worthwhile conclusions. (Ambegaokar, (1974), p. 422).

4.1.15 A number of studies conducted by the Indian Institute of Foreign Trade show that export and import prices are conducted in international rates and terms of trade were favourable. For an analysis of this phenomena Mrs. Chishti (1977), on behalf of the said institute studied eleven commodities exported to and nine commodities imported from East European countries and the USSR during the period 1972-73 to 1974-75 (for exports) and 1973-74 to 1975-76 (for imports). The Tables 4.6 and 4.7 give a clear picture about the comparative unit values of selected exports and imports of India from the countries of East European countries excluding Yugoslavia. For exports, it is visible from the Table 4.6 in some cases the price had been favourable to India and in some cases it was higher than what she received from the rest of the world. From Table 4.7 it can be seen that India had been able to get goods, very often, at cheaper prices than those bought from other sources and prices had been kept normally alligned to world prices. Occasionally, the prices of imports from some countries of the East European region were not equal to world prices and consequently they were higher. On the whole, pricewise India had not been adversely affected, she argued, but because of variabilities in products the analysis of unit value has some limitations. Major explanations for this divergence, could be found in the difference in quality of the products supplied to the East European countries and to the rest of the world. Besides, it was difficult to examine the

Table 4.6 : Unit Values Realised on for Selected Commodities Exported to Different Countries of East Europe Vs Rest of the World

Commodity	Unit	Year	Bulgaria	Czechoslovakia	GDR	Hungary	Poland	Rumania	USSR	Rest of world
Cashew kernel broken	Rs/Kg	1972-73	-	7.09	6.84	-	-	7.34	7.34	7.63
		1973-74	-	8.24	7.33	-	5.22	12.71	12.43	11.52
		1974-75	-	11.05	9.66	-	-	-	16.65	16.39
Cashew kernel whole	Rs/Kg	1972-73	14.50	11.46	7.56	11.57	11.44	11.73	10.81	11.33
		1973-74	19.82	13.52	-	17.55	-	14.94	15.67	14.44
		1974-75	18.70	20.49	14.36	20.00	18.44	18.95	19.00	18.17
Coffee Arabica plantation A	Rs/Kg	1972-73	-	7.95	-	-	-	-	6.11	8.31
		1973-74	-	11.58	-	9.96	8.55	-	-	9.42
		1974-75	-	13.48	-	12.55	13.57	12.67	11.30	10.88
Tea leaf in bulk	Rs/Kg	1972-73	11.57	9.36	7.72	6.21	6.74	11.22	8.16	7.14
		1973-74	10.99	9.08	7.62	8.14	6.19	18.41	8.71	7.37
		1974-75	18.93	11.15	9.49	9.73	10.56	-	12.28	10.31
Black pepper garbled	Rs/Kg	1972-73	7.27	7.49	7.50	6.95	7.02	7.34	7.33	7.29
		1973-74	8.15	8.63	9.47	9.10	8.00	10.70	9.92	9.47
		1974-75	13.51	13.44	13.15	13.98	13.41	13.48	13.41	13.30
Oilcake of groundnut	Rs/Tonne	1972-73	618.51	921.82	701.25	759.37	827.70	1097.63	923.91	795.89
		1973-74	1576.59	1348.99	1450.34	1505.59	1455.49	1214.57	1401.57	1522.71
		1974-75	1262.95	1193.61	1116.16	1254.32	1205.48	-	1255.34	1214.42
Oilcake of cotton-seed decorticated	Rs/Tonne	1972-73	756.91	785.24	661.25	570.14	805.48	680.08	578.70	733.93
		1973-74	911.23	1103.77	1101.47	1278.97	1266.42	852.35	-	1218.24
		1974-75	-	1066.07	950.88	1145.81	1080.03	-	-	1031.73

Contd...

Table 4.6 : (Continued)

Commodity	Unit	Year	Bulgaria	Czechoslovakia	GDR	Hungary	Poland	Rumania	USSR	Rest of world
Tobacco unmanufactured virginia flue-cured	Rs/Kg	1972-73	2.98	-	3.49	1.89	-	-	8.50	6.89
		1973-74	-	10.01	3.60	2.39	-	-	9.97	9.25
		1974-75	4.23	12.30	4.45	4.00	-	-	12.62	11.28
Groundnut kernels HPS	Rs/Tonne	1972-73	2259.45	2443.69	2170.72	-	2303.69	2148.55	2941.61	2602.94
		1973-74	3691.02	4117.27	4583.97	3742.40	4493.55	3854.02	4057.12	3994.97
		1974-75	4952.49	4415.66	-	2053.37	5218.31	-	4913.27	4689.88
Mica block Bihar and Rajasthan good stained	Rs/Kg	1972-73	75.63	50.99	122.52	62.11	122.34	-	131.85	110.35
		1973-74	-	-	87.04	-	-	-	162.06	111.94
		1974-75	-	47.20	142.12	101.21	252.75	-	170.90	135.03
Mica stained	Rs/Kg	1972-73	-	26.80	22.08	55.01	51.53	-	68.42	34.23
		1973-74	-	15.50	60.63	-	47.37	-	70.11	30.72
		1974-75	54.42	37.34	-	83.84	32.20	-	99.05	41.58
Iron ore	Rs/Tonne	1972-73	64.21	62.71	-	66.89	70.85	60.86	-	51.13
		1973-74	51.14	53.55	52.45	65.91	69.59	51.53	-	55.31
		1974-75	60.21	91.43	-	106.49	100.71	65.72	-	70.07

Source : Foreign Trade Review, April-June 1977-78 (Special Number).

Table 4.7 : Unit Value Realisation of Imports by East European from India Vs Rest of World for Selected Commodities

Commodity	Unit	Year	Bulgaria	Czechoslovakia	GDR	Hungary	Poland	Rumania	USSR	Rest of world
Sulphur	Rs/Tonne	1973-74	-	-	-	-	367.96	-	335.92	304.20
		1974-75	-	-	-	-	845.62	-	970.58	658.41
		1975-76	-	-	-	-	785.66	-	673.87	640.36
Hydrochloric acid	Rs/Kg	1973-74	-	-	-	21.77	18.71	-	-	31.38
		1974-75	-	-	30.07	-	-	-	-	27.14
		1975-76	-	23.42	30.36	-	29.54	-	-	28.90
Epsilon Caprolactum	Rs/Kg	1973-74	-	4.80	3.00	-	-	-	-	5.99
		1974-75	-	21.00	-	-	-	-	19.76	-
		1975-76	-	10.80	-	7.80	-	-	-	10.13
Sodium nitrite	Rs/Tonne	1973-74	-	-	-	-	1162.92	-	-	3066.08
		1974-75	-	-	-	-	1147.88	822.15	-	1950.28
		1975-76	1519.23	1262.14	-	-	1548.03	-	1520.00	1945.29
Sulpha thiazol	Rs/Kg	1973-74	-	79.36	-	-	-	26.65	-	38.21
		1974-75	-	45.27	-	-	45.94	32.29	-	47.30
		1975-76	-	-	-	-	47.47	-	-	52.89
Ammonium nitrate	Rs/Tonne	1973-74	-	-	-	-	1250.00	-	-	753.54
		1974-75	-	-	1340.31	1795.46	-	1769.40	-	1209.29
		1975-76	-	-	-	-	1518.13	2119.47	-	1978.89
Ammonium sulphate	Rs/Tonne	1973-74	-	-	-	-	350.88	433.33	537.62	594.12
		1974-75	-	-	-	-	-	-	1005.10	1404.52
		1975-76	-	-	-	-	2426.97	-	1661.94	1390.71
Urea	Rs/Tonne	1973-74	751.61	-	-	-	790.08	-	644.01	-
		1974-75	2476.59	-	-	-	2883.15	2338.88	1600.88	1737.14
		1975-76	2758.57	-	-	-	2546.99	2947.99	2864.66	2295.12
Newsprint	Rs/Kg	1973-74	-	1.37	-	-	1.61	1.74	-	1.48
		1974-75	-	2.36	-	-	3.52	-	3.74	3.01
		1975-76	-	3.85	-	-	-	-	3.66	3.86

Source : Foreign Trade Review, April-June, 1977-78 (Special Number).

argument on the basis of statistics, as they did not disclose the type of commodities they had imported as well as the c.i.f. unit value available for those goods included.

4.1.16 The above analysis shows that almost all the studies on unit value comparison were based on annual trade plan statistics and had therefore to bear with usual statistical problems of lack of information resulting from collection of data, choice of time period and coverage. It would be safer to base one's conclusion on the evidence collected from the exporters and importers dealing with these countries as such evidence could be more specific.

II. Trade Creation Vs. Trade Diversion

4.2.1 Regarding this issue, we have to look into the matter, whether trade with the East European countries and the USSR resulted in trade diversion or opened additional markets for our exports. This has been extensively debated. The conclusion of most of the studies was that, on balance, exports to these countries were in the nature of trade creation. Before drawing this conclusion one has to see, why diversion takes place?

Diversion of trade takes place for various reasons.

4.2.2 First, when there is a large exportable surplus the market can be tapped only at a reasonable price.

4.2.3 Secondly, diversion of trade takes place when present

markets are unable to take goods even at lower prices either because of stagnant or declining demand or because of keen competition from other sellers or from substitutes. Restriction of markets by high tariff, local taxes and quota restrictions by importing countries may also impede exploitation of the potentialities of such markets.

4.2.4 Thirdly, under bilateral trade and payment agreements commodities are diverted from convertible currency areas to non-convertible areas to avoid the problem of convertibility caused by the shortage of foreign exchange reserves.

4.2.5 Lastly, the need for convertible currency may also force a country to divert goods from bilateral agreement areas to convertible currency areas.

4.2.6 The last two reasons have come under serious scrutiny and criticisms. Doubts have also been cast regarding the character of their demand. Before examining the "diversion" argument empirically, it is necessary to analyse the character of demand emanating from countries other than the East European countries. Some economists (Sharma (1977) have examined the desirability and rationality of expanding markets to the East European countries and the USSR on the basis of demand conditions prevailing in these countries and the rest of the world. Traditionally, price and income have been treated as major economic variables influencing demand

for exportables. Steps are taken to explore the possibilities of increasing export earnings through various means like cash assistance, import entitlements and duty withdrawals etc. In other words, by appropriate price adjustment through these means we can increase our export earnings. He examined the elasticities of demand (through price and income effect) of 16 traditional items exported to different countries and East European countries and pointed out that the majority of them are facing income and price inelasticities in market economies. But in case of socialist countries price and income elasticities in some items exceed unity. Some items like tea, jute manufactures, coir manufactures, footwear, wool (raw) and lac etc. show that price elasticity exceeds unity and in some items like spices, mica, coffee, cashew kernel, hide and skins, tea, jute manufactures, iron ore, coir and coir products, and footwear income elasticity exceeds unity. Hence for a large number of items, demand conditions are more favourable in socialist countries than in other areas.

4.2.7 In view of the present trend of liberalisation and decentralisation of the economic policies of East European countries and the USSR one can also foresee their consumers' preference. We have assumed that diversion could have taken place only in case of traditional items due to their elasticities of demand. But in the coming years steps are taken to expand the exports of non-traditional items, whose in-

digenous content is very high, due to the rising standard of living in the East European countries and the USSR. Besides, the tendency towards protectionism by the developed countries of Western Europe and USA and the steep fall in the international prices of many traditional items were also some of these factors causing a decline in exports to those countries and a rise in exports to the East European countries.

4.2.8 But as pointed out earlier, the last two points (i.e. point 3rd & 4th) of the problem of convertibility and diversion of trade towards the East European countries and the USSR under bilateral trade and payment agreements has come under criticism. Some critics (Datar (1972) and Chandra (1977) pointed out that exports to the East European countries and the USSR had resulted in large scale diversion which was a cost because it reduced the amount of free foreign exchange available.

4.2.9 On the other hand detailed evidence provided by some other economists (Ambegaokar (1974) and Bhagwati and Desai (1970) leads to the conclusion that there was no large scale diversion of India's trade to the East European countries and the USSR from its traditional markets and that the trade with these countries was largely a net addition.

4.2.10 The estimate made by different authors on the

diversion however differ widely. According to the study made among the first group (Datar (1972) from 1954 to 1966, trade diversion was not negligible and such diversion amounted to 20% to 25% of India's exports to the East European countries and the USSR. She examined the export performances of eleven commodities. The starting point was to see whether the relative rate of decline of India's export share to other market was faster in sixties than in the fifties, if so, how much of this acceleration could be explained by other factors such as increasing competition from other sources, higher relative export prices and bad quality etc. If none of these factors could explain India's export performances in other markets, the inference, for further decline in India relative share, could be attributable to increased exports to East European countries and the USSR.

4.2.11 For 'tea' she argued that although India's price was higher than Ceylon or Kenya, yet the gap was not increasing. In fact, India lost considerable ground to Kenya in respect of common tea, while the Soviet Union was buying the better quality product from India and domestic consumers in India took up an increasing proportion of our common tea. Hence the fall in India's share in western market of tea was attributed to the entry of East Europe into India's tea market.

4.2.12 In case of 'coffee' she pointed out an export quota

was fixed by the International Coffee Agreement in 1962 and India failed to fulfil its due purchase by East European countries in 1963-64. In subsequent years the quota was reduced by 4,000 tons, in terms of value the trade diversion amounted to Rs. 4 million per annum.

4.2.13 Making a commodity wise study of India's exports to the East European countries she had commented that about 20 to 25% of India's exports to these countries were diversionary in the sense, that they could have exported to hard currency areas. This was supported by Chandra (1977), Nayyar (May 1975), had also argued that there was 15% trade diversion in India's trade as a result of trade relations with East European countries and the USSR.

4.2.14 Among others Ambegaokar (1974) who provided a detailed evidence that there was no large scale diversion of India's trade to the East European countries from other areas rather this trade was largely a net addition. She argued that the incremental ratio of India's exports to the East European countries, to her total exports during 1960-61 to 1972-73 was much higher (nearly about 32%) than for exports to any other major countries and this accounted to an increase in the share of the East European region in her total exports, but it could not be readily concluded that this increase had taken place at the expense of trade with convertible currency areas. In the course of her argument she

had shown that some of the factors led to diversification but not a diversion of India's exports to the East European region. After the mid sixties, according to her statement, though there was an overall rise in India's exports to all regions, particularly to new regions, in her traditional as well as non-traditional items, but exports to UK remained at around the same level and, in case of, Pakistan, Sri Lanka, Burma and China there was a fall. This showed a tendency for India's trade pattern to shift away from Commonwealth countries to new trade partners including USSR and others. In addition to this another factor contributing to the shift in India's trade pattern, was the change in production pattern in several countries and their competition with Indian goods. This compelled the Indian exporters to seek alternative markets. Under such circumstances, these commodities were lifted in large quantities by the East European countries and prevented any precipitate fall in their prices.

4.2.15 From all this evidence, she had drawn a broad conclusion that diversion of India's trade to East European countries and USSR was not large scale from her traditional markets but rather it was a diversification or secular rise in her trade with all major regions.

4.2.16 Making a commoditywise investigation Prof.(Mrs) Chishti (1973 & 1977) pointed out there was diversion in a few commodities to the East European countries but it was not

sizeable. This diversion had resulted not merely from trade flow under bilateral agreements but also from some other marketing factors, such as, demand for superior quality products, aggressive setting by the competitors and limited accessibility to the markets of convertible currency areas. Besides, the diversion had been necessitated most often to maintain the unit prices which was beneficial to the economy. In addition to this it had generated import capacity which was vital to the economy. Due to these factors there had been a marginal diversion. Otherwise, the bulk of evidence goes to show that these exports had been, according to her, additional.

4.2.17 In order to find out the degree of diversion that had taken place in India's exports during the period 1960-61 to 1975-76 we have studied some important commodities in Table 3.12 with regard to this importance in East European countries in particular and other countries in general there we have seen that for 'coffee' excepting the years 1960-61 and 1973-74, the East European countries absorbed major part of our coffee exports for rest of the period. This shows that there was some degree of diversion. Also in the case of 'tea' the exports of this item increased to the East European countries from 6.58% in 1960-61 to 34.41% in 1975-76. The rate of growth of tea to U.K. declined due to low income elasticities for example it was estimated to be as low as

0.4% in U.K. (Datar 1972) had also examined the decline in India's exports share of tea. As can be seen from the table, the export prospect of tea is no better for India. The absolute volume of tea to the rest of the world also declined. So increase in exports to the East European countries was at the expense of exports to the rest of the world. Besides under bilateral agreements India was committed to export specified quantity of tea to East European countries leading to the conclusion that the degree of diversion is more in case of East European countries. Likewise the export of jute manufactures to East European countries and the USSR was about 2.2% of total jute manufactures exported by India in 1960-61 which increased to 35.6% in 1975-76. In the case of diversion of jute manufactures to East European countries a number of factors are responsible. They were uneconomically high fluctuation in prices and periodic shortages, and competition from Pakistan leading to loss of exports to USA, UK and EEC countries. Besides these, we find some degree of diversion in case of commodities like pepper and cashew.

4.2.18 Thus, there was a definite trend towards diversification in respect of India's exports to USSR and the East European countries in certain traditional items but no such trend was discernible in respect of India's imports during the period. Pertaining to raw materials there is always conflict with the East European countries whether to sell to countries

belonging to the rupee payment agreement or to sell against hard currency. As a result of the tremendous deficit they are having with Western Europe they are reluctant to divert their products which command hard currency earnings to the countries having clearing arrangements. In spite of this difficulty, some success has been shown by different agreements with the countries of East European regions and the USSR.

III. Switch Trade

4.3.1 A closely related issue to trade diversion is that of 'switch trade' or re-exports. It was believed that a part of the exports to the East European countries of selected traditional products were reexported to West European markets. The consequence of this had reduced the convertible currency earnings of India on the one hand and disrupted markets for Indian goods on the other, because these countries used to re-export at a lower prices than what India was in a position to offer.

The main reasons for such deals were as follows.

4.3.2 Firstly, the countries which did not have enough goods those could be exported to free foreign exchange area would like to increase their earnings of free foreign exchange getting goods from India. In payment they can sell their own goods to India.

4.3.3 Secondly, it was perhaps profitable for the East

European countries to meet the demand by Indian importers of third party goods. The major benefits accruing to these countries from such transactions would relate to the expansion of their trade with free market economies, instead of getting the profits or commission out of it.

4.3.4 From India's point of view such 'switch trade' affected her trade in two ways depending on specific export commodities.

4.3.5 Firstly, such trade took place only in case of such commodities for which there were demands in all countries both in the West and East European blocs, and which could fetch remunerative prices in remunerative currency areas. If any re-export was made over such commodities exported to East European countries, then it was detrimental to India, only if could not get in exchange the desired imports and if the supply of such exports were limited - commodities like cashew kernel, leather goods, oil seeds, textile etc. were under this category.

4.3.6 Secondly, there were some traditional commodities like tea, when demand for them in Western markets was lower than prices charged by Indian exporters due to competitive prices, then the East European countries lifted them (goods) from India for switch operation in Western countries.

4.3.7 A number of studies have gone into considerable details, trying to estimate likely demand for some of India's

export commodities to the East European countries and compared them against the actual purchase made by these countries from India to find out the likely amount of switch trade. Whatever may be the merit of all these attempts, most of the studies have accepted that the possible volume of 'switch trade' or re-export was not very large in relation to the total quantum of India's trade with these countries.

4.3.8 Datar (1972) quoted "the question of re-sale had been investigated by Indian authorities and it was accepted in official circles that there is 'diversion' or switch trade, and for commodities like tea, coffee, spices, jute goods and grey cotton to the extent of 5% to 10% of Indian exports to the East European countries. (Datar 1972, p. 161). The question of resale was raised in the Estimates Committee by a non-official organisation which alleged that there had been cases where the goods exported to East European countries under the barter agreements had been re-exported by them to other countries (Datar 1972). The Government also admitted that there was not much that could be done to prevent this sort of diversion.

4.3.9 A study conducted by Prof. Chishti (1973) on behalf of Indian Institute of Foreign Trade stated that there were some evidences of resale of some commodities like cashew kernel, mica, oil cake, tea, coffee and jute textiles and estimated that the re-exports to be the order of 5% to 6%

of our total exports to the East European countries.

4.3.10 It had also been alleged by Chandra (1977) that Soviet Union indulged in triangular trade which incorporated the phenomena of 'switch trade' and distortions of prices. Quoting the report of Soviet Official Publications for different years he had examined eleven commodities and come to the conclusion that in a number of cases the Soviet Union had made enormous profit by buying cheap primary goods in third world countries and selling dearly the same kinds of goods (not necessarily same consignments) to the West and to other third world countries.

4.3.11 In some quarters it was argued that re-export was not harmful so long as India got needed imports at competitive prices, but re-exports would be harmful to the extent, that they led to disruption of markets of convertible currencies and depression of prices. The estimated switch trade however was rather small and did not warrant any serious fear.

4.3.12 Dealing with the problems and issues of India's trade relations with East European countries and the USSR we find that there are serious differences on the question of India's opportunity cost of entering into this trade, which is natural due to difference in time period covered, sources of data and heterogeneous coverage of commodities.

CHAPTER V

CONCLUSION

5.1 A review of India's trade with East European countries and the USSR in the preceding chapters reveals that their trade relations were in no way worse than those with Western Europe.

In the preceding chapters we have seen how the particular requirements of the Indian economy during the period of launching of developmental planning were largely met by East European countries and also, how India's persisting balance-of-payment disequilibrium arising out of decline in demand from traditional markets necessitated the quest for new markets for her goods. Besides, to what extent, East European countries assumed unprecedented importance in India's foreign trade, which led her to expand her exports and at the same time enabled her to import indispensable capital goods from the former is also studied. As a result of which, exports increased from Rs. 49.5 crores in 1960-61 to Rs. 674.9 crores in 1975-76 and imports had increased from Rs. 44.3 crores to Rs. 546.2 crores. The relative share of exports had increased from 7.7% in 1960-61 to about 24% in 1975-76. The same things was discernible in case of imports from this region which had risen from a mere 4% in 1960-61 to 10.4% in 1975-76. The expansion was shared

by major export and import items of India. This unprecedented increase in India's trade with the region was due to bilateral trade and payment agreements entered into with the East European countries since 1959, as discussed earlier, which led to automatic linking of exports with imports through these agreements. In the absence of this trade economic assistance also in the form of developmental credit might not have been extended by the centrally planned economies of Eastern Europe to a developing country like India. Besides, given the extreme shortage of our foreign exchange reserves, the introduction of bilateralism had also added to our import capacity, at the same time underwriting an expansion in our exports. What is more, the special payment arrangements reduced the burden of debt servicing in so far as repayment could be made in exports, domestic currency or output of finance aided projects instead of scarce convertible foreign currency. This relationship had also enabled the East European countries to obtain essential items of consumption from the other side without having spent convertible currency for their acquisition.

5.2 While in overall terms, and keeping in mind the argument of mutuality of benefit we see that a performance has been favourable, still there were several problems in development of these trade relations and some economists and men of public affairs were sceptical about the benefits and their

ultimate long term effects. Some of these issues have already been discussed in the last chapter.

5.3 The dissertation has paid special attention to the controversies regarding unit value realisation of Indian exports to and imports from East European countries, trade diversion vs trade creation and switch trade or re-exports.

5.4 For unit value realisation, as we have seen in the last chapter, scrutiny of price data revealed, there was no basis for contending that India had secured lower price for exporting to these countries compared to other countries. On the other hand very often it had been successful in securing identical or higher prices from them. In some commodities, as we have seen, the unit value of exports to the East European countries were lower than those of exports to the market economies. This could be mainly attributed to difference in quality of items purchased by East European countries and the other areas. Further, purchases made by the East European countries often stabilise the export prices of certain commodities such as cashew kernel, coffee and tobacco. In general, there was a trend towards equalisation in the prices from the two areas, because in those items where export prices realised from the market economies were higher there was a rapid increase in the imports from the East European countries. Similarly where prices realised from the East European countries were basically higher there was a negative trend in relative prices, thus leading to an equalisation of the

prices of the two areas.

5.5 Regarding imports there was no evidence to show that India had been paying higher prices for her imports from the East European countries as compared to other convertible currency sources. It was to India's credit that she had been able to make her purchase of these goods at international prices. Besides, when major imports from these countries were financed under tied loan price played a limited role, as a determining factor, in purchases.

5.6 Hence a study of the movement of unit value of individual commodities from Tables 4.2, 4.3, 4.4 and 4.5 shows that India was not financially a loser in exporting to or importing from the East European countries as compared with Western Europe and other market economies. The conclusion drawn by different economists were based on the interpretation of data between two points of time. Thus such statements are biased by the choice of time period, sources of data and coverage etc.

5.7 Another important point which was raised in the last chapter related to an examination of the issue, whether the growth of Indo-Eastern Europe trade had been at the expense of trade with some other traditional markets or was it really in the nature of additional trade? This is dealt mainly with reference to India's exports. If one examines this issue in the light of the data for India's global exports, over the

period under review (1960-1975), one would find that India's global exports had shown a near continuous upward trend except two or three isolated years. This would, therefore, imply that expansion of exports to one region was not necessarily at the expense of exports to some other regions. Commoditywise analysis had shown that the growth rate in India's exports of some commodities like tea, coffee, cashew kernel and jute manufactures etc. to the East European countries was higher than the growth rate to the rest of the world, particularly to market economies. We had seen some items like tea and jute manufactures had been facing inelastic demand in the market economies. Thus, the East European countries had provided a major outlet for export of these items and thus helped in stabilising and enhancing the unit value realisation from market economies. Hence some suspicion of marginal diversion, in India's exports from convertible currency areas to rupee payment areas (East European countries) in some commodities in some years was there. Moreover, through this trade India was buying some commodities needed for the economy, on which she would otherwise have spent convertible currency. If India had not been able to exploit with equal success the market of convertible currency areas the reasons must be found in factors other than her trade and payment agreements with the East European countries. In addition to income and price inelasticities

for our major exports like tea, some other factors like synthetic substitutes for goods such as cotton and jute textiles, high tariff, and quota restrictions etc. in many importing countries and competition from countries receiving quota and tariff preferences were also responsible for India's failure to tap the advanced markets. Hence it is possible to argue that the uncertainty and risk of convertible currency areas were largely eliminated in rupee payment markets owing to contractual nature of agreements thereby yielding a net benefit. So it could be said that it is not correct to say that what had been exported to East European countries was what would have otherwise been exported to the West European countries or to other countries. In fact many items exported to Eastern Europe would not normally have been exported at all. In other words, by and large these had really constituted additionality to exports. Proper distribution of exports between the socialist countries and other areas had indeed helped in increasing or at least maintaining the unit value of agro-based items in the latter.

5.8 A number of studies had also gone into considerable detail (as it is clear from the last chapter) to estimate the likely demand for some of the India's export commodities to the East European countries and comparing them against actual purchases made by those countries with a view to detecting the likely amount of 'switch trade' or say

triangular trade i.e. re-exporting a part of these to some other countries of the West. The consequence of this trade, as it is alleged, would be a loss of convertible currency and also depression in the convertible currency markets.

5.9 Whatever being the merits of all these attempts, most of the studies had accepted that the possible volume of 'switch trade' was not very large, at the most it would be of marginal character, in relation to the total quantum of trade with these countries which could not be proved by either available - statistical data or any other documentary evidences. It was also pointed out that quite often some of these countries supplied products to India which had been imported by these countries from somewhere else. This would be in the nature of 'reverse switch'. Whether the reverse switch trade is of such magnitude that it would indeed neutralise 'switch trade' is difficult to say.

5.11 In the course of our review we have seen that a large number of traditional commodities exported from India faced near saturation in markets and rather low income elasticities of demand in the industrialised countries. In such cases socialist countries provided welcome new markets, there was obviously little room for re-export on a significant scale. It was also most unlikely that, those East European countries could have re-exported machinery imported from India to the Western capitalist market for the simple reason that in such

goods product differentiation, brand name, quality etc. were rather important and re-exports also involved marketing expense in form of advertisement costs.

5.12 Nevertheless, on the basis of trends in trade of certain commodities, it was apprehended that a portion might have been subject to switch operation. Studies made by some economists revealed (Datar, 1972), Chishti (1973), Chandra (1977) that was about 5% to 10% of India's exports to East European countries. The susceptible commodities for re-exports had been tea, coffee, mica, coir products, spices, oil cake products and jute manufactures etc. Whatever may be the amount, the switch trade as such might be in the best interest of the healthy bilateral trading relations and thus should be discouraged. However, the government had already taken steps to prevent any such harmful transaction through bilateral understandings.

5.13 Looking at the composition of imports from the East European countries a point at issue was whether India's imports under bilateral agreements were high priority items necessary for her development programme, or they were low priority and which she was forced to buy in order to use up the trade surplus in her favour. An examination of international trade statistics reveals that machinery and transport equipment, accounted for nearly half of India's imports from these countries. There is no doubt that, capital goods

and intermediate products were essential to the industrialisation programme in the poor countries in general and India in particular, but not low priority goods. Of course, it is possible to argue that such imports could, alternatively, have been obtained in the world markets by India. Indeed we could, but not with the same ease because the acute shortage of convertible foreign exchange stands as disincentive. Thus buying on the world market may not be a feasible option for India. Besides, since India's imports were regulated by import licensing, it is possible to argue that if the government granted a licence the import was necessary.

5.14 An important aspect of the trade, that cannot be overlooked was India's limited free convertible currency resources in relation to mounting demand for imports was the cause of inadequate import capacity. The increase of trade with the East European countries had enabled India to find additional markets for her goods and also to enlarge import capacity without bothering about convertible currency, as the payment was agreed to be made in Indian rupees. Thus, to a large extent, India could finance her increased imports from these countries through expanded exports.

5.15 Another important factor contributing to the export expansion to these East European countries was the joint ventures between India and these countries through establishing many projects in third countries. With the assistance

of these countries India has established engineering industries, steel, food, pharmaceutical and cement industries. The fruits of this cooperation in investment might be reflected in export expansion to these countries. As a result of this, the export of non-traditional items had gone upto say 20% of our total exports to the East European countries rapidly growing East-West trade. Export growth twenty per cent in one and a half decade was a significant result. Indo-Soviet Trade Agreements and agreements with other East European countries had also helped to increase the share of manufactured non-traditional items. They, in turn agreed to supply maintenance imports especially to help the plants established with their assistance. Since most of the East European countries are planning to expand trade at a considerably higher rate, in future, India should be ready to avail of greater advantages from them. In order to take advantage of the emerging demand condition from these countries it is necessary to strengthen India's supply position of goods that are likely to be demanded in these countries. Labour being a scarce factor in these countries India would have a definite advantage in the matter of exports to these countries of such items which involves labour intensive technique of production. India's exporting units should develop contacts with purchasing institutions in these countries and should popularise their products.

5.16 But it is not enough for India to put efforts for export promotion only. A deliberate and conscious attempt has to be made to identify items which can be imported from some of these countries.

5.17 It can be concluded from the present study of literature on Indo-East European trade and their economic relations as well as from the limited statistics that, there is no clear evidence to prove India's exports to these countries have been injurious to her trade possibilities elsewhere. Further, since the internal market of East Europe can absorb the lion's share of India's exports, this is beneficial to India. Side by side steps have been taken to safeguard India's overall trade interest by considerable diversification of exports and imports in trade relations with East European countries to prevent re-exports to other countries if at all it is there, and to maintain unit value of exports to imports from those countries at international market prices.

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