

# ROLE OF SOVIET UNION IN INDIA'S INDUSTRIALISATION: A COMPARATIVE ASSESSMENT WITH THE WEST.

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**ABSTRACT:** *The article is to find out the assistance of Soviet Union in industrialising India after Independence and to make it a self-reliant in defence and manufacturing sector and how the relationship continued well even after. The article also focuses on the advantages of Russian help in assisting India over Western countries. It looks after the terms and conditions of Soviet Union in assisting India.*

**Key Words** *Soviet Union, India, Industrialisation, Western assistance*

Professor Branko Horvat of Yugoslavia has defined industrialisation as, “filling up the empty cells of an input-output table” (Mehta, 1975). Independent India found that its economy had many empty cells in its input-output table which lacked in machine-building industry or a well-developed steel industry which would be impossible to take the path of sustained economic growth. The strategy of industrialisation for independent India elaborated during the period of Second Five Year Plan (1956-60). Jawaharlal Nehru described the Second Five Year Plan as “the first organised attempt at real planning in India” (Nehru, 1958). The central idea of the Indian industrialisation programme was based on the Mahalanobis model (the idea was discovered by the famous Soviet economist Feldman). The model was simple in its feature and demanded that in order to ensure a high growth rate overall, a large fraction of net investment would have to be allocated to the capital goods sector.

The era of the economic cooperation between India and the Soviet Union began after the first visit of India's first Prime Minister Jawaharlal Nehru to the Soviet Union in 1955 led to the sympathetic support to India's economic aspirations. The helping hand of the Soviet Union to the development of India's basic and heavy industries which includes steel, oil, power and power equipment, coal, mining machinery, heavy machines, precision instruments, pharmaceuticals etc. The Soviet Union assistance in India's economic development and self-reliance also includes transfer of technology without any reservations along with the help of setting up research and development organisations for the advancement of technologies. The consolidation of cooperation started with the Soviet Union offer to put up a steel plant at Bhilai.

As Nehru said, “Bhilai is embedded in the national consciousness of the people of India as a symbol of new era”. K. Subramaniam, a leading authority on India's Defence Affairs states that, “firstly, obtaining authentic data about Soviet Equipment were difficult.” Secondly, there was a language difficulty. It was a difficult job in training the soldiers for handling Soviet equipment and also technical know-how training programmes faced difficulty. Thirdly, the Indian soldiers have been getting training in the British tradition and their equipment philosophy was always oriented towards the West. Fourthly, India's contacts with the commercial arms salesman of the English-speaking and Western countries were wider. (Subramaniam, 1971)

## **Comparative Analysis of Soviet and Western Assistance:**

### **(a) Easy terms:**

The USSR has never exploited India regarding trade policies. Soviet Union came forward to provide economic assistance and offered cooperation to build Bhilai Steel Plant on very favourable terms. An agreement was signed on 2 February, 1955. The credits were provided on easy terms. The loans were repayable over a period of over 12 years time with a grace period of one year. The repayment usually stated after the final invoice for machinery and equipments for each projects was received. The Soviet projects took normally three to four years to complete the amortisation period is usually longer 15 to 17 years. The worst bargain was done by Rourkela Steel Plant where the West German credits for Rourkela was 6.3 percent rate of interest whereas the Soviet Union charged with only 2.5 percent rate of interest. The repayment period in case of Rourkela Steel Plant was 3 years whereas it was 2 years for Bhilai Steel Plant. The participation of Indian Scientist in setting up the Bhilai Steel Plant and other aided projects was a

remarkable feature. Soviet economic assistance to India the bargaining power of the developing states like India has strengthened vis-a-vis- Western countries where prior to the assistance Western countries offered loans on unfavourable terms. The agreement between the Soviet Union and India for credits on liberal terms forced western countries to soften conditions. After the Bhilai Agreement, United Kingdom offered to build Durgapur Steel Plant and United States agreed to build Bokaro Steel Plant in public sector. Dr Padma Desai, formerly of the Delhi School of Economics wrote: "On the Indian scene, the Soviets have best records in training Indian personnel and of systematically transferring responsibility to them". Whereas the Rourkela Steel Plant arose with the help of 300 German experts without any of them having the responsibility for its efficient functioning" ( Padma,1972)

John Kenneth Galbraith, then the US envoy in New Delhi, wrote: "Our past help to private sector plant such as Tatas, has evoked the comment: the Americans help the Tatas and Birlas who are already rich. By contrast, the Soviets... build plan that belong to the people."( Kenneth, 1969). This brought about a qualitative change in the India's industrial structure. Prof K.T. Merchant , in an article in a Bombay weekly *Commerce* wrote a number of years ago:

"In all the organs of the United Nations, the Soviet Union advocated aid to the underdeveloped countries but emphasised the difference in their approach, namely that aid should be designed to hasten the expansion of heavy industry as liberation could proceed from such a pattern of development ." The difference between the Soviet help and the help from western nations was superior in the comparison on the performance of two plants namely The Bhilai Steel Plant with the Soviet assistance and the Rourkela Steel Plant with West German assistance, the Krupp- Demag combine was signed in 1954. Though this agreement was signed a year earlier than Bhilai, yet it was Bhilai Steel Plant that went for production earlier. An American paper *US News And World Report* (15 April, 1963) admitted that the performance of Bhilai Steel Plant was much more impressive while the Western German experience "had been a night mare..... Trouble developed and special commission of German technical experts was appointed to find out what was wrong". It added that: "British experience at India's third Governmental steel mill is only a little better."

TABLE 1  
Interest Rates on Three Foreign Assisted Steel Projects

Steel Plant	Interest Rate	Repayment Period	Grace Period
1. Bhilai	2.5%	12 years	1 years
Bhilai Extension	2.5%	12 years	1 years
2. Durgapur	Consolidated fund Rate (5.5 to 6%) + ¼ % management fee	11 years	8 years
Durgapur Extension	Consolidated fund rate (5.5 to 6%)+1/4 % management fee	25 years	7 years
3. Rourkela	6.3%	3 years	3 years
Rourkela Services and Maintenance	3%	20 years	7 years
Rourkela extension	5.75%	20 years	5 years
Rourkela Refiance	1.25 to 5.50 %	12- 16 years years	Variable

Source: P.J. Elridge, *The Politics Of Foreign Aid in India*, P. 137.

The above table shows the difference between the Interest rate and Repayment period between Soviet Union and other Western nations that were given during India's industrialisation. The Bhilai Steel Plant build by Soviet assistance provided an interest rate of 2.5% and a repayment period of 12 years compared to the Durgapur Steel Plant build with Western assistance having an interest rate of 5.5 to 6 % + ¼% management fee and a repayment period of 11 years. There were no management fee taken by Soviet Union . In building other steel industries namely Rourkela by Western assistance the interest rate is 6.3% + 3% maintenance fee which is much higher than that provided from Soviet assistance. Thus the table shows the easy terms on which Soviet Union assisted in India's industrialisation.

#### (b) Latest technology

The aim of the Soviet Union to help India in the technological and scientific field was to lift India from its backwardness into the modern era to make it self-reliant whereas the Western countries tried to perpetuate its backwardness and make profit from it. While the Soviet Union tried to increase the stock of technical know-how in India by various types of training facilities, the Western countries has tried to entice away Indian scientists and technicians to them, and they have tried to get their own research projects carried out in Indian laboratories to save money because the cost were comparatively lower in India. The research projects carried out in the Indian laboratories were by the Western nations had no relevance.

Whereas the Soviet Union build enterprises in developing countries with its aid and never exploited the labour of the recipient countries nor extracted surplus value.

The best example is that of the Bokaro Steel Plant which installed latest oxygen –converter technique of producing steel by Soviet Union. The modern machinery and enterprises were almost free of charge whereas the multinational companies set restrictive terms to partners as regards the nature and the scale of its utilisation. The help from Soviet Union led to the improvement of technological level of the recipient country. It did not hold any patents in the process of transferring the latest technology unlike the multinational companies operating in India. It provided help for the development of the country and not for extracting maximum profits by keeping manufacturing techniques secret as was done by western countries. The superiority of Soviet Union came up in the transfer of latest technology to India in case of Bhilai Steel Plant as compared to Rourkela Steel Plant. The Western countries used technology as an instrument of domination. The transfer of technology was not latest to the developing countries rather they transferred obsolete and discarded technologies where they planned to make a technological gap and also extracted maximum possible price for the old ones. Thus for ensuring independence on economic and technological areas India will have to liberate ourselves from the scientific and technological dependence from the West. Soviet Union contributions in the delivery of machines and equipments, transfer of production experience and technology and various other forms of scientific and technological assistance played a vital role in Indo-Soviet cooperation.

### **(c) Rupee Payment:**

Soviet Union was always honest on the factor as whatever aid was given by the Soviet Union the recipient used to repay with nominal service charges. The Soviet Union came to India's aid with the proposal that whatever was borrowed from it would be repaid only in Indian currency and that arrangement was known as the rupee payment. (Mehta, 1975) Later another arrangement came into the existence which was the production and cooperation. It meant the Soviet Union would help in the establishment of an enterprise and a part of its production would be sold to the Soviet Union to repay the loan. The enterprises were the property of India and it had a number of beneficial implications that includes:

- a) The volume of foreign exchange resources as one of the crucial determinants of the scale and pace of industrialisation was eliminated to an extent.
- b) India could preserve and spend its foreign exchange resources to import its requirement from the West.
- c) Both the arrangements solved the marketing problems of newly established enterprises and India's traditional and other export goods which were facing difficulties of marketing in the West and strengthened its bargaining position in Western Markets.

When the rupee payment concluded, Western experts were taken aback. And one of them was forced to write: "In chronic need of foreign exchange, primary producers are offered trade through a device which obviates the need for foreign exchange- the bilateral trade agreement with bilateral balancing..it is highly welcomed because it assists in solving a difficult short-run problem. Sensitive to the economic development aspirations of underdeveloped countries, the Soviet Union offers capital goods in exchange for primary products." (Allen, 1960)

Another contribution to the development of oil industry in India through Soviet assistance was to help India prepare its own band of oil specialist. The Government of India approached Western countries for help in oil exploration but none obliged, neither did they show hostility. The with the help of Soviet Union Indian set up the Oil and Natural Gas Commission (ONGC) which immediately despatched its experts and equipments to India. (Mehta, 1975). The differences in attitudes between the Western countries and the Soviet Union is seen in the attitude of oil-exploration. The fact that the assistance provided by the Soviet Union is designed to help the developing countries to break the stranglehold of international cartels operating in their territories. For example , Soviet cooperation in Indian Oil and Drugs has helped it to break the monopoly of International Oil and Drug Companies In the middle of the Second Five Year Plan period, India faced acute foreign exchange crisis. The most important factors aggravating the crisis was the huge import bill for oil which was Rs 100 crore in 1958 and at that time three Western oil companies namely, ESSO, Caltex and Burmah Shell dominated India's oil scene. They purchased their crude requirements at very high prices paid in convertible currencies from their parent companies abroad, brought them in their own tankers and refined and processed the crude in their own tankers and refined and processed the crude in their own refineries and sold the products in their own outlets or through distribution channels controlled by them. They had a virtual oligopolistic situation. They refused to refine oil from other sources or to retail oil from elsewhere through their own outlets. Everything was managed in such a way that they openly got 50

percent annum return on their capital. India was placed in such a situation that it was impossible to do anything to curb them. “ In view of the monopolistic position of oil companies and because a boycott of the oil cartels and their Western supporters would imply a virtual disruption of industrial activity, it was impossible for any country including India to fight against them.”(Allen, 1960).

“There is appreciation in India for Soviet approach to aid which is characterised by ‘an informality of style and ease of relationship.’ Moreover, there has never been any attempt to call into question the Indian ability to learn, to master and to manage any modern sophisticated technology, which is in glaring contrast to the contempt and undue caution expressed by some Western observers regarding Indian technical capabilities. Whatever be the ulterior motive, the Soviet Union has been fairly generous to part with her technological knowledge in building modern, workable steel mills and also in helping to organize a government owned Central Engineering and Design Bureau in Ranchi without making any ‘ hue and cry’ over policies and other allied matters” ( Allen 1960).

#### **(d)No strings attached by Soviet Union**

Each and every help in the economic and technical sphere accompanies political and economic strings attached to it. American assistance had strings attached to it and some of its provisions proved for instance a political string was attached to the Food- for- Peace – Act of 1966 which prohibits United States from supplying food to those countries which were in trade with North Vietnam or sold anything but medicine, non-strategic food and agricultural commodities to Cuba. Robert Walters disclosed, “ India was forced to accept this restrictions in order to get American grain which it desperately needed in early 1967” .( Walters,1970). Economic strings were also attached to the assistance of United States which required the recipient country demonstrate the progress in the way of implementing “economic reforms” necessary for economic growth. The countries seeking United States Assistance were required to explain the utility and the necessity of the project in the contribution of needs and also the accounts of the use of aid funds in the construction of the project. And this was the reason that Bokaro project was delayed by five years, and India shifted its request to the United States in building it and also the United States wanted to carry out a study and that the first ten years United States would have exclusive managing rights whereas Soviet Union assistance was entirely different because Soviet Union had no direct or indirect investment in developing countries and also it was unnecessary to stipulate conditions for their protection. There was no vested interest on the part of Soviet Union on the economic sphere thus it extended disinterested assistance neither was there any requirement that the recipient country had to carry out internal reforms before it qualifies for aid and without any justification of projects in terms of their role in the overall development plan without any management rights. P, Tharyan in his book *India- The Critical Decade After Nehru* says, “ no strings , political or other, have been attached to Soviet aid, which has helped India in her industrial development, particularly in the heavy industries sector” (Tharyan, 1967).Also in a despatch to his paper, the London correspondent of London *Observer* in India, Walter Schwarz, observed that , “ Soviet aid has no political strings attached” ( Observer, 1973). There was no strings attached by Soviet Union in helping India’s Industrialisation. The late Asha L. Datar in her doctoral dissertation concluded that the chief characteristics of Soviet economic cooperation included, among other things, “emphasis on ‘equality’ between partners.” It did not offer humanitarian charity like the USA but purposeful business like loans to make them stand on their feet. Secondly, there was coordination between trade and its policies and loans were to be repaid through trade mechanism. In her own words: “ The main attraction of the East European credits for developing countries was that the former were willing to accept repayment in kind . They were far ahead of others in recognising the need for linking trade and aid policies.”(Bhatia,1984).

#### **e)Self – Liquidating credits**

The repayment of Soviet Union credits does not involve any foreign exchange unlike the repayment of American and Western loans. The arrangements of Soviet Union repayments were that the loans were to be repaid through exports which was not offered by any Western aid –giving country or America rather on the other hand it had to face the barrier as a result of which the country has to keep on borrowing to pay off the earlier debts. “The average repayment to Western countries during 1958-1960 to 1962-63 was only 142.5 crores per annum but roused to Rs 427.5 crores for 1971-72. Interest constitutes 30 to 40 percent of the total debt-service payments to the western countries. It is estimated that in 1972-73 out of a total western aid of Rs 626 crores, Rs 502.4 crores were used for repayment and interest on loans and only Rs 123.6 crores for investment purposes in India”( Mehta, 1975). The benefits which India got from Soviet type of assistance were first that India had no balance-of-trade or balance-of –payment problem with the Soviet Union and Second is that Soviet Union is self-liquidating as repayment is effected through exports of goods. India got caught in the vicious circle of “loans to repay loans” whereas this was not the case of Soviet Union as it did not have to pay its debts. This kind of repayment credits enabled India with certain advantages in

the form of creating new avenues of employment for example many small – scale industries had started in Agra and Delhi with large scale employment in manufacturing shoes exclusively for the Soviet market.

**(f) No limitations on Use:** For supplying arms and providing the technical know-how for the production of MiG and other items Soviet Union has not imposed any limitations. Soviet Union did not put any bar on India to acquire military hardware from any other country irrespective of what it brought from them. Whereas United States and Great Britain stipulated that military assistance provided by them should be used against China only.

**(g) Advance Commitments:** The assistance of Soviet Union in the sphere of economic and technical sphere went hand in hand for the only reason as they helped us only on specific projects and they were always the one who committed in advance. Since India was always sure about the Soviet Union terms and conditions of assistance and credit facilities in certain projects whereas on the other hand it was always unsure about the terms and conditions as well as the amounts payable to the Western countries on those projects. Thus Soviet assistance was always ahead in the certainty factor which the Western countries lacked.

Stephen P. Gibert while comparing Soviet Union and United States military assistance to India and Pakistan, has stated that, “the United States has furnished large amounts of weapons to Pakistan and more limited supplies to India; the USSR has reversed the order and favoured India with considerable military aid while limiting aid to Pakistan” (Gibert, 1975).

“In India’s case 97 percent of Soviet assistance was aimed at the construction of industrial enterprises in the key branches of the economy in the country’s public sector. As compared to the United States, the Soviet Union’s contribution to India’s industrial sector is much larger.

**TABLE- 2**  
**PATTERN OF SOVIET AND AMERICAN ECONOMIC ASSISTANCE**

SOVIET UNION		UNITED STATES OF AMERICA	
Steel	40%	Steel, Iron Ore	1.8%
Power	18.1%	Power, Irrigation	7.3%
Oil, Gas	19.1%	Railways	3.8%
Coal mining	6.5%	Transport and Communications	1.1%
Heavy- Machine building	7.2%	Industrial Development	25%
Heavy Electric Plants	4.9%	Grants for technical assistance, in health, agricultural, social and educational fields	5.3%
Drugs Project	3.1%	1951 Wheat loan, PL 480,665 Food and Commodity assistance	55.9%
Miscellaneous	1.1%		

Source: P.J. Eldridge, *The Politics of Foreign Aid in India*, pp.11 and 18 (As on March 31, 1965)

The table shows the pattern of Soviet assistance and the assistance of United States of America. It is clear that America’s major contribution is in the supply of foodgrains, i.e., on consumer side, while that of the Soviet Union is on the production side and significantly it includes contribution in capital-goods sector namely, steel, oil and gas, power, heavy machine building and heavy electric plants.

The assistance did not come under the direct investment whereas it was available in the form of credits and technical help. The credits were available primarily to the public-sector projects and only a private-sector undertaking like a steel factory, mechanical instruments plants, etc., were provided with knowhow against fee. The difference was that unlike private investments in multinationals in India, the Soviet Union did not develop any perpetual interest in influencing the country’s economic policies. The sphere of investment in the private foreign capital was guided by its own interest and not by the developmental needs whereas Soviet Union does not develop any vested interest in the undertaking because it has no equity participation nor was there any royalties or profits to be repatriated to the USSR.

**TABLE-3**

**Remittances made Abroad on Account of Dividends, Royalties and Technical know-how by the Private Sector during 1970-71 to 1972-73 (April- December) (Rs Million)**

	UK	USA	Switzerland	West Germany	Japan	USSR	Others	Total
<b>Dividend</b> 1970-71	210.9	167.7	14.9	10.4	1.1	-	8.1	434.8
1971-72	200.5	121.1	13.1	13.7	0.9	-	16.6	388.7
1972-73 (April- December)	135.9	78.7	20.1	16.0	0.9	-	11.3	281.5

<b>Royalties</b> 1970-71	16.0	17.1	4.4	6.8	1.6	-	1.8	52.3
1971-72	15.5	20.6	2.8	8.6	1.9	-	3.6	58.6
1972-73 (April-dec)	14.0	27.1	4.0	7.4	0.9	-	0.9	55.0
<b>Technical Know-how</b> 1970-71	23.7	34.5	3.2	20.1	7.3	-	60.1	206.3
1971-72	22.9	32.4	4.6	11.4	10.5	-	19.2	139.0
1972-73	8.2	16.4	2.2	20.5	1.1	-	15.4	83.6

Source: Parliament Answers, Data India

The repatriation of royalties and dividends from India by the private-sector multinational companies and others is given in Table 7. As stated earlier, the Soviet Union has only charged a fee from a few private sector undertakings in exchange for know-how equipments provided to them. There is no outflow of resources or capital from India to the Soviet Union. But the Remittances made Abroad on Account of Dividends, Royalties and Technical know-how by the Private Sector are made to UK,USA , Switzerland, Japan and West Germany respectively.

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