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SOVIET FOREIGN AID
(Some Facts)

According to Andrey Sakharov, Soviet physicist and critic of the state of affairs in the USSR, Soviet citizens know little about their country's economic and military aid to underdeveloped countries. The Soviet press ignores the subject. In contrast, the Soviets have spared no effort to impress the world that their aid is abundant and generous, with the result that opinion polls in developing countries equate Soviet aid approximately to that from Western countries. To dispel some of the myths created by this two-way distortion of reality, it is useful to take a look at some generalities concerning the Soviet aid program:

Soviet Foreign Aid Objectives

Khrushchev described the goals and methods of the Soviet foreign aid program of the mid-1950s to the mid-1960s when he announced: "For the development of their independent national economy, as for the improvement of their people's standard of living, these (underdeveloped) nations may draw on the successes of the Socialist world system.... Today, they no longer need plead with their former oppressors for modern industrial equipment. Such equipment is available to them in the socialist countries, with no political or military strings attached." Subsequently Soviet spokesmen called their foreign aid an expression of "peaceful economic competition" and a factor in the "buildup of the national economy in the underdeveloped nations or in the latter's struggle against imperialism."

More recent statements made in the USSR imply that in the future, Soviet aid will increasingly hinge on how closely a given country is judged to be following a "socialist path" in its foreign and domestic relations. The following appeared in Kommunist, authoritative political journal of the CPSU Central Committee, in November 1968:

"National liberation of nations can be achieved only in close alliance and brotherly solidarity with the international Communist movement, when the less-developed nation is guaranteed aid and support from socialist states."

This and other Soviet pronouncements of a similar vein suggest that the Soviet foreign aid program, which has never been large, will become even smaller and will increasingly be directed toward politically-favored regimes.

Quantity of Soviet Aid

Total Soviet economic aid delivered from 1954 through 1969, according to official Soviet figures, has been about \$3 billion, or less than half of the

total of \$6.8 billion pledged to 38 non-Communist countries during this same period. During the beginning of this period, total pledges of aid were four times greater than actual deliveries. This imbalance brought unfavorable publicity to the Soviet program and, as a consequence, in recent years pledges and deliveries have been brought more nearly into balance. Military aid valued at \$4 billion has been delivered to more than half of these countries. However, the total of military aid pledged, between \$5 and \$6 billion worth, remains less than that for economic aid because of the shorter delivery time for weapons, ammunition, and planes, and for the dispatch of military instructors.

USSR Compared with Other Aid Donors

As the world's third ranking industrial power, the USSR has a vast foreign aid potential. Nevertheless, in comparison with the performance record of other aid donors, the Soviet program is unimpressive. Between 1954 and 1968 Soviet economic aid pledged to the Third World equalled only one-eighth that pledged by the U.S.A. while Soviet aid actually delivered fell below one-eighth of that delivered by the U.S.A. Between 1965 and 1968, the Soviets slipped to fourth place in the total value of new aid commitments, trailing other donors whose economic potential was far less than theirs.

The USSR is one of the few advanced industrial countries which refuses to subscribe to the United Nations annual target for aid donors of one percent of their gross national product (GNP). In fact, the Soviet "burden" has never been greater than 8/100 of one percent of GNP. In 1968 the following percentages of GNP were registered for "industrially advanced" aid donors:

France	.72
U.S.A.	.39
United Kingdom	.37
West Germany	.37
Japan	.32
USSR	.04

Unlike aid from the industrial West, over half of which has been provided as outright grants, virtually all Soviet assistance has been in the form of credits. Well over three-quarters of Western aid has been repayable over 25 years or more -- about double the 12-15 year repayment period allowed by the USSR. Moreover, while roughly between 25 to 30 percent of official aid from Western countries is not tied to procurement in the donor country, all Soviet aid is tied to the purchase of Soviet goods and services.

Recently Soviet "aid" has taken on more and more the appearance of "commercial credits." Since the mid-1960s Soviet aid extensions have become even

less concessional than previously. Interest rates, standardized at about 2.5 percent, have risen while repayment periods have been shortened and often down payments of up to 25 percent have been required.

Quality of Soviet Aid

The effectiveness of Soviet economic aid is difficult to measure overall because of differences between countries receiving aid. However, some generalities apply over-all: projects have required one and a half to two times as much time as planned for completion; final costs often are double the estimated costs. Production difficulties have been experienced at new plants, and production equipment has been found to be out of date. The products of completed Soviet aid projects have generally fallen short of quality standards in the non-Communist countries. In some instances, faulty estimates of demand have led to the production in Soviet-built plants of ridiculously high inventories of unsold products.

Often the creation of new manufacturing facilities through the Soviet aid programs has had positive effects. Some foreign exchange funds have been saved as countries have produced items which had formerly been imported. A risk factor is that in the process of repayment, the country receiving aid may have to rechannel its future trade to the USSR and its ruble trade zone. When this happens, as is illustrated by Czechoslovakia, production standards are lowered and, over time, the country decreases its ability to sell goods in non-Communist markets.

From the Soviets' standpoint their foreign aid program may be considered a successful undertaking. It has cost them little (economic aid has amounted to about .05 percent of their GNP, or one-twentieth of the share proposed by the UN for developed countries). They have scored evident political successes (most notably in Egypt). The Soviets have obtained increased amounts of raw materials and foods from the less developed countries. They have provided those countries with machinery and equipment of such poor quality that most of it was unsaleable at world market prices. Moreover, according to Soviet statistics many of those products have been surplus in the USSR during the past several years.

Strategically, the Soviets have expanded their presence in both hemispheres and, as a consequence, also their opportunities for economic, military and political penetration. Adding to the strategic significance of Soviet aid is the nature of a number of projects included under economic aid. For example, roads and railroads built in countries bordering the USSR could be used for Soviet military purposes. Ports and shipping facilities, as well as fishing installations, have been financed in a number of countries by Soviet aid; these facilities could be used for emergency purposes by Soviet naval vessels and the far-flung Soviet fishing fleet, conceded by many to be an auxiliary of the Soviet Navy.

SOVIET FOREIGN AID: THE SITUATION IN INDIA

India has been allocated 25 percent of total Soviet aid pledged to the third world since 1954.

The first Soviet economic aid to India involved the construction of the Bhilai Steel Works, agreement for which was signed in 1955. The Soviets' program has been extended to a total of 40 projects. The first Soviet offer of military aid was accepted in 1960, when the Indians contracted for \$31,500,000 worth of transport aircraft and communications equipment.

The amount of Soviet economic aid delivered to India in the past 15 years has totaled \$874 million, or a bit more than half of the pledged sum of \$1,612 million. Soviet military aid totaled \$600 to \$700 million through 1967 and had probably increased to about one billion dollars by 1970. In spite of Soviet claims that their aid to India has been large relative to India's economy, the opposite is true: Soviet foreign aid delivered during 1955-69, on a yearly average, has amounted to about one-seven-hundredth of Indian gross national product.

Economic Aid

A comparison of the scope of Soviet economic aid to India with that from other countries as of 1966 is given in Peter Sager's book Moscow's Hand in India. Sager found, on questioning them, that most Indians believed that Soviet aid, while not quite exceeding American aid, was increasing faster and was then only just behind the latter. The facts were quite different: at that time Soviet economic aid pledged to India amounted to only 16.5 percent of U.S. aid to India. The comparison is even less favorable to the Soviets when account is taken only of aid actually delivered, and of the fact that virtually all of the Soviet aid must be repaid whereas over a fifth of U.S. aid is non-repayable. Similarly only a limited number of Indians were aware that, besides the U.S., West Germany and the United Kingdom had, by mid-1965, actually delivered more economic aid to India than had the USSR.

One reason for these erroneous Indian opinions was that Soviet aid has focused on impressive projects in heavy industry. (See the attached listing of the major projects.) More than half of the amount expended has gone for two steel mills; one, the Bhilai Steel Works, has been completed, and the other, the Bokaro Steel Works, is still under construction. Substantial shares have gone for factories to produce machinery and equipment, electric power plants, and petroleum refineries. Another possible reason for the inflated Indian opinions about Soviet aid is that the construction stage of the projects has been stretched out, thus attracting inordinate attention.

Indian expectations from Soviet aid were from the beginning understandably high as Soviet technological prestige in the 1950s was enhanced by achievements in thermonuclear weapons, jet aircraft, and space vehicles. However, the results over the years have sorely disappointed the Indians.

The first disappointments came from the inordinately long construction times of the projects. The Bhilai Steel Works, even though it was a show-piece and was given the highest priority by the Soviets, took five years to build (nine months longer than scheduled). The Neyveli electric power plant, the first stage of which had a capacity of 250,000 kilowatts, took from August 1959 to May 1964, a total of 57 months vs. the plan of 36 months. The Barauni Oil Refinery, planned to be built in 21 months, took twice that long. (The Indians thus have known for some time what a Soviet official meant when he confided to a Yugoslav visitor in 1969 that Soviet plants take so long to build that they are obsolete by the time they're completed.) The largest project currently under construction, the Bokaro Steel Works, is estimated by Indian MP's to be three years behind schedule.

Soviet aid projects also cost more than planned. The Neyveli power plant, for example, cost a quarter more than planned. The Barauni Oil Refinery cost almost twice as much as planned. And the Bokaro Steel Works, it is estimated, will cost 10 billion rupees, or more than half again the envisaged 5.9 billion rupees.

Besides the excessive time and cost of construction, the Indians are critical of the economic planning that has gone into Soviet aid projects. The Bokaro Steel Works has been a particular focus of such criticism, as is abundantly clear in the attached articles concerning that project. Bokaro suffers in comparison with the earlier project at Bhilai. The latter was built to produce structural steel and rails and thus was relatively simple in design. The Soviets assigned some of their top engineers to Bhilai, and gave high priority to the development of plans and the delivery of equipment. This effort resulted in the project being completed only nine months late (almost unheard of in the USSR) and, because of Soviet subsidies, at a cost only about 20 percent in excess of estimate.

Bokaro, in contrast, enjoys none of those advantages. It is to produce much more complex steel products, such as cold rolled sheet, galvanized steel, and tinsplate. (The Soviets are having trouble at home in the production of these types of steel, as witness their purchases from Western Europe of cold rolled steel and their contracting with the British for the construction of a tinsplate mill in the USSR.) The Soviet project officials apparently were unable to get a high enough priority assigned to the Bokaro project. Some of the equipment was delivered far too early and will have to be stored (and payments for it will have to be made) for several years prior to being installed. There is no sign that the Soviets are making efforts to hold down costs. The Soviets have unaccountably revised the project so that fewer Indian manufactures and more Soviet manufactures will be used in construction.

Indian parliamentary reports on the Soviet-aided pharmaceutical and surgical instrument plants at Rishikesh, Hyderabad and Madras and on the mining and heavy machinery plants at Durgapur and Ranchi reveal them to be technical and commercial failures. Basic Soviet planning failed to "take into account the local atmospheric conditions" in designing the pharmaceutical plants.

As a result, at one plant the rusting of equipment led to a 40 percent rejection rate of the plant's production of antibiotics because of impurities. The Durgapur machine plant, having reached only 11 percent of its targeted capacity, has incurred an aggregate loss of 200 million rupees. (Additional details are given in the attached press clips.)

In an assessment of Soviet economic aid worked out by some Indian analysts, they conclude that the project approach worked poorly, and should be changed in accordance with India's changing needs. They find that complete new steel mills and electric power plants, even under the Soviet aid program, are too costly for India. They would prefer selected items of industrial equipment, as well as industrial raw materials and fertilizer. There is no indication that the Soviets would accept such radical changes in their aid program.

Military Aid

Soviet military aid, similarly, has not measured up to expectations. Starting modestly in November 1960, when the first Indian-Soviet arms aid agreement for air transport and military communication equipment valued at \$31.5 million was signed, the program grew to a total magnitude of a billion dollars by the end of the decade. Its scope has expanded to include supersonic aircraft, an air defense system, and submarines. From the Indians' standpoint such aid was desirable for the defense of their long borders and coastline. Moreover, most of Soviet military aid was offered at prices lower than those of Western countries and could be repaid in Indian rupees. From the Soviets' standpoint the program was attractive because it considerably increased their influence in India, helped bulwark India's defenses against China, and was inexpensive in that it involved mainly weapons systems no longer being produced for Warsaw Pact forces in exchange for Indian currency.

India became the first non-Communist country to acquire the know-how to manufacture the Soviet MIG-21, under an agreement of October 1962. An air-frame plant at Nasik and a jet engine plant at Koraput were under construction in 1963 and production was to begin in 1965, according to New Delhi's Overseas Hindustan Times of 24 October 1963. In addition, a complementary electronics plant was built at Hyderabad. The Indians planned at first to assemble aircraft and engines with components shipped from the USSR; by 1970 they were to manufacture all the basic components from Indian raw materials.

Prime Minister Nehru regarded the MIG-21 as a sturdy, comparatively unsophisticated airplane, one for which the Soviets could establish the manufacturing capacity in India in a relatively short time. Progress at the MIG-21 complex casts doubt, however, on this conclusion. The Indian Ministry of Defense indicated in a 1970 announcement that it wasn't until 1968-69 that the Koraput Plant had begun production of MIG engines and the Nasik Plant had begun manufacture of MIG airframes "from raw materials." Both of these production dates exceeded the originally anticipated dates by two years or more. A 1970 statement on Air Force Day by Indian Defense Minister Mr. Swaran

Singh that "efforts are now directed towards minimizing our dependence on foreign supply for all military equipment" strongly suggests that the Soviets are still supplying the bulk or at least half of the components. In the final outcome, India may find it would have been cheaper to purchase the aircraft.

Spare parts for the Soviet-made MIG-21 components are another problem. Indian Members of Parliament complain that an inordinately large number of MIG aircraft have been grounded because they lacked adequate spare parts.

Under terms of a naval aid agreement negotiated in 1965, during India's war with Pakistan, the Soviets agreed to provide India with four submarines, and a total of a half dozen or so destroyer escort ships of the PETYA-class and naval patrol craft. Deliveries of these warships lagged through 1967, after which they were stepped up in apparent response to Britain's announced military withdrawal from the region east of the Suez, and as Britain and the U.S. continued to be reluctant to meet Indian requests for warships. In a companion development, the Soviets have participated in the construction of the large naval yard of Visakhapatnam on India's east coast.

While it is too early to tell how the Soviet-built ships will withstand the Indian Ocean climate with its high temperatures and humidity, there is some evidence that the Indians have grounds for complaints about the naval side of Soviet military aid. Some delays in delivery were experienced. The costs of training Indian crews in the USSR have been high, \$350 per month per man payable in hard currency. And the costs of maintaining Soviet naval officers in India are high because of the luxurious living standards that the Soviets insist upon. (See the attached press clips.) As with Soviet aircraft, the spare parts problem with naval vessels is aggravating, and ships have been tied up for repairs for what appear to be inordinately long periods.

The Soviet involvement with Vishakhapatnam Naval Yard has stirred wide conjecture that the Soviets may be contemplating setting up a base for their own navy there. However, the Soviets, are well aware of Indian antipathy to the idea of foreign bases in the Indian Ocean, and for political reasons have not sought base rights to date. Nevertheless, if the Soviets felt the need to service or base their own naval vessels in the Indian Ocean they could readily use Vishakhapatnam where the facilities are compatible with Soviet-built ships and the base personnel are largely Soviet-trained.

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On balance, Soviet aid has provided the Indians with the means for expanding industry and equipping their armed forces. The costs, however, have been largely deferred, and repayment of India's debt has become a growing problem. In 1970 and later years, for instance, repayments will exceed Soviet economic aid by a significant amount, thus acting as a net monetary drain on the Indian economy. But the drain on the economy will undoubtedly

be far greater, in that there will be no economic return on the military aid, and limited return on the economic aid because a large share of the Soviet projects are incomplete and those that have been completed are yielding unsatisfactory results.

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Principal Soviet Aid Projects in India

Bhilai Steel Mill
Bokaro Steel Mill
Heavy Machine Building Plant at Ranchi
Coal Mining Machinery Plant at Durgapur
Heavy Electrical Machinery Plant at Hardwar
Electric Power Station in Neyveli
Electric Power Plant at Korba
Electric Power Plant at Singraul
Hydroelectric Power Plant on Bhakra River
Petroleum Refinery at Barauni
Petroleum Refinery at Koyali
Antibiotics Plant at Uttar Pradesh
Synthetic Drugs Plant at Sanatgar
Surgical Instruments Plant at Avadi
MIG-21 Airframe Plant at Nasik
Supersonic Jet Engine Plant at Koraput
Aircraft Electronics Plant at Hyderabad

HANDELSBLATT, Duesseldorf
11 November 1968

Soviet Aid to India Discussed

The USSR has employed extensive propaganda at a cost of 70 million rupees to date (37 million German marks) to convince the man on the street that it has extended to India more credits, loans, and developmental assistance than has any other country in the world. Better-informed circles know, however, that even in aid promised the Soviet Union lags behind the U.S., and that even in this area the U.S. aid is six times that of the Soviets. During the period April 1951-May 1968, aid promised by the U.S. amounted to 63.61 billion rupees (33.9 billion German marks) as compared with only 10.32 billion rupees (5.5 billion German marks) which the USSR promised by way of credits. An even more crass contrast is evident when the actual sums delivered are compared. The actually-delivered aid payments made by the Soviet Union amount to only 5.46 billion rupees (2.9 billion German marks), as compared with U.S. aid payments made in the amount of 58.47 billion rupees (31.16 billion German marks). Thus the U.S. has made ten times the funds available that the USSR has furnished. Unfortunately this is known to only a few well-informed persons in India. The same limited number of persons know that with respect to actually-rendered aid, the Soviet Union stands in fourth place, behind West Germany and Great Britain.

During the above-mentioned time period, the FRG and Great Britain promised India aid in the amount of 8.02 billion rupees (4.27 billion German marks) and 6.2 billion rupees (33.05 billion German marks). But the ratio between promised aid and actual aid made available is unusually high with respect to both countries. West Germany has already paid out 6.88 billion rupees (3.68 billion German marks), while Great Britain has made available 5.53 billion rupees (2.95 billion German marks). Although the FRG stands in third place with respect to aid promised, it stands in second place, behind the U.S., in actual aid delivered.

It is worthy of note that a vast discrepancy between aid promised and aid actually delivered exists only in the case of the Soviet Union and the bloc countries. The other Western countries and even the Far East can demonstrate much better results in this regard. For example, Czechoslovakia promised aid in the amount of 990 million rupees (528 million German marks), but actually delivered less than half that amount, i.e., 440 million rupees (234.5 million German marks). Yugoslavia promised 940 million rupees but paid only one-quarter the amount (260 million rupees). The same was true of Poland, which promised 650 million rupees (346.5 million German marks) but made only one-third that amount (210 million rupees) available. These countries were exceeded by Hungary and Bulgaria, which promised 250 million and 11 million rupees respectively but have made no payments whatever to India up to now.

The Soviet and Soviet Bloc propaganda, which deals only with the promised amounts of aid, has achieved astonishing successes among the Indian

people. A poll taken in 1966 by the Indian Institute of Public Opinion showed that 89 percent of the individuals questioned knew that India was receiving developmental assistance from the U.S.; 79 percent knew that the Soviet Union was also giving developmental assistance, whereas only 30 percent had heard of West German developmental assistance in spite of the fact that the FRG had rendered more assistance than had the USSR.

In the field of foreign trade, too, which involves primarily an exchange of goods, and payments in rupees, the Soviet Union and the Soviet Bloc states are operating securely for their own benefit. The volume of trade between the Soviet Union and India in the past two decades has increased 300 times. The USSR has so engineered the exchange -- apparently deliberately -- that a considerable credit balance in favor of India has resulted, in order that India can be forced to accept unwanted goods of inferior quality at exorbitant prices. Evidence of this fact lies in the most recent effort by the Soviet Union to purchase railroad cars and steel from India and to pay for them by delivering aircraft to India which are labeled by Indian experts as unfit for use by India. An increase in Indian imports from the Soviet Union in order to effect a trade balance served as the topic of negotiations which took place in Moscow at the beginning of October between the deputy chairman of the Indian Planning Commission and the competent Soviet ministers. On that occasion, the Indian delegation also raised the issue of financial assistance because it had not yet been possible for India to make full use of the credits of 300 million rubles which the Soviets had promised.

BALTIMORE SUN

2 April 1968

CPYRGHT

Indian And Soviet Navies Seem Courting Cooperation

By ADAM CLYMER

(New Delhi Bureau of The Sun)

Cochin, India, April 1—The Indian Navy is acquiring at least three Soviet destroyer escorts of the Petya class and the first two crews have gone to the U.S.S.R. for training, authoritative sources disclosed today.

Meanwhile India is considering a Soviet request for "technical facilities" for its ships in Indian ports. While this term has not been spelled out in great detail, it is understood to encompass use of drydocks and repair shops for Soviet ships several thousand miles from their home ports.

Joint Exercises Possible

Another possible future element in the rapidly growing cooperation between the two navies is joint exercises in the In-

dian Ocean. Admiral Nikolai Gorshkov, Soviet naval chief of staff, suggested combined maneuvers when he asked for technical facilities during a visit to India in February, the sources said.

While the escort deal, and a submarine purchase which preceded it, have been in the works for some time, all these moves have gained increased attention as a result of the British decision to withdraw from bases east of Suez.

While Adm. A. K. H. Phatterji, chief of the Indian naval staff, was apparently talking grandly last month in an unauthorized boast that the Indian Navy would "fill the vacuum" created by the British withdrawal, the long-neglected In-

dian Navy apparently hopes to become the strongest naval power in the area.

While three Soviet ships steamed from Madras to Bombay today for the second stop of a goodwill visit, Adm. N. N. Amelko, commander-in chief of the Soviet Pacific Fleet, met Swaran Singh, Indian Defense Minister, in New Delhi.

Details Of Talks Not Given

No details of his talks with Singh or with Admiral Chatterij last night and today were revealed.

There are some important policy problems for India connected with the growing Soviet naval ties. Regardless of New Delhi's efforts to insist that a Chinese submarine threat—or Pakistan's arrangements to buy three French Daphne-class sub-

marines pose a danger to its security, these fears are met with American and British skepticism.

The British, who once were the Indian Navy's only supplier and tutor, look dubiously on the Soviet role.

Currently helping India build Leander-class frigates (more than twice the size of the destroyer escorts), the British insisted the U.S.S.R. Navy would not be welcome at Bombay's Mazagon docks, where the project is under way and the first frigate will be launched in October. It will be completed in 1971.

The United States, which has never had any involvement with the Indian Navy, comes into the problem through the Conte and Symington amendments to this

year's foreign aid bill.

The Conte proviso particularly would require the Administration to cut foreign aid to India by the amount it spends on new types of sophisticated weapons ordered from abroad after January 2 of the year.

And the hard bargaining of the Soviet navy—it insists that agreements provide 3,500 calories per day for Soviet officers assigned to India—has made the terms seem extravagant.

It is not because the Indian Navy's hopes are modest, but because the British presence itself has been spread so thin east of the Persian Gulf and west of Singapore that no vacuum is being newly created.

Eye On Indian Ocean

The U.S.S.R. seems to be more than casually interested in establishing a fleet presence in the Indian Ocean, too, though it is a long way from Soviet ports, especially with the Suez Canal closed.

For that reason, repair facilities are essential, though British reports that the Soviet Union has asked for something as formal as "bases" are discounted here.

Facilities For Subs, Escorts

Already the Soviet Union has helped India develop naval facilities at Visakhapatnam, midway up India's East Coast. These facilities are expected to provide servicing for the submarines and escorts the

U.S.S.R. is supplying.

But the naval cooperation has not always gone smoothly. The arrival in Bombay of the first of four of the SF-class attack submarines India is buying from the U.S.S.R. originally expected this month, has been delayed and is now not anticipated before June.

It is understood that the submarine suffered damage and flooding during recent trials near Riga, and the two countries' admirals are reported to be disputing who should pay the repair bill.

Delay In Escort Delivery

And the destroyer escort deal has also apparently met some delays. But two of the 1,050-ton,

30-knot escorts are now expected before the end of the year, and the third early next year.

Two Indian crews are now in the U.S.S.R. undergoing six-month training periods (for which the Soviet Union charges \$350 per month per man, payable in hard currency, not in rubles or rupees).

The third escort crew is expected to go to the chief Soviet Far East naval port of Vladivostok in July.

The naval tie seems less onerous than it once did. Officials in New Delhi have found British representatives able to act more quickly and to make minor decisions with less reference to London than the Russians must make to Moscow.

CURRENT, BOMBAY
25 October 1969

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~~~~~ Bhilai Steel Plant ~~~~~

Russia's Delay In Supplying Equipment May Cause Heavy Loss

From Our M.P. Correspondent

BHILAI: The expansion of the Soviet-aided Bhilai Steel Plant from 2.5 million tonne-capacity to 3.2 million tonne-capacity will now be delayed by nearly a year. The reason is the delay by the Soviet Union in supplying certain equipment, particularly Refractories, for the expansion of the Plant.

That the Plant has come up with the USSR aid and assistance, is a well known fact. The USSR assured a supply of Refractories for the Blast Furnace No. 6 being brought up to 3.2-million-tonne capacity by December this year. With this supply, the commissioning of the Blast Furnace No. 6, enabling the Plant to raise its production would have been possible by September 1970.

The USSR authorities have suddenly informed the Indian authorities that the equipment meant for the Blast Furnace No. 6 would now be delayed and their supplies could be expected only by September 1970.

The delay in the supply will thus delay the increase of the Plant's production capacity by nearly a year, which means a loss of several crores of Rupees to the public exchequer in India.

The reason for the non-supply of the Refractories in time, could not be and was not non-availability of the material asked for by India. The non-supply, according to these sources had to do something with the change in the attitude of the USSR towards India.

Experience During

1962 Chinese Attack

It is learned that in 1962 when China invaded the Indian borders, then too the USSR had delayed its supplies to the Bhilai Plant for quite a long period. This delayed the original expansion programme of raising the Plant's capacity from 1 million tonnes to 2.5 million tonnes.

Political considerations have always been dominating the supplies from the USSR to Bhilai, still the USSR claims that the assistance to Bhilai is free from politics.

THE MAIL, Madras
19 December 1969

CPYRGHT

STEEL SHORTAGE HITS INDUSTRIES

Bokaro's Delay Makes Matters Worse

By KRISHNA

THERE is shortage of steel again in India. The production of the three public sector plants—Bhilai, Rourkela and Durgapur—and that of the private sector—Tata Iron and Steel Company and the Indian Iron and Steel Company—is far short of demand. It is tragic that after years of planning we are in this plight. Unless we import Rs 18 crores of steel in 1970, we will not be able to meet the growing demand.

Industrialists clamouring for more steel are said to have been assured by the authorities, that arrangements are under way: already orders have been placed for Rs 6 lakhs, and a big order will be placed shortly. This gesture, which may not wholly solve the problem of short supply of steel, is understandable. Virtually all industry—erection of plant and machinery, housing, foundries—depend on steel. At present, it is said the foundries are working to 80 per cent of their capacity because of shortage of steel, and as such are finding it difficult to meet export orders.

There was a similar situation

during World War II when the import of British steel had to stop. It was after that the Government launched on its long-term plan by establishing three public sector plants. Even after the three plants were established by collaboration with the Soviet Union, West Germany and Britain, the demand outstripped supply. Therefore another giant steel plant was decided to be put up at Bokaro with Soviet collaboration.

Bokaro

The less said about the Bokaro plant the better. Its target date was 1970, but it may not be ready till 1974. Even according to the Minister for Steel, Mr K. C. Pant, the entire equipment for the first stage (for production of 1.7 million tonnes) will be ready by March 1973. The Minister himself has said that it will take another three months, after the completion of erection, to start production. But the Minister has been singularly silent about the cost. Unofficial reports put it at Rs 800 crores, almost double the original estimate of Rs 450 crores.

The Bokaro plant has been controversial ever since its start-

The first hitch was over association of Indian technical talent and fabrication of some machinery 'indigenously'. The Soviet collaborators were said to have insisted on getting everything from their Fatherland, as also the technicians. And after this hurdle was crossed, the plant had to face a series of troubles. Indian officials associated with the project are not happy at the way things have happened. The Minister contends there was delay on the part of suppliers of indigenous equipment, but the major hindrance was that the Soviet Union did not adhere to its delivery schedules of machinery.

Whatever might have been India's experience regarding the Bhilai plant, in the case of Bokaro, it has been far from happy or even satisfactory. The experts sent from Russia for Bokaro are said to be not first-rate as was the case with Bhilai. The Soviet engineer for Bhilai was a top man, and his achievement at Bhilai earned him greater honours on his return to the Soviet Union for he became Chairman of Gosplan subsequently. Reports are current that the Soviet Union has sent

to India under the cover of technical experts for Bokaro, some who cannot be classified as such. As the project is unduly delayed, and is facing a series of troubles, it is difficult to disbelieve some of these charges, however wild they may seem.

More Plants

Bokaro's delay has, therefore, added to the problem of shortage of steel. We have to wait four more years if we are to rely on Bokaro to relieve the shortage. Something tangible has to be done in the intervening period since India cannot afford to be complacent. It is necessary to import steel to help the industries, foundries, housing, etc. In addition, top priority should be given to the expansion of the existing plants. In the private sector, Tatas had a plan for expansion, which was held up, but now could be implemented without delay. Also, apart from Bokaro, it will be worth while to plan for more steel plants. The demand for steel will continue to rise in the coming years as the present per capita steel consumption in India is less than one-hundredth of that in developed countries.

INDIAN EXPRESS, New Delhi
30 April 1970

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Russian aid projects under fire

Expr News Service

NEW DELHI, April 29.

Thirty-three members of Parliament, 25 belonging to the Swatantra Party and eight to the Jana Sangh, have demanded of the Prime Minister, Mrs Indira Gandhi, that the Government should give immediate attention to the Russian-aided projects which they contended had run into a loss of Rs 105 crores in the last three years.

In a letter sent to Mrs Gandhi today the MPs have said the Bokaro steel project had become a white elephant. Lagging three years behind schedule the project originally estimated to cost Rs 590 crores had now gone to the "astronomical figure of Rs 1,000 crores."

The MPs have drawn Mrs Gandhi's attention to the report of the Public Undertakings Committee which had expressed its view that the second stage of the project should not be proceeded with, without a proper techno-economic reappraisal because the first stage of the project itself was likely to incur a loss of Rs 20 crores every year.

About Mines and Allied Machinery Corporation the letter said it had sustained an aggregate loss of Rs 20 crores. The MAMC's tar-

geted capacity was 45,000 tons and it was producing only 11 per cent of this while the staff employed was what it should be when it reached the targeted capacity. Even if there was continuous and satisfactory progress it would not reach 50 per cent of the capacity.

About the Indian Drugs and Pharmaceuticals the letter said that the annual sale was Rs 1 crore and the loss Rs 7 crores. The Rishikesh plant was an obsolete one. Similar was the plant at Hyderabad. There was no market for the products of the Surgical Instruments Factory at Madras. The Heavy Engineering Corporation was a scandal as it had not reached even 20 per cent of the capacity. It was still accepting orders which it knew it could not fulfil. Bokaro depended on HEC for supplies.

THE MAIL, Madras
3 March 1970

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ECONOMIC RELATIONS WITH SOVIET UNION

India's Interests Not Served

By M. R. PAI

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An emotional attitude in assessing the value of economic relations between India and other countries is not helpful. The only rational criterion is: do the economic relations help to promote our national interests? This test needs to be applied to Indo-Soviet economic relations as much has been said on this subject in recent weeks.

Broadly, there are four arguments which are used to praise Indo-Soviet economic relations.

First, it is said that a country can become strong only when a base of heavy industries is built up first and the Soviets have helped India to do that. Further, the Soviet have trained Indian engineers.

Second, the USSR provides aid at low rates of interest.

Third, whereas other countries buy only our raw materials, the Soviets buy manufactured goods from us.

Fourth, the rupee payment agreement with the USSR has helped India to save foreign exchange.

Let us examine these arguments and see how far India's national interests have been served.

Heavy Industries

The argument that heavy industries are essential is not universally accepted. For instance, a country like Switzerland, whose people enjoy one of the highest standards of living in the world, does not produce a tonne of steel, the prestige symbol of heavy industry. Rapid economic growth and a strong national economy require development of those sectors of the economy where the country has a decided natural ad-

vantage over others. Just as Israel has concentrated on citrus fruit and diamond polishing, or Switzerland on tourism, watch and chemical industries, India at this stage has to concentrate on agriculture and consumer goods industries.

In these days of growing internationalisation, national self-sufficiency is a dream. Our experience of last 14 years has shown that when our "basic industry" viz., agriculture, is neglected in favour of heavy industries, the national economy instead of becoming strong becomes weak in the following manner:

First, we have become more dependent on others for food while our industries continue to depend more on imports.

Second, diversion of resources to heavy industries like steel has deprived agriculture and consumer industries of necessary resources. Therefore, there are food and consumer goods shortages. Moreover, the massive ex-

vestment in heavy industries resulting in deficit financing, has promoted inflation. The cost of steel, for example, is 100 times and fixed income groups.

Third, heavy industries at this stage has introduced several distortions in the economy. Heavy industries are set up at high cost and since their products like steel enter into production of other goods, the cost structure of the entire economy has been pushed up.

For instance, at one time India was considered the cheapest steel producer in the world; now it is the most expensive. An expert has pointed out that even after importing all raw materials at high cost, Japan sells the cheapest steel in the world. About 45 per cent of Japan's installed capacity was set up in last 10 years, which makes techniques and plant costs comparable. But Bhilai and other newly set up steel plants are high cost producers.

It is often pointed out that the USSR has trained our engineers for steel plants. It is, however, in the critical area of plant design that we have not gained from Soviet economic cooperation. M. N. Dastur & Co is recognised as a competent firm of designers, and a foreign government has profitably availed of its consulting skills. Yet, the Soviets have cold-shouldered this firm. It is a tragedy of India that our rulers are indifferent to indigenous talent and have not used it effectively. After Independence, our respect for imported skills and contempt for our own talented people seems to have increased at the government level. The Soviets have cashed in on this attitude.

Low Interest Rate.

The second plus point about Soviet aid is said to be the low rate of interest. There is a fallacy here. What is lost by way of interest is more than made up by them by selling excessive spare parts and components at very high costs. Audit reports have also commented on this aspect of Soviet deals. A Parliamentary Committee (30th Report of Committee on Public Undertakings, Third Lok Sabha) has highlighted an instance as follows:

"The Plant purchased 37 Russian Diesel Locomotives during the one million tonne stage. These locomotives were found unsatisfactory and spare parts had constantly to be obtained from Russia for their repairs. The maintenance cost of these locomotives was also extremely high i.e. Rs. 83,500 per annum as compared to Rs. 13,000 per annum for other locomotives. The operational efficiency of these locomotives was also low."

Again, it says (b) "The excessive over-stocking of stores and spares in Bhilai is a matter of serious concern. The existence of surplus stores and spares to the value of Rs 5.567 crores on completion of the 1 million tonnes stage and Rs 2.51 crores in 1964 is an indication of a serious lacuna in the provisioning system. As a

result of this, valuable foreign exchange has been unnecessarily expended on the purchase of items."

The progress of Bokaro Plant built up by the Soviets is an example of how costs mount up which more than makes up for low rate interest. The original estimate was Rs 671 crores. Already they are up by Rs 93 crores! The story at Bhilai was the same. The original estimates of Rs 110 crores in 1956, had gone up to Rs 202 crores in 1963!

The import of manufactured goods by the USSR is cited as another instance of generosity in economic dealings with India. The other countries, in contrast, mostly import our raw materials. The important point here is that Western countries have high manufacturing standards and India has yet to catch up with them in sophistication in many industries.

Secondly, our goods are priced out of international markets owing to inflation and anti-modernisation economic policies. Where some of our industries have reached international levels of sophistication and modernisation, e.g. some of our textiles or engineering products, all countries naturally buy from India.

Rupee Agreement

The most important area of Indo-Soviet economic dealings which is praised is what is commonly known as the Rupee Payment Agreement. It is said that India saves foreign exchange, which is scarce, because she pays Russia in rupees for goods bought from the USSR. A close examination of the rupee trade shows that India is not a gainer as commonly made out.

In the first place, in international trade ultimately imports and exports should balance each other in value whatever be the currency in which the transaction nominally takes place. So rupee payment has no meaning because the rupee accumulated by the Soviets in India give them an undue advantage to buy goods of their choice at a time convenient to them and prices of their choice, because the rupee accumulation gives them the "holding power" so necessary in striking bargains.

India, in the meantime, has lost heavily in two ways. Because of the illusion of paying in rupees, most imports are allowed only from rupee trade areas (USSR and East European countries). Formerly, in world markets our imports were at competitive prices. Now that the rupee trade countries know that we buy only from them, higher prices are quoted by them. Experienced businessmen estimate that we pay 30 to 50 per cent more than world prices because of this monopoly market we have created for them under the rupee payments.

Switch-Trade

The other evil is the loss of precious foreign exchange in hard currency by India. Under the rupee payment system, the USSR

and the other Communist countries buy our goods, which we would normally have sold in hard currency areas. This is a hard switch trade. That is, ships are taken to an international port from where they are diverted to hard currency areas and goods are sold at prices lower than what India could have earned. The idea is simple: They want hard currency for which they do not have items of sale to Western countries. So, even a lower price they get for Indian goods is a gain for them and enables them to import sophisticated materials which they can buy only from Western countries. In the bargain, we traditional markets. A instance of switch trade is the port from Italy that Indian leather is bought through non-Indian sources!

Under rupee trade, interests of our country have been sacrificed to the Communist countries. The acid test of Rupee Payment agreement came in the wake of devaluation. The USSR refused to accept our devalued rupee, and only in the face of adverse public opinion in India marginal concessions were made later. Otherwise, rupee trade has meant, "heads I win, tails you lose" proposition for them.

Wagon Deal

The latest instance of the disadvantage to India of the present trade pattern is the wagon deal. A promise was made dramatically to buy wagons from India. Now, the deal has practically fallen through because the prices offered are 50% of the sale price, and much below cost of production.

Such dramatisation for publicity purposes and hard bargaining are part of Soviet trade techniques. A British firm of machine tool manufacturers which jumped at a offer to buy a huge lot and out what it means to deal with them. Among techniques employed were a "walk-out" during price negotiations; and employing three Soviet lawyers to interpret the same clauses in three different ways in order to confuse the seller!

While we thus note the disadvantage of many aspects of our economic relations with the USSR, it does not mean that our trade links with that country should be cut off. We can promote our consumer goods in Soviet markets where there is a "hunger" for such goods as shoes, blades, cloth etc. Once again, our second grade cashew and other items have no markets in advanced countries of the West, but Communist countries, because of their relatively low level of income, absorb them.

On the whole, even a brief examination of Indo-Soviet economic dealings, purely from an economic angle, shows that there is not much to enthuse about so far as India is concerned. On the contrary, the time has come for a reappraisal of our trade and economic collaboration agreements with the USSR to safeguard our national interests. After all, friendship is a two-way street.

FAR EASTERN ECONOMIC REVIEW, Hong Kong
22 January 1970

INDIA-SOVIET UNION

By A Correspondent
New Delhi

The new swing to the left is likely to cost the Indian economy dear — but the swing to Moscow may cost even more

Medical Madness

PREMIER Indira Gandhi is determined to give India a further dose of socialism. This unfortunate trend comes after a period when it looked as if the government had woken up to the damage inflicted on the economy by rigid insistence on socialism for its own sake. As Mrs Gandhi turns left she will find the enthusiasm of her country's major aid donors—in the West—will diminish, for the new policies bear little promise of injecting the Indian economy with a newfound vitality. Moscow however is certain to be delighted with the new look in New Delhi's economic affairs. The trouble is that past Soviet aid has not proved to be an unmixed blessing. The Russians may decide that Mrs Gandhi deserves their increased patronage but it is to be hoped that any new Soviet projects are not the monstrous white elephants which their medical supplies plants have become.

Detailed parliamentary enquiries indicate that these pharmaceutical and surgical projects in Rishikesh, Hyderabad and Madras are remarkable examples of how Moscow has attempted for its own political prestige to win a foothold in India's aid programmes and in the process revealed the shoddy technology the Soviet Union was prepared to export to a developing country in Asia. As usual when its aid projects in India go sour, the Soviet Union has attempted to conceal the facts. When some truth has come to light, it has put the blame on India. Moscow also has made its usual bid to force New Delhi to make the plants into viable concerns at the expense of the Indian economy and its consumers.

The facts behind the scandal of Soviet aid for the Indian's pharmaceutical and surgical industry are relatively simple. The projects were first mooted in 1956. At that date, Soviet technology was known to be behind the West but this factor was discounted on the grounds that the Russians had experience in designing similar plants for Eastern Europe and China. (It has even been suggested in the Indian press that the Rishikesh plant was originally built for China, dismantled and shipped to India.) In practice, the design experience of Russian engineers was irrelevant to India. The stainless steel and air-conditioning equipment they employed did not suit the Indian climate. At the same time, the Russians lacked complete designs for the plants, and they were forced continually to modify their original plans and to improvise as construction proceeded. Essential equipment was often omitted "by mistake", and delays were caused by the late arrival of working drawings, raw materials and equipment from the Soviet Union.

The Indian government had no time clauses written into its contracts with the Soviet Union, so that Russians, naturally, have refused to pay compensation for losses caused by delays. Where completion schedules were spelt out by the Soviet Union, they were not met. Cost estimates of plant, equipment and factory construction were revised five times

in eight years—always upwards. On the synthetic drugs project, costs went up 61%, and on the antibiotics project 67%. The tragedy of all this was not only the waste of aid funds but the frustration of Indian hopes that by using Soviet technology, the country would save time in setting up its own medical supplies industry. Schedules for completion of construction finally were drawn up in 1964, revised twice by 1967, and even then not met. The Russian chief technologist at the antibiotics plant said last year he hoped the project would be a success by 1971, but even this date seems over-optimistic.

Russian costings of actual production seem to have been hopelessly wrong. The Soviet specialists estimated they could produce vitamin B1 at Rs100 a kilogram although the cost in the Soviet Union itself was Rs750. The actual cost in India proved to be Rs1,200, but Indian improvements were able to bring the figure down to Rs600. For streptomycin, the Russians claimed they could produce the drug at Rs67 a kilogram.

The cost in the Soviet Union was Rs450; from the cheapest non-Soviet source a mere Rs200; while actual production costs at the Soviet plant in India were Rs367. Folic acid costs Rs200 on world markets; under Soviet design, its cost in India is Rs1,250. Significantly, production of penicillin at Hindustan Antibiotics Limited, an Indian plant, has risen from two tonnes in 1956 to 40 tonnes at an average cost per unit of Rs0.34 compared with a unit cost of Rs0.50 in the Soviet antibiotic project.

The Soviet Union also fell down badly in planning production. For the tetracycline group of drugs, the Indian authorities originally estimated that demand would rise from 10 tonnes a year to 40-45 tonnes by 1971-72. But the Russians insisted on installing a capacity of 120 tonnes a year. Of this, 100 tonnes was to be devoted to chlorotetracycline, an obsolete drug not used by Indian doctors. For prestige reasons, the Soviet Union demanded the right to manufacture penicillin despite the success of Hindustan Antibiotics. Eventually, the Indians conceded 30 tonnes capacity to the Russians, but they installed 84 tonnes capacity bringing India's total production well above national requirements.

A similar picture emerges on the surgical instruments side. Part of the Soviet strategy in dealing with New Delhi is to argue that capital costs are lower if bigger capacities are installed immediately instead of phasing the development of plant to meet the gradual growth of Indian demand.

The Soviet experts claimed that to be viable, the surgical instruments plant would have to produce 2.5 million instruments. But demand for the plant's output has proved well below this figure. Indian surgeons refuse to use 60-75% of the Soviet instruments. The plant produces items already

manufactured in India although New Delhi has tried to insist that this kind of overlapping be avoided. The costs of instruments turned out by the plant have shot up alarmingly.

The Soviet Union failed to make any provision for instruments not manufactured already in India. When this situation came to light, Soviet advice was to carry on making unwanted instruments in order to train workers. Thus in 1966-67, almost 20,000 pieces of one instrument were turned out although only one had been sold in the previous year and 65 pieces were lying unwanted in stock.

The Russians and the Indians both failed to make proper feasibility studies. No attempt appears to have been made to draw up accurate costings by the Soviet Union; its experts were guided by rule of thumb and experience elsewhere.

The Indians could have called for tenders from the west but failed to do so. (The British firm, ICI, apparently offered to draw up a proposal on plant construction but its offer came to nothing.) Even by Indian standards, the Russians seem grossly inefficient. Hindustan Antibiotics produces for Rs80 million the same volume of antibiotics which the Russians manufacture at their plant for some Rs220 million.

This last is a vital point. Much of the argument in favour of Soviet aid for these projects was the "onerous" terms the west would impose for its help in building up an Indian medical supplies industry. No attempt was made, it seems, to find out just how "onerous" these terms might be. But interestingly, Hindustan Antibiotics makes use of western patents and knowhow, for which it presumably pays licence fees; and is seemingly much more efficient than its Russian counterparts. The Russians have claimed that their projects were never intended to make money; their aim was to save foreign exchange. But even this argument turned out to be shakey. Delays in constructing the Russian plants meant that drug imports had to be continued for an unnecessarily long period. Fortunately, improvements in western technology have slashed the price of imported drug dramatically. But this trend has weakened Soviet claims about the amount of foreign exchange their plants would save.

The Indians are trying hard to salvage something from the wreck. New Delhi hopes to persuade the Russians to buy back some of the surgical instruments which Indian doctors do not want. India also hopes that the Soviet Union will reduce its fierce competition abroad to allow India to export some of its unwanted surplus. It is only by finding overseas outlets that the Indians will be able to run the massive plants foisted on them by Moscow at anything like full capacity.

In private, Indian government officials confess their involvement in these Soviet aid projects was not based on hard technical considerations. Presumably, the New Delhi authorities were heavily influenced by their desire to woo Soviet diplomatic support. On the surface, the Soviet Union was more motivated by economic factors, claiming amongst other things, that the plants were the best means of using Russian credits.

But, again, political considerations seem to have played a dominating role as the Russians so badly botched the basic technical requirements — such as cost studies, demand projections, and construction schedules — essential for making a success of the ventures.

The Cold War appears to have reared its ugly head in the Soviet aid programme. The only justification for the colossal waste of resources in the Soviet medical supplies plants — and the danger of public indignation when the facts came to light — must have been a desire to keep the West out. By saddling India with inefficient plants, the Russians have ensured the development of this industry in the public sector rather than on some co-operative basis with private western concerns. Now that the plants are in operation, the Indian planners have to try to live with their inefficiencies. This can be done only by committing still more resources to the plants in an effort to make them viable and by reducing imports to widen the market for the inefficient products of the Soviet enterprises.

Paradoxically, the Indian government has still not faced up to the mess it has allowed to develop in the pharmaceuticals and surgical instruments industries. Indian experts have been told not to argue with the faulty arithmetic of their Soviet counterparts. Indians in general find it hard to be objective about the merits of Soviet technology even when it has proved a manifest failure in the Indian context. The triumphs of the Russians in space exploration are a key weapon in the Soviet propaganda battle to cover up their technical failures in India. At the same time, the number of Indians is large who feel that the transformation of the Soviet Union from a backward nation into a relatively modern economy provides a more relevant model for Indian development than the west.

The Russians also have intervened directly to ensure that the minimum fuss is made about these plants. S. A. Skachkov, chairman of the Soviet state committee for economic relations, visited India at the end of 1968 and bluntly blamed the Indians for "mismanagement", according to reliable press reports.

He went on to demand the Indians make an effort to ensure that the projects built by the Soviet Union in the public sector were kept in operation. In other words, Indian planners should slant their projections to generate profits in Soviet projects no matter what the real economic costs of such tactics to the economy as a whole.

In 1969, Izvestia denounced critics of Russian aid projects as saboteurs of Soviet-Indian friendship. It is tragic that in its quarrels with Pakistan and with an unfriendly China to the north, New Delhi should feel so dependent on Moscow's friendship.

The price of Soviet support is borne everyday by the unfortunate sick of India who are forced to pay far more for drugs than they would cost on world markets and face operations by surgeons whom the government would like to dragoon into using Soviet surgical equipment which they regard as second-rate.

HINDUSTAN TIMES, New Delhi
30 April 1970

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TIMES OF INDIA, New Delhi
5 May 1970

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USSR-aided projects assailed

Hindustan Times Correspondent New Delhi, April 29—In a letter to Prime Minister Indira Gandhi, 33 Swatantra and Jan Sangh members of Parliament today urged immediate steps to eliminate the losses suffered by the Soviet-aided public sector projects in the country.

According to them, such projects suffered a total loss of Rs 105 crores in the last three years.

The MPs made a reference to recent reports of the Public Undertakings Committee criticising, among others, the Bokaro steel project, the Mines and Allied Machinery Corporation and the Heavy Engineering Corporation.

They said the Bokaro project, which would cost Rs 1,000 crores against Rs 590 crores originally envisaged, would be three years behind schedule. The first stage of the project itself would incur a loss of Rs 20 crores a year.

As regards the MAMC it had suffered an aggregate loss of Rs 20 crores. While its capacity had been raised to 45,000 tonnes, the actual demand was not more than 2,850 tonnes. The plant did not supply more than 1,250 tonnes of mining machinery. The IDPL plant at Rishikesh was "old and out-dated."

The HEC, the letter said, had been incurring heavy losses and had not even attained 20 per cent of the targeted capacity. There were no two opinions about the fact that something was definitely and inherently wrong with the public sector projects, especially those run with Russian help.

Minister denies charges against Russian experts

New Delhi, May 4 (PTI) —The Government today stoutly defended the Russian technical collaboration in the off-shore drilling in the Gulf of Cambay and repudiated opposition charges that the setback to the programme was caused by defective equipment designed and installed on the basis of advice from inexperienced Russian experts.

Answering a short notice question by Mr Kanwarlal Gupta (JS) and three others, the Minister of State for Petroleum and Chemicals, Mr D. R. Chavan, said the setback was not caused by defective machinery but by leakage of drilling mud into the sea and the resultant loss of mud circulation.

He denied an allegation by a new Congress member, Mr Sitaram Kesri that the setback was caused by attempts to sabotage the public sector drilling programme. He also denied an opposition charge that the setback in the work had resulted in a loss of Rs 4 crores. According to programme only Rs 120 lakhs were to have been spent in 1969-70 and Rs 145 lakhs in 1970-71. He could not, however, say offhand the actual estimated loss on account of the setback.

Mr Chavan said the off-shore drilling operations were actually being carried out by the Oil and Natural Gas Commission departmentally and the Soviet team was only providing technical assistance. Hence there was no question of securing any performance guarantee from the Russians.

The Indian team engaged in the

project was trying to sort out the trouble encountered in the present drilling programme and with the experience gathered they would be in a position to avoid similar difficulties in future.

To Mr Gupta's query whether the Russians lacked sufficient experience in the type of work now being undertaken in the Gulf of Cambay, the Minister said the Russians had had sufficient experience in similar shallow water drilling work in the Caspian Sea area where some of the Indian engineers engaged in the project were also trained.

He said the Russian technicians had collaborated in oil exploration work in India between 1963 and 1968 and it was they who had located the oil-bearing structures through geological, seismological and other surveys.

UNI adds:

Mr Chavan also said that the committee constituted to study the techno-economic aspect of using different feedstocks for the new fertiliser projects was expected to submit its report within four months.

He told Mr Maharaj Singh Bharati that the committee which was originally asked to submit its report in four months could not do so and the time limit had been extended.

Mr Chavan said no final decision had been taken on the import of ammonia to be used in new fertiliser plants. If it was decided to import ammonia, it would be used in the Trombay fertiliser plant and in the second stage of the Cochin fertiliser plant.

HINDUSTAN TIMES, New Delhi
31 January 1970

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Barauni refinery idle; crude shortage

Patna, Jan. 30 (UNI)—The third unit of the Barauni Oil Refinery, with a capacity of one million tonnes, has been rendered idle due to non-availability of crude oil from Assam.

Mr R. N. Bhatnagar, General

Manager told visiting newsmen from Patna on Wednesday at Barauni that the third unit was set up to use the one million tonnes surplus crude from Assam. But the announcement of the Government decision to set up a second refinery in Assam had rendered

the third unit idle. It would remain idle till the Centre decided to import additional one million tonnes crude, he said.

Mr Bhatnagar also said there was no possibility of setting up a petro-chemical complex at Barauni in the near future as the

raw materials required for the complex were already booked. Unless more refineries were set up in the country in the next few years there would be no raw materials available from the existing refineries for a new chemical complex, he said.

Searchlight on Bokaro-I.

CPYRGHT

By K. V. SUBRAMANYAM

CPYRGHT

The Information Department of the USSR Embassy in India through its *Soviet Review* dated January 31, 1970, stated: "The Soviet credit for India for Bhilai was very much appreciated in India for several reasons. First, it was made available to India at a time when other countries were not prepared to help the developing countries in building their basic industries without their own participation; secondly, it envisaged a low rate of interest of 2.5 per cent per annum while the Western firms were demanding over six per cent per annum interest on credits as also the right to share profits in future; thirdly, the Soviet Union gave an option to India to pay back the principal and interest thereon in rupees which were to be utilised by the Soviet Government for purchasing Indian goods; lastly, the payments were to start only one year after the completion of deliveries of equipment, or in other words, by the time the plant was in a position to give returns on the invested capital."

The statement added that all the other credits extended to India till now by the Soviet Union had been on similar terms.

Thus, according to the Embassy, the Soviet Union had given the option to India to repay the principal and the interest thereon in rupees which were to be utilised by Soviet organisations for the purchase of Indian goods.

Actually, however, as the Prime Minister stated clearly in her speech by a quotation from the relevant article in the Indo-Soviet credit agreements, no such option is open to us in any of the contracts; and it is the Soviet Union which retains to itself the option to demand repayment either in goods to be purchased in India or in pounds sterling.

Soviet contracts

Not much need be said about the so-called advantages of the low interest except that it has to be seen in the context of the highly inflated value of the rouble and the quality of the equipment supplied.

As matters stand, the over-publicised advantage that payments are to start one year after the completion of delivery of equipment or, in other words, by the time the plant is in a position to give returns on the invested capital, one need only refer to the example of Bokaro, where over Rs. 105 crores of Soviet credit has already been utilised for which repayments of the principal with interest are being made per the agreement while the returns on this investment are still within sight, to realise the absurdity of this claim.

referring to the definition of the gold content in the rupee as stipulated in the Indo-Soviet credit agreements, the Prime Minister observed: "These are standard clauses in all our credit agreements regarding adjustments to be made in case of change in the exchange rate. Here again, the situation is no different from what it is in respect of the credit from Western countries where, since repayments are determined in foreign exchange, the rupee equivalent varies automatically in response to change in the exchange rate."

This statement oversimplifies the actual situation. Now, it may be noted that the credit for the Bhilai Steel Plant was actually extended in goods and services with the rupee as the accounting unit; the word "rouble" does not find place anywhere in the agreement. The prices payable for the goods and services received were to be determined in rupees by mutual negotiation.

Oversimplification

The amounts thus accruing to the credit of the Soviet organisations could be utilised for the purchase of goods in India or fully converted into pounds sterling. The Bokaro agreement, in contrast, reveals that the credit extended is in roubles whose value, as also that of the rupee, is defined in terms of its gold content.

The payment for the DPR is to be in accordance with the Indo-Soviet trade agreement in force whilst the payments for the working drawings and equipment imported are to be in accordance with the credit agreement for Bokaro. One may ask the question: why this differential treatment in regard to payment as between the DPR on the one hand and the working drawings and equipment on the other.

The two sets of agreement according to which Indo-Soviet co-operation is practised provide interesting material for study and has direct relevance to Bokaro. The history of India's trade with the Soviet Union has passed through four distinct phases.

Earlier terms

The first was from March 1947 to June 1953 when there was no formal trade or payments agreement.

The second was from December 1953 to March 1956 which was the exchange settlement phase. It is to this period that the Bhilai agreement belongs; and it is during this period that the agreement in force provided for the liquidation of the rupee accounting balance through conversion into pounds sterling at the termination of the stipulated

arrangement, March 1956 to January 1959 is the "Exchange Settlement-cum-Credit Agreement period."

This was followed by the new Trade and Payments Agreement in January 1959 which marks the beginning of the "Offset Settlement-cum-Credit Arrangement" phase. Under this arrangement, the rupee balances were no longer convertible into sterling at the termination of the agreement and the bilateral account could no longer be replenished by sales/purchase of sterling.

Thus the account was virtually closed with the current transactions while the unilateral credit for technical help from the USSR represented the only source for replenishing it from outside. To this must be attributed the paradox—a net trading balance in India's favour and a large volume of credit from the Soviet Union during the last decade. The Old Man of the Sea had secured a stranglehold on Shabd the Sailor.

This situation has been further aggravated by the fact that the value of the rouble in terms of its gold content is what the Soviet Union says it is whilst the value of the rupee is what the world including, of course, the Soviet Union itself, accepts it to be.

Under the circumstances, with an offset settlement of balances in the trade agreements in force after January, 1959 resulting in the inconvertibility of the rupee, with all kinds of inpayments and outpayments channelled through these accounts, an unusually close link was established between trade and non-trade transactions.

The Soviet Union could, therefore, offer any price, however high, whenever it wanted to overbid its rivals for any goods of Indian origin because the repayments need only be in either such goods of Soviet origin as it chose to sell or in the service of such "specialists" as have assisted the IDPL into losing nine crores of rupees in return for a modest third of its sales of a crore of rupees during last year.

No choice

According to the trade agreements, the only benefit we can derive from a favourable balance of payments position is to be able to import from the USSR what it chooses to give. According to the credit agreements, the even more doubtful benefit we can derive is to receive not-so-modern, unbalanced whole plants or equipment like those of HEC, MAMC, IDPL or now of BSL, the payments for which have to be made either in goods of Indian origin or in pounds sterling as decided by the Soviet Union.

The Prime Minister has stated in the Lok Sabha that the Soviet Union has not till now demanded

repayment in sterling by exercising this option incorporated in the several credit agreements. But that can only be a consolation for the present, no assurance at all for the future as many a developing nation, not excluding China, was made to realise through bitter experience.

In the light of these generalities, it is worth while examining some of the salient features of the Bokaro agreement and the contracts entered into in accordance with it. One of these has special significance in the present context of the protocol that has been signed by India and the Soviet Union relating to the expansion of the Bokaro Steel Plant, because, in answer to a question in Rajya Sabha the Minister of Steel and Heavy Engineering stated that: "The Bokaro Steel Plant has not been undertaken on a turn-key basis by the USSR. The responsibility for the construction lies with the management of Bokaro Steel Ltd while the Soviet organisation has functioned as consultants."

Govt statement

Now, the following extract from the record of the discussions held in the Ministry of Iron and Steel on February 16, 1966 is the statement of Mr N. N. Wanchoo, the then Secretary in the Ministry of Iron and Steel and Chairman of Bokaro Steel Ltd:

"This business—turn-key job—cannot be entirely between Bokaro and HEC. The reason for that is that there is an inter-governmental agreement between the Government of India and the Government of the Soviet Union, which says that the Soviet Union is helping the Government of India, to establish a steel plant at Bokaro and for this the principal responsibility is placed on the Soviet organisation to see that such a plant is erected and works guarantees are to be given.

"Now the Soviet Government has nominated Tjazhpromexport as the appropriate Soviet organisation for doing this job and the GOI has nominated the BSL. Both of them must work within the framework of the inter-governmental agreement.

"Therefore, if Bokaro Steel should want to place a turn-key job up to the blast furnace complex stage, let us say, on HEC, Tjazhpromexport cannot entirely forget their responsibilities in the matter. We can only do it with the consent and approval of Tjazhpromexport because their responsibility for the working of the entire plant still remains."

If this interpretation of the inter-governmental agreement of Mr N. N. Wanchoo is correct, Bokaro has to be considered a turn-key job.

This would become clear from a careful study of the relevant documents and statements made by Soviet representatives.

Final say

Bokaro is a turn-key job—but with a difference. In all turn-key jobs, the parties undertaking them have the final say in all decisions relating to them as also full responsibility with suitable penalties for failure to comply with the terms of the contract in regard to perfor-

mance. In this case as with most other Indo-Soviet agreements, the Soviets, whilst retaining the final say in all the decisions, even the crucial ones, have seen to it that their responsibilities are of the barest minimum. Limited only to giving guarantees that the equipment they supply fully conforms to the DPR. That this is the case in all Soviet-aided projects with such rare ex-

ceptions as Bhat should be obvious to any one who is acquainted with the IDPL's plants and the report thereon by the Committee on Public Undertakings. In fact every one of the deficiencies pointed out by the committee in regard to IDPL are manifest in the BSL, which is literally following in the footsteps of the Antibiotics plant of Rishikesh.

(To be concluded)

Searchlight on Bokaro—II

By K. V. SUBRAMANYAM

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ONE of the simplest methods by which the Soviets have acquired powers unrelated to their responsibilities in the construction of Bokaro is through having the Government of India agree to the stipulation that: "except where otherwise provided the DPR shall be worked out according to USSR norms, standards and regulations." The stipulation extends even to the dimensions of refractories.

Both Houses of Parliament were told that it was necessary to accept this stipulation as the Soviet organisations were required to give performance guarantees in respect of the designs and equipment and that the question of loss on this account did not arise as all items of machinery and equipment that could be manufactured within the country were to be obtained from Indian sources. I am afraid the Minister of Steel was not correctly briefed.

It is surprising that those who briefed the Minister should be unaware that by agreeing to this monstrous stipulation they have enabled the Russians to send us their standard equipment such as the 100-tonne LD convertors and 5.5 million-tonne slabbing mill and hot strip mill with effects on both capital and operating costs of Bokaro.

Do not these higher capital and operating costs, either because the LD convertors are of smaller size than are available from other sources or because the rolling mills have excessive inbuilt capacity (5.5 million tonnes) which they may not attain even after ten years, represent losses directly attributable to our accepting Russian standards?

Revelations

At the meeting on December 10, 1969 to discuss the quality of steel Mr V. L. Agre, Chief Design Engineer of the Soviets at Bokaro, made some extraordinary revelations.

The minutes of the meeting should act as an eye-opener even to those blinded by propaganda and make them see that Soviet welding technology is behind even that of India and far behind countries like Great Britain, West Germany, Japan and USA and that Soviet LD convertor practice is in such a stage of development that they have far less confidence in the LD steel

produced in their own country than we have in the LD steel produced in Rourkela. And, the entire steel production at Bokaro will be from LD convertors provided by the USSR!

Another meeting held on December 19, 1969 did little to resolve this controversy as the Soviets did not agree to deviate from their specifications already given in their design drawing as, in their view, killed quality steel for some of the important structures is very essential.

A reference has been made to the design organisation in the USSR to reconsider the use of killed steel in view of the modifications for IS: 226 quality of steel. The Board of Directors has also approved sending a small delegation to the USSR for finally deciding this issue with Soviet designers. And that is the most interesting end to this controversy for the present at least.

Effect of delays

The effect of these delays which still continue on the progress of Bokaro can easily be gauged. Need there be any doubt that the adoption of Soviet norms and standards has been the cause not only of these delays but also of the losses arising therefrom?

It may be remembered that only a few months ago Mr N. N. Wanchoo as Chairman of BSL had stated in public that every day's delay in the commissioning of Bokaro cost the nation Rs two crores. The Minister himself told the Rajya Sabha on March 17, 1970 that the loss on this account was estimated at Rs 25 lakhs a month and that the delays were caused by factors beyond the control of the management, such as non-availability of steel plates of killed quality for the fabrication of structural, failure of indigenous manufacturers to supply refractories in time, labour troubles and so on.

It is not clear how labour troubles constitute a factor beyond the control of the project authorities unless there has been gross mismanagement. Be that as it may, the two other reasons are undoubtedly due to our agreeing to Russian standards.

Since 64 per cent of the equip-

ment, 97 per cent of the structural and a large percentage of the refractories are to be procured from India, it may be asked whether the indigenous manufacturers are exempt from guarantees because they have to manufacture them not to Indian, but Russian, standards. Will the Russians allow us to manufacture them to Indian norms, or, will they forge the guarantees in return for our agreeing to manufacture them to their norms?

Need for probe

As regards refractories, not much need be said except that a thorough inquiry by a high-level committee unconnected with the Ministry of Steel and Heavy Engineering, BSL and the Soviet organisations in India can bring out the whole sordid story of the artificial shortage that was created to provide plausible excuses for delays of Bokarc due to other causes and incidentally to enable imports from the USSR.

It is necessary, however, to note here that the import content of refractories has been the highest in Soviet-aided steel plants whether at the million-tonne stage or

during expansion as compared to Rourkela, Durgapur, TISCO and IISCO, which fact ought to provide the starting point for any such inquiry.

The matter of the supply of refractories has also figured during question hour in Parliament. The Minister of Steel stated that the domestic refractory industry is unable to cater fully to the requirements of the steel industry for silica bricks needed for coke ovens and for high-grog fire-clay bricks needed for the blast furnaces because many of the refractories producers are not equipped with facilities for production of these items and those who have the necessary facilities are fully booked with orders and that an examination whether any of the closed refractory units in the private sector can be taken over in the public sector is in hand.

Why were these units closed,

Closure of units

especially that of the Asian Refractories built with Polish collaboration and that of Assam Silimnite built with West German colla-

boration? On another occasion the Minister of Steel stated in the Lok Sabha that permissible relaxations in inspection procedure for supplies from indigenous sources are being allowed without affecting the quality of refractories, of course after orders for imports of 22,000 tonnes have been placed and further orders for another 24,063 tonnes have been finalised, both with USSR.

Why had these efforts at relaxations to await repeated complaints from indigenous manufacturers and the appointment of a committee by BSL under the chairmanship of the Director of Central Glass and Ceramic Research Institute, Calcutta?

Why were the Soviets allowed to have the final say in the acceptance or rejection of refractories from indigenous sources if they are merely consultants and the responsibility for the construction of the Bokaro Steel Plant is that of BSL as the Minister of Steel stated in Parliament? Lastly, why were all these efforts to await the finalisation of the orders for the import of over 46,000 tonnes of refractories from the USSR?

MARCH OF THE NATION, Bombay
9 May 1970

CPYRGHT

DRILLING AT ALIABET ALREADY AT STANDSTILL

A MARCH SPECIAL

Just before Mrs Indira Gandhi inaugurated drilling operations at the Soviet-aided Aliabet Oil Exploration Project MARCH of the NATION stated categorically that the project was doomed to failure.

On March 21, 1970, this paper wrote: "If one looks behind the gorgeous facade of the project, one will find total incompetence, crippling red tape, and rampant corruption".

The same issue of MARCH said that at Aliabet there was "no planning, no organisation, no nothing", that the drilling rig had not even been properly "bedded", that its location was faulty, and that technicians on the spot feared for their very lives because they had been ordered to continue work in weather conditions that were extremely hazardous.

MARCH of the NATION had also cited chapter and verse to prove that the entire project was ridden from top to bottom by graft, that exorbitant prices were being charged for equipment and materials, that bribes had to be given before bills were paid, and that the Soviet technicians who were supervising the project were woefully behind the times in oil technology and at complete loggerheads with Indian personnel.

SENSELESS BRAGGING

As for Dr Triguna Sen, this paper had exposed the fact that by making grandiose commitments to have the project in ope-

ration by a set time, he was playing ducks and drakes with the lives of the men on the spot to bring his foolhardy boasts to fulfilment.

Despite the warnings of this paper, Mrs Gandhi merrily went ahead with the inauguration. She pressed the button, or cut the tape, or whatever it was, and the drilling rig, supposed to be yet another monument to Indo-Soviet co-operation, went into action.

FIZZLED OUT

For twenty minutes or so everything went according to plan and Mrs Gandhi, her pleasant duty done, retired from the scene.

Possibly the Lady does not know it even today, but the unpleasant truth is that 20 minutes after drilling commenced the

machine broke down — when it was supposed to have gone on more or less indefinitely until it struck oil.

This paper takes a particular pleasure in saying “we told you so” — for the simple reason that Aliabet was so completely unpracticable from the very start, so beset with inefficiency and technological bungles, that it should never have been launched in the first place.

CLEAR WARNING

It is no use pretending that these things just “happened”. They would NOT have happened if the Minister had known his job and allowed technically qualified people to get on with theirs, instead of tumbling over himself to oblige the Russians and to meet impossible political demands.

According to a UNI report which has been featured adequately only in specialised financial journals, the offshore drilling in the Gulf of Cambay suffered a setback “following some unexpected local difficulties.”

The bunglers of Aliabet can't get off quite that easy.

Difficulties there certainly were, but these were hardly “unexpected”. In fact they were clearly foreseen by a host of on-site technicians, given in detail by MARCH of the NATION, and ignored only because of the wilful obtuseness of the Oil Ministry.

SHAMEFUL MESS

The following UNI despatch, from the Economic Times of April 21, makes sorry reading and should make the Oil Ministry thoroughly ashamed of itself — if such a thing is at all possible for a limb of our present socialist government.

NEW DELHI: India's first offshore oil drilling venture in the Gulf of Cambay is reported to have suffered a set-back following some unexpected local difficulties.

According to reliable reports reaching here, drilling operations from the platform erected in the Gulf, 46 km. from Bhavnagar port, had to be temporarily suspended for two or three days to put right some of

on back page

from front page

The drilling, which began after the Prime Minister, Mrs Indira Gandhi spudded the well on March 19, is reported to be extremely slow. The Oil and Natural Gas Commission (ONGC) had expected drilling of the entire well (about 1,500 to 2,000 metres) to be completed before the onslaught of monsoon.

But drilling so far is reported to be about 100 metres only. At the present rate the ONGC will not be able to complete more than 500 to 600 metres

by May before the monsoon starts.

It is, therefore, now considered inevitable that drilling has to be continued after the monsoon in September or October.

Conditions in the Gulf of Cambay are such that it is impossible for drilling operations to be continued during the monsoon.

SPUTNIKS DA, OIL NYET

As March of the NATION has pointed out several times during the past few months, the Soviet Union simply does not have the requisite oil technology for exploration in the Gulf of Cambay.

It is more than a decade behind the rest of the world and was given the franchise for exploration simply because Delhi wanted to burn another joss-stick before Moscow's altar. It was given the franchise, moreover, over the head of rival offers to explore oil without any risk on India's part.

By going ahead with the Soviet project, India is paying heavily simply in order that the Soviets can catch up with the rest of the world.

MORE TO COME

One would think that Dr Triguna Sen would be satisfied with a single monumental blunder, but apparently Aliabet is not enough, and he must go in for further losses.

According to the Special Representative of the Financial Express of April 30, “The Union Government is in a quandary since its oil venture on the Persian Gulf proved to be a net liability.”

According to this paper, our oil ventures in the Persian Gulf are likely to land us in 50 lakhs losses every year.

As the paper puts it somewhat charitably: “What is more paradoxical is that this is so in spite of the fact that oil has been found and the total production from the field will be above 20 million tons annually.”

This Persian Gulf venture, incidentally, is in partnership with ENI of Italy and Philips Petroleum of America. In this case the trouble is not with technology at all, since oil has been discovered; it is apparently the financial deal concluded by the Government of India that has led to the loss despite oil being discovered.

As the Financial Express says: “It is really unheard of to lose in the oil business after oil is struck in commercial quantities.”

“Unheard of”? Maybe elsewhere, certainly not in socialist India!

And what is the Government's reaction to these damning indictments of its ineptitude?

Mr D. R. Chavan, Minister for State for Petroleum and Chemicals, bragged in the Rajya Sabha the other day that the Union Government had given Rs 199.96 crores to the Oil and Natural Gas Commission as loans and capital and added, with obvious satisfaction: “There have been no complaints about the work of ONGC, which is a fully autonomous body and is now producing 3.7 million tons of crude oil.”

There is hope yet, of course. One of these days, perhaps ten years or twenty years from now, the Russian rig will finally strike oil in the Gulf of Cambay and all India's troubles will be over.

That will be the day...

MARCH OF THE NATION, Bombay
9 May 1970

CPYRGHT

BOKARO "DEAL" EXPOSED

From Our Special Correspondent

NEW DELHI: This week in the Lok Sabha Prime Minister Indira Gandhi was caught on the wrong foot on the Bokaro issue. It seems she had been making "untenable statements based on wrong assumptions" not only to her Party men, but also to Parliament.

During her budget speech on March 17, Mrs Gandhi told the Lok Sabha: "Mr Masani has alleged — I believe the word he used was 'brutal pressure' — that Indian consultancy has been pushed out of the job of consultancy in Bokaro which had been promised to them. He has further alleged that the CEDB is nothing but a cover and a facade for the Soviet consultancy organisation, Gipromex. There is no question whatsoever of our acting under pressure, whether Soviet or Swatantra."

BOAST BACKFIRES

These brave words have backfired, for it has now been irrefutably established that Dastur and Co were indeed pushed out of Bokaro under open, unabashed Soviet pressure, and not because Mrs Gandhi wanted to create a Public Sector designing department or anything else.

The refutation of Mrs Gandhi's "untenable assertion" has come from former Steel Secretary N. N. Wanchoo and present Steel Secretary R. C. Dutt in testimony before the Committee for Public Undertakings, which placed its 68th report on Bokaro Steel Ltd before Parliament a few days ago.

The Chairman of Bokaro, Mr N. N. Wanchoo, stated: "Dr Dastur wanted to be the principal consultant for the project. The Soviet authorities who gave 200 million roubles were not willing to accept this.

"They stated this to the Minister and to me, and they said this at all levels. They said that they must remain in full physical authority of the project although they would associate Dasturco".

The present Secretary, with veiled contempt for Dasturco — perhaps because he is Indian and not foreign? — has stated:

"My own feeling is that after 1964, there was a change in emphasis so far as the Government is concerned in regard to Dasturco; but we are still continuing to have Dr Dastur with highest consideration.

"Having accepted Russian assistance in this matter and having all their experience and expertise, I think that Government rightly felt it was not proper to go beyond what they (Russians) actually accepted in regard to Dasturco."

PROOF OF PRESSURE

It will thus be seen that while Wanchoo was at least honest enough to accept Soviet pressure at all levels as having been the cause for keeping out Dasturco, his successor tried to make a virtue of necessity by implying that the Russians were the repositories of all wisdom in regard to steel technology, and by attempting justifying the exclusion of Dasturco except to the extent that the Soviet would tolerate them.

The Committee on Public Undertakings (COPU) says that Dasturco were not associated in the discussions which Bokaro officials had with Soviet collaborators after July 1964, although they were general consultants to the Ministry.

The Committee adds that they were anxious to find out why Dasturco was kept out of the negotiations in August, 1964 and thereafter.

But all that they could get by way of explanation from the Chairman of Bokaro and the Secretary of the Ministry was that the Russians were not willing to accept Dasturco as principal consultants.

These statements of both the Chairman of Bokaro and the Secretary of the Ministry were clearly designed to mislead COPU

because, what actually happened as a result of the discussions during August, 1964, and thereafter was that the Government of India was made to give the design assignment for Bokaro to the Soviets on October 13, 1964, even before the inter-Government agreement was signed under which a contract had to be entered into between the BSL and the Soviet organisation for the preparation of the draft project report.

It only means that, long before the contract for the DPR and its terms were settled, the design assignment for the DPR was given to the Soviets.

INCONVENIENT EXPERTS?

Why was this done? The study of the assignment itself makes it clear that if its contents were known to the public — to say nothing of the Ministry's own consultants, Dasturco, who were kept out of the discussions — the Russians could not have got away with the conditions they wanted to impose.

These conditions, it should be emphasised, were such that it was possible for them to give us whatever they chose to give, even obsolete or second hand plants, and receive payment regardless of the quality of what they gave in the form of know-how or equipment.

An illustration makes this point clear.

The blast furnaces are the first and the rolling mills the last components to be commissioned in any steel plant. The first stage of Bokaro involves production of 1.7 million tons and the second stage 4 million tons leading ultimately, by some unknown date, to the 5.5 million tons stage.

The rolling mill equipment, which represents more than 40 per cent of the cost of a steel plant, was designed for 5.5 million tons, and it was this rolling mill, not the blast furnace equipment, that was first supplied, soon after deliveries began.

In this connection, COPU says: "It is also surprising that

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In respect of equipment supply, the contract with the USSR stipulated only an overall period of fifty months for the supply of equipment from the date of signing the contract, and did not include a phased delivery schedule.

PAYING PADDED BILLS

"The result was that while on the one hand the supplies were deficient to the extent of 10,000 tonnes for the first blast furnace complex, a large number of items for rolling mills required much later had already been supplied."

The result of this defect in the contract in regard to proper scheduling of supply of equipment was that for the rolling mill equipment we will be paying principal and interest thereon within a month of its despatch from the USSR.

But the project will start yielding returns only after the first stage is completed — and that too only a fraction of its capacity, its full capacity being realised only in the unknown future, after a minimum lapse of 15 years.

COPU did not, however, say AMEN at the end of this devastating report. The last word has yet to be said.

HINDUSTANI TIMES, New Delhi
26 April 1970

Russians paid 'abnormal' salaries

New Delhi, April 25 (UNI)—Eleven Swatantra MPs have protested against "the abnormal emoluments" paid to Russian technicians in Soviet-aided projects and demanded an investigation into the functioning of these units.

In a joint letter to Prime Minister Indira Gandhi they said that some 948 Russian technicians were employed in 13 projects and their "aggregate emoluments amounted to Rs 12.5 crores"; the per capita monthly salary working out to Rs 35,000, three and a half times higher than that of even the President.

They also alleged that this level of salary seems "unreasonable" viewed against "the losses by the projects during the last three years—1965-67 to 1968-69—amounting to Rs 105 crores. Only three out of the 13 undertakings showed profit".

The signatories to the letter are: Mr N. Shivappa, Mr R. R. Singh Deo, Mr R. K. Amin, Mr D. Amat, Raja Venkataappa Nalk, Mr G. C. Nalk, Mr S. P. Ramamoorthy, Mr K. P. Singh Deo, Mr D. N. Deb, Mr M. K. Nania Gowder and Mr Manendra Majhi.

Arms for the Third World

by: Wynfred Joshua and Stephen P. Gibert
(EXCERPTS)

CPYRGHT

Receptivity to Russian arms aid overtures also facilitated the establishment of Soviet military aid ties with India. Before the first Soviet-Indian arms aid agreement in November 1960, India filled its defense requirements in western nations—mostly in Britain. Anxious to reinforce its commitment to non-alignment in international relations, India wanted to reduce its dependence on the west for arms and diversify its supply sources. Equally important, India regarded Pakistan as a major threat to its position on the Asian subcontinent and sought to acquire modern equipment to match the weaponry Pakistan received from the United States. According to Indian spokesmen, only the United States and the Soviet Union were able to furnish the heavy transport aircraft and helicopters suited to India's high altitude and climatic conditions.¹⁴ When the Soviet Union proposed to meet Indian demands for considerably less cost than the United States, and when Moscow, unlike Washington, was prepared to receive payment in Indian currency or commodities, India decided to accept the Soviet offer.¹⁵ The arrangement reportedly covered some \$31.5 million in Soviet aid and included eight An-12 and twenty-four Il-14 transport planes, ten Mi-4 helicopters, and equipment for the development of communications in India's northern border zone.¹⁶

From a Soviet point of view, the establishment of a Russian military assistance presence in India was in part a response to American arms aid diplomacy in the SEATO area. The Soviet Union wanted to offset U.S. weapons aid to Pakistan and to counter American efforts to strengthen the northern tier. Taking advantage of Indian concern over Pakistan's defense buildup, Moscow moved to add New Delhi to its arms aid recipients. By diminishing India's reliance on western military equipment and technology, Moscow hoped to undermine western influence in India and to link New Delhi more intimately with Moscow. Soviet arms aid further served to identify Soviet policy with India's nationalist aspirations. The 1962 accords sought particularly to underscore this point. In early 1962, and again in the summer of that year, India received new credits to finance additional helicopters and transport craft.¹⁷ More importantly, the Soviet Union agreed at the same time to help India build two production facilities. The first would produce and assemble MiG-21s; the second would manufacture engines for a supersonic jet under development in India.¹⁸ The Soviet Union also pledged to deliver a number of MiG-21 jets which India claimed it needed to counter Pakistan's acquisition of F-104 fighters from the United States.¹⁹ Thus American military aid to Pakistan again facilitated a Soviet military aid initiative in India.

¹⁴ See the defense of the Indian-Soviet arms accord by Defense Minister V. K. Krishna Menon. *Hindustan Times* (New Delhi), April 13, 1961.

¹⁵ *Christian Science Monitor*, October 15, 1960; *Times of India*, October 4, 1960.

¹⁶ *Times of India*, October 4, 1960; *New York Times*, April 2, 1961.

¹⁷ *New York Times*, February 1, 1962; *Christian Science Monitor*, August 24, 1962.

¹⁸ *New York Times*, August 18, 1968; *ibid.*, August 24, 1962. In September 1961 the Indian government had purchased six Soviet jet engines for the HF-24. Because of India's dissatisfaction with the performance of Soviet engines, however, the agreement to manufacture engines for the HF-24 did not materialize.

¹⁹ *Hindustan Times*, June 24, 1962.

During 1953, in spite of earlier declarations of mutual friendship, Sino-Indian relations began to deteriorate. While the reasons for mutual disenchantment were complex, a major point of contention was India's stress on neutralism rather than anti-colonialism, i.e., the anti-American variant of neutralism that China insisted that neutrals follow. China also claimed certain areas of India's Himalayan border region.⁴⁶ Chinese forays into Ladakh Province at India's northern border in 1959 created further friction between the two countries.

In addition China deeply resented Moscow's attitude in the Sino-Indian border clashes. The Soviet Union, careful to avoid jeopardizing Soviet-Indian relations, but reluctant to offend China, adopted a neutral position in a conflict between its communist ally and a non-communist power.⁴⁷

The outbreak of the Sino-Indian border war in October 1962 placed Moscow in an even more difficult position, particularly with respect to its military aid program to India. In the summer of 1962 the Russians had made new aid commitments, providing for the supply of MiG-21s and the establishment of MiG-21 factories. Continued Soviet arms aid to India risked serious damage to the already precarious Sino-Soviet relationship at a time when the Russians needed solid communist backing against the west in the Cuban missile crisis. Accordingly, Moscow initially endorsed a Chinese cease-fire proposal.⁴⁸ But the Soviet Union also feared that cancellation of its pending arms aid commitments to India would be interpreted as support for Peking against New Delhi, which might drive the latter into an alignment with the west. The prompt U.S. response to India's appeal for military aid against the Chinese had, in fact, touched off demands in various Indian circles for a reassessment of India's non-alignment policy. Soviet vacillation with respect to the Soviet-Indian MiG transactions suggested the dilemma the Russians faced.

Soviet sources first indicated that the MiG agreements with India would be shelved.⁴⁹ By December 1962 the Russians had shifted their position and announced that a few MiG-21s would be sent as samples and that the licensing arrangements for the production of MiGs in India were still in effect.⁵⁰ In the first half of 1963 six MiG-21 fighters and a number of Mi-4 helicopters arrived in India. Negotiations in 1963 and early 1964 led to Soviet agreements for the delivery of An-12 cargo planes and air-to-air missiles for the MiG fighters and for the establish-

⁴⁶ Chinese objectives toward India are more fully discussed in William E. Griffith, *The Sino-Soviet Rift* (Cambridge: M.I.T. Press, 1964), pp. 6-8.

⁴⁷ The Chinese did not make their resentment public until 1963 when they called the Soviet position in the Sino-Indian border dispute a "betrayal of proletarian internationalism." See Arthur Stein, "India and the USSR: The Post-Nehru Period," *Asian Survey*, vol. 7, no. 3 (March 1967), p. 169.

⁴⁸ *Pravda*, October 25, 1962. It is not certain whether the Cuban confrontation and the Chinese crossing of the Indian border were isolated developments. The Russians refuted Chinese claims that they knew of the Chinese action beforehand. One U.S. scholar suggests that the Russians had not expected India's defeat, which forced them to take a position in favor of India and to cut off Soviet military supplies to China. See Arthur Stein, "India and the USSR," p. 31.

⁴⁹ *Washington Post*, October 30, 1962. For a discussion of the negotiations on the MiG deals, see Ian C. C. Graham, *The Indo-Soviet MiG Deal and Its International Repercussions*, Rand Corporation P-2842 (Santa Monica, Cal.: Rand Corporation, 1964). For the Indian position in the MiG deals, see Selig S. Harrison, "Troubled India and Her Neighbors," *Foreign Affairs*, vol. 43, no. 2 (January 1965), p. 325.

⁵⁰ *New York Times*, December 2, 1962.

ment of a \$40 million SA-2 anti-aircraft missile complex in India.⁵¹ By mid-1964 Soviet military sales totalled some \$140 million.⁵² But the Russians refused to modify the MiG fighter by adding all-weather and night capabilities to meet Indian requirements for an interceptor at the Himalayan border. The implementation of the licensing accord also continued to encounter delays.

The abatement of Sino-Indian tensions helped the Soviet Union out of the awkward position of aiding a communist nation's adversary. Moreover, the widening Sino-Soviet split accentuated Russian interest in bolstering India as a counterweight to China on the Asian continent. In September 1964 the Soviet Union extended a credit to India for some \$300 million in arms aid, including forty-four MiG-21 jets, twenty helicopters, and seventy PT-76 tanks.⁵³ Moscow finally undertook to make the necessary financial and technical arrangements for building MiG-21s in India.⁵⁴ The Russians further consented to make the required improvements for turning the MiG into an all-weather and night-flying interceptor. The September 1964 accord indicated that Moscow was prepared to revert to its earlier policy of extending substantial arms aid to India in order to contain both the United States and China in south Asia.

The eruption of the Indian-Pakistani border war of September 1965 once more placed the Soviet Union's carefully balanced policy in South Asia in jeopardy.

It may be recalled that in the course of 1963 the Soviet Union had initiated a policy of intrusion directed at countries closely identified or formally aligned with the west. As part of this intrusion policy⁵⁵ the Soviet Union had also started to try improving its relations with Pakistan. A modest economic aid agreement in August 1963 and a commercial loan to Pakistan in July 1964 were the first steps in this direction. A major obstacle to a Soviet-Pakistani rapprochement remained the Indo-Pakistani conflict over Kashmir, in which Moscow had taken New Delhi's side. The Russians, therefore, began to moderate their previous categorical support of India on the Kashmir issue.⁵⁶

Pakistan had gradually retreated from its alignment with the west in protest over what it regarded as Washington's increasingly pro-Indian policy.⁵⁷ American efforts to help shore up the Indian defense forces after the Sino-Indian border war of 1962 had intensified the concern in

⁵¹ *Ibid.*, August 2, 1963; *ibid.*, May 13, 1964; *Washington Post*, May 9, 1964; *Asian Recorder*, April 1-7, 1964, p. 5747.

⁵² *New York Times*, September 13, 1964.

⁵³ *Washington Post*, September 16, 1964; *New York Times*, September 22, 1964.

⁵⁴ According to Indian reports, the plants were expected to be in operation by 1968-69. *Hindu Weekly Review*, March 28, 1966. The plants were still under construction in 1968.

⁵⁵ Soviet intrusion efforts are more fully discussed in Chapter 2 of this study.

⁵⁶ The gradual Soviet switch on Kashmir has been analyzed in Sheldon W. Simon, "The Kashmir Dispute in Sino-Soviet Perspective," *Asian Survey*, vol. 7, no. 3 (March 1967), pp. 176-87.

⁵⁷ For a presentation of Pakistani views on U.S. policy toward India and Pakistan, see Khurshid Hyder, "Recent Trends in the Foreign Policy of Pakistan," *The World Today*, vol. 22, no. 11 (November 1966), pp. 482-91.

Pakistan over the reliability of U.S. support in its dispute with India over Kashmir. In consequence, Pakistan's leaders had begun to cultivate relations with the Chinese, whose support could be expected, and with the Russians. Inevitably, relations with Washington suffered. The United States, moreover, was reluctant to contribute to an Indo-Pakistani arms race and delayed a Pakistani request to replace its F-86 fighter-bomber fleet with more up-to-date craft.

When the Indo-Pakistani border fighting broke out in September 1965 and the United States promptly suspended all defense deliveries to the two feuding states, Pakistan accepted a Chinese offer to replace some of its depleted assets with MiG-19 jets, Il-28 bombers, and T-59 tanks.⁵⁸ The Russians, unwilling to alienate either the Indians or the Pakistanis, refrained from taking sides and urged a peaceful settlement of the conflict.⁵⁹ Moscow furthermore could ill afford to have a war at its southern border in which the Chinese threatened to become involved.⁶⁰ This partly explains why the Soviet Union assumed the role of peace-maker at the Tashkent Conference of January 1966. Although the perennial Kashmir problem remained unsolved, the Russians succeeded in obtaining an agreement between India and Pakistan for a return to the status quo ante bellum.

Soviet actions did not imply a reversal of Moscow's policy toward India. In contrast to the United States, the Soviet Union did not halt its military aid to India during the war.⁶¹ In fact, while the fighting was still in progress the Russians agreed to supply India with four submarines, Petya class destroyer escorts, and naval patrol craft.⁶² At approximately the same time the Indians were also permitted to buy a large number of tanks from the Soviet Union and Czechoslovakia.⁶³ Although Pakistan's leaders, who recognized their vulnerability in relying on Washington for arms aid, approached Moscow in June 1966 for military aid, the Russians postponed action on Pakistan's request to avoid arousing Indian hostility.

Soviet uneasiness over Chinese inroads in Pakistan, however, progressively intensified. In an effort to counter Chinese influence, Moscow supplied some twelve Mi-6 helicopters to Pakistan in the second half of 1967. A small group of Pakistani airmen was sent to the Soviet Union for training. The total value of Soviet arms aid to Pakistan was re-

⁵⁸ The agreement with China was reported to be worth between \$30 million and \$40 million. *New York Times*, September 5, 1967.

⁵⁹ *Pravda*, August 24, 1965; *ibid.*, September 12, 1965.

⁶⁰ Soviet writings have emphasized from time to time the strategic location of Kashmir; see S. Mikoyan, "Kashmir: Iabloko Razdora," *Literaturnaya Gazeta* (Moscow), October 28, 1965, as cited in R. Vaidyanath, "Some Recent Trends in Soviet Policies toward India and Pakistan," *International Studies* (New Delhi), vol. 7, no. 3 (January 1966), p. 444. The Russians warned the Chinese against any intervention on behalf of Pakistan. *Pravda*, September 22, 1965; *ibid.*, September 23, 1965.

⁶¹ The question of suspending Soviet military aid to India during the fighting actually did not arise. As one observer noted, it was a fortunate coincidence that the weapons on order were not ready for delivery. Zafar Iman, "Soviet Asian Policy Today," *Contemporary Review*, vol. 209, no. 1 (July 1966), p. 14.

⁶² *Indian Express*, September 7, 1965. Reports of the inclusion of destroyer escorts were not publicized until 1968. See *Sun* (Baltimore), April 2, 1968.

⁶³ Subsequent news releases revealed that India was allowed to purchase more than five hundred Soviet and Czech tanks. *New York Times*, June 1, 1967.

⁶⁴ *Ibid.*, September 5, 1967. Pakistan also received some military trucks. In view of the limited supply of materiel Pakistan received, the actual dollar value of military aid was probably half the reported estimate of \$10 million.

⁶⁵ *Washington Post*, August 6, 1967.

ported to be about \$10 million.⁶¹ To reassure India, Soviet officials stressed that they would not make any lethal weapons available to Pakistan.⁶² A more important gesture to allay Indian fears was the conclusion of negotiations with New Delhi in the latter part of 1967 for the delivery of some one hundred Su-7 fighter-bombers,⁶³ which would increase the ground attack capability of the Indian air force. With the Su-7 agreement, cumulative Soviet arms aid to India totalled between \$600 million and \$700 million.⁶⁷ The decision to aid India's enemy in its defense needs nonetheless represented a distinct change in Moscow's south Asian policy and underscored its growing concern over Chinese influence at its southern border.

The distribution of Soviet military aid in South and Southeast Asia shows that Indonesia, India, and Afghanistan were the countries to which Russian leaders attached the greatest importance. Indonesia received by far the largest share of the Soviet arms aid dollar in the region. While aid to Afghanistan in absolute dollar amounts was relatively limited, in relation to the size of the defense budget of a recipient, Afghanistan had received more aid than any other recipient.⁶⁸ The transfer of highly sophisticated weapons systems to these three recipients further underlines their significance in Soviet policy. Each acquired the MiG-21 jet; in fact, Indonesia was the first country outside the bloc to receive the MiG-21. India, although receiving less total aid than Indonesia, appeared to be the most privileged recipient among the three states, in that India was the only one to obtain a licensing agreement to produce and assemble MiG-21s at home. All three acquired batteries of SA-2 Guideline missiles. Indonesia and India were the only two countries, other than Egypt, which were able to negotiate agreements for submarines.

Each of the three major recipients in South and Southeast Asia devoted a substantial share of their aid credits to strengthening their air forces. By the end of 1967 the Indonesian air force had acquired at least eighteen MiG-21s and twelve MiG-19s equipped with air-to-air guided missiles, about one hundred older type MiGs, twenty-five Tu-16 bombers armed with air-to-surface missiles, Il-28 bombers, An-2, An-12, and Il-14 cargo craft, and Mi-4 and Mi-6 helicopters. The Indian air force included as a minimum sixty MiG-21s, fifty Il-14 and An-12 transport planes, and sixty Mi-4 helicopters. A few of the Su-7 fighter-bombers had already arrived in late 1967. Afghanistan had received an undisclosed number of MiG-21s, more than one hundred MiG-17s, a small force of MiG-15s, two squadrons of Il-28 bombers, and various transports, trainers, and helicopters.⁶⁹ The aircraft types indicate that all three recipients had acquired defensive as well as offensive systems.

Soviet bloc additions to the Indonesian navy similarly showed that Djakarta had been allowed to select ships with both defensive and

⁶¹ *Ibid.*, January 25, 1968.

⁶⁷ This estimate is based on the successive arms deals, as reported in the press, from the first agreement in November 1960. The 1967 agreement for about one hundred Su-7s has been estimated at approximately \$100 million since the Su-7 usually costs around \$1 million (*Washington Post*, January 25, 1968).

⁶⁸ In 1965, for example, Afghanistan's defense budget was only \$23 million. U.S. Arms Control and Disarmament Agency, *World-Wide Military Expenditures and Related Data*, Research Report 67-6 (Washington, 1967), p. 10.

⁶⁹ Data derived from Institute for Strategic Studies, *Military Balance*, pp. 42-43; Wood, *Middle East*, p. 12; and reports from Indonesian, Indian, and U.S. newspapers.

Table 4-1. Estimated Soviet Bloc Arms Aid to South and Southeast Asia: 1956 through 1967
(In Millions of U.S. Dollars)

Afghanistan	\$260
Pakistan	5 to 10
India	600 to 700
Indonesia	1,200
Laos	3 to 5
Cambodia	5 to 10
Estimated Total:	\$2,185

Sources: Estimates for Pakistan, India, and Indonesia are derived from sources documented in previous pages. Estimates for Laos and Cambodia are based on costs of equipment reported in the press. Costs were calculated on the basis of approximate costs of comparable U.S. equipment and assumed to include support equipment for aircraft, tools, and spare parts. The estimate for Afghanistan is similarly based on equipment costs and on a comparison of bloc economic aid with total bloc aid to Afghanistan as reported in the *New York Times*, May 28, 1967.

The Indian navy in 1967 did not show much evidence of Soviet influence. The first Indian-Soviet naval aid agreement had been negotiated as recently as 1965. Only two submarines were ready and some patrol craft had arrived in India by the end of 1967.⁷⁰ Further Soviet penetration of India's naval establishment is likely to be encouraged by Britain's withdrawal from the region east of Suez and by continued British and U.S. reluctance to meet Indian requests for warships.

Each of the key recipients also obtained Soviet help in modernizing its ground forces, although in Indonesia the army received only a relatively small share of the weapons deliveries to that country. The Indonesian army acquired only PT-76 tanks, armored personnel carriers, jeeps, anti-aircraft guns, artillery, and light arms.⁷¹ The relative lack of armor for the army reflected partly the environment and partly Indonesian army doctrine emphasizing the significance of guerrilla warfare. There were also strong indications that Indonesia deliberately limited requests for army equipment.⁷² Equipment the Indian army received in-

⁷⁰ Blackman, ed., *Fighting Ships*, pp. 137-42.

⁷¹ One reason is that the naval revolt in early 1965 seriously undermined the effectiveness of the Indonesian navy.

⁷² Blackman, *Fighting Ships*, p. 137.

⁷³ *New York Times*, April 17, 1967; Institute for Strategic Studies, *Strategic Survey 1967* (London, 1968), p. 33.

⁷⁴ Institute for Strategic Studies, *Military Balance*, p. 43.

⁷⁵ Sukarno wanted to build up the air force and the navy to offset the powers of the army. The former Indonesian Army Chief of Staff and Minister of Defense General Nasution and his aides, who negotiated most of the various arms deals, were careful to avoid too much dependence on Soviet military aid where the army was concerned, and were prepared to make the larger share of Soviet credits available to the air force and the navy. Interested above all in consolidating their power in Java, the army leaders did not regard the air force and the navy with the type of weapons each acquired as threats to the achievement of this objective. Nasution could with impunity reserve only a limited share of the aid credits for the acquisition of army materiel because: (1) the cost of army materiel was small compared to that of air and naval craft; (2) when Soviet arms aid began, the army already had a fair amount of small arms and some capability for producing small arms, while the other services had virtually no capability at all; and (3) U.S. military aid was primarily channeled to the army. Nasution's efforts to keep the army free from over-reliance on the Soviet Union were reflected in his emphasizing "berdikari" or self-reliance mission and in his requesting arms workshops from the Russians. See *Indonesian Herald*, May 5, 1965; *ibid.*, May 25, 1965.

cluded more than five hundred light (PT-76) and medium tanks with 56mm and 90mm guns.⁷⁶ The eighty-thousand-man Afghan army, like the Afghan air force, was almost completely equipped with communist-fabricated weapons and counted, among others, some one hundred medium T-54 and light PT-76 tanks.⁷⁷

Farther east, Moscow has made considerable progress toward replacing western military influence with its own. The Soviet Union has become India's largest source of military supplies and has succeeded in creating limited arms aid ties with Pakistan. Yet Soviet military aid policies in these countries turned out to be extremely vulnerable to pressures caused by actual and potential changes in the political-military power constellation on the Asian subcontinent. The potential threat of China in south Asia and the regional conflict between India and Pakistan circumscribed the Soviet Union's freedom of maneuver in its aid policies. The Russian dilemma resulting from the Sino-Indian border war in October 1962 caused delays and obstacles in Soviet-Indian arms aid discussions. When the negotiations were finally resolved in favor of India, it served as a warning to China to restrain its ambitions in the region.

The subsequent rise of Chinese influence in Pakistan led the USSR to intensify its efforts to improve relations with Pakistan, a process already under way as part of a broader endeavor to turn the erstwhile northern tier of western defense into an area open to east-west rivalry. Little perhaps was more galling to New Delhi than Moscow's arms aid agreement with Rawalpindi in 1967. The new Soviet military aid relationship with Pakistan, however, posed serious problems for Moscow in view of the danger of antagonizing New Delhi and the attendant risk of India's turning to the west again. Since Indian good will remains an important asset to the Russians, particularly if Chinese influence grows in the Asian subcontinent, a decision to offer additional Soviet arms aid to Pakistan will probably be accompanied by political concessions to India and by compensatory weapons aid.

⁷⁶ *New York Times*, June 1, 1967; Institute for Strategic Studies, *Military Balance*, p. 42.

⁷⁷ *New York Times*, May 28, 1967.

⁷⁸ See Welles Hagen, "Afghanistan," *Yale Review*, vol. 56, no. 1 (October 1966), p. 66.

SOVIET ARMS AID DIPLOMACY IN PERSPECTIVE

I N THE years after the first Egyptian arms aid agreement with the Soviet bloc in 1955, the Soviet Union succeeded in establishing a military aid presence throughout the Third World. By 1968 the USSR counted twenty-four states—twenty-five, if the brief episode of Russian arms aid to the Lumumba government in the Congo is included—that received at one time or another military assistance. As events unfolded in the history of Russian arms aid diplomacy, Soviet objectives became crystallized and certain broad patterns, characteristics, and recurrent themes in Soviet military aid policies emerged. This does not mean that every Soviet arms aid initiative can be neatly placed in a particular category. Nor does it imply that the USSR designed and adhered to a master plan in executing its arms assistance policies. On the contrary, although Soviet military aid policies were deliberate and aimed at achieving certain goals, perhaps their most striking aspect was their quality of opportunism. Military aid to a militant Arab state like Egypt, to the socialist-inclined Touré government of Guinea, or to the virulently anti-colonial Sukarno regime in Indonesia fitted Soviet ideological precepts of the post-Stalin era. Arms aid to the Imam of Yemen, to Iran, Nigeria, and Morocco, however, epitomized the considerable ideological flexibility of the Soviet Union in furthering its goals. Nevertheless, although the Soviet government did not follow any preconceived grand strategy, its policies were purposeful and reflected an awareness of the political circumstances and conditions bearing upon its arms aid initiatives.

AID PATTERNS, CHARACTERISTICS, AND THEMES

Soviet military aid was designed to promote two basic long range and closely related political objectives. The defensive aim was the impairment of western, especially American, influence in the states and regions assistance. As long as the Suharto regime remains in power and manages to enlist western help, Soviet military aid to Indonesia is likely to remain quite modest and probably limited to the supply of spare parts and maintenance equipment.

Soviet arms aid diplomacy fared much better in the Asian subcontinent. The USSR had become India's largest supplier of military equipment by 1968. Because of its key position at the Indian Ocean rim, and because of the threat of Chinese influence in the subcontinent, India is rapidly becoming one of the most privileged arms aid recipients. The recent Russian military aid deliveries to Pakistan to offset Chinese penetration have understandably ruffled Indian feathers. Nevertheless, the USSR will in all likelihood continue its arms aid to Pakistan, even though it may limit Pakistan's selection of weapons. Washington's refusal to meet Pakistani defense requirements afforded Moscow as well as Peking the opportunity to create arms aid ties with Pakistan. To mitigate Indian concerns, the USSR will probably step up its arms aid offers to India, thereby accelerating the pace of its military aid shipments. Particularly if the discords between the Soviet Union and China deepen, the Russians are likely to intensify their arms aid efforts not only in South and Southeast Asia, but in other areas of the Indian Ocean littoral as well.

In sub-Saharan Africa the achievements of Soviet military aid diplomacy vary. The Soviet experience in Africa shows that relatively rudimentary nations pose as many obstacles to influencing national development and foreign policy as do more advanced societies. Most notable among these obstacles in Africa is the prevalence of tribalism and related centrifugal socio-economic forces which are inimical to national forms of political organization. In consequence, Soviet calculations as to whether a particular government merits arms aid are rendered more difficult. African distrust of the white man's colonial past is another impediment to the establishment of much more than ephemeral Soviet influence. Despite the absence of traditional overseas colonialism in Russian history, and notwithstanding Soviet attempts to identify its policies with anti-colonial activities, the USSR remains suspect in much of Africa.

Soviet endeavors to gain influence through military aid programs in western Africa have been disappointing. On the whole, the fluid politics of the newly independent states in western Africa argues against a marked increase in the level of the Russian military aid effort, although the Soviet leaders will undoubtedly remain alert to the possibility of exploiting new opportunities. For the near future Soviet attention seems likely to center on the geopolitically more important countries in the Horn of Africa and in east Africa, rather than on those of the west.

On the other hand, the future international system may witness not two superpowers, but five or six or more nations capable of waging nuclear war. Such a multipolar world would be more flexible than one dominated primarily by the United States and the Soviet Union. Alignments and alliances would continually shift; some neutrals would become identified with one or the other of the superpowers; some allies might become neutrals. Such a fluid international system could more easily absorb shifts in the balance of military power in the Third World occasioned by arms aid diplomacy. With the consolidation of numerous power centers, it is likely that arms diplomacy in the Third World by the advanced nations would assume an even greater role in the international arena of the future.

It is a sobering thought, however, that within a decade exploding populations may outstrip the capacity of many Third World governments to provide much more than the barest necessities of life for their peoples. It is tragic that such a large proportion of Soviet and American aid is in the form of weapons. In addition, arms diplomacy in the nuclear age is a dangerous form of competitive coexistence. Yet the Soviet Union shows no sign of abandoning arms diplomacy, and Washington cannot simply leave the field open to Moscow. Perhaps a solution would lie in a determined American effort to persuade the less developed countries to seek economic and social assistance rather than arms aid. Soviet-American competition might then contribute more positively to the welfare of the peoples of the Third World.

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CPYRGHT

Soviet aid forms strategy pattern

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By Elizabeth K. Valkenier
Written for The Christian Science Monitor

CPYRGHT

There is a pattern to Soviet maritime activities that has gone largely unnoticed—that of creating naval facilities and gathering intelligence under the guise of economic aid.

Long before the dramatic appearance of the Red Fleet in various harbors from Morocco to Iraq the Soviets had built or modernized ports and developed commercial fishing for countries along the shores of the Mediterranean, the Persian Gulf, and elsewhere around Africa.

Certain Soviet activities preceding the Cuban missile crisis of 1962 indicate that there can be a direct connection between this type of economic assistance and military operations.

In that summer the Soviets tried to camouflage their stepped-up military traffic by publicizing the technical aid granted to Havana. They asserted they were busy enlarging the Cuban trawler fleet, locating fishing grounds, and building a new fishing port on the Atlantic to be used jointly by Cuba and the Soviet Union.

Parallel routes

After the Kennedy-Khrushchev confrontation over the offensive missile sites in October, nothing more was heard of the ambitious plans for the joint fishing port aside from delivery of a floating dry dock for Havana's harbor in the fall of 1964.

Sinister objectives, as in the case of Cuba, are not the only purpose of Soviet maritime aid. But its pattern does suggest definite strategic aims along important sea routes for the worldwide operations of the Soviet Navy.

Take the matter of ports, for example. With an eye to securing easier access to the Indian Ocean, Moscow began to acquire a foothold south of Suez. The first economic aid agreement concluded with Yemen in 1958 provided for the construction of a port at Hodeida. Four years later, the Soviets began working on a deep-water port at Berbera in Somalia.

And in May, 1967, just before the outbreak of the Arab-Israeli war, they undertook to build a fishing harbor for the United Arab Republic. Located in the Gulf of Suez, it was to serve as a base for joint Soviet-Egyptian deep-sea fishing in the Mediterranean, the Red Sea, and the Indian Ocean.

On the west coast of Africa, Guinea re-

ceived Soviet assistance in reconstructing the port at Conakry under the terms of the first aid agreement of 1959. With the harbor dredged, Soviet warships could dock at Conakry when they took to cruising African waters 10 years later. In nearby Ghana, the Soviets managed to modernize the fishing port at Tema before Kwame Nkrumah was overthrown.

Survey dropped

It must have been the prospects of greater strategic mobility in the western Mediterranean that prompted the Soviets early in 1961 to insist on making a survey for a shipyard at the small fishing port at Alhucemas on the northern shore of Morocco.

Western technicians had previously advised against the project, since the port was not served by a railroad. Eventually the Russians reached the same conclusion and shifted their feasibility studies to the Bay of Tangier.

The construction of shipyards at Bassra in Iraq and at Alexandria has extended the reach of Soviet sea power. Red Fleet units regularly visit Alexandria nowadays, where they maintain their supply and repair facilities. Bassra became a port of call in May, 1968, a visit which marked the first appearance ever of the Russian Navy in the Persian Gulf.

Numerous other maritime projects, especially in countries that do not receive Soviet military aid, serve as a strategic wedge. Work on such projects, resulting in extensive use of these countries' ports and coastal waters, establishes a Russian presence and can facilitate the gathering of intelligence.

Training received

In several cases the only aid the Soviet Union renders to a strategically located country that has not been particularly cordial to Moscow is connected with the sea.

In the Persian Gulf, Kuwait is enlarging its fishing fleet with Russian-built seiners on which Kuwaiti sailors also receive training from Soviet experts.

In Jordan, Moscow had no success with its military aid offers. But early in 1968 it persuaded Amman to accept economic assistance for a number of unspecified "maritime projects," thereby extending the Soviet presence to the Gulf of Aqaba.

The development of commercial fishing, a prominent item in Soviet aid program, often opens up the ports of the aid recipient to Soviet trawlers. Under the terms of the 1964 aid agreement, Tanzania permits Soviet fishing vessels to dock in its ports in return for assistance in developing its ocean fishing. A similar reciprocity exists with Senegal.

The facilities thus acquired increase the range of Soviet fishing fleets. These fleets often include electronic intelligence-gathering ships disguised as trawlers. Soviet trawlers have also been used for landing and picking up undercover agents. Last autumn Ghana intercepted some Russian fishing boats on suspicion of smuggling arms.

Aden objective

Moscow's persistence in offering economic aid that builds up an infrastructure for later naval capability continues unabated.

The latest object of Soviet interest is the port of Aden. Strategically better located and far larger than Hodeida, it has already served as a port of call for Soviet warships cruising the Indian Ocean. In February of this year, South Yemen signed an aid agreement with Moscow to improve Aden's harbor and docks.

Soviet eagerness to enlarge this port's facilities suggests that the Red Fleet hopes to add Aden to its list of repair and supply bases that already includes Algiers, Alexandria, Port Said, and Latakia. If those intentions are realized, Russia will have taken a major step toward achieving its dream of a permanent presence in both the Mediterranean and the Indian Ocean.