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The scope for developing Trade Relations with U.S.S.R. And the possibility of U.S.S.R. building a tractor factory in India.

The Problem:

This note is an attempt to prove that lately there has been such a vital change in the Soviet approach to world-politics and to India, in particular, that in the existing state of affairs there is an unprecedented scope for developing our relations with U.S.S.R. and that by doing so we can ourselves benefit a lot. It is therefore necessary to study the nature, character and the extent of the change that has come over Soviet politics, and against this general background to study the scope for the development of Indo-Soviet relations in order to see how far we can develop them to our advantage.

The Old Soviet Approach:

2. Till lately the Soviet stand was to flirt with countries of its own block and to condemn with a varying degree of emphasis, all the non-communist countries of the world. In the Soviet press the general line was to show up the Communist countries from their brighter side, to show how, in those countries, prices were falling, how the standard of living was going up in the Soviet Union and how everything was leading the people to greater and greater happiness. No mention was ever made of the difficulties, shortcomings or the mistakes made here. On the other hand the reports about non-communist countries always tended to bring out strikes, disorders, unemployment, increases in the cost of living which tended to make out how life was becoming more and more intolerable for the masses. Thus news about India was confined to strikes, disorders, police-firings, demonstrations by the unemployed etc. and on the whole the Indian Government was described as a bourgeois government.

Stalin and the Change:

3. Whatever may have been the motives for following this policy, in fact it merely pinpricked other Governments, annoyed them, made them feel that it was impossible to deal with the Soviet Government and thereby tended to isolate the Soviet Union. This policy made U.S.S.R. withdraw into its own shell. How far Stalin himself was responsible for this overall approach to things, is a matter of speculation. The fact remains that in the new atmosphere created since Stalin's death all these matters have undergone a radical change.

The New Approach:

4. The new approach which is now being persistently developed is far more practical and businesslike. In the new concept of things a difference is made between ideology and business. On ideological grounds the Soviet Government, as ever before, feels that none except the revolutionary communist governments can bring real happiness to the masses. They likewise believe that all roads lead to Communism. That remains exactly the same as before. But the change which has now come over is that the Soviet Government is now prepared,

- (i) to deal with these "doomed states" in a practical and businesslike way,
- (ii) to develop relations with them in all spheres, political, commercial and cultural on the basis of mutual advantage, and
- (iii) inspite of the existing limitations, to seek their co-operation in international affairs to the extent possible.

5. The tendency now is to make the best of the relations with other countries of the world, regardless of their political character or colour.

Emphasis on Trade Relations:

6. It is because of this new approach to world affairs that the Soviet Union has entered into trade pacts with many countries including India. There are other indications also which point to the keenness to develop trade relations. At the session of the Economic Commission on Europe, held in Geneva in March 1954, the Soviet delegates evinced keen interest in developing East-West Trade.

7. Moreover a large number of British businessmen have lately visited Moscow and there are reports to the effect that deals to the tune of £.400 million sterling are under negotiation.

8. It must be said by way of elucidation that in the past the negotiations for a trade-pact with the Soviet Union did not lead anywhere because the Soviet Union was very rigid in its approach and wanted to have a trade pact entirely on its own terms. They preferred to go without a pact rather than to yield and be accommodating. Now, however, they were not merely keen to have a trade pact with us but were prepared to offer acceptable terms, on the basis of which it was possible to conclude a trade agreement with them. It is significant that though they had been talking about it for a long time, yet now for the first time they have actually recognised the Rupee as an international currency. This is a very significant indication. The Indo-Soviet Trade Agreement is so designed as to attract the attention of other countries of South East Asia. It may be added that these developments should be seen not in isolation from the general background as explained above but in the light of it.

Flexibility in Foreign Affairs:

9. In Foreign Affairs also the behaviour of the Soviet Government in general, and particularly in regard to the Korean problem and later at the Berlin Conference shows that the Soviet attitude is now far more flexible and businesslike than ever before.

10. In 1953 the Soviet Government announced its decision to participate, to the extent of four million Roubles, in the scheme of United Nations Economic and Social Council for rendering technical aid to under-developed countries.

Cultural Relations:

11. In cultural matters also the recent trends are to put an end to isolation. Recently the French Comedie

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Francaise was invited to visit the U.S.S.R. and perhaps, for the first time, a "bourgeois foreign theatre" performed in the Soviet Union before admiring audiences. It is likely that a Shakespearian Theatre from England may also be invited. Similarly we may see an Indian dance ensemble in Moscow this Summer.

12. All these facts lead to the conclusion that though the faith in the World revolution persists as before, yet now the Soviet Government is anxious not to give needless pinpricks to other powers and is keen to develop relations with them in a practical businesslike way on the basis of mutual advantage. In order to achieve this end its ways and outlook are far more flexible and accommodating than ever before.

#### Attitude towards India:

13. As seen against this background it will be clear that the Soviet Union is now interested in developing relations with India also. The first indication of this new attitude was when all tendentious propaganda against India was stopped. All references to strikes, police firings on demonstrators, increase in prices etc. were given up. Derogatory references to the Government of India were also stopped.

#### Pronouncements by Malenkov and Molotov:

14. Mr. Malenkov gave the lead when, in August 1953, while speaking in the Supreme Soviet, he went out of his way to pay a handsome tribute to India's peace efforts and to the leading part which she played in the Korean problem. At the Berlin Conference Mr. Molotov followed it by another complimentary reference to our Prime Minister and to India's foreign policy. Then again in March 1954 in a pre-election speech Mr. Malenkov made another complimentary reference to India and to the policy which was being followed by the Indian Government. These are the clearest and most definite indications of the Soviet Government's concern and desire to seek India's co-operation and to develop relations with her. Such remarks are never made in this country by accident. The leaders do not ever open their mouths except to enunciate a policy which has been approved of by the Government and the Party.

#### India's Special Status:

15. The reasons which have prompted the Soviet Government to reorientate its relations with India are not far to seek. India's geographical situation, her man-power resources, her prestige as a new power in the East, the stature and the influence which Prime Minister Nehru wields are all factors which have prompted the Soviet Government to put her relations with India on a special footing.

#### Soviet Interest in Boldness and Independence of India's Policies:

16. The most important factor, which the Soviet Government values above everything else, is India's boldness and firmness in refusing to play second fiddle to any power including America. In view of Pakistan having fallen into the American lap the Soviet Union has to lean on India and therefore it is in Soviet Union's own interests to encourage

India in every possible way to continue to strike an independent line. All the complimentary references to India by Mr. Molotov and Mr. Malenkov are meant to make India feel that she could count on substantial Soviet support. How far this support will be available is something which can be determined only when this avenue is explored in a concrete way.

Important Bargaining Point in India's Favour:

17. Thus it will be seen that it is in the Soviet Union's own interests to help India so that India's weight may be felt more and more in world affairs. Therefore the Soviet Government cannot afford to turn a deaf ear to any reasonable requests from our side for help and assistance. This is a singularly important factor which gives us tremendous advantage and a bargaining point in our dealings with the Soviet Union.

Limitations on Soviet Assistance:

18. It would be naive to expect all out help to India; that is reserved only for the countries which belong to the Soviet camp. The commitments of the Soviet Union in China and in countries of Eastern Europe are so vast that perhaps the Soviet Union will not be in a position to render large-scale aid to India. Moreover from our side we would be the last to tell them that either they help us or we would go the Pakistan way; that will be treated as blackmail and will not cut any ice.

Actual Possibilities:

19. What can be done is to develop trade relations and to extend the scope of the trade agreement. There are many things in which the Soviet Union is interested in trading in the normal way. In India's case, for the reasons stated above, the Soviet Government is likely to make substantial concessions. The situation is such that we are in a position to take advantage of it. We should implement the Trade Agreement not in a routine and casual way but should all the time try to explore and develop its scope to our maximum advantage.

Need for Exploratory Work:

20. The situation is so dynamic and full of possibilities that it will be worthwhile making some bold exploratory work. At the dinner given by the Ambassador on the occasion of the signing of the Indo-Soviet Trade Agreement (reported in our letter No. SU-TECH/53 dated the 29th December 1953), Mr. Novikov, the Head of the South East Asia Division of the Foreign Office, said that the Soviet Union had recently built a steel plant in China and that there was no reason why a similar plant could not be put up in India. Among other things he said also that the Soviet Union was prepared to render aid to under-developed countries both within the framework of the United Nations and by special agreement even outside it.

Tractor Factory:

21. In view of the above it would be useful to explore the possibility of the Soviet Union building a tractor factory for India. Such a plant would be immensely useful to our

agriculture. We could pay for the factory on a long term basis from our normal trade exports. If it meets with the approval of the Government of India, the Ambassador could raise this issue with the Soviet Government here. If the Soviet Government responds favourably then the matter could be worked out in its details by experts from both sides. It is obvious that in a matter like this it is we who must take the initiative and explore the situation in concrete terms.

22. Since the forces at work make it imperative for the Soviet Union to be careful with India, it is extremely likely that the Soviet Union will be interested in giving us such terms and conditions as will be mutually advantageous to both sides. If they want to help, they will help in a practical way and their prices and terms will be competitive. We need not assume that the Soviet terms will necessarily be difficult or impossible.

Our Interests:

23. Perhaps from our point of view also it will be a good thing to develop our relations with the U.S.S.R. without getting politically involved in any way. If in this way we could speed up our development programme, it would be a valuable contribution to the well-being of our people.

Diplomatic Pressure on Western Countries:

24. Moreover the development of trade and other relations with the U.S.S.R. will have one more beneficial effect in so far as it will exercise a healthy diplomatic pressure on the Western powers. It will make them feel that if we consider it to be to our advantage we shall not be squeamish in dealing with the Soviet Union. As the Western powers, particularly America, are interested in discouraging the growth of relations between the U.S.S.R. and other countries they will have to pay more heed to our needs and requirements. This will therefore give us a greater bargaining power vis-a-vis Western powers. Otherwise if our relations with U.S.S.R. remain casual, the Western powers will feel that no matter what India may say or occasionally do, yet when it comes to anything concrete "she will have to come to us". This attitude will naturally make them talk and behave on their own terms.

Conclusion:

25. Thus it may be said in conclusion that the existing circumstances are extremely favourable for us. In future they may be more or may be less favourable than at the present time. Nevertheless, the existing state of affairs is unprecedented and therefore the situation must be seized and taken full advantage of. There is ample scope for the development of trade relations which, against the background of the present international situation, will allow us to extract substantial benefits and concessions from the Soviet Government. These concessions may be so substantial that they may help us appreciably in the execution of our development programmes. The chances of a deal in a tractor factory appear bright.

26. What exactly we should ask for is a matter which the Planning Commission, aided by experts, will be in a

position to decide. Whether we should ask for a tractor factory, or a steel plant or an oil refinery or a machine tool factory is a matter of detail which can best be decided by experts in Delhi, in keeping with our immediate and long-term requirements.

27. Should the Government decide to accept the suggestion of our taking initiative in these matters, we should act with good speed and at the highest level as explained above. It may be stressed that the present overall situation is extremely favourable to India, and that it would be a great pity if it were to go unexplored.

(P.N. KAUL)  
Second Secretary.

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Shri P.N.Kaul of the Embassy of India, Moscow, has prepared a note containing an analysis of the latest trends in Soviet policy, particularly vis-a-vis USSR's relations with India, and against the background of such trends, <sup>has</sup> made certain suggestions concerning the extent and direction of assistance that the Soviet Union could give towards India's development. In particular, he has mentioned the establishment of a tractor factory in India with Soviet assistance. In this note Shri Kaul has stated that under the new approach, which is being consistently developed in the USSR, a difference is being made between ideology and business. The tendency is to make the best of relations with other countries of the world, regardless of their political character or colour. The Soviet attitude in foreign affairs is <sup>now</sup> far more flexible and businesslike. As seen against this background, it will be clear that the Soviet Union is interested in developing relations with India also. There have been very complimentary references to India by Malenkov and Molotov in some of their important speeches. The most important factor which the Soviet Govt. values most is India's independent policy in international affairs and its refusal to play second fiddle to any power including America.

Mr.Kaul is of the opinion that the existing circumstances are extremely favourable to us, the situation is unprecedented and we should not fail to seize it and take advantage of it. What exactly we should ask for is a matter which the Planning Commission, aided by experts, will be in a position to decide. Whether we should ask for a tractor factory, or a steel plant or an oil refinery or a machine tool factory is a matter of detail which can best be decided by experts in Delhi, in keeping with our immediate and long-term requirements.

Mr. Kaul has drawn attention to the fact that the Soviet Union has placed 4 million roubles at the disposal of the Economic and Social Council of the U.N. for technical assistance to under-developed countries. He has recommended that we should implement the Trade Agreement with the USSR with a view to explore and develop its scope to our maximum advantage. He has also suggested that we should explore the possibility of the Soviet Union building a tractor factory for India and has stated that we could pay for it on a long term basis from our normal trade exports.

In forwarding this note, Shri K.P.S. Menon has answered two questions that generally arise in one's mind in this connection, viz., whether this will not affect the flow of aid from the Western countries and whether, from the

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the point of view of internal security, it is safe to have too friendly relations with a Communist State, of which the ultimate objective is world revolution. With regard to the first question, he states that the U.S. aid is not given in any spirit of altruism but out of cold-blooded self-interest. Indeed, a little Soviet competition will induce the USA to be less grudging in its proffers of technical and industrial assistance. As regards the second, he has stated that the Soviet Govt. is now genuinely reconciled to the possibility, and indeed the need of rival systems of political economy for an indefinite period.

This note and Shri K.P.S.Menon's letter were circulated to the Ministries concerned for their comments, which are summarised below.

MINISTRY OF FINANCE

We have already decided to take advantage of the 4 million roubles which the Soviet Union has placed at the disposal of the U.N. Technical Assistance Board and have placed a request for supply of experts, provision of training facilities, etc.

If it is the intention that we should finance any project set up with the assistance of the USSR out of our normal trade export earnings, it is not 'aid' in the sense in which <sup>we</sup> understand the word.

MINISTRY OF COMMERCE AND INDUSTRY

We have made special efforts to liberalise the visa policy towards Russian nationals in order to help trade. We are making special efforts to recruit Russian technicians through the U.N.T.A.P.

Collaboration in the industrial field is not easy to achieve unless there is substantial trade. Unless Russian tractors prove to be popular in India, it would be unwise and risky to set up a factory in collaboration with Russians. Then again there <sup>are</sup> other considerations, not the least important being that we would prefer to develop a tractor which would make use of one of the automobile engines already on the manufacturing programme in India. In other words, it is not easy to <sup>open</sup>widen the field of industrial collaboration overnight and it is bound to be a gradual development. We are, however, doing everything possible to help this process.

On our part, we have seen no serious objection to our developing economic relations with the Soviet Union on a wider scale. But so far no concrete results have emerged from the trade agreement: USSR's Trade Representatives

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in this country are eager to sell a variety of goods, but we are not sure whether, from the quality and price angles, some of these goods are competitive. We have, however, given them every possible facility.

We should, however, like to add that in our judgment the USSR have not shown any particular eagerness to go out of the way to help us. We need not, therefore, be unduly optimistic or hopeful.

It is our impression that at present the USSR are not interested in selling machinery on credit or on basis of payments spread over a large number of years. Mostly they are interested in cash payments.

It is possible after our Industrial Delegation has studied the situation on the spot, we may be in a position to formulate proposals for taking advantage of USSR's present favourable disposition.

MINISTRY OF NR & SR (SHRI S.S.BHATNAGAR)

I don't see any need of a direct aid from Russia, but if the Russian monetary contribution to UNESCO or UNO is limited to India's development, I shall like to have it from UNESCO for our National Laboratories or national development. We shall be glad to collaborate with them in exchange of research personnel if that is possible.

MINISTRY OF FOOD AND AGRICULTURE

At present the requirements of tractors in India are of two categories, one is the large tractor required for land reclamation and heavy earth work on various river valley and other projects. The number of tractors required for this purpose per year, however, is not likely to be large and would not justify the setting up of a factory. The other type of requirement is for cultivation purposes. Here the tractors needed vary considerably in power and performance. There are as many as 35 different types and models at present in the country. It is, therefore, doubtful if any one factory can produce tractors of all these categories.

It is difficult to say whether tractor cultivation is likely to go on in India on any considerable scale. We are doubtful if any large scale development of cultivators organising themselves into cooperatives is likely in the near future.

On these facts, we are of the view that it <sup>will</sup> not be possible to run a pure and simple tractor factory. If such a factory can be linked up with the manufacture

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manufacture of tanks, the position might be different. We have, however, an open mind on the subject and are prepared to discuss this with the Ministries of C. & I. and Defence.

#### MINISTRY OF HOME AFFAIRS

We feel that the question of developing economic relations with the Soviet Union is a matter of policy. If the Ministries concerned consider that the establishment of a tractor factory is in the interests of the development of the country, we should naturally have no objection.

#### MINISTRY OF IRRIGATION AND POWER (SHRI KANWAR SAIN)

The following suggestions are made regarding the possibility of aid that we can get for our Ministry:-

- i) Obtaining Russian publications costing about Rs.40,000.
- ii) One set of instruments used in hydrology, measurement of stresses in structures and laboratory equipment costing about 2 lakhs of rupees.
- iii) Study of technical features of the Russian River Valley Projects by a team of Indian engineers, costing about Rs.60,000.

#### PLANNING COMMISSION.

As regards the specific items suggested for development with assistance from the USSR, our views and comments are as follows:-

Tractor Factory: Hindustan Motors have already been given a licence to manufacture tractors and a chance must be given to them to show what they could do. There is not likely to be scope at present for two units for manufacturing tractors.

Steel Plant: This has already been decided.

Oil Refinery: There is a proposal under consideration for a synthetic petrol project but not for another oil refinery in addition to the three already planned, two of which are in process of construction.

Machine Tool Factory: It would not be advisable for Govt. to put up another machine tool factory.

Before formulating a final view, we should consult the Industrial Delegation that recently went to Russia. Also, we should wait till we have had our contact with the team of Russian experts that is coming shortly in connection with steel project.

#### MINISTRY OF PRODUCTION.

With the decision regarding discussions with the Russians about their steel offer, it is no longer necessary to discuss the basic point of our Ambassador, namely, that it would be entirely consistent with our foreign policy to develop economic relations with the Soviet Union in a more concrete manner- it is accepted policy.