Rupee- Rouble Trade

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In view of the rapid growth in rupee-rouble trade and plans for even faster growth in the future, one needs to look at the changes that are taking place in the trading system and their implications for the bilateral exchange-rate regime. The non-significance of the exchange rate for trade matters by this argument becomes all the more compelling in view of the fact that there is not one, but three exchange rates between the rupee and the rouble: (a) the commercial rate: applicable to tourists, embassies, etc.; (b) the protocol rate: used for recording trade transactions; and (c) the basket rate: applied to credit transactions.

(i) About 90 per cent of India's imports from Russia are 'hard' goods, for which the relevant price is the 'world market' (or, say, 'dollar') price and for which the quantities to be supplied by Russia are fixed in the bilateral trade protocols. (ii) The 'dollar' prices of the above goods are converted to their rupee equivalent at the prevailing rupee-dollar exchange rate these rupee values are credited to the Russian account in rupee terms. (iii) For the remaining 'soft' goods-the prices are quoted directly in rupees with no reference to the rouble. Moreover, since the rupee price of such goods from Russia is so much lower than the prices of equivalent goods from the rest of the world, it seems unlikely that the rupee-rouble rate would matter very much as far as purchase decisions are concerned.

(1) 'Hard' goods from extractive industries: For these products, which are primarily fuels, metals and minerals, trade decisions in Russia are highly centralised in the sense that the producer of the exporting trade organization has no discretion at all regarding the price, the destination or the quantities. These decisions are taken at the level of the concerned central authority. The pricing of these goods for export purposes is normally done on the basis of the prevailing world market prices denominated in a 'hard' currency (like the US dollar). (2) 'Soft' goods: For these goods not only are there considerable micro-level autonomy with regard to quantities and destinations, there is almost complete freedom in export pricing behaviour. In other words, the rupee price of these goods are determined not on the basis of any given world market price, but through a process of active negotiation between the Russian exporter and the Indian importer. The only constraint on the producers of such products is that the internal demand of Russia must first be satisfied before exports are undertaken.

As a result there was a rapid growth in Russian exports of the only category of goods under direct central control 'hard' goods from extractive industries-which today account for almost 80 per cent of Russian non-defence exports to India.

One can say that further growth in Indo-Russian trade will require that the exports of the other categories' of goods also become equally important.