CHAPTER - V

INDO-US ECONOMIC RELATIONS
The economic relations between the U.S. and India have been characterised by a high degree of asymmetry and friction. In the international arena the two countries interact in many ways, through many channels in various patterns of cooperation and conflict. They share many common economic as well as political goals but their positions generally, are very different.

The United States gave economic aid to a large number of countries in order to fulfil its foreign-policy requirements rather than for any humanitarian reasons. It formulated its economic aid programme to suit its political and strategic interests.

Ever since the inception of aid programme launched by the United States, "a climate of suspicion", "a state of uncertainty" and "a situation of love and hate" have been generated throughout the underdeveloped world and more especially in the uncommitted world. It is the unpleasant truth that the United States has come to be regarded increasingly in the uncommitted world as a power at best


neurotic and at worst aggressive, preoccupied with military preparations and with a game of internal power diplomacy which has no meaning for the newly awakened ordinary citizen.

The basic objective of U.S. foreign aid has always been the preservation of its national security and the promotion of the welfare of the American people. It suggests that the Prime responsibility of the administration is to meet effectively the menace posed to the American security by explicit or implicit military aggression or war like methods in any part of the world.

There is scarcely any ground to disbelieve that the U.S. global strategy has always been the containment of communism and checkmating its overt aggressive designs. Expansion of communism in developing countries, America believes, is a potential threat to its political system, social structure, economic organisation and strategic moorings. "What the US seeks is the creation of a community of independent ratios each of them sufficiently strong politically, economically and if necessary, militarily to preserve its independence".¹ It is the logic of this objective that motivates U.S. foreign aid programmes and

gives direction to its overall policy in every part of the globe.

The economic objectives of United States aid programmes towards India and developing countries are based on "ration pragmatic" model. The economic prosperity of the U.S. is linked with the rapid economic growth and stability of developing nations. If America fails to sustain their economic development, its own economy might be doomed to a colossal failure. ".... that the well being of the United States is indispensable for the maintenance of peace and security and the development of economic and social well being through out the world".¹

The economic objectives of U.S. foreign aid have been influenced by the following factors: (i) if United States fails to furnish economic assistance to India and other under-developed countries for their economic development, they will not hesitate to accept all kinds of economic aid from the communist bloc. This will run counter to the American economic interests, communist bloc will strengthen the economy of this bloc and will also insulate America considerably from trade and commercial connections with these countries. The committee for Economic Development

¹. Major problems of United States Foreign Policy, 1952-53, prepared by the Staff of International Group of the Broosings Institute, 1952.
said, "Economic self interest has been an important consideration in the policy pursued by the United States in advancing economic growth in the low income countries through the flow of public and private resources and technical assistance"¹ (ii) in helping to launch the "self-sustaining" process of economic development by the underdeveloped countries, the flow of sufficient capital is of imperative need. Its impact will be congenial to the international economic activity "in which the economies of the industrialized countries of Europe and Japan, as well as the United States, could continue to grow"² (iii) raw materials like natural rubber, tin, jute, oil and uranium ore from developing nations are singularly vital to U.S industrial and economic development³ (iv) for the maintenance of full employment at home, the U.S. needs export markets which can be procured through various aid programmes. President Nixon in his message to the congress on May 28, 1969, said: "Certainly our economic aid to developing nations helps to develop our own potential markets overseas".⁴ Besides these political and economic motives,

philanthropic element has always been present to a certain degree, in the U.S. aid programme.

Economic relations between India and the U.S. started rather late compared to that of India and some of the European countries.\(^1\) The reason was that the U.S. appeared quite late on the map of the international economy. At the same time, the reins of the Indian economy had been for quite a longtime, in the hands of the Britishers, which, in the sequel, almost confined India's trade to Britain.

Soon after the end of the war of American Independence, there emerged a feeling among the Americans to develop trade with the East. In 1784, a ship called the "United States" left Philadelphia for India. But such efforts were very much ephemeral. The hostility between England and France ruined, the U.S. efforts at expanding trade and commerce.\(^2\) As Jones had pointed out between 1803 and 1807, over 500 American vessels were seized by Britain and almost 400 by France. Nepolean's Berlin and Milan Decrees of 1806 and 1807, and the retaliatory British orders which followed them established the "continental system" and


2. It must be remembered that the British Policies influenced the Course of American Economy even after the war of Independence.
cutoff neutral trading altogether.\(^1\) It is not only, that the U.S. could not expand its trade with Asian countries in general and with India in particular by the late nineteenth century.

The economic conditions in the United States which began to change in the late nineteenth century became more apparent with the advent of the present century. The U.S. could no longer remain primarily an agricultural economy. The Industrial Revolution set in there and the industrial production grew up very fast.\(^2\) The U.S. industries required some vital raw materials which were available in India. The mutual interests of the two economies grew, with the result that the trade between India and the U.S. began expanding.

The outbreak of the First World War in August, 1914 disturbed not only the international political relations but also the economic relations among different countries. India's trade with Germany and other allied powers ceased completely. India's exports to the United States were also affected to some extent. The immediate post war years witnessed boom that helped industrial and trading activities attain new heights. During the boom, India's overall trade position showed an upward trend. Its trade with the United States too was in line with the general trend.


The up-turn in the absolute volume of the Indo-U.S. trade, however, did not last long. The great depression pervaded almost the entire international economy. The consequent measures in the form of trade, restrictions and change in the exchange rate marred considerably the international trade.

The Indo-U.S. trade, however, began to revive after the Great Depression was over. The devaluation of dollar accompanied by the other measures of the new deal to revive the economy boosted up the exports of the U.S. followed by a rise in imports. By 1938-39, India's export to the U.S.A. in value terms was confirmed to Rs.14.29 crores which was less than even the pre-war level (1913-14). India's exports from the U.S.A. rose at a lower rate than that of exports. Its value was only Rs.9.98 crores by 1938-39.\(^1\)

India's trade with the U.S.A. grew during the period following the Second World War. But the growth was mainly evident in the case of India's imports from the U.S.A. and its exports to the U.S.A. stuck around Rs.80 crores, its imports from the U.S.A. rose phenomenally from Rs.52 crores in 1944-45 to Rs.137.71 crores in 1947-48, although there was a downward movement in it during 1948-49 and 1949-50.\(^2\)

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2. Ganguli, B.N. *India's Economic Relations with the Far Eastern and Pacific Countries in the present century*, New Delhi, Indian Council of World Affairs, 1956. p.120.
In the first three years of India's independence, U.S. economic interests were of peripheral importance. For America bought only a certain traditional export commodities from India and it also understood that American market expectations in India were casually low.¹ Thus the economic relationship between India and the United States was marginal and played a very small role in the overall view the two countries had of each other. The emergence of Communist China and upheavals in South-East Asia, India's critical attitude towards North Korea's invasion of South Korea, it reiterated attempts at seating of Communist China in the United Nations, and New Delhi's Non-aligned stance in the external sphere were such major factors that influenced American aid policy towards India.

The United States started giving substantial aid to India in the year 1950, when the first agreement under the Point Four Programme was signed between the two countries.²

This programme envisaged sharing of American technical skills, and knowledge with the countries still under-developed and investment of American capital in those countries.

In 1950-51, two aid agreements were signed between India and the United States for the purchase of American foodgrains — the first agreement was for $4.5 million in August 1950 under the Chinese Area Aid Act of 1948, and the second agreement was for $189.7 million in June, 1951 under the Indian Emergency Food Aid Act. These two taken together were hardly 0.04 per cent of total American aid during 1949-51.

However, the economic relations between the two countries showed signs improvement with the appointment of Chester Bowles as the U.S. Ambassador to India in 1952. India was also ready to supply manganese by then. Moreover, the communist party, was the largest opposition in the 1952 elections in India whose expansion had to be checked in the American interest. These were probably the factors behind the extension of Point Four Assistance to India in 1952 by President Truman. With the establishment of the Technical Cooperation Mission in 1952, attempts were made to improve the living conditions in India.


(i) To make available American experts;
(ii) To import technical training to Indians in the United States or elsewhere; and
(iii) To ensure supply of urgent material such as textbook or laboratory apparatus.¹

The Technical Co-operation Mission was the first U.S. channel of aid to India. Upto the first half of fifties, it was the only agency to channel all types of assistance. The "technical co-operation" was a loose terminology to describe its functions. Most of its aid provided to India was financial rather than technical in character.

In the second half of the 1950s, the quantum of U.S. aid further increased.² The possible reason was that the Soviet bloc countries had started by then their aid programme and it was feared that if the U.S. failed to counter Soviet aid efforts, the communist influence would expand rapidly in the sub-continent. At the same time India was very keen to get foreign aid particularly in the wake of the foreign exchange crisis during that period. Consequently the first agreement under the public law 480 was signed in 1956 to supply food grains to India. This coincided with the

difficult situation in the Second Five Year Plan period because of a serious food crisis. So aid was also provided to India through the Development Loan Fund set-up 1957. Between 1956-57 and 1960-61, the annual average of the U.S. aid to India was $128 million.¹

During the first half of the sixties (1961-66), the annual average of the U.S. aid to India was $345 million which was little less than three-fold of that in the preceding five year period. Similarly, India's share in the total U.S. aid varied² between 11 per cent and 17 per cent during this period. The probable factors for this upsurge were Kennedy's election to the Presidency in 1961, the Chinese aggression on Indian border in 1962, and a shift in the policy of the Indian Government in favour of private sector.

Public Law 480 (Food for peace) played an important role in "fighting" food shortage and inflation. It was called the Agricultural Trade Development and Assistance Act passed in 1954. It came into operation in India in the fiscal year of 1956.³ It played a major role in both American domestic farm programme and foreign assistance

² Ibid., 1967, p. 825.
programme. It helped support farm income and utilised an abundant productivity of American agriculture to help the developing nations around the world. In its early years, the emphasis of the programme was on the disposal of U.S. agriculture surpluses through export. Later, however, the programme served other purposes as well. The programme that should be more than an instrument of surplus disposal, was first recognised by President Eisenhower. Subsequently, the multipurposes served by PL-480 were firmly established by amendments added by the congress to the original legislation and articulated in the preamble of the Act.

The public law 480 had four titles. Title I drawing on the experiences of the Marshall Plan and Mutual Security Act Programmes provided for the sale of agricultural commodities in return for payments in the currency of recipient nations. In 1966, however, the U.S. congress amended the Title I provisions in response to the changing agricultural position in the U.S. The terms of repayment were modified. It was a transition repayment in rupees (in India's case) to repayment in dollars.\(^1\) Title I loans to India started in 1956 and continued upto 1971. Under this title, India imported about 60 million tonnes of food grains and other commodities of a total value of Rs.2,557 crores of which Rs.314 crores ($ 418 million) were repayable in dollars.

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### PL-480 CONVERTIBLE CURRENCY CREDIT SALES

*(In thousand of Dollers)*

<table>
<thead>
<tr>
<th>Date of Agreement</th>
<th>Total Value</th>
<th>Amount Utilised</th>
<th>Utilisations % of total value of credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 24, 1967</td>
<td>24,200</td>
<td>23,681</td>
<td>97.8</td>
</tr>
<tr>
<td>Sept. 12, 1967</td>
<td>19,000</td>
<td>19,000</td>
<td>100.0</td>
</tr>
<tr>
<td>December 30, 1967</td>
<td>46,900</td>
<td>45,433</td>
<td>97.9</td>
</tr>
<tr>
<td>December 23, 1968</td>
<td>71,600</td>
<td>68,874</td>
<td>96.1</td>
</tr>
<tr>
<td>April 25, 1969</td>
<td>35,600</td>
<td>33,302</td>
<td>93.5</td>
</tr>
<tr>
<td>October 13, 1969</td>
<td>1,14,900</td>
<td>1,11,029</td>
<td>97.3</td>
</tr>
<tr>
<td>April 1, 1971</td>
<td>1,28,300</td>
<td>1,16,873</td>
<td>90.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,40,500</strong></td>
<td><strong>4,18,192</strong></td>
<td><strong>95.0</strong></td>
</tr>
</tbody>
</table>

Source: USAID, Fact Sheet on US Economic Assistance to India.

The table given above shows the total value in the post Third Plan Period (up to 1971). The amount of Title I loans repayable in rupees was $682.60 million and that of the convertible local currency credit sales was $444.50 million. The rate of the utilization of convertible currency credit was also appreciable as $418.19 million of a total of $440.50 million stood utilised by the end of the Fourth Plan.

The rupees the U.S. government accumulated under Title I programme were called PL-480 rupees. Although these
rupees were the property of the U.S. government, the amount remained in India in the U.S. account with the Reserve Bank of India. As per an agreement between the U.S.A. and India, 63% of the rupee proceeds were allocated for loans to be provided to different projects in India. The other 18% were to be made available as grants. A sum equivalent to 6 per cent was reserved for Cooley\(^1\) loans available to private enterprises. The remaining 13 per cent was intended for the use of the U.S. Government in India. The total grants sanctioned by the end of the Fourth Plan amounted to Rs. 329.61 crores. The largest part of the amount being Rs. 124.92 crores meant for health programmes, Rs. 100.19 crores were provided for the expansion of education. The transport sector received Rs. 1960 crores; and the Industrial and agricultural sectors were given Rs. 6.61 crores and Rs. 38.75 crores respectively. The rest was for labour programmes.\(^2\)

Similarly, Rs. 1410.75 crores were provided as loan. Out of this amount Rs. 426.98 crores went to agriculture sector Rs. 622.48 crores for industry, Rs. 48.02 crores for labour programmes, Rs. 99.90 crores for health, Rs. 137.74 crores for education and Rs. 75.65 crores for the development of transport.

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1. Named after, Mr. Harold. D. Cooley, Former Chairman of the Committee on Agriculture.

2. Fact Sheet on U.S. Economic Assistance to India, New Delhi, USIS, 1971.
The amount sanctioned under the Cooley Fund was Rs.126.26 crores by the end of the Fourth Plan.¹

In addition to the above, an approximate sum of Rs.300 crores was reserved for the U.S. Government use in India to be spent only after the U.S. Congress approved it for this purpose. A considerable share of the U.S. rupees was spent on programmes which were directly beneficial to India like agricultural development, educational exchange, low cost text-book distribution, procurement of Indian books and periodicals, American studies in India and research.

Besides Title I loans, the food donations to India under PL-480 Title II amounted to $ 824.4 million (Rs.618.3 crores) between 1955 and 1973.² While Title I imports were discontinued in 1971, Title II imports were still continuing. Such donations helped India in meeting out famines. Even in case when India had good amount of food production, Title II imports were used for maintaining buffer stocks of food grains. About 91 per cent of it went to under-nourished Indian children raising the nutritional level of some 10 million school children. Under the Food-for Work Programme, about 1.2 million workers in a number of development projects received food supplied as part payment for the work

1. Ibid.,
2. Ibid.
done. In India, food commodities donated by the U.S. under Title II were being distributed by voluntaray agencies such as CARE (Cooperative for American Relief Everywhere), Catholic Relief Service, Church World Service and Lutheran World Relief.

PL-480 Title III permitted two different uses of American agricultural commodities, one was for bartering in exchange for strategic or other materials, and the other was in the form of donations to non-profit voluntary agencies that assisted needy persons both in, and outside, the United States.

Under PL-480, Title IV loans were of a very recent origin in the Indian context. The first agreement was signed in March, 1975 followed by two more agreements signed in May, 1976 and February, 1977.  

The US has been providing aid to India through the United States Agency for International Development (USAID) and the U.S. Export-Import (EXIM) Bank.

The USAID was created on November 3, 1961 in order to bring all American Aid Programmes under one administrative umbrella. It is an autonomous body created within the State Department and is in charge of the functions previously performed by the International Co-operation Administration.

1. Ibid.
2. Fact Sheet on U.S. Economic Assistance to India, New Delhi, USIS, 1971, p.3.
which was represented in India by the Technical Cooperation Mission, and the Development Loan Fund. The Agency also shares the burden of administering the public law 480 Assistance.¹

During the Third plan period, the Agency entered into thirty five loan agreements with India for a total sum of $1,376.31 million. A major portion of the Agency loans were not projected loans to be used for the import of commodities, equipment and components. Such loans were of immense value, especially when India needed them in order to make a greater utilization of the existing industrial capacity. Sector-wise, the industrial sector absorbed $994.44 million either directly or through the Industrial Finance Corporation. Power-Projects absorbed loans amounting to $232.24 million. $149.61 million flowed for the development of the transportation during this period.²

During three Annual Plans of 1966-69, the total loans authorised by the Agency amounted to $897.97 million. The largest amount of $870.85 million was allocated for the industrial development, power projects absorbed merely $17.47 million and a part of the amount was channelled for miscellaneous purposes, such as higher education and family planning programmes.³

3. Ibid.
During the Fourth Plan Period, the total loans authorised by the USAID for India amounted to $ 423.79 million. A major portion of it was absorbed for the industrial development and the rest for the purposes of the debt-relief. The amount allocated for industrial sector was $ 52.93 million.

During the Fifth Plan Period (1974-78), the total loan authorised to India by the Agency amounted barely to $ 45.00 million which was specifically meant for debt relief.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Third Plan</th>
<th>Three Annual Plans (1966-69)</th>
<th>Fourth Plan</th>
<th>Fifth Plan 1974-78</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>994.44</td>
<td>(994.44)</td>
<td>370.86</td>
<td>(326.53)</td>
<td>2236.15</td>
</tr>
<tr>
<td>Power</td>
<td>(232.24)</td>
<td>(232.24)</td>
<td></td>
<td></td>
<td>249.71</td>
</tr>
<tr>
<td>Transport</td>
<td>149.61</td>
<td>(149.61)</td>
<td></td>
<td></td>
<td>149.61</td>
</tr>
<tr>
<td>Debt Relief</td>
<td></td>
<td></td>
<td>52.93</td>
<td>(45.00)</td>
<td>97.93</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td>9.25</td>
<td></td>
<td></td>
<td>9.25</td>
</tr>
<tr>
<td>Total</td>
<td>1376.29</td>
<td>897.57</td>
<td>423.79</td>
<td>45.00</td>
<td>2742.65</td>
</tr>
</tbody>
</table>

Note: Bracketed figures show utilization.

This table clearly shows that up to the Fifth Plan the total loans authorised to India by the Agency amounted to $2,742.65 million. Of this amount $2,236.15 million were meant for industrial development, $249.71 million for power projects, $149.61 million for the development of transport, $97.93 million for debt relief, and the rest $9.25 millions for miscellaneous purposes. From these it is quite evident that the industrial sector got the top priority in the eyes of the Agency.

The terms of USAID loans were very liberal. Repayment was scheduled over forty years including a grace period of ten years. Rates of interest were very low, although in recent years they have been raised. The 22 loans authorised up to 1963 were free of interest except for a credit fee of 0.75 per cent per annum. But the United States Congress brought some changes in the fiscal year 1964. Instead of changing a credit fee of 0.75 per cent, the loans stipulated payment of interest at the rate of 0.75 per cent during the first ten years and two per cent during the remaining thirty years. The rate was raised in the fiscal year 1965. The minimum rate of interest during the first ten years went up to one per cent per annum and 2.5 per cent per annum for the remaining thirty years. Under

the revised terms, only four loans were signed by March, 1966. During the fiscal year 1967-68, the rate was again changed to 3.0 percent per annum.

It came into effect from 26.12.1968. The terms for the debt relief loans, given on 30.3.1973 carried interest at 1.62 per cent per annum. The gross period was only 20 years. The second debt relief loan carried interest at 1.81 per cent per annum. But third debt relief loan provided during the Fourth Plan, carried interest at 1.72 per cent per annum only for a period of seven years. The repayment period was, however, nineteen years.

Another source of aid for India was the U.S. Export Import (EXIM) Bank. It was created in 1934 which now operates under the Export-Import Act of 1945. The Bank started extending loans to India since the Second Plan Period. During the period the amount of loans authorised by the EXIM Bank was of the order of $ 215.52 million. The entire loan was allocated for the industrial development. In the Third Plan, the authorization amounted to $ 189.32 million, of which $ 138.99 million was allocated for industrial development and the rest was meant for the development of transport.

1. Fact Sheet on U.S. Economic Assistance to India, New Delhi, USIS. pp.1-2.
2. Ibid.
The total of loans during 1966-69 amounted to $59.67 million of which $21.92 million was channelled for the development of industries and the rest for the transport development. The amount of authorization thus gradually diminished during different plans and it came down to $57.87 million during the Fourth Plan period. A major share of the loan of $42.35 million was allocated for the development of transport and the rest for industrial development. During the Fifth Plan (1974-78), the total authorization fell to $31.57 million of which $29.64 million was utilised for the development of transport.

EXIM BANK LOANS TO INDIA

<table>
<thead>
<tr>
<th>Sector</th>
<th>Second Plan</th>
<th>Third Plan</th>
<th>1966 to 1969</th>
<th>Fourth Plan</th>
<th>Fifth Plan (1974-78)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>215.52</td>
<td>138.99</td>
<td>21.92</td>
<td>15.52</td>
<td>1.93</td>
<td>392.88</td>
</tr>
<tr>
<td>Power</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transport</td>
<td>-</td>
<td>50.33</td>
<td>37.75</td>
<td>42.35</td>
<td>29.64</td>
<td>160.07</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>215.52</td>
<td>189.32</td>
<td>59.67</td>
<td>57.87</td>
<td>31.57</td>
<td>552.95</td>
</tr>
</tbody>
</table>


The terms of these loans were very hard. The interest charges varied between 5.5 and 6 per cent per annum, however, the interest rate of 1975-76 loans was 8.00 per cent per annum. The repayment period for most of these
loans was short ranging between 5 and 12 years. Grace period too was short. In some cases, such as loan to Sundatta Solvent Extraction plant, it was just about six months while in others it was between 5 and 7 years. It was seven years in case of loans for the purchase of Jumbo Jets, six years in case of loans for the purchase of Boeing air craft for Indian Airlines, and five years in case of loan extended to Hindustan Alluminium Corporation.¹

Besides these sources, the U.S. Banks have also been contributing aid to India. They assisted the Indian economic development during the Second and the Third Five Year Plans and also during the Annual Plans of 1966-69. The total amount of authorised assistance was $ 98.86 million. It was meant for the purchase of Boeing air crafts, and this only the transport sector remained the beneficiary of such assistance.

Plan-wise, $ 12.40 million was sanctioned during the Second Plan. In the Third Plan, it amounted to $ 41.96 million. In the Three Annual Plans of 1966-69, the amount of such aid was the largest being $ 44.50 million. The terms of the Bank loans were not soft. The rate of interest varied between 5 per cent and 8 per cent. The maturity period too was short as it ranged between 3 years and 10 years².

2. Ibid.
So much about Governmental aid; Private organisations also extended aid to India. Prime Minister Mrs. Gandhi in a speech in New York on 31st March, 1966 observed:

"The assistance we have received so generously from America has been not only on a government-to-government basis, but also on a people-to-people and a business-to-business basis. The work of the devoted young people of the peace corps, the activities of Institutions, such as the Ford Foundation and the Rockefeller Foundation, and the presence of a large number of Indian students in your Universities all these are evidence of people-to-people".¹ The various U.S. foundations registered as legal entities such as the Ford Foundation, the Rockefeller Foundation and the Asia Foundation extended various types of aid to India for public welfare both to Government and Private Institutions and Projects.

The American Christian Missions (Catholic and Protestant) have provided assistance to India in the form of establishment of schools, colleges, hospitals, orphanages and other institutions. They have rendered very good service through a variety of social institutions, such as centres for leprosy, destitutes and children. They have

provided medical facilities in remote villages through their doctors and nurses.

The work of the American Friends Service Committee has also been very commendable. They have rendered distinguished service even beyond theirs resources especially in times of crisis, such as famine, flood or war. They have participated in community Development Projects in Orissa and also trained teachers, mechanics, and artisans for small industries.

During Kennedy's regime India received huge amount of aid from the USA. His aid policy towards India and developing countries was intended to strengthen their political and economic independence. He visualized aid as an "extra margin" without which the economic development of these countries would be in a great jeopardy. His keen interest in India's economic development was demonstrated when he sent professor Galbraith, a noted economist, as US Ambassador to India. He was "fascinated by the problems of an underdeveloped country like India trying to stand on her own feet, and to advance from a stage of backwardness to industrialization and prosperity".

The U.S. foreign aid programme ran into rough weather with India's liberation of Goa in December, 1961.

The United States Senate Foreign Relations Committee voted to cut foreign aid to India by 25 per cent below that year's assistance.

The New York Times Commented: "The action was an expression of displeasure at India's un-cooperative attitude towards the objectives of western policy". But Senator J.W. Fulbright, Committee Chairman, resented that the group had singled out an individual country by cutting off aid to India. He added that "members of his committee appeared to feel most strongly about India's seizure of Goa and its refusal to negotiate a settlement of the Kashmir dispute with Pakistan".

On account of India's action in Goa, the members of the consortium, including United States, considered India's case with political motives. When the question of Kashmir was being debated at the UN security council, the members had decided to postpone further aid to India. However, at a consortium meeting in Washington on 7th August, 1963, India could succeed, in raising the total to $1,052 million. "It was American diplomacy which had been largely responsible for increasing the level of consortium aid, and the remedy regime which, of all Western


2. Ibid...
governments, was most strongly committed in support of India.  

Ostensibly, a bitter and sharp controversy over public versus private sector has been generated ever since the commencement of aid programming to India. The US foreign economic policy has been primarily designed not to aid a foreign government in projects establishing government owned industrial and commercial enterprises.

It is at cross purposes with the economic objectives of India's much avowed socialist system. The 'modus operandi' of the U.S. economic assistance programmes shows that it wanted to dictate India's economic organisation. Too much US penchant for free enterprises and too much reassertion of socialist principles by India, have created a deep misunderstanding between the two countries. The U.S. contention of Indian government's controlling of the larger part of the output of its economy was incorrect. "In the avowedly capitalist" U.S. the government directly determines some 20 per cent of the output of the country, while in avowedly 'socialist' India government determining is only about 8 per cent.  

3. Ibid.
The U.S. government was reluctant to encourage public sector enterprises anywhere. This is obvious from the Bokaro Steel Plant episode. It may be recalled, President Kennedy was a vociferous supporter of building Bokaro plant in Public Sector. But the congressional opposition centered on the Bokaro Project. The Committee to strengthen the security of the 'free World' under the Chairmanship of General Lucius Clay set up in December, 1962 published its report on March 20, 1963. Its recommendations were concerned with the question of aid to 'state-owned industrial enterprises'. It stated: "we believe the U.S. should not aid a foreign government in projects establishing enterprises' which compete with existing private endeavours". Speaking before the Senate on August 23, 1963, Mr. Lucius argued that putting up $ 950 million to establish a steel plant would mean to "establish a socialised steel plant" and strongly opposed it. He further stated: "If you wish to borrow our money you cannot have it if you are going to establish an economic system which is against our philosophy and constantly attempting to breakdown the free enterprise system of the United States".

4. Ibid.
This statement indicates that the US has its own way of imposing capitalism over India through its aid programme.

In the teeth of vigorous opposition by the U.S. congress, Prime Minister Nehru thought it fit to withdraw the proposed project. President Kennedy sent an appreciative letter to him in early September. "I have been a strong supporter of Bokaro and I am still" but Nehru knew well that his obdurate stand on the Bokaro issue might have an adverse impact on other aid bills for India. Succinctly speaking, opposition to Bokaro project centred chiefly on:
(i) the US government places economic squeeze on private enterprises and (ii) giving aid to India is to encourage socialist economic structure.

Successors of President Kennedy evinced little interest in India's goal of economic self-reliance. They had little moral courage to convince the congress that economic philosophy of U.S. did not necessarily come into conflict with India's basic goals. Bokaro incident caused a great deal of criticism and resentment in India. On 1st May, 1964 the Soviet Union quickly capitalised on the American failure to provide the expected support for the Bokaro Plant by offering to provide the necessary technical and financial support.²


With the outbreak of war between India and Pakistan in 1965, the U.S. suspended both economic and military aid to both countries. It resumed the economic aid programmes, however only after few months.

President Johnson had ambivalent views regarding foreign aid, and he had generally negative, and quite indistinct, impressions of India and Indians; but he took a strong personal interest in the PL-480 programme, which he controlled largely from his own office. He was sympathetic to India's needs for food shipments to tide over a period of very bad harvests, but he also insisted on concrete evidence that the Indian government was willing to improve its handling of the food crisis and to institute needed reforms. In December, 1965, after the announcement of a new farm programme in India, Johnson ordered that a shipment of 1.5 million tonnes of wheat that had been promised to India be expedited.¹ He responded promptly to a request for emergency assistance from Mrs. Gandhi shortly after she became Prime Minister in January, 1966.

Prime Minister Indira Gandhi during her visit to the United States in March 1966, discussed with President L.B. Johnson the acute food shortage in India. The President assured her of aid to meet India's food deficit.

In his special message to the congress dated 30 March, he said: "I am persuaded that we may stand at this moment on the threshold of a great tragedy". In response to India's request for other commodities, the President proposed to allot 2,00,000 tonnes of corn, 150 million pounds of vegetable oil, and 125 million pounds of milk powder to India.

Johnson had three goals behind his food aid policy to India - to help avert famine in India, and ensure that the US would not be called upon to do so again; to share the American burden by mobilising an international effort as well as self-help measures in India as preconditions for US assistance; and to induce major changes in India's economic and, perhaps foreign policies so as to bring them into closer alignment with US interests.

Several American news papers hailed Johnson's aid policy towards India. The New York Times, in its editorial stated: "His message to congress and to the world calling for aid for India and Pledging a truely generous of American assistance is in the best tradition of Johnsonian Philosophy". The response of congress to the President's message was speedy.


2. Ibid., p.7227.

President Johnson's generous mood towards India was unfortunately short-lived. He was increasingly irritated by Indian criticisms of U.S. policies in Vietnam. When Mrs. Gandhi, at the end of a state visit to Moscow in July, 1966, signed a joint communique criticising the "imperialists in South Asia", Johnson "was infuriated and descriptions of his reaction range from the violent to the absence". Shortly thereafter, he inaugurated a policy of stricter controls and more intermittent and limited response to India's requests for assistance than he had pursued previously. This soon came to be known as his 'short-tether' policy. L.B. Johnson strictly applied the policy on grain shipments to India from August onwards. Inspite of India's continuing need for emergency assistance, Johnson reduced the amount of U.S. food shipments under the PL-480 programme, causing a great deal of consternation and indignation in India.

When a congressional delegation that had been sent to India at his suggestion in December, 1966 recommended that 1.8 million tonnes of food grains be sent to India in February-April, 1967, he refused to authorise more than half of that amount. L.B. Johnson grudgingly authorized repeated PL-480 shipments but only after holding everyone up


long enough to indicate his displeasure.\(^1\) During 1967, agreements for a trial of over six million tonnes were authorised, along with several loans for fertilizer imports. But he was clearly unhappy with India as well as increasingly absorbed by his Vietnam policies.

Mr. Johnson justified his short-tether policy as an incentive to other nations to share the burden of food-aid for India. Also James Warner Bjorkeman remarked, "L.B.J's tether was clearly tied more to political events than to economic performance.... the self-help policy was discredited in India as a device of systematic national humiliation. In the long run, L.B.J's short-tether policy and his lack of respect for the Indian leadership were political mistakes"\(^2\)

In the year 1968, President Johnson changed his negative attitude regarding aid policy towards India. In his message to the congress on February 8, 1968 he said, "India is harvesting the largest grain crop in her history. Fertilizer use has doubled in the past two years. In the year 1967 five million acres were planted with new high

2. Ibid., p.235.
yield wheat seeds. By 1970 this will increase to 32 million acres.1

But the level of American economic aid in 1969-71 shrank sharply by about 3 per cent from the level of 1967.2 This shrinkage in the Indian context was still sharp as the United States was not happy with India. India's eulogies on the death of Ho Chi Minh in North Vietnam at a time when Hanoi was bent an aggression on South Vietnam, India's accord with North Vietnam at the Ambassadorial level and her support to the seating of communist China in the United Nations were not appreciated by the United States.

The story of American economic assistance to India, since its inception in 1951, falls into two very distinct and different periods, with the early 1970s as the dividing line. During the first period the US provided nearly $10 billion as aid to India. For many years India was the largest single recipient of US economic assistance. During this period the United States provided some 36 per cent of all foreign aid utilized by India. In 1971 bilateral aid virtually ceased, except for a limited amount of PL-480 aid.3 It was not resumed until 1978, and since then the

amount made available has been quite small, in relative terms.

This change in the size and importance of US aid was a reflection of basic underlying factors, including a change in attitudes towards aid in both countries, and changes resulting from the impact of specific developments and events. Disillusionment regarding the aid process and regarding each other was growing both in India and the United States. The change in the American view from the time of Chester Bowles second ambassadorship to India in the 1960s to ambassador Moynihan's mission in the mid 1970s was graphically described by Lelyveld in 1974: "In some ways the mission Ambassador Moynihan heads is a negative image of the one over which Chester Bowles presided throughout the Johnson Administration. In those days every congressional vote on an aid bill was felt to have a crucial bearing on the future of Indian democracy and American interests in Asia. It was a basic premise that the United States had sound practical and moral reasons to be intimately involved in India's Economic Planning".¹

Lelyveld also called attention to the fact that the decline of U.S. aid to India was closely linked to a general disengagement of the United States from that country: "If there was any country from which the United

States had clearly disengaged at the end of a traumatic decade in Asia, it was India, and if there was any field, it was foreign aid.¹

Most of the nearly $10 billion in U.S. economic assistance to India was made available between 1956 and 1971, during the first period of the aid relationship. Aid reached its peak in 1966-67, when U.S. bilateral aid amounted to $870 million. The types of aid programmes and their amounts are shown in Table given below:

**U.S. ECONOMIC AID TO INDIA: 1951-1971**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Cost in US Dollars (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. USAID Mission (technical cooperation programmes):</td>
<td></td>
</tr>
<tr>
<td>a) Development grants (not repayable)</td>
<td>461.4</td>
</tr>
<tr>
<td>b) Loans repayable in rupees or dollars</td>
<td>153.9</td>
</tr>
<tr>
<td>2. USAID Development Loans:</td>
<td></td>
</tr>
<tr>
<td>a) Repayable in dollars</td>
<td>2,647.8</td>
</tr>
<tr>
<td>b) Repayable in rupees</td>
<td>503.5</td>
</tr>
<tr>
<td>3. PL-480 Title I (grants and loans repayable in rupees)</td>
<td>4,495.0</td>
</tr>
<tr>
<td>4. PL-480 Title II (donations not repayable)</td>
<td>824.4</td>
</tr>
<tr>
<td>5. Emergency Flood and Famine Relief Grant (not repayable)</td>
<td>5.5</td>
</tr>
<tr>
<td>6. US Export-Import Bank Loans (repayable in dollars)</td>
<td>519.9</td>
</tr>
<tr>
<td>7. Wheat Loan of 1981 (repayable in dollars)</td>
<td>189.7</td>
</tr>
<tr>
<td>Total</td>
<td>9,801.1</td>
</tr>
</tbody>
</table>

*Adopted from Banerjee Brojendra Nath, *Foreign Aid to India*, Delhi, Agara Prakashan, 1977, p.131.

¹Ibid
The outbreak of the Indo-Pak war in December 1971, marked the end of the first and significant period of the Indo-American aid relationship of course some food shipments continued to be sent to India after late 1971\(^1\). The general ban on bilateral economic aid was not lifted until nearly seven years later, and even after the ban was lifted, direct U.S. aid did not again reach significant proportions. Since 1971, however, U.S. assistance to India has continued through multilateral institutions, especially the International Development Association (IDA).

The World Bank's International Development Association (IDA) on December 21, 1971 approved two new loans to India totalling $50 million. Mr. Robert E. Wiezororwski, the United States Executive Director on the World Bank's Board, argued that it was highly regrettable that loans be granted to countries which sent so much on their military needs. He urged a Bank policy on granting such loans in the future but did not block approval. Officials said at the time that the Nixon Administration wanted to be sure that "It is not making a contribution to the Indian economy to make it easier for the Indian Government to sustain its military effort".\(^2\)

1. Moulton, The U.S., the International Development Association and South Asia, pp. 313-336.

In the 1970s growing disillusionment with foreign aid prompted questioning of methods and models of development that had been applied in the past—often with dubious results.¹ In India the questioning was reflected in the reaction against Western approaches to aid and development and in a strong desire to develop methods more suitable for India's needs and values and less likely to involve undesirable foreign influence and entanglements. In the United States the degree for a new approach to aid and development was reflected in the demand of the U.S. Congress to give a higher priority in aid and development programmes to basic human needs, with special attention to the needs of the poorest of the poor in the poorest countries, and with specific priority to food and nutrition, population planning, health, education and human resources development.

At about the same time, the government of India announced that an attack on rural poverty would be the "main thrust of the Fifth Five Year Plan. This apparent coincidence of approach, reflecting what seemed to be a new emphasis on the "basic human needs" of the "poorest of the poor", did not lead to increased Indo-American cooperation in developing realistic programmes to achieve what appeared to be mutual objectives.²

In 1973-74, when Indo-American relations were characterised by mutual irritation and frustration, a major irritant was removed with the settlement of the vexatious issue of American - blocked rupee accounts, and another was created by India's explosion of a nuclear device.

When Daniel Patrick Moynihan went to India as the new U.S. ambassador in February, 1973, he quickly perceived the need for a resolution of the rupee problem. "The great symbol of American intervention in India", he wrote in 'A dangerous Place' published in 1975, "was the enormous rupee debt to us, incurred in payment for grain shipments, mostly in the mid 1960s".¹ Payments had been required for PL-480 shipments in rupees. They could not be converted into dollars and were held in the name of the United States in the Reserve Bank of India. Presumably these rupees-the so-called counterpart funds, would be used for basic development purposes in India, in consonance with India's five-year plans but with the approval of the United States.²

By 1973 the rupee account in the Reserve Bank of India had grown to alarming proportions - over $ 3 billion equal to about one-third of India's total money supply. Many

¹ Daniel Moynihan Patrick, A Dangerous Place, Boston : Little, Brown, 1975, p.17.
Indians argued that if this account continued to grow, it would give the United States a stranglehold on the Indian economy and financial structure. They felt that this was a deliberate attempt on the part of the United States to take advantage of the situation to gain undue influence in India and it hurt the pride of the nation. Apparently Ambassador Moynihan agreed with this view at least to some degree. In "A Dangerous Place", he made a typically puckish observation: "The United States ought either to have given the Indians the food or summoned the nerve to let them go hungry. We choose instead to feed them and humiliate them".\(^1\) He felt that this problem had to be removed as promptly as possible, by writing off all, or most, of the so-called rupee debt.

Moynihan's recommendation to this effect was not well received in Washington, especially on capitol hill. The congress followed the peculiar practice of translating even the non-convertible rupee account into dollars, insisting that this should be included in the sum total of India's indebtedness to the United States.\(^2\) Even when the United States agreed to the release of some of the blocked rupees for development purposes in India (as provided for in the terms of the agreement for the handling of counterpart

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funds), congress insisted that an equivalent appropriation in dollars had to be made. Many members of congress viewed the counterpart funds as loans that should be paid, even though these loans would never be paid in dollars. Moynihan and others who tried to defend the recommendation for a resolution of the rupee debt problem on generous terms were given a bad time on capitol Hill. In September, 1973 the U.S. Senate approved an amendment (tagged on to a Military procurement Bill) that forbade the U.S. administration to agree to settle the rupee debt for less than the full amount, without prior congressional approval.

Not long thereafter, however, the congress reluctantly went along with a compromise resolution of the rupee debt agreed upon by the two governments in December, 1973 and a formal agreement was signed in New Delhi on February 13, 1974.¹ It was described by the Union Finance Minister in Parliament as one that "would solve a difficult problem and would strengthen the economic relations" between India and the United States. Our President in his address to the joint session of Parliament described the agreement as "an important result of a conscious effort" on the part of New Delhi and Washington to strengthen relations "on the basis of equality and mutuality of interests".² The

agreement was in two parts, the first dealing with the disposal of PL-480 rupees and the second dealing with non-PL-480 rupees derived from the USAID dollar loans which required to be paid back in rupees.

Under this agreement, the United States wrote off the equivalent of $2.2 billion of the blocked rupees and transferred this amount now free of nominal U.S. ownership and partial development programmes. Another $1 billion in the rupee account remained in the name of the United States for at least another 15 years, with the understanding that they might be drawn upon by the U.S. government for embassy and other expenses in India. Ambassador Moynihan had the satisfaction of turning over to the government of India a cheque for $2 billion "the largest single cheque in the history of banking" which entered the Guinness Book of World Records as "the World's largest cheque".¹

With the rupee debt agreement, the New York Times declared in its editorial on December 26, 1973, "a major obstacle to better U.S.-Indian relations has been removed."² The settlement had a mixed reception in both the countries but in effect it resolved an issue that was becoming an irritant in Indo-American relations. Ambassador Moynihan

1. Tax Shelter Digest, 4 April, 1982, p.7.
regarded this agreement as his greatest contribution to improved Indo-American Relations.

Exactly three months after the rupee agreement was signed, a much more dramatic development created new and continuing complications in Indo-American relations. On May 18, 1974 an underground explosion of a nuclear device in the Rajasthan desert made India the sixth nuclear power. This event had a fallout as far as U.S. aid was concerned. In July 1974 the U.S. congress, as an expression of its irritation and disapproval, voted to require the U.S. representative to the World Bank and IDA to vote against concessional loans to India. India was the major recipient of IDA loans at times getting as high as 40 per cent of all such loans - and these continued to be made inspite of the U.S. vote.¹ This congressional act was regarded by Indians - and many others, including many Americans - as vindictive and Petty and was deeply resented in India.

An indirect result of India's nuclear explosion was the intensification of Pakistan's pressure on the United States for the supply of more sophisticated weapons. The U.S. succumbed to it when it agreed to lift its embargo on sale of arms to India and Pakistan in February, 1975 despite India's strong Protests.

With the advent of Ford Administration, the situation improved. President Ford's willingness to strengthen the Indo-American relations and the consequent visit of Kissinger's in October 1974 caused an extension of the U.S. loan to the extent of Rs. 140.2 crores in 1974-75. But Ford's attitude could not take a very concrete shape as the very administration was short-lived.

The Jimmy Carter Administration was found moving towards a better accommodation for the developing countries including India, although it could not be called a major change over the Nixon Administration. Indian handloom fabrics were given quota-free entry into the U.S. market and the Nuclear Regulatory Commission sanctioned the export of 9 tonnes of nuclear fuel for Tarapur in July 1976. Another assignment of 12 tonnes of such fuel followed.2

The formation of Janata Government in India in 1977 was welcomed by the American Administration. The U.S. Deputy Secretary of State, Warren Christopher the first American dignitary to visit India after the formation of the Janata Government asserted, "we are on the verge of a new era of close friendship".3 and assured bilateral economic assistance to India. All these resulted in the

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3. Ibid.
authorization of economic aid to India, which amounted to Rs. 93.6 crores in 1976-77, Rs. 22.8 crores in 1977-78 and Rs. 49.7 crores in 1978-79.\(^1\) The experience of India had been that utilisation of authorised amounts from the United States was invariably delayed where aid was tied to projects or specific conditions.

It also became clear over the years that the inflow of assistance from the United States in all forms taken together was becoming markedly less and less and the increasing outflow of debt repayments made the actual aid practically meaningless. (see the two tables showing U.S. assistance authorisations and Utilisations).

### AUTHORISATIONS

(Rs. in crores)

<table>
<thead>
<tr>
<th>Period</th>
<th>Loans</th>
<th>Grants</th>
<th>PL-480 Assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Repayable in rupees</td>
<td>Repayable in dollars</td>
</tr>
<tr>
<td>Upto the end of Third Plan</td>
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<td>168.2</td>
<td>1510.8</td>
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</tr>
<tr>
<td>1966-67</td>
<td>235.6</td>
<td>4.4</td>
<td>392.7</td>
<td>--</td>
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<tr>
<td>1967-68</td>
<td>144.6</td>
<td>0.6</td>
<td>235.9</td>
<td>67.6</td>
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<tr>
<td>1968-69</td>
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<td>1.1</td>
<td>71.7</td>
<td>53.7</td>
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<td>73.6</td>
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<td>1970-71</td>
<td>264.9</td>
<td>15.1</td>
<td>--</td>
<td>--</td>
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<tr>
<td>1971-72</td>
<td>48.5</td>
<td>--</td>
<td>22.5</td>
<td>96.2</td>
</tr>
<tr>
<td>1972-73</td>
<td>30.2</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1973-74</td>
<td>22.9</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1974-75</td>
<td>140.2</td>
<td>--</td>
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## UTILISATIONS

(Rs. in crores)

<table>
<thead>
<tr>
<th>Period</th>
<th>Loans</th>
<th>Grants</th>
<th>PL-480 Assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Repayable</td>
<td>Repayable</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>in rupees</td>
<td>in dollars</td>
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<table>
<thead>
<tr>
<th></th>
<th>1040.0</th>
<th>161.0</th>
<th>1403.8</th>
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<th>2606.22</th>
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<tbody>
<tr>
<td>Upto the end of Third Plan</td>
<td>235.6</td>
<td>7.1</td>
<td>359.6</td>
<td>--</td>
<td>602.3</td>
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<tr>
<td>1966-67</td>
<td>269.7</td>
<td>4.5</td>
<td>310.9</td>
<td>30.8</td>
<td>615.9</td>
</tr>
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<td>1967-68</td>
<td>208.7</td>
<td>1.9</td>
<td>84.9</td>
<td>73.1</td>
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<tr>
<td>1968-69</td>
<td>185.6</td>
<td>Neg.</td>
<td>107.5</td>
<td>62.0</td>
<td>355.1</td>
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<td>1969-70</td>
<td>227.9</td>
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<td>37.7</td>
<td>51.3</td>
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<td>1970-71</td>
<td>209.2</td>
<td>12.5</td>
<td>8.8</td>
<td>103.1</td>
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<td>1971-72</td>
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<td>1972-73</td>
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<tr>
<td>1974-75</td>
<td>69.4</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>69.4</td>
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</table>


Aid can be classified from a different angle of the vision. It may be project aid especially meant for setting up of a particular project. It may also be, on the contrary, non-project aid used by the recipient government for non-specified purposes in common with the plan priority. Both of these have their advantages and disadvantages. But if they flow in a proper mix, advantages to the recipient countries can be maximised. In case of American aid, both these types of aid were present.
<table>
<thead>
<tr>
<th>Period</th>
<th>Project loan (in million dollars)</th>
<th>Non-Project loan (in million dollars)</th>
<th>Total loan in dollars</th>
<th>Repayable in Rupees</th>
<th>Total Repayable in Rupees</th>
<th>Balance of payment</th>
<th>Percentage of non-project loan to total loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Up to the Second plan</td>
<td>963.69</td>
<td>464.82</td>
<td>1,428.51</td>
<td>477.22</td>
<td>296.81</td>
<td>189.66</td>
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<td>Three Annual plans</td>
<td>1,698.47</td>
<td>70.91</td>
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<td>678.10</td>
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<td>Fourth plan</td>
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<td>1,189.16</td>
<td>295.22</td>
<td>309.66</td>
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<td>865.06</td>
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<td>Fifth plan including</td>
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<td>614.93</td>
<td>38.48</td>
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<td>1978-79</td>
<td>368.53</td>
<td>31.57</td>
<td>399.10</td>
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<td>291.96</td>
<td>45.00</td>
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<tr>
<td>1979-80</td>
<td>90.00</td>
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<td>180.00</td>
<td></td>
<td>90.00</td>
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<td>Total</td>
<td>5,042.16</td>
<td>530.17</td>
<td>5,592.33</td>
<td>1,109.72</td>
<td>1,659.89</td>
<td>316.80</td>
<td>2,961.99</td>
</tr>
</tbody>
</table>

**Note:** Figures related to the actual utilization of loans.

**Source:** a) Govt. of India, External Assistance 1974-75, 1978-79.

b) Figures for 1979-80 are from Explanatory Memorandum to Budget of the Govt. of India.
The Table given above shows that out of the total American aid flowing to the Indian Economy by 1979-80 around one-third was in form of project loan and the remaining about two-thirds were in the form of non-project loans. Except for 1979-80 when the entire American loan to India comprised only of project loans each and every plan witnessed the non-project loans in sizeable proportions. The share of non-project loans was 50.51 upto the Second Five Year Plan and 60.5 per cent during the Third Plan. Its share grew larger in the subsequent period. In the Three Annual Plans of 1966-69, in the Fourth Plan and in the Fifth Plan, the share of non-project loans was 73.7 per cent, 90.1 per cent and 91.3 per cent of the American loans respectively.¹ Thus a larger proportion of non-project loans was very much helpful to the Indian economic development, particularly where a large amount of unutilised capacity existed for want of raw materials and spares.

When India authorised further the non-project loans, India found that debt-relief assistance was an important constituent of the non-project aid. Debt relief assistance in case of American aid was only a post-third plan phenomenon. In the Fourth Plan, it amounted to $ 53.48 million which shrank to $ 45 million in the Fifth Plan. It eased the growing burden of repayments. But the extent of

relief depended upon the type of assistance. The different types of such assistance extended by the different donors were (a) refinancing credits, (b) scheduling or post-poning of repayments, and (c) debt relief grants. The first two were only a temporary relief in the sense that the servicing burden of loans was shifted to a later date\(^1\). The actual benefit from these measures depended upon how much grant element they possessed.

Debt relief assistance in the form of grant was, of course, a permanent debt relief. In case of American aid to India, the debt relief assistance as shown in the Table given below was not available in the form of grants. Of the total such assistance, Rs. 80.62 crores, that is 77.6 per cent, was available in form of refinance credits and Rs. 26.12 crores, that is 23.4 per cent came by way of post-ponement of repayments. Debt relief by resheduling the repayments was nil. So American debt relief assistance can be viewed as only stop-gap arrangement.

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## DEBT RELIEF ASSISTANCE

(In million Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Relief through Refinancing credits</th>
<th>Relief by any of Post-ponement</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Towards Principle</td>
<td>Towards Interest</td>
</tr>
<tr>
<td>1968-69</td>
<td>-</td>
<td>6.03</td>
<td>2.70</td>
</tr>
<tr>
<td>1969-70</td>
<td>-</td>
<td>6.18</td>
<td>2.55</td>
</tr>
<tr>
<td>1970-71</td>
<td>-</td>
<td>6.21</td>
<td>2.52</td>
</tr>
<tr>
<td>1971-72</td>
<td>-</td>
<td>6.19</td>
<td>2.54</td>
</tr>
<tr>
<td>1972-73</td>
<td>29.14</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1973-74</td>
<td>29.34</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1974-75</td>
<td>45.00</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1975-76</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1976-77</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1977-78</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>103.48</td>
<td>24.61</td>
<td>10.31</td>
</tr>
</tbody>
</table>


Like economic assistance, American Private investment in India has been a highly controversial but not a very significant part of the Indo-American economic relationship except in a symbolic sense. American and Indian views of private foreign investment are obviously far apart. Indians generally seem to be suspicious of such investment and of the multi-national corporations (MNCS) that are its chief purveyors. Foreign investment is regarded as a central instrument of economic and financial imperialism. It is exploitative in nature, it benefits the external investor and the country of which he is a citizen, contributing

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little, if anything, to the basic needs of a developing country; and it ties the economy of the developing country to that of the developed country from which the private investment comes, there by undermining the independence and capacity for self-reliance of the recipient country.

The multinational corporations are particularly powerful and gigantic agencies of foreign economic imperialism. They operate across national boundaries and are sometimes stronger than the states in which they operate. Their global reach and ruthless methods make them particularly dangerous. Because they are so powerful, they threaten the sovereignty of developing countries. They need to be watched and controlled carefully, on both national and international levels. Incidentally, a large number of U.S. companies operating in India belonged to the multinational categories.

India has been the recipient of an infinitesimal part of total U.S. private investment abroad, and in relative terms this investment is not increasing significantly. On the other-hand, American private investment in India is exceeded only by that of British investors and most of the British investment dates back to pre-independence days.¹ This simple fact accounts for a large part of the

differing attitudes towards American private investment in India that prevails in the two countries.

For American investors, India is not an important or a very desirable area for investment. For Indians, American foreign investment is relatively large and, therefore, must be watched and controlled even as it is being wooed and damned.

There are also basic differences in the evaluation of the business climate in India. American multinationals and other business interested in foreign investment and foreign operations do not consider the investment climate or investment opportunities in India to be particularly favourable. In any event, American capital has found other plans more attractive for its foreign investment, in other developed countries of the West (in Western Europe and Canada), in Latin America, in oil-producing countries, and in other developing countries.

Two limiting factors that were particularly decisive in the 1970s were the nationalization of the insurance companies and the impact of the Foreign Exchange Regulation Act of 1973 (FERA).1 Two specific cases that were deterrent to potential American investment and operations involved two of the largest American multinationals, IBM

1. Ibid., p.11.
and Coca Cola, both of which, for various reasons, ceased their operations in India.

The nationalization of the insurance companies was declared to be unconstitutional by the Indian supreme court. Mrs. Gandhi then bypassed the court by legislative enactment. Nationalisation was a popular move and greatly strengthened her political position at a time when it was becoming a fit shakey.¹

The original ordinance, issued unexpectedly on May 12, 1971 came shortly after Mrs. Gandhi's electoral victory and after the outbreak of the civil war in East Pakistan. It established government custodianship over 107 general insurance companies, including 47 firms (six American). When it was apparent that their protests would be ineffective and that their own governments would not compromise their larger interests in their relations with India by supporting them vigorously, the foreign insurance companies did not concentrate on getting adequate compensation for their nationalised properties and interests.² Although the governemnt of India promised to provide fair compensation, most American and other foreign companies were quite dissatisfied with the terms and

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2. Koehanek, United States Expropriation Policy and South Asia, pp. 294-308.
conditions that they had to accept. The whole experience had a negative effect on private foreign investment in India. It came at a time when neither the American government nor the American companies were in a position to exert much influence on the government of India.

The Foreign Exchange Regulation Act of 1973 (FERA) imposed severe constraints on foreign investment and on foreign business operations in India. These were regarded as reasonable and indeed essential by the government of India and as a much too restrictive and complicated by most potential foreign investors. In response to the criticism that the act imposed too great a limitation on the amount of equity that foreign concerns could have in joint business ventures (usually well less than 50%), the government's reply was that this was in keeping with the practice in many other developing countries and was essential to guard against too much foreign control of key sectors of the economy. It also pointed out that in certain cases a foreign company could have up to 74 per cent equity "provided it operates in a priority area, uses sophisticated technology and exports a high percentage of its production". ¹

Ironically, the controversy between American and other foreign investors in India and the Indian government

¹ "India - Frightens off Foreign Investors", To the Point, May 12, 1978, Vol.5, p.44.
over the conditions for doing business in India reached a high level after the Janata Government came to power in the spring of 1977.¹ It was anticipated that the leaders of the new government would be more favourably inclined towards the West and would follow more liberal economic policies. But there were few relaxations on foreign business operations and no improvement, in the climate regarding foreign investment, although a new industrial policy statement affirmed that foreign investment was welcome in the core sector of the economy. In particular, FERA was enforced more strictly than before in ways that foreign business concerns regarded as unusually restrictive.

The U.S.A. helped India in the field of agriculture research by its generous aid and technology. The genesis of Indo-U.S. cooperation in agricultural research dates back to the efforts of the U.S. government to help India increase food production during the fifties.² The U.S. programme of assistance for building up of Indian agricultural research capacity was the first comprehensive programme in the world in the area of bilateral scientific and technical cooperations for agriculture. It was launched against the background of failures experienced by the U.S.

¹. Ibid., p.47.
in South America, where the U.S. in the 1940s tried to increase the productivity of cash crops; and in South-East Asia and West Asia where the efforts at introduction of High Yielding Varieties (HYV) of wheat and rice had clearly shown that local research capacity would be essential if the new HYV package was to find acceptance.

Co-operation between the Scientists of United States and India really started in 1953, when Dr. Frank W. Parker, Chief agriculturist in Technical Cooperation Mission (TCM) arranged a number of soil scientists to study the fertility status of Indian soils and guide development of soil testing methods.¹ This step was instrumental in changing decisions on kinds and quantities of fertilizers needed in India, and it laid the basis for establishment of a chain of soil testing laboratories aided by USAID which subsequently paved the way for the introduction of chemical fertilizers in India.

In 1955 on the initiative of Dr. Parker, the Indian government took the decision to permit a Joint Indo-American Team to review the Indian agricultural education and research system.² The study of this team laid the basis for subsequent collaboration in which the Rockefeller


foundation, and the U.S. land grant Universities, assisted Indian Universities and research institutions to revamp their curricula and facilities and reoriented them to meet the challenges of introducing HYVs in India.

The team included five Indians and three Americans. Its report represented an attempt at long range planning of U.S. technical assistance to Indian agriculture. The report contained 118 recommendations, many of which are relatively minor and implementable without much problem.1 Two of the teams principal recommendations were: (1) each state should develop a 'rural University'. (2) postgraduate colleges should be established by the Government of India at the Indian Agricultural Institute and the Indian Veterinary Research Institute among other places.

American technical assistance in the implementation of these recommendations came through the five U.S. land grant Universities that contracted with USAID and the Rockefeller Foundation. The programme carried out by the University contracts was referred to as the Agricultural Education and Research Project.

In 1955, while the First Joint Indo-American Team was conducting its study on a national basis, two-men teams

from the Universities of Illinois, Missouri, Tennessee, Ohio State and Kansas State also undertook more detailed reviews of possibilities for strengthening the agricultural education programmes in various regions of the country. This led to USAID/University contracts supporting the establishment of the new Indian Agricultural Universities. The initial agreement provided for five U.S. Universities to assist forty Indian colleges of agricultural and veterinary sciences. Thirty-five participants were to be provided training in the United States each year. And $ 11 million were provided for laboratory equipment and strengthening of the library and field services.¹

The Rockefeller, Ford Foundations liberally contributed to the development of Indian Agricultural research. The Rockefeller Foundation played a substantial role in orienting the agricultural programmes in India. It was actively associated in building institutions needed to develop a new agricultural strategy. The Rockefeller Programme began in India with the decision to assist in the development of a post-graduate school in agriculture at the Indian Agricultural Research Institute and the subsequent development of the national research programme on improvement of certain cereal crops, as recommended by the First Joint Indo-American Team.

The second major contributions of the Rockefeller Foundation was to recognise the Indian agricultural research into all-India cooperative research projects. For the first time, research began on an all India basis with common objectives being laid centrally for each constituent of the cooperative programme. In fact, in the early years of this project and those which immediately followed it, there were two project co-ordinators working closely together, one supplied by the Foundations and the other by the Indian authorities.¹ This provided the mechanism by which trials of high yielding varieties could be conducted on a much more comparable basis.

Altogether the Rockefellors gave assistance to an order of $21.5 million upto March, 1973. The bulk of it went to IARI P.G. Schools and the national seeds industry. In the execution of its programme, the Rockefeller Foundation systematically attempted to reinforce where possible the USAID-US University Agricultural Education and research project which was concentrated principally on institutional development and instruction.²


Since 1958, the Ford Foundation also has been actively involved in the Indian agricultural development programmes. The total assistance by the Foundation till March, 1973 was of the order of $ 100.54 million. This includes $ 29.86 million as aid for agriculture and rural development. The Indian Government's Intensive Agricultural Districts Programme, also called the package programme, concentrating on the richest and most modern farmers, was actually started on the recommendations of the Ford Foundation. The total support of the Foundation to the IADP Programme from 1960-61 to 1972-73 amounted to $ 14 million. 2 The Foundation also contributed to the building up of certain important research institution.

A second Joint Indo-American Team was set up in 1959, with four U.S. experts (three Deans of land grant Universities) and a representative of the U.S. Department of Agriculture) and eight Indian members, mostly agricultural scientists. In its reports, submitted in July 1960, the team made three major recommendations as follows:

(i) Building up of one agricultural university for each state.

(ii) Strengthening of the ICAR and for this purpose it should be given full control, both technical and administrative, overall agricultural research activities and

All the U.S. Advisory teams provided by USAID under the inter-University contract programme should be concentrated in fewer institutions, more particularly those that showed the best prospects to grow into universities.¹

As a follow-up of the recommendations of this Second Joint Indo-American Team, two committees, also known as the Cummings Committee, and the Agricultural Research Review Team (1963) were formed. The whole of Indian agricultural research system was centralised on the recommendation of the Agricultural Research Review Team. This laid the basis for the All India Co-ordinated Research Projects as the main form of agricultural research to be practiced in India.

The Cummings Committee's principal charge was to review the proposals for agricultural universities in various states with regard to the adequacy of the proposed enabling legislation and the adequacy and soundness of the detailed implementation plans in terms of organisational, administrative, and educational criteria. This was a powerful committee, as could be seen from the fact that the Government of India approved central support for only those agricultural universities that met its criteria.¹


² Ibid, p.17
After this, USAID-US Universities assistance in agricultural education was restricted to those states that established agricultural universities in line with the recommendations made by the Cummings Committee. In those states where no agricultural university developed, all activities under the Agricultural Education and Research Project were phased out.

During the most active years of Indo-US collaboration a consortium of six US universities participated in the programmes that had as their main objectives the improvement of teaching and the establishment of research and extension activities in Indian agricultural universities. More than 300 staff members from these six US universities came to India, and more than 1000 Indian faculty members and graduate students studied in the U.S.\(^1\)

The total expenditure on research and education increased from Rs. 554 lakhs in 1961-62 to Rs. 3420 lakhs in 1970-74. It included the major share at expenditure drawn by nine US assisted Indian agricultural Universities.\(^2\) In these Universities, the number of professional staff more than tripled from 2015 to 6507. They had about 4/5 of the professional staff of all Indian agricultural Universities. They also had 85% of the Ph.D. degree staff members of all

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2. Ibid., p.90.
the agricultural universities and approximately 314 master's degree holders. They had only about half of the total staff members whose highest qualifications was the bachelors degree. Of those members of the staff having advanced degrees from US universities, the nine US assisted universities have 9/10 of the total.

It is clear from the above data that the US assisted universities attracted the main share of resources allocated to agricultural universities and are the leading elements in the total Indian agricultural education, research and extension system. But what is not clear is the nature of the impact of this assistance on the orientation of Indian agricultural research. The general impression has been that this assistance led to the building up of an agricultural research system which has enhanced tremendously Indian agricultural productivity.

American assistance was consciously directed to introducing the new crops like Soyabean as a source of protein while the indigenous sources of proteins (pulses, ground nuts) were neglected. A major programme of the University of Illinois in international agricultural field was actually the building programme for introducing Soya research within the Indian agricultural universities and institutes viz., Allahabad Agricultural institute, Pantnagar

1. Ibid., p.91.
University, Jawaharlal Nehru Krishi University as part of the council of U.S. Universities for Rural Development in India.¹

The introduction of Soyabean was only a representative example of the Multinational Corporations (MNCS) penetration into the food processing industry and markets of India and other developing countries through cooperation in research.² By encouraging this soya research via joint collaborative projects and obtaining licenses to process these products in India, U.S. agri-business has been able to make serious in-roads into the Indian markets of food products. The government of India has permitted foreign companies to enter this field of soya processing because the technology is lacking in the country.

The American assisted agricultural institutions were dedicated mainly to (a) plant breeding and genetics, (b) to high carbohydrate HYVs; (c) to the climatic zones and areas of assured water supply where they can be grown; (d) to fertilizer sensitive plants which can be protected from disease only by chemicals. Proportionally there was a little research (i) on high protein crops like peas and soyabean - although some efforts were made to increase protein contents

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of wheat and rice; (ii) on the non-irrigated areas and dry farming practices; (iii) soil and water conservation suited to the conditions prevailing in tropics; (iv) on biological means as opposed to chemical pesticides and blight and other diseases prevention; and (v) suitable cropping patterns dealing in alternate cropping with nitrogen plants that could reduce dependency on chemical fertilizers.¹

Thus, the U.S. assistance to Indian agricultural development has touched almost every major area of rural reconstruction. This assistance revolves around the twin approach of making cultivated land yield double to triple, and of bringing all the available cultivable and near-cultivable land under the plough. This twin approach could transform Indian agriculture from a losing, pathetic, traditional way of life into a commercial, economic and successful proposition.

The U.S. aid to India was meagre in the beginning. Later it increased gradually. At times, the U.S. congress held up aid by prolonged debates on Indian foreign policy. However, for all the severe criticism of India for its differences with the United States on several issues, it was more often the quantum of aid that dominated the discussions in Congress.

¹ Singh, Kathuria Tyagi and Sahni, "A Survey of Agricultural Experimentation, Indian Journal of Agricultural Sciences, Vol. 41, No. 11, 1971, p.120.
Compared to Soviet aid the U.S. aid did not make an adequate impact; it did not win much Indian goodwill for several reasons. First the functioning of American democracy which permitted free criticism at home, imposed hurdles and irritants. Secondly, the Soviet Union offered aid at those critical moments when the USA was debating the issue of aid to India and when congress was hostile to India in its criticism. Thirdly, the Soviet Union concentrated on aid which had demonstrative value. In contrast American aid went to vital areas but without much demonstrative value that is, to where the donor's contribution did not emerge as the most significant factor.

Since foreign aid constitutes a high degree of intervention in recipient countries, involving pervasive and intrusive programmes and contacts, one might expect that aid would be one of the most effective instruments or channels of influence of donor countries on aid recipients. There has been a plenty of evidence that the United States has tried to use the aid programme as a means of exerting influence on India. On two highly publicized occasions the U.S. has suspended development assistance to India as a means of pressure and an expression of disapproval. In both cases the reason for the suspension of aid was the outbreak of war between India and Pakistan. In the first case, in 1965, the aid cut off lasted for only a few months. In the second case, in December, 1971 it lasted for nearly seven
years. In both cases the action seemed to weaken rather than enhance U.S. influence on India; and in neither was the aid cut off an effective instrument of influence. Instead, it created a great deal of resentment and irritation in both countries.

Viewing the Indo-American economic relations, from all angles, it may be said that for a developing nation like India, American economic assistance was not only justified but essential. But India never accepted motivated aid from any country including USA. Though attempts were made to attach, "Strings" to the aid that was being given, India made it clear that it would not compromise its freedom under any circumstances. Therefore, India maintained its independent policy in receiving economic aid, when necessary, from any country including the U.S.A.

The foregoing discussion apply proves that economic relations play a decisive role in influencing political relations. An independent policy in the economic relations will certainly have a bearing on the policy of a nation in the political sphere. Hence study of Indo-US relations in the context of the major world issues is taken up in the next chapter.