Till now we have been elaborately dealing with the practical side of Indo-US economic relations and its diversified impacts on the Indian economy. Now it will be our endeavour to see how this relationship can be made more effective in affecting an economic growth and also in consonance with the current economic thinkings of the moment. Here also we shall try to give our concluding suggestions and refer some instances of current developments; and both these aspects of this Chapter shall be elaborated concurrently.

(a) National Economic Growth and International Co-operation:

The very concept of international relation has undergone basic changes in the second half of the current century. Such relations are now deemed to have been established on the basis of equality and sovereignty.
Economic relation being an integral part of the whole gamut of international relations has also undergone primary changes. Economic relation is no longer worked upon as weapon of colonial exploitation and economic subjugation. On the other hand, international economic relation is today the accepted medium of all-round socio-economic development of the world as a whole. The dynamics of such relation help the surplus resources of the developed countries to be transferred for use in the countries deficient in these resources. How far such transfer of resources help in the development of the underdeveloped economies depends, however, on the endeavour at either the giving and the receiving end. It is not merely a question of how much have been given but also how has it been utilised. However, it is indeed heartening that almost all the underdeveloped nations today have given serious thought to uplift their economies by means of comprehensive economic planning and mobilisation of resources—internal as well as external. The second half of the current century, therefore, can rightly be called the era of national liberation and economic emancipation. There is no denying the fact that the response of the rich countries also is not altogether discouraging in this joint effort at universal well-being. The success of the economic relations between two
countries has therefore, to be assessed on how far and how speedily has the economic gap between the donor country and the receiving country narrowed down, through the assistance rendered by the rich country. An ideal economic bond must not only remove such gap, but also pave the way for dealings as two equal partners where the concepts like aid, help and assistance shall vanish and mutual economic co-operation shall emerge in the true sense of the term. Now, our endeavour shall be to see how far the Indo-US economic relation has moved towards that final goal.

The current world is deeply concerned with the problems of economic growth of the underdeveloped countries*. A number of revolutionary approaches are there for the solution of these problems of more than a hundred of such countries.

*The underdeveloped countries are scattered mostly in Asia, Africa, and South America. At least four categories of underdeveloped countries can be distinguished:

1. First, there are countries which have per capita incomes low enough to put them into the underdeveloped category, but which have utilized known resources and which are currently undertaking enough industrialisation and improvement in agriculture to bring about substantial increases in per capita income. Brazil, Ceylon (now Sri Lanka), Colombia, Mexico, Peru, the Phillipines and Venezuela seem to be in this category. They have sufficient domestic savings and taxes plus assured foreign capital assistance to finance the
The most important of these approaches is the international co-operation for national economic growth. The spirit of international co-operation for national economic growth and international integration has opened the wider path for international economic relationship. In this sphere of international co-operation for national economic growth, the developed countries have played a significant role along with the international multilateral institutions like the United Nations and its affiliates. (The World Bank Group of Agencies, International Development Bank, Regional Development Banks and the like). This type of international co-operation aimed at providing economic, technical and financial assistance to the underdeveloped countries for their socio-economic transformation - from a state of stagnancy to that of a dynamic growth. These modern dynamic forces have brought *contd. capital formation needed to raise incomes. At the same time, all these countries are confronted with bottlenecks - capital supply lack of skilled labour, managerial and capital skills - and with laggard sectors of the economy, which limit the rate of growth and make planning necessary. Growth is very unevenly distributed among social groups and among different regions. The problems in these countries is one of sustaining growth reducing open and disguised unemployment and spreading the benefits of growth more widely.

(11) Second, there are countries like Burma, Thailand and Pakistan whose per capita income are very low (more or less 100 dollars) which do not appear to have abundant resources sufficient to the size of their population.
together the different economies - developed and under-developed - for the creation of an atmosphere in which certain portion of the surplus economic resources of the affluent societies could be made available for the welfare of the poor ones. This transference of resources from one region to another becomes possible through foreign aid and trade. Trade is the traditional medium, while foreign aid is of post-Second War origin, a modern medium in respect of promoting international economic co-operation and resultant international economic relationship. One thing is very important to be pointed out here is that aid plays a temporary part in maintaining international economic relations while trade is a permanent factor leading to sustained international economic relationship and national economic growth. Because trade

*contd. (III) Third, there are countries which are poor and stagnant or quasi-stagnant, in the sense that per capita incomes show very slowly rising trend and are relatively rich in resources. India or Indonesia provides an example in this category. There is little hope that growth will become cumulative without a spectacular transformation of the economy. Dr.V.K.R.V.Rao has rightly painted such a country as a 'static economy in progress'. Such a country, say, India, unfortunately seems to have more planning than development.

(IV) Fourth, there are countries which are very poor with very poor per capita income, which are stagnant and poor in economic resources. Jordan, Yemen, Nepal, many African countries fall in to this category. They need very special kind of planning for development, emphasizing improvement of existing economic undertakings more than structural change.
transforms domestic resources into exports, foreign exchanges and required imports of foreign resources. Aid is really aid or say assistance, and it simply stimulates the efficiency and capacity of the available economic machinery of the recipient country enabling it to increase productivity and then production. Increased production would promote exports. Exports would earn foreign exchanges, which in turn, would be used to pay for imports of vital necessaries. This chain-process, while being well organized would surely bring about economic expansion and ultimate sustained growth. Therefore foreign aid is an external force which is utilized for activating very effectively the internal economic system of a given nation. Aid works very likely as a tonic does for a patient. When the patient regains health and energy as a result of using the tonic, he then feels no necessity of the tonic. He becomes active and his system continues to work diligently at its own. Thus aid should promote economic health of the recipient, so that the recipient finds itself at the 'take-off' or sustained state of growth— a self-generating economy. This is the state of self-reliance and self-reliance means 'economic-freedom'. From this angle it is interesting to assess whether and how far this process of foreign aid has been instrumental in promoting national economic
growth of the underdeveloped countries with particular emphasis of the same on India with American assistance.

The relationship between a developed and an underdeveloped country has been an inevitable criterion in so far as economic development of the latter is concerned. Foreign aid plays basically the pivotal role in this process of relationship. Aid relationship which continued just after the close of the World War II, needs comprehensive study and analysis, because the same seems to be responsible for, on the one hand, the development of the underdeveloped countries; and on the other hand it could not check the widening gap between the developed and the underdeveloped countries. The following tables reflect this widening gap:

**TABLE-26 (A)**

Population (Mid-1969), GNP per Capita (1969) and Average Annual Growth Rates (1960-69)

<table>
<thead>
<tr>
<th>Developed countries</th>
<th>Population (in,000)</th>
<th>GNP per Capita</th>
<th>Population Growth %</th>
<th>GNP per Capita Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>203213</td>
<td>4240</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Canada</td>
<td>21089</td>
<td>2650</td>
<td>1.8</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>--------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Australia</td>
<td>12296</td>
<td>2300</td>
<td>2.0</td>
<td>2.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2777</td>
<td>2230</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>USSR</td>
<td>240333</td>
<td>1200</td>
<td>1.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Federal Republic of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>12296</td>
<td>2300</td>
<td>2.0</td>
<td>2.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2777</td>
<td>2230</td>
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<td>USSR</td>
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<td>Federal Republic of</td>
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<td>2230</td>
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<td>2.0</td>
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<tr>
<td>USSR</td>
<td>240333</td>
<td>1200</td>
<td>1.3</td>
<td>5.6</td>
</tr>
</tbody>
</table>

**Table - 26 (B)**

<table>
<thead>
<tr>
<th>Underdeveloped countries</th>
<th>2</th>
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<th>4</th>
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<tbody>
<tr>
<td>India</td>
<td>526043</td>
<td>110</td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>126740</td>
<td>110</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>35900</td>
<td>210</td>
<td>3.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>35128</td>
<td>160</td>
<td>3.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Burma</td>
<td>26980</td>
<td>90</td>
<td>2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Ceylon (Sri Lanka)</td>
<td>12244</td>
<td>190</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Nigeriaphia</td>
<td>64560</td>
<td>90</td>
<td>2.6</td>
<td>-0.3</td>
</tr>
<tr>
<td>Libya</td>
<td>1859</td>
<td>1510</td>
<td>3.7</td>
<td>21.7</td>
</tr>
<tr>
<td>Kenya</td>
<td>10880</td>
<td>180</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>92282</td>
<td>270</td>
<td>3.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>23983</td>
<td>1060</td>
<td>1.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Colombia</td>
<td>20663</td>
<td>290</td>
<td>3.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Peru</td>
<td>18172</td>
<td>330</td>
<td>3.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Venezuela</td>
<td>10026</td>
<td>1000</td>
<td>3.5</td>
<td>2.5</td>
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### Table-26 (B) Contd.

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<tr>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>9666</td>
<td>510</td>
<td>2.5</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>5890</td>
<td>240</td>
<td>3.4</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>4804</td>
<td>160</td>
<td>2.6</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>2852</td>
<td>560</td>
<td>1.3</td>
<td>-0.8</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>116600</td>
<td>100</td>
<td>2.4</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>


From the above tables we have marked that the gap between the two groups of countries is alarmingly high. India-USA gap is 1:42 and it signifies India's stagnancy in progress which we can term as a 'static economy in progress'. India has been one of the largest of the foreign aid利用izers, but yet the status of 40% of her population falls far below the world poverty line. Further, her stagnancy in progress is surely reflected by 1.1 percent growth in gross national product, and 2.3 per cent growth rate of population per annum. In fact India has achieved good deal of quantitative and qualitative development throughout the last two decades as we have recorded in Chapter XI. But from the above analysis the overall picture appears to be much worse than is
statistically shown. More interestingly countries in the same category of 'underdeveloped' and receiving massive foreign aid have recorded greater economic growth compared to that of India. For example Latin American countries like Paragua (240 dollars), Brazil (270 dollars), Peru (330 dollars), Colombia (290 dollars), Bolivia (160 dollars) and Equador (240 dollars) have marked better economic growth. Further, Israel (1570 dollars), Taiwan (560 dollars), Kuwait (3320 dollars), Singapur (800 dollars) and Lebanon (580 dollars) in Asia are recording greater economic growth*. All these countries including India have constantly utilised both bilateral (largely American aid) and multilateral aid (from World Bank Group in main). India’s wide gap between resources and population stands as a basic hindrance on her race towards sustained growth.

Now we can come into the proposition that despite the current span of international co-operation on the basis of economic and technical aid (because trade between developed and underdeveloped countries receiving aid is not considered significant till recently) the most of the underdeveloped countries have not been able to attain take-off stage of economic growth. We cannot deny that American aid being the largest source of bilateral aid.

*Figures indicate GNP per capita
assistance, has not contributed towards certain quantum of India's economic growth; but we even cannot deny the fact that continued dependence on aid, particularly on bilateral aid, has not hindered the progress of the country at its own efforts. India has a large debt-burden with the USA. The impact of this aid-generated debt on the Indian economy has been discussed in the previous Chapter. It has been admitted that-

(a) aid should not impose any debt burden affecting the growth of the economy of the recipient country and

(b) widening gap between the donor and the recipient should successively be diminished permitting the recipient to attain self-sufficiency.

We could applaud much the efficacy of American assistance to India if it could raise the standard of the Indian economy to the height of a qualifying point, where the appalling difference of the two countries would have been much narrowed. But for the gap not being narrowed down, aid alone cannot be blamed. Aid is to be used in the most effective manner by the recipient country so that its economy can grow at progressive rate. But the economic growth of the aid recipients (India and many other countries shown in the table 26B) appear to be far
below the standard of the advanced countries. About this appalling widening gap, the Pearson Commission has rightly remarked:

"The widening gap between the developed and the developing countries has become a central issue of our time. The effort to reduce it has inspired the nations left behind by the technological revolution to mobilize their resources for economic growth. It has also produced a transfer of resources on an unprecedented scale from richer to poorer countries. International co-operation for development over the last twenty years has been of a nature and on a scale new to history. The attempt to do something about this gap was based on the assumption that economic underdevelopment would yield to a determined national effort to change it with external help from those whose economic strength made this possible. The transfer of resources that gave substance to this international co-operative effort began after the Second World War and increased in the 1950's.”

"International support for development is now flagging. In some of the rich countries its feasibility, even its very purpose is in question. The climate surrounding foreign aid programmes is heavy with disillusion and distrust. We have reached a point of crisis. The
question which now arises is whether the rich and developed nations will continue their efforts to assist the developing countries or whether this will allow the structure built up for development. Friendly political relationship on the basis of mutual respect also cannot be ignored. Such co-operation should not be pursued for express purpose of transforming into political alliance or of securing short term political advantage*80.

(b) More Purposeful Norms for International Co-operation.

The present problem of the world is therefore that of inequality. During the last twenty five years, international assistance even has not been able to bring about an end of the prevalent international inequality. The gap between these two groups of countries has rather increased. Since it is expected, foreign aid will have to play a crucial part in even foreseeable future, in the economic rebuilding of the underdeveloped countries, certain purposeful norms making the same much more effective in affecting economic growth of the recipients and resultant international economic equality to certain extent, have to be taken into consideration. In recent years there have been much discussions about the comparative advantages of bilateral and multilateral
Bilateral vs Multilateral Assistance and Co-operation:

Bilateral policy creates certain political problems; because in reality all such aid is a political matter of the donor and it directly or indirectly tries to exercise political pressure on the policies of the recipients. For example, current Indo-US strained relation is due to such political factors. India's socialist programmes, friendship with Soviet Union and India's strong resentment against American policy of military assistance towards Pakistan are responsible for this strained relation between the two countries in the recent past.

Further, 'tying' of aid is another hindrance in case of bilateral system. Here the recipient is compelled under contract to utilize aid funds in the donor country's market in purchasing required volume of imports. Otherwise, i.e., in case it was untied, the aid funds could have been utilized in the comparatively advantageous markets. It is clear that bilateral donors definitely have vested interests and when such interests are
fulfilled or adversely affected at any time, they would suspend aid to any nation and such a nation would have to bear the brunt of such sudden suspension of aid. In December 1971 (during the period of Bangladesh War) the United States Government decided to suspend the programmed non-project aid to India, which was to be utilized for import of spares and components for Indian industries. As a result, Indian industries like, steel, fertilizer, spares and components, petroleum, newsprints and such other industries were affected. The policy of suspension of aid on purely political grounds is not conducive to economic rationale of foreign aid.

On the other hand, multilateral system of aid is a co-operative effort of nations. Aid policy is framed and implementation of the aid programmes is managed by the organization. It is mutual. Foreign aid becomes a matter of mutual co-operation among many partners and not, as it is in case of bilateral system an awkward political relationship between two nations. Terms and conditions of aid also are based on mutual benefits.

The Pearson Commission therefore recommends the extension of multilateral aid and consultative approaches to the developing countries for their self-sustaining growth. This system would make the individual
countries free from debts with the rich nations which usually takes the advantage of exercising influence upon them. Further, the Commission suggests that, the World Bank and the Regional Banks should lead in the consultancy services and should provide the necessary reporting services for such consultations. Bilateral and multilateral assistance should be integrated and capital and technical assistance may also be integrated. All bilateral and multilateral aid agencies working in a country should be brought into the process of integrating both forms of assistance, since capital assistance supplied by one source may be buttressed by technical assistance provided by another, and conflict and duplication among various sources of technical assistance must be avoided.*81

While critically discussing about the issue of internationalisation of international aid, Gunnar Myrdal observes that political elements can be removed to a greater extent if aid is distributed through international agencies. These institutions are to be empowered with policy-making responsibilities. International aid would be much more effective if the international institutions would be allowed to function freely without any undesirable sorts of national pre-
sure. A universal and equitable participation by the advanced countries in international aid would lead to successful elimination of political considerations.*82

MIT Proposal*

The Millikan- Rostow proposal, parts of which were reiterated in the Massachusetts Institute of Technology, USA, prompted a good deal of discussions in the special Senate Committee on Foreign Aid in the U.S. Congress (1967). The following are the main features of this proposal:

1. The foreign aid programme must be substantially larger than anything yet undertaken. Absorptive capacity of the beneficiary country should be considered while aid is granted.

2. Neither military nor political strings shall be attached to any aid programme.

3. Aid should be granted against solid and well-defined plans of the beneficiary country.

4. The administration of foreign aid should combine international and bilateral aspects. A new international agency working with the World Bank should have the function of reviewing development plans and
declaring them satisfactory or unsatisfactory as a basis for aid. This agency should have a secretariat. There should be Consultative Committees comprised of representatives from both donors and recipients, as under the Colombo Plan.

According to Millikan-Rostow proposal, technical assistance should be provided internationally rather than bilaterally to avoid the danger of a "boomerang" effect.

In view of such popular opinions discussed above, multilateral aid has increasingly been popular in recent years. The World Bank also has encouraged Consultative Committees as suggested by Millikan-Rostow.

Loans or Grants:

Another vital aspect of the whole theory of international aid is whether aid should take the form either of 'loans' or of 'grants'. It can be suggested that at the very outset aid should be allowed more in the form of 'grants' and the volume of 'grants' should successively be reduced and at the stage at which a

*Ref. for MIT Proposal 'Economic Development' by Benjamin Higgins - Pp 620-621
country reaches the 'near-take-off' status of development aid should be allowed only at loan basis.

The present trend of servicing of old debts by new loans should be discouraged. Because, it increases debt burden. The recipients should take vigorous export drive and exports should pay for imports and old-debts. If donors tend to import more from the aided countries, it will enable the aided countries in:

(a) Utilizing foreign exchanges in servicing of debts and purchasing of required imports and
(b) utilizing new-aid resources in the establishment of new projects or in the development of already undertaken projects.

Also "soft-loans", that is, loans repayable in domestic currency is more preferable to underdeveloped countries like India. 'Soft-loans' avoid the balance of payments problems inherent in hard-currency loans. For example, India will find it much easier to repay loan to the U.S.A. in domestic currency than in dollar. Implementation of this idea is fully dependent on the outlook of the donor country.

Surplus-commodity disposals by the developed countries from a basic part of their foreign aid progra -
mms. It is open to diversified criticism. Mainly the particular country is at liberty to adopt policies and change the same from time to time at their own convenience and suitability; for instance, the United States policy of suspension of Public Law 480 supplies to India. The distribution of such surplus commodities should be made through certain international agency, preferably under the United Nations Organisation. Perhaps the World Bank and the Food and Agricultural Organisation of the U.N.O. could establish a joint committee to service the agreements.

Further, questions are raised about the flexibility in the use of the counterpart funds created in the recipient country from the sales-proceeds of the surplus commodities supplied by the advanced countries. India also has had a considerable amount of such fund (nearly Rs.2,600 crores). An interesting example is the device recently worked out for India. The International Bank for Reconstruction and Development in an agreement with the United States authorities permitted the use of such funds to purchase the 'junior securities' in a development corporation. The I.B.R.D. itself provides new capital in foreign exchange and held the 'senior securities'. Such a flexible policy for the use of counterpart funds is likely to prove more fruitful.
Any way, it is crystal clear that no 'foreign-aid' in any of the forms discussed here shall be used, or even would appear to be used for any purpose other than raising total output in the country where the investment is made.

The Pearson Commission therefore remarked that above all it was realised that development must come from within and that no foreign help would suffice to make the fundamental changes which were needed. This objective could not be attained simply by foreign aid. It needed protracted effort in the developing countries themselves. Without these efforts development was impossible and development assistance was wasted.*83 However, it cannot be denied that international assistance can surely help bring about accelerated growth of the underdeveloped countries. International cooperation also ensures durable and constructive relationship among different nations of the world.

Thus, India and the United States of America, both working as 'partners in development', can make essential contribution in achieving this objective.

It can be suggested here that the United States should show much greater initiative in internationalising international aid system. She should increase her rate of
contribution to the world multilateral institutions which provide assistance to the developing countries including India.

If multilateral aid were to play a greater role in the sphere of distribution of aid-resources, the international aid relationship on bilateral basis should gradually continue to exercise less important role in international economic relationship. Bilateral aid should therefore be substituted with increased bilateral trade for sustained international economic relationship. Such steps are already in the footing between India and Canada, and India and Norway in recent months. We may therefore suggest that India and the United States should also have such trade policy for sustained economic relationship. Old debts can be made good if the USA intends to import more Indian goods and the debt may thus be adjusted mutually. This type of trade-oriented relationship shall be more promising and mutually fruitful; and if India were compelled to amortize old debts in dollar, it will surely be a bolt from the blue upon India, for, her foreign exchange reserve position is unfavourable at this moment. (It was hardly Rs.1200 crores at the end of March 1972).

On the whole, trade is the most effective factor for promoting national economic growth and maintaining much better and more effective international economic relations.
(c) **Role of Multilateral Assistance**

Two very important aspects are, however, clear that (a) there is little doubt about the future of bilateral aid. In recent years flows of bilateral aid have declined. For example, the U.S.A. has suspended the new aid authorisation to India since 1972. The United States Congress is very much critical about extension of aid. (b) Developing countries including India have yet been in need of massive external assistance for their economic growth.

We have in the previous pages discussed critically the efficacy of the both types of aid systems and also have put to reference the expert recommendations favouring substitution of bilateral aid with multilateral aid.

The World Bank Group considered such recommendations very carefully. The Pearson Commission stressed the need of greater role of multilateral organisations to offset the larger inequalities in aid distribution. According to the Commission, for political or historical reasons the distribution of official bilateral aid has been extremely uneven and bears little relation to economic rationales and that there has been a tendency for larger countries to receive less assistance per head.¹⁸¹
Over the past ten years, the assistance activities of the multilateral agencies have increased. Not only has there been a striking increase in the actual amounts of funds disbursed by them, but they have made a greater relative contribution to the development process and finally have acquired the central leadership role in the whole process. Since a detailed discussion is, however, out of scope of this work, we would give a summary picture of the same.

The net flow of funds to developing countries from multilateral agencies has been increasing much more rapidly than that from any other source. From 1960 to 1970 total aid flows from all sources, both public and private, reaching the underdeveloped countries rose by 80% from 8.1 billion dollars to 14.7 billion dollars, while from multilateral sources the same increased by 400% from 0.3 billion dollars to 1.5 billion dollars. Bilateral assistance from the developed countries to the underdeveloped ones rose during the same period from 4.1 billion dollars to 5.7 billion dollars equal to 37% increase, while their contribution to multilateral agencies rose from 0.5 billion dollars to 1.1 billion dollars or an increase of 110%. By 1970 the World Bank Group of agencies became the largest single financier for the underdeveloped countries bigger even than the USAID. In 1970-71 the World Bank Group's
commitments of new loans, credits and investments totaled 2.6 billion dollars and in 1971-72 the same amounted to 2.8 million dollars. Other multilateral organisations like the Inter American Development Bank, the United Nations Development Programme, European Development Fund under the European Economic Community, the Asian Development Bank and the African Development Bank have extended their loan or credit commitments to their member countries. The World Bank Group of agencies have been working very closely with other multilateral agencies in varied international development programmes. This process of international co-operative effort was continued by an arrangement sponsored by the Bank Group's President Robert McNamara in 1970. Also, a number of Consultative Committees have been formed to assist the underdeveloped countries. The United Nations World Technical Consultancy Service has been designed to work in close co-operation with the World Bank Group of agencies.

It is interesting to note that the Pearson Commission placed India in the list of 'least favoured nations' considering its bigness in size and vastness of resources.85

Hollis B. Chenery (Economic Advisor to World Bank President) maintains that aid is given to accele-
rated growth, so that the highest amounts of aid per capita would go to countries with per capita income of 300 dollars or below. India belongs to this group of nations and therefore deserves increased assistance from the multilateral organisations.

It cannot be denied that as a result of U.S suspension of aid, India has experienced tremendous foreign exchange difficulties and the country's developmental programmes have been affected. Such difficulties arising as a result of the suspension of aid by the U.S.A. might be offset by increased allocations of loans and credits by the World Bank Group of agencies. Till October 1970 India had utilised World Bank Group's aid of the tune of Rs 1478 crores (equal to about 1970 million dollars) including both loans and credits. Further, India has been in receipt of International Development Association's (IDA) credit of 243.40 million dollars in 1971 and Bank's loan of 60 million dollars and IDA credit of 412.20 million dollars in 1972. These multilateral aid and credit have been meant for India's transportation-innovation, agricultural education and research, social services and community development projects.

The Bank also has moved the Aid India Consortium for greater aid allocation to India for India's Fourth Five Year Plan. Very recent report reveals that the Consortium offers 980 million dollars aid to India, a part of which - 720 million dollars will be used for repayment of old debts and net aid to India will be 260 million dollars for the fiscal year 1973-74.

Now, while concluding this part of the Chapter, we would like to point out that -

(a) in recent years, there have been basic changes in the very process of international aid. As a result of internationalisation of international aid through the network of multilateral agencies, popularity of bilateral aid has declined. Underdeveloped countries have continued to utilise increased multilateral aid, and

(b) the developed countries are moved to increase their contributions and credits to the multilateral institutions enabling them to implement their aid programmes towards the underdeveloped countries for their accelerated economic growth.

With these developments, the trend of Indo-US economic relation also requires to undergo major changes. But in no way the relationship be allowed to decline. The climate of international co-operation and relations has
changed. Because, as a result of growing consensus for gradual increase of multilateral co-operation, bilateral system may lose its popularity. But a wider scope for more healthier international relationship has been opened. The developed countries can play much greater role in this sphere through increased co-operation with the multilateral institutions. Further, they can maintain continued economic relations with other countries by way of increased trade. For example, Indo-US aid relationship can well be substituted with increased trade between the two countries. It is interesting to note that even due to suspension of aid and Public Law 480 supplies, Indo-US trade has not declined. It has been marked that India's exports tend to increase to the U.S.A. in recent years. For a much greater trade relationship, the two countries must have some policy changes. The very relationship in between India and the U.S.A. must be restored, even without a single amount of dollar of aid flowing into India. Indo-US friendly relationship is vital for Asian peace and for the integrity and solidarity of the Indian subcontinent.

Trade will grant reciprocal benefits and there will be no scope for ex-parte domination. Also it can be reiterated that trade will surely play the pivotal role in restoring international relations-economic and poli-
tional in times to come. Further, accelerated growth of international trade shall be the sine-quo-non for national economic growth.

II

CONCLUSION

The fundamental object of this study is to see whether India's economic links with the United States of America in terms of aid and technical co-operation and trade have been conducive to the economic growth of India. Through the course of our analysis, we have recorded the American contributions towards different Indian plans and projects for socio-economic development. American brain, goods, machines, and money have worked in close co-operation with their Indian counterparts in order to bring about socio-economic transformation in India. America has also gained much as a result of her economic link with India. India was found to be the most advantageous market for the disposal of the huge surpluses of American food-stuff and other commodities. America's affluence is beyond comparison with any other country of our time. By extending economic aid to India, the U.S.A. has escaped a much greater inflation than what she had experienced in the past.
She has been able to depute good number of experts and scholars to work in the Indian projects, educational institutions and centres of scientific and industrial research. Also she has gained by importing Indian tea, jute and jute goods, manganese, handicrafts and such other diversified manufactured items.

All broad-minded people would surely want that such relation shall persist for long for the maintenance of peace and international amity and brotherhood. The basis of economic relationship is always mutual welfare and it should not be allowed to be polluted by the influx of any undesirable elements.

In the recent years, particularly since 1971, Indo-US relationship appears to have been deteriorated. Both the countries must realise the importance of the relationship and also carefully analyse the factors responsible for the deterioration of such relationship. We like to emphasize here the need for foreign policy changes on the parts of both these countries so that both of them may reestablish the longstanding relationship. Such policy changes require deep insight into the whole process.

Robert S. McNamara, President of the World Bank, in his statement in the Bank Group's Annual Meeting 1971,
stressed the need for policy changes by the rich and the poor countries alike—"changes which will necessitate difficult economic adjustments and require astute political leadership". Pearson Commission also recommended such policy changes with a view to ensuring much better economic relationship between a rich and a poor country.

Policy Changes in the U.S.A.

In view of such world-wide consensus favouring policy changes, the United States Government have taken certain steps in recent years to affect some changes in her foreign policy. President Nixon declared his Government's changed foreign policy for the 'seventies' on February 16, 1970 and also his changed foreign aid proposals on September 15, 1970. Accordingly, the current United States foreign policy is based on the philosophy of 'lasting peace'—which must be far more than the absence of war. Peace must provide a durable structure of international relationship which inhibits or removes the causes of war or international enmity. According to President Nixon "Peace requires partnership, strength and willingness to negotiate", and this has been the most important feature of the U.S. foreign policy of the moment. This is known as the 'Nixon Doctrine'. Its central thesis is the
guideline for the country under which it would participate in the defence and development of allies and friends. America will have greater participation in the affairs of the world, but she will do it at her best interest.

Commenting on it we should say that guided by self-interest best suited to her market economy and capitalism, she has had a partial foreign policy in respect of the Indian sub-continent. Her continued arms supply to Pakistan and suspension of economic aid to India, resentment on the Indo-Soviet Treaty of Friendship and Co-operation, 1971 and her current dialogues with the same Soviet Russia are not conducive to her expressed policy for a lasting peace. The post-War idea of arming other nations should now be withstood by economic co-operation for mutual benefits. Economic consideration shall play the central role in the very process of fostering international relations.

However, President Nixon's current foreign economic policy appears to be broad-based and it seems to open a new path for a very enlightened foreign economic relationship. The basic elements of this dynamic policy can be stated as below:

(1) The foundation for American development
assistance programme will be a new partnership among nations in pursuit of a truly international development effort based upon a strengthened leadership role for multilateral institutions. The United States should channel on increased scale of its development assistance through such multilateral institutions.

(2) American bilateral assistance should largely be provided within a framework set by the international institutions.

(3) The United States will in future deal with developing countries on a business-like basis and for this purpose two independent organisations have been set up:

(a) The United States International Development Corporation and
(b) The United States International Development Institute.

One of the most important elements of the changes is the 'untying' of aid. Also, the new policy provides for a move promptly towards initiation of a system of tariff preference for the exports of manufactured goods by the underdeveloped countries to the American market.

Commenting on the above changes of the United
States foreign economic policy, we should say that:
(a) increased U.S. partnership with the multilateral institutions in their world assistance programmes; (b) complete untying of bilateral aid and (c) bilateral trade policy towards the developing countries have been the basic criteria of United States foreign economic policy changes for the moment.

Since development of trade has been considered to be very important for a country's economic growth, it should be also a vital element in the international economic relationship. Because, exports earn foreign exchanges, which in turn, will pay for required volume of imports. A major part of such imports consists of capital equipments and components to be used for economic development in a given country. Such imported resources are the real resources possessed by a nation's own capacity. Aid implies foreign capacity and it will not permanently exist. Aid, though contributes to growth, it imposes debt burden on the part of the recipient.

In the World Bank Group's Annual Meetings of 1971 and 1972, it was vehemently argued that the developed countries should encourage exports by the developing countries.

*It is expected that the IDA (International Development Association) assistance to India for the period 1974 to 1976 will amount to Rs.1,125 crores. The United States will contribute 33% of this IDA budget for the period.
es and to ease this they are required to allow certain conces-
ssion of tariff and other restrictive measures. The Uni-
ted Nations Conference on Trade and Development III in
Santiago, Chile, April 1972, also urged upon adoption of
liberal trade policy by the developed countries. The Con-
ference believed that it was the responsibility of the
international community, particularly of the affluent soci-
eties to look very carefully into the urgency of expanding
exports of the underdeveloped countries. In this context
the U.S.A. should be a bit keen in framing liberal trade
policy towards India by which Indian goods may get enlar-
ged markets in that country.

Further, it requires a dialogue between the lea-
dership of the two countries to affect such policy changes.
Future relationship surely shall persist more in terms of
trade than in terms of aid. Further, political issues sho-
uld not be allowed to form any part in the sphere of the
policy of economic relationship.

India also has a serious responsibility in the
sphere of maintaining her relationship with the U.S.A.
India should frame a broad-based policy by which she can
restore a permanent relationship with the U.S.A.. At the
very outset, she should withdraw her stringent policy cur-
bings imports from the U.S.A.(Ref.Ch. X). It is not a posi-
tive approach, because such a policy never tends to any betterment of the country's economy, nor it can produce any economic impact on the American economy of permanent nature. Rather, India should move the American authorities for a bilateral trade policy in liberal terms making imports from that country easier for India and exports to increase to that country.

More importantly, for India, a pragmatic export promotional policy would be the most effective measure at the moment. In recent years, she has utilized large share of foreign aid authorisation in repayment of old-debts. Had India's exports been able to fetch increased earnings of foreign exchange, a part of it annually could have been used for repayment of old-debts and the balance for the payment of imports. The utilization of new loans for the repayment of old loans does not add to the increase in resources for the country's economic growth. Contrary effect will be increased debt burden.

Besides, certain changes in India's policy towards foreign aid are required. She should prefer straight loans to grants from bilateral sources; and 'soft-loan' is preferable to India instead of 'hard-loans', because her foreign exchange position does not permit repatriation of loans in terms of foreign exchange, very particularly in
terms of American dollar. Gradually she should discontinue
dependence on bilateral assistance, since multilateral
assistance has currently gained international popularity
and it is recognised as more feasible as assistance for
economic growth of developing countries like India.

Lastly, we should reiterate that in foreseeable
future trade appears to play the pivotal role in foste­
ing economic growth of nations and also illusion for ex­	ernal economic assistance as potential element for the
economic growth of the developing countries is likely to
discontinue. International aid-flows through the multila­
teral agencies will be coming in a very limited way; be­
cause it will not be a question in between two countries,
but an international question. Therefore, foreign aid in
this internationalised form shall be surely much smaller
in volume in near future. It may reduce to an annual ave­
rage of Rs. 2000 million or Rs. 2200 million from the annual
average of Rs. 3500 million received by India during the
last two decades. This reduction shall have a direct impa­
cet on the Indian economy and India should take a challenge
with her own national spirit and action so as to compen­sa­
te this reduction in foreign resources.

A vigorous export promotional policy alone can
bring about enough fruit. First, India should negotiate
with the developed countries like the U.S.A., the U.K., Canada, Australia, Japan, Germany, France etc. and other developing countries of Asia, South America, and Africa for a new pattern of trade in which there will be increased trade in mutually favourable terms as recommended by the Pearson Commission, UNCTAD III, and World Bank Group's Annual Meeting 1972. In the new pattern of trade aid should be substituted with trade. As a great democratic nation, a nation looking for sustained world peace on the basis of global partnership for development, the U.S.A. should welcome such policy changes in relation to the developing countries including India. India also should expand her economic links with all the developing nations of the Third World. India's expanding industrial products are already having increased market and it is expected this trend will surely continue. Further, the belief that technical assistance can only be a one-way traffic from the industrialised countries to the developing countries in a particular manifestation of not only ethnocentrism, but also of what may be called the fallacy of excessive or misplaced aggregation - in this instance, the envisaging of technical assistance as a vast undifferentiated mass. The economic rationale of technical assistance by developing countries resembles that for the more familiar exports in international trade.  

From the Indian point of view the ultimate end of all the foreign aid is that it should cease - that is, the economy of the country should become creative, productive and self-generating at such a desirable high level that foreign assistance becomes by and large unnecessary. But it does not mean the cessation of Indo-US economic relations, rather, both these countries shall work as equal partners for international economic growth and welfare in terms of enhanced trade and economic and technical cooperation for mutual economic benefits. For instance, Germany, Japan and many other developed European countries built up their economies with American economic assistance. These countries achieved economic self-sufficiency within, say, a period of ten to fifteen years after the Second Great War and most of them are now promising partners with the U.S.A. participating in the current international economic cooperative efforts for national economic growth of hundreds of underdeveloped countries including India. The basic factor of economic development and strength is their export-economies.

No foreign policy can be effective and no any volume of external assistance can bring about desired socio-economic transformation unless efforts are aimed at fortifying the national economy in a planned manner. Economists like Harvey Leibenstein, Harrod, Joseph Schumpeter, Everett
Hagen, all argue that domestic efforts would result into greater fruits. According to Harvey Leibenstein, a technology-minded population is of great necessity for bringing about any social and economic reform and resultant transformation of the whole socio-economic structure of a given country. Hagen argues that by the help of fuller utilisation of available national resources and the installed capacity of the industries, employment can be increased and the process thus will, in the short run, increase the volume of national product and income. Increased income will generate more saving and increased savings will promote capital investment, which in turn, will turn out increased amount of output. This Incremental Capital Output Relation (ICOR) in India is probably the lowest ranging in different sectors from 1 to 5 only. According to many experts India needs to adopt a stringent population policy. High rate of population growth is responsible for the poor rate of economic growth and poor distribution of national income. We believe if the current rate of population growth continues, India would have to bear much more worse socio-economic frustration in future.

The obvious divergence between macro and micro aspects of the Indian economy is the basic indication of the country's quasi-stagnancy in progress. India has her own problems, may be mostly different from those in other
countries, India must work with its own endeavour in accordance with its own particular needs and opportunities. There can be no standard recipe of universal applicability. Imported capital, technology and ideas can only vitalise our own ones; we should have our programmes of economic development on the basis of our own socio-economic foundation and background. Our economic relationship with the U.S.A. or for that matter with any other country should not be taken as the sole criterion for our growth. Our socio-economic development shall, in the ultimate analysis, depend on how far have we succeeded in mobilising our own resources - both human and material. As narrated earlier, foreign assistance can definitely give a boosting to our own efforts, but it can never be a substitute for the latter. What relation we maintain with the countries of the world depends, therefore, primarily on how well have we managed our own economy. The dynamic aspect of transforming the economies of both the giver and recipient countries, and which was elaborately explained earlier, is the most vital point in the modern economic relations of the nations of the world. And to examine how the Indo-US economic relations have fulfilled this dynamic aspect is exactly the aim of this thesis. In saying that quite a good amount of desired results have been achieved, we do not mean to say that there is nothing more to achieve through Indo-US economic
relations. The whole world economy to-day revolves on the hinges of the international economic relations, which in turn is the basis of world peace and solidarity. We, therefore, earnestly hope that Indo-US economic relations be a model for the rest of the world to follow.

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THE END