

THE POLITICS OF FOREIGN AID :
A STUDY OF AMERICAN AID TO INDIA, 1951-1961

Dissertation submitted to the Jawaharlal Nehru University
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MASTER OF PHILOSOPHY

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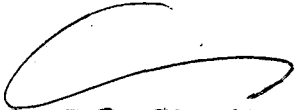
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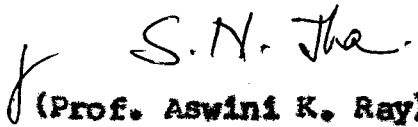
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DECLARATION

Certified that the Dissertation entitled "The Politics of Foreign Aid : A Study of American Aid to India, 1951-1961", submitted by Pradeep Kumar Misra, is in partial fulfilment of the requirements for the Degree of Master of Philosophy of this University. This dissertation has not been submitted for any other degree of this University and is his own work.

We recommend that this dissertation be placed before the examiners for evaluation.


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INTRODUCTION

Compassion is a true human emotion, but genuine altruism is a rare commodity, especially on the part of political leaders committed to serving their perception of national interest of the state. This fits into the United States' policy of globalism which stood in direct contrast to the Indian policy of positive nationalism. This conflicting foreign policy goals of the two countries have created divergent opinions and attitudes in their approach to various international issues. It had adverse implications on their bilateral relations which were reduced to a low key.

The main objective and significance of the present study centre around the global perspective of foreign aid. In the post-second World War period, foreign aid emerged as an important component of international relations. The advanced industrialised countries having lost their control over the colonial world as a result of the large-scale national liberation movements sweeping across the countries of Asia, Africa and Latin America, started devising various strategies of establishing structural economic linkages with those independent, poor and under-developed countries. These poor countries finding no alternative to their growth and economic development collaborated with those rich industrialised countries and hence, strengthened the bases of neo-colonialism. As a

corollary of it, the scope of this study extends to justifying the fact that foreign aid in spite of its short-term benefits, acts as a necessary evil. This is due to two major reasons: first, it keeps the recipient's economy in a state of perpetual dependence on the donor countries. As a result of which the recipient's strategy of self-reliance and the process of generating self-sustained growth become remote and hard to realize; secondly, the donor countries by providing aid try to interfere with the domestic and foreign policy sovereignty of the recipient countries.

The present piece of research work specifically lays emphasis on the politics of American economic aid to India during the period, 1951-1961. During this period of India's first two Five-Year Plans, America was the largest donor of economic aid to India. But in giving aid to India, she was not free from her political motivations and objectives. In fact, she tried to use economic aid as a lever for political influence. But it must be mentioned here that America in spite of giving massive aid to India during the fifties, could not succeed in making India as a stooge of American policy makers. This failure of America was mainly due to the independent and non-aligned foreign policy pursued by India under the leadership of Pandit Jawaharlal Nehru. The evolution of the policy of non-alignment of India shows that it not only served the

basic national interests of security, economic development and world order, but also put the aid-givers in constant difficulties in wooing her. It is because of this that India had to forge some amount of foreign aid in order to remain steadfast in her commitment to non-alignment. Besides, the bilateral relations between India and the United States were strained because of their differing ideological perspectives with regard to the roles to be assigned to public and private sector enterprises. While India was committed to a policy of planned economic development with a major role assigned to the public sector, the United States' preference was for free and private enterprises.

This dissertation has been divided into four chapters. The First Chapter presents a theoretical cognition of the meaning and different forms of foreign aid. It also discusses the motivations of the donor as well as the recipient to the foreign aid programmes. The various implications of foreign aid have also been dealt with in this chapter. The Second Chapter sketches out the divergent objectives and attitudes of both the United States and India in their bilateral aid relations. It also analyses the areas of convergences and conflicts of relationship between the two countries. The Third Chapter emphasizes upon the 'aid response' of India. A specific attempt has been made in this chapter to deal with the responses and

reactions of the Indian parliamentarians in receiving various forms of American economic aid. An analysis of the proceedings of the Lok Sabha Debates from 1951 to 1961 reveals the mixed feelings and reactions of the members to the American aid programmes. The Fourth Chapter gives an overview and presents, in brief, the developments in Indo-American relations after the fifties and also points out a few suggestions which would help in reducing the complexities and anomalies associated with the foreign aid programmes. In conclusion it has been said that the strategy of self-reliance should be strengthened as it is the only safeguard against the neo-colonial penetration in India and elsewhere.

The present study adopts the method based on the analysis of the data collected from both the primary and secondary sources. The primary sources are the Government publications and official reports. So far as the secondary sources are concerned, I have made extensive use of books, journals, periodicals and newspapers.

CHAPTER I

FOREIGN AID : CONCEPT, PATTERNS, MOTIVATIONS AND IMPLICATIONS

This chapter presents a theoretical understanding of the meaning and different patterns, motivations and implications of foreign aid keeping in touch with the American economic aid to India during the period 1951 to 1961. Before proceeding into the actual contents, it is genuine and worthwhile to mention here, in brief, the growing necessity and significance of foreign aid in global relations particularly after the second World War.

The post-second World War international system has witnessed a drastic change on account of the emergence of two super powers (U.S.A. and U.S.S.R.) with their world-wide interests on the one hand and political independence of Afro-Asian countries with their severe problems of poverty and underdevelopment on the other. This marked the dividing line in widening the gap between the rich and the poor nations known as the developed and the underdeveloped countries respectively. While the developed countries have undergone the revolution of modernisation enjoying high prosperity and standard of living, the underdeveloped countries have been confronting with the problem of absolute poverty and trying to fulfil the rising expectations of the people. This being so "the gap between the rich and the poor nations has become

inevitably the most tragic and urgent problem of the present day international politics".¹

With the beginning of the process of decolonisation in the aftermath of the second World War, no doubt, the political linkages between the colonial and the colonised states have come to an end, but their economic linkages still persisted which gave rise to the forces of neo-colonialism, and this necessarily stood as an impediment to the growth and development of the under-developed countries. Therefore, the foremost problem facing the Third World countries including India was the problem of how to overcome their economic backwardness. These countries, becoming increasingly conscious of their poverty and the disparity between them and the developed countries, adopted economic development as their main post-independence slogan. Since domestic sources of capital and commodities existing in the underdeveloped countries were not enough to meet this gap, foreign aid (besides foreign trade and technology) was considered by the Governments of these countries as an important instrument to bridge this gap. And the developed countries also considered it as a diplomatic device to influence and maintain their presence in the newly independent countries of the Third World and thus, established structural linkages with them. Gradually, over the years, foreign aid has emerged as an

1 Barbara Jackson, The Rich Nations and the Poor Nations, New York, 1962, p.36.

important component of international relations. At present also, each and every nation of the world is involved in the programme of aid either as a donor or a recipient or both.

It is against this backdrop of growing importance of foreign aid in the development of the Third World countries including India, we will now discuss in details its meaning, patterns, motivations and implications of U.S. aid to India, since foreign aid has also become a major instrument of U.S. foreign policy throughout the underdeveloped world in the post-second World War period. To an average American citizen, U.S. aid to India was considered to be a gift, while to an Indian, it was a purchase of American goods and services against grants and loans repayable with interests. If it was a gift then the United States would have expected gratitude from India. But the U.S. felt that she neither received honour from India nor witnessed friendly relations. But this was not wholly true. It has been discussed in the subsequent chapters how the divergences in objectives and attitudes between the United States and India have created anomalies in their political relations.

Concept of Foreign Aid

Foreign aid which is also alternatively called external assistance is an ambiguous term. Some of its definitions, including that given by the United Nations, view it narrowly to mean only "outright grants" and "net long-term loans"

for economic purposes.² The U.N. definition, therefore, considers foreign aid as consisting only of outright grants and net long-term lending for non-military purposes by Governments and international organisations. While some others take it in a much wider sense to embrace everything from grants and loans through short-term export credits to straight trading relations.³

To begin with, it is, therefore, important to clarify what is meant by 'foreign aid'. The essence of foreign aid is that it consists of explicit transfer of resources - financial and/or technical - from the donor to recipient countries on concessional terms. Willem G. Zeylstra defines foreign aid as a "cooperation with a foreign state or autonomous political unit with the object of assisting that state or autonomous political unit in furthering its economic growth and social progress."⁴

Foreign aid may, therefore, be defined as the transfer of capital and knowhow from one country to another, which is made on concessional terms. While loans contain only some

2 Quoted in Frederic Benham, Economic Aid to Under-developed Countries, London, 1962, p.24.

3 For a summary of the controversies in the definitions of foreign aid, see Adrian Moyes and Teressa Hayter, World III : A Handbook of Developing Countries, New York, 1967, p.71.

4 Willem G. Zeylstra, Aid or Development : The Relevance of Development Aid to Problems of Developing Countries, Leyden, 1975, p.6.

elements of aid, grants constitute aid in the full sense of the term. The aid component of a loan depends upon the span of the grace period and the rate of interest. Under the narrower definition, loans given by some international agencies may not be considered as aid because the repayment schedule is less than ten years and the rate of interest is over six per cent or so, as in the case of some World Bank loans.

One more point needs mention here. Foreign aid is normally associated with national government and international organisations. Although there are certain private institutions or organisations which extend supports to needy countries, they do not assume a much significant share in the total flow of aid. The present study focuses attention on the economic aid given by the U.S. Government to India during the period 1951 to 1961.

Foreign aid may, thus, be viewed as a concept which refers to the flow of capital, goods and technical resources either directly from the government of a donor country or through international channels to the government of a recipient country. It includes bilateral and multilateral grants, concessional loans, and technical assistance.

Patterns of Foreign Aid

Broadly speaking, foreign aid may be military or economic - which is extended by one country to another as loans or grants. This includes assistance rendered through various multilateral

agencies such as the World Bank, the International Monetary Fund (IMF) and various other specialised agencies of the U.N. - as well as that which is strictly on a bilateral basis. Used in this context of bilateralism, the U.S. foreign aid includes a number of programmes authorised by the American Congress for its use in the receiving country. India has received various forms of American aid to its different sectors of economic development.

The flow of foreign assistance from a donor to a recipient may generally be routed in the following patterns on the basis of its nature, terms and conditions and sources.

Bilateral Vs Multilateral Aid

As discussed just above, there are mainly two types of sources through which aid is channelised - bilateral and multilateral. The bilateral aid is negotiated by two states or governments while the multilateral aid is regulated through international agencies and institutions like the World Bank, the I.M.F., etc. Assistance extended by non-governmental organisations or individuals is called private aid which is not within the purview of the present study. It may be noted that almost ninety per cent of the governmental aid routed through bilateral agreements and the quantum of aid generated through multilateral organisations is only ten per cent.⁵

5 Murlidhar Dherandesani, Political Economy of Foreign Aid in the Third World : A Case Study of Nepal, Varanasi, 1980, p.21.

From the donor's point of view there seems to be several good reasons in favour of bilateral aid. Firstly, all bilateral aid is, in practice, tied to donor's national exports which ensure that commercial fringe benefits of assistance come back to the donor itself. This is true of American PL480 food aid programme whose one of the primary objections was to dispose off her surplus food productions. Secondly, in bilateral aid the donor nations can exert certain degree of operational control of aid which is not possible under multilateral aid. Thirdly, since there is direct contact with the recipient of aid, whatever is done on that accord would boost the national image, and satisfy the tax payers of the donor country.

Conversely, many of the advantages in the bilateral aid of the donors are disadvantages for the recipients. For example, aid tying often prevents the recipient country from buying her imports in the cheapest markets adds considerably to her cost of development. Moreover, it naturally resents the fact that bilateral assistance makes interference in the recipient country's domestic politics easier. Recipients, therefore, generally much prefer multilateral aid. Multilateral aid has big advantages from every point of view, except that it is very hard to get. It is more acceptable politically to recipients and to large extent it takes the national politics out of foreign assistance that often perplexes bilateral operations. Lastly, multilateral aid is

obviously the best answer for many smaller donor countries whose effort is too small to justify a bilateral programme of their own.⁶

In the context of India, most of the foreign economic aid received by her has been in the form of bilateral aid, the principal donor being the U.S.A. The American economic aid to India during its first two Five-Year Plans stood at nearly five billion dollars. Appendices I (A) and (B) show the percentages of foreign aid utilised by India which were received from different donors during the First and Second Five-Year Plans. Another pattern of foreign aid from the point of view of its nature is broadly classified as (a) capital aid, (b) commodity aid, and (c) technical aid. Now, let us discuss these three forms of aid.

(a) Capital Aid

This refers to financial transfers as well as the supply of machinery plants, components and parts. It is intended to raise the level of output by expanding the capital base of the recipient's economy. Capital assistance, thus, supports creation, expansion, and modernisation of capital, that is, providing capital aid to the concrete physical means of production like factories, roads, ports, power facilities, irrigation works, etc. The appendices given at the end point out the quantum of American capital aid to various projects in India.

⁶ Ronald Robinson, (ed.) International Co-operation in Aid, Cambridge University, 1966, pp.27-29.

(b) Commodity Aid

Commodity aid usually takes the form of free supply or supply at privileged price of the surplus products of the donor to the recipient countries. The American Food Aid to India is an example of such category which was given under various Acts and Agreements. Of the total U.S. aid to India since her independence in 1947, over one-half has been in the form of PL 480 food assistance. This impressive food aid has come to India through the India Wheat Loan of 1951, Section 402 of the Mutual Security Act (Public Law 663), and Public Law 480, Titles I, II, and III. Appendices II and III present the various commodities received by India and their value in dollars and rupees under each of these agreements.

The Wheat Loan

Almost two-third of all U.S. assistance to India since fiscal year 1981 comes under the Food for Peace Programme. The first instance of American aid being extended to India was in August 1950, when a grant of \$4.5 million to purchase American food grains was offered during a food shortage. When India's food shortage became critical again early in 1951, India requested more assistance. American Congress passed the India Emergency Food Aid Act of 1951 and approved, under this legislation, the first loan to India in June 1951. The loan worth \$189.7 million (Rs 90.3 crores), was given to India for the purpose of financing the purchase of two million tons of wheat from the United States. The loan, with 2.5 per cent

interest, is repayable in dollars. The Act provides, however, that the first \$5 million of interest paid by India is to be turned back to her for the rehabilitation and development of her Universities and institutions of higher learning.⁷

Mutual Security Act : Section 402

In 1955, the Mutual Security Act was amended so that a portion of U.S. technical and financial aid to India could be supplied in the form of agricultural commodities. Under Section 402, 636,000 tons of wheat and 18,000 tons of cotton worth \$67.8 million (Rs 32.3 crores) were supplied to India during U.S. fiscal years 1955-1957. The rupee proceeds from the sales of these commodities were to be spent on certain mutually agreed-upon development projects. Of the proceeds, Rs 40 million have been earmarked for a number of technical co-operation missions, for the visits of Indians to the United States, and for the salaries of American technical personnel in India.⁸

Public Law 480

The Public Law 480 known as the Agricultural Trade Development and Assistance Act, enacted in 1954 by the American Congress was intended to serve two main purposes: (1) to promote the United States' agricultural trade development by

7 S. Chandrasekhar, American Aid and India's Economic Development, New York, 1965, p.85.

8 Ibid., pp.86-87.

disposing of surpluses; (ii) to assist the needy poor nations. The main goals of the United States food aid under the PL 480 fall into five broad categories: (a) surplus disposal, (b) market development, (c) furtherance of foreign policy, (d) humanitarian relief, and (e) economic development.

Section 2 of the Law indicates the declared policy of the American Congress to:

- (i) expand international trade among the U.S. and friendly nations;
- (ii) promote economic stability of American Agriculture;
- (iii) further the foreign policy of the United States through the disposal of the agricultural commodities;
- (iv) encourage economic development;
- (v) purchase strategic materials; and
- (vi) pay the United States' obligations abroad.⁹

These different objectives have changed depending on varying circumstances and needs over the years. The original act contained three titles. However, in 1959, Title IV was added to the Act. Title I provided for the sale of agricultural commodities in the local currencies of the recipient countries. The accumulated local currency is to be used, partly to meet with the expenses of the United States in the recipient country. While making these sales, the President is called to: (a) take reasonable measures to protect domestic commercial sales on world prices; (b) encourage sales through private trade channels; (c) use "the authority and funds" to

⁹ Public Law 83-480, Agricultural Trade Development and Assistance Act of 1954 and Amendments, Washington, D.C., U.S. Government Printing Office, 1971, p.1.

develop increased demand for American goods; (d) secure commitment from recipient countries that they will not re-sale to other countries; and (e) help any friendly nation to take advantage of this opportunity.¹⁰

Title II provided for the donation of agricultural commodities to countries for famine or disaster relief and to "needy population".¹¹

Title III authorized the non-profit organizations to distribute food in the United States or abroad. It also permitted the President to barter agricultural surplus commodities for strategic and other raw materials produced abroad.

Since its operation in 1954 the Act has been extended and amended several times. The 1957 "Cooley" amendment, named after the Chairman of the House Agricultural Committee, Harold D. Cooley, provided that up to 25 per cent of the local currency proceeds from the sale of American agricultural commodities shall be made available for lending in the private sector to two categories of borrowers: (1) American firms or their subsidiaries operating in the host countries or indigenous firms having an affiliation with an American firm; (2) Indigenous firms of the host countries with no American affiliation but which are facilitating the disposal of American agricultural products, e.g., local private

10 Ibid.

11 Ibid., p.4.

warehouses storing grains, or flour mills processing the grain, etc.¹³

The five agreements between India and the United States under Public Law 480 provided for Rs 77.6 crores to be set apart as the Cooley Fund. As of February 28, 1962, a sum of Rs 75.4 crores had become available to the Cooley Fund. The pattern of Cooley Fund leaves no doubt that the beneficiaries will be Indian capitalists. India is no doubt grateful for the help it receives from the U.S. but we have always felt that this aid tends to run counter to the socialistic objective we have placed before us. US aid to us is very largely conditioned by the underlying thought that India having chosen the democratic path, it must be helped to stand on its feet in order that "communism" may not sweep this sub-continent.¹⁴

India is the largest beneficiary of the PL 480 food assistance since it first signed the agreement in 1956. Appendix IV shows the level of food imports by India up to 1961 through the PL 480 programme.

Though America could not succeed greatly in India during the period of the present study through her PL 480 programme, but the original Act and its subsequent amendments showed not only the element of humanitarianism but at the same time also established the U.S. potential in making efforts at maintaining

13 "U.S. Aids Indian Capitalism", Socialist Congressman, New Delhi, vol.2, no.3, May 15, 1962, p.4.

14 Ibid.

the structural linkages of the developing countries with the world capitalistic system.

(c) Technical Assistance

Technical aid refers to the transfer of skills and knowledge. It involves imparting training to the nationals of the recipient country and the provision of despatching skilled foreign personnel/experts to carry out the required developmental tasks in the recipient country. The fundamental aim of such assistance is to raise the level of output by changing or improving the methods of production in the recipient country through skilled and technical expertise.

The U.S. experts have been sent to the developing countries including India to advise on policies and programmes in their fields of specialisation and to train host country's counterparts ultimately to take over the job. Students, technicians, and officials from India have also been brought to the US either for short observation tours or for longer training programmes. Thus, under this technical assistance, thousands of Indian nationals received training in the U.S. and U.S. experts in India also served for the development of India through their technical skill and expertise. From 1952 to 1962, the United States sent a total of 1,593 technicians and experts to India. More than one-third of these were sent for projects in agriculture and natural resources. In the same period more than 3,000 Indians went abroad for training; of these, 846 to study agriculture.¹⁵ But one point which

15 S. Chandrasekhar, op.cit., p.93.

needs mention here is regarding the nature and effectiveness of such technical assistance to the Indian conditions. This question has been raised in the Indian Parliament and discussed in chapter 3 of the present study.

Different amounts and combinations of these three basic forms of aid, plus adjustments in the timing and conditions of aid, delaying or withholding of aid, and use of access to host country officials for discussions and persuasions, permit aid to be used as a flexible and often powerful instrument of U.S. foreign policy.¹⁶

Project Vs Programme Aid

Another pattern of aid is related to the project vs programme aid. Aid extended by a donor country for specific projects is called the project aid. In the project aid the donor takes a single plant or project as the basis for the allocation of aid and he can insist that the money granted should be spent for certain specific project. While in the programme aid, economy is taken as a whole and the need for external resources for achieving specific goals are fully assessed for the same purpose. Programme aid is not tied to any particular project, but is provided to meet the overall requirements of the recipient's economy. In this type of aid, foreign aid is accepted not for individual projects but for the whole programme with its many projects which are subservient

16 Joan M. Nelson, Aid, Influence and Foreign Policy, New York, 1968, p.10.

to the whole programme. Appendices (V-VIII) show the quantum and list of different American-aided projects and programmes in India.

Throughout the first two Five-Year Plans, more than a hundred major projects were taken up under the technical co-operation programme. American assistance to Indian industrialisation may be said to have begun with the signing of the Indo-American Technical Co-operation Agreement of February 5, 1952. Ever since the Development Loan Fund has been established in 1957, continuous and systematic assistance has been provided towards industrialising India. As a result of the agreement between India and the U.S., a programme of technical assistance and cooperation to be financed jointly by the two governments was initiated in 1952. The essential purpose of the Indo-American Technical Co-operation programme is to make knowledge, techniques, men and materials of one country available for the economic and social development of the other. The assistance given to India is mainly technical and developmental and comprises a five-pronged approach: one, the use of American technicians or experts who demonstrate new techniques or methodology under the various projects; two, the additional training of Indian technicians abroad, who upon their return to India carry forward work already undertaken by American counterparts; three, the procurement of demonstration equipment not available within India for pilot projects; four, the payment of costs for contracted services; and five, substantial assistance in the form of food stuffs, steel and capital equipment.¹⁷

17 Indo-American Technical Cooperation: 1952-56, New Delhi: United States Information Service, 1957, p.5.

In addition, by an agreement signed on December 23, 1960, the U.S. Export-Import Bank has authorized a further credit of \$50 million (Rs. 23.81 crores) to buy equipment and capital goods in the United States for projects in both the public and private sectors in India. Since the sanction of the \$150 million loan to India agreed upon in 1958, the number of loans has increased to 8. The Export-Import Bank loans totalled \$246.9 million (Rs 117.6 crores) as of December 31, 1961 : \$153.7 million (Rs 73 crores) are for the private sector, and \$93.2 million (Rs 44.3 crores) are for the public sector. (See Appendices II, X, and XI). India's private industry also benefits from U.S. loans through the Industrial Finance Corporation, a Government of India Corporation with a U.S. Government loan as capital. Appendices XII and XIII give the figures of American aid to India's private industries and industrial development respectively.

Tied and Untied Aid

Very often, for several reasons, the donor countries may decide that certain conditions or strings should be attached to their aid packages. This phenomenon of attaching conditions to aid is called 'Tying or Tied Aid', which may take any one or all of the following forms:

(a) **Project Tying:** It refers to the condition under which funds will be made available for certain specific items of expenditure to be used for that project.

(b) Procurement or Source Tying: It ties conditions under which funds made available can be spent on goods and services originating from a particular country, usually the donor itself. This was true of American PL 480 food assistance to India.

(c) Currency-tying: Under this form of aid tying, the recipient country is obliged to repay the loans in currency or currencies specified in the agreement. India had to repay the American loans in both dollars and rupees depending upon the terms of different agreements entered into between the two countries.

Therefore, under this pattern of 'Aid Tying', the donors try to achieve their objectives generally by tying assistance in the above various ways. Besides, a large proportion of the assistance flows back to the donor countries in the form of payments for the import of machinery, commodities and manpower under the conditions of aid.

On the other hand, an unaided aid remains generally free from all these strings. But it is difficult to find a pure and perfect unaided aid programme. Though the Soviet aid, unlike the Western aid, did not attach strings unacceptable to the recipients, but it cannot be categorised as the 'unaided aid' in the strict sense of the term.

Motivations:

The flow of foreign aid from one country to another is the result of a set of compulsions felt by both the donor and the recipient to fulfil their national objectives. These

compulsions result out of their motivations. We shall examine here the motivations of the donors as well as the donee. For the donor country foreign aid seems to stem from such considerations as - humanitarian, politico-strategic and economic. Now, let us discuss, in brief, these different motives.

Humanitarian Motive: The main motivation usually advanced for aid to the poor nations is that there is a moral obligation to help the poor. The way to determine the degree of civilisation, of humaneness is to look at what a society does to help the least fortunate within it, and also the less fortunate elsewhere. Official publications within the United States usually emphasize that the reason for aid is that poverty is a threat to the world security and peace and this threatens the freedom of the U.S. itself.

The growing disparities between the developed and the less developed countries seem to have also stimulated the argument in favour of foreign aid which advocates that the stability and security of the affluent countries cannot be ensured so long as three quarters of the world populace remain in acute poverty. It is being believed that poverty anywhere constitutes a danger to prosperity everywhere. The developed countries, therefore, thought of making efforts to narrow down the gulf between the haves and have-nots and thereby to enhance the welfare of the mankind. And this led to a close interdependence between the rich and the poor nations. As Goran

Ohlin once remarked, "Economic aid is an essential element in progress towards international peace and solidarity".¹⁸

Although foreign aid is justified by the donors on various moral and humanitarian grounds, in actual practice the long range objective of aid allocation is to influence the economic and political behaviour of the recipient nations suited to the interests of the donors. Therefore, the evolution of foreign aid has been largely governed by political and economic interests of the donor rather than the humanitarian consideration. This point is well taken up by Hayter Teresa in her book 'Aid as Imperialism' where she observed: "Aid has never been an unconditional transfer of financial resources and usually the conditions attached to aid are clearly and directly intended to serve the interests of the governments providing it".¹⁹

To clarify the point further, foreign aid is rarely given without strings and political motives. John P. Lewis writes, "Despite denials the fact is that all foreign aid carries strings and every foreign aid relationship involves bargaining, however genteel, between the aiding and receiving parties. The question is, how acceptable are the strings and constructive the bargaining."²⁰ He further remarks, "The

18 Goran Ohlin, "Foreign Aid Policies Reconsidered", (Paris : Organisation for Economic Cooperation and Development, 1966), quoted in Raymond F. Mikesell, The Economics of Foreign Aid, London, 1970, p.2.

19 Hayter Teresa, Aid as Imperialism, London, 1971, p.4.

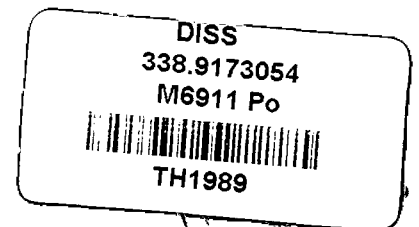
20 John P. Lewis, Quiet Crisis in India : Economic Development and American Policy, Washington, D.C., p.250.

specification of uses, the setting of conditions, the tying of strings to aid is a touchy business if the recipient is a sovereign nation. It is particularly so in a country like India, where the pale legal abstraction of sovereignty has been freshly animated by a struggle for independence. But the tying of mutually agreeable strings to aid is inevitable. In principle, it works best where the rendering and receiving of aid is recognised as a straight-forward bargaining relationship between legal and moral equals, in which each party has something to gain from the transaction and is prepared to negotiate, but not beyond a certain point".²¹

Both the super powers perceive aid as an instrument of influencing the economies and politics of the Third World countries which are either friendly to their ideology or at least not friendly to the other side. The political and strategic considerations largely shaped U.S. aid allocation to Third World countries. India was also not an exception to such U.S. political motivation. But the United States did not succeed substantially in her motivations towards India unlike in other Third World countries. Even the Reagan Administration has also laid renewed emphasis on these while justifying foreign assistance programme and said: 'when radical forces threaten our friends, when economic misfortune creates conditions of instability, when strategically vital parts of the world fell under the shadow of Soviet power, our

²¹ Ibid., pp.250-51.

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response can make the difference between peaceful change and disorder or violence. That is why we have laid such stress not only on our own defence, but on our vital foreign assistance programme. Your recent passage of the Foreign Assistance Act sent a signal to the world that America would not shrink from making the investments necessary for both peace and security'.²²

The above discussion demonstrates the fact that all through the time, foreign aid has remained as an important instrument of U.S. foreign policy framework. We shall discuss subsequently some of the statements and remarks given by some distinguished American statesmen, scholars, diplomats and the Congress which will exhibit sufficient strength in examining U.S. motivation in giving economic aid to India during the period of the present study.

Politico-Strategic Motive: Politico-strategic consideration holds an important motivation in providing foreign aid. David Well emphasizes that 'economic assistance is an instrument of power politics and how much a country assists is determined by the benefits it yields in terms of political support of the donor'.²³ Although this argument may not be true in all cases, but the political basis of foreign aid cannot be underestimated.

22 Facts on File, New York, January 29, 1982, p.44.

23 David Well, The Charity of Nations : The Political Economy of Foreign Aid, London, 1973, p.3.

The United States guided by her political motivations, tried to get the political and moral support of India during various international crises and issues. This aspect of U.S. objectives and attitudes has been discussed in the subsequent chapter.

A Committee on Foreign Aid (formed under the auspices of the Indian Council on Current Affairs) has summarised the main politico-strategic objectives of the donor countries as follows:

- (a) to secure political support on international issues in and outside the world institutions;
- (b) to promote political ideologies such as democracy, capitalism, communism, etc.;
- (c) to secure certain military and strategic advantages; and
- (d) to support colonial aims and administration.²⁴

The politico-strategic motives were much evident in the American as well as Soviet aid. But America failed to succeed anything noteworthy from India in spite of her massive aid flow from 1951 to 1961. We shall discuss why America failed in her motivations while analysing the implications of American aid.

H.J.P. Arnold points out, "Both the U.S. and the Soviet Union have regarded aid to a considerable degree as a weapon

24 The Committee on Foreign Aid, (Indian Council on Current Affairs), Foreign Aid : A Symposium, A Survey and an Appraisal, Calcutta, 1968, pp.107-108.

which could be used against the other side in the cold war".²⁵ The US aid to such countries as Vietnam, Korea, Thailand, Taiwan, etc. are examples of such assistance. To each of these countries, the US extended large amounts of aid mainly to strengthen their ability to withstand the spread of communism. This motivation also held true as applied to India because of the emergence of communist China in India's neighbourhood and the US objective was to preclude the possibility of another China in the South Asia. Another factor in US motivations was that economic aid to India was to be given because it came coincidental in time, with America's decision to give military aid to Pakistan'.

Motivations of Soviet Aid

The Soviet aid policy is motivated by her urge to draw the less developed countries away from the hold of the capitalist block by helping them to live and develop independently along the non-capitalist path and finally her desire to strengthen international socialist unity. The Soviet aid appeared to be a political counter to the aid from the US and other western countries. The Soviet aid to India during the period of the present study was very meagre (i.e. 5.4 per cent) compared to the gigantic American share of 61 per cent of

25 H.J.P. Arnold, Aid for Developing Countries : A Comparative Study, London, 1962, p.8.

the total aid flow to India. But the Soviet aid developed during the later period and particularly after 1971.

Economic Motive:

The economic motive of foreign aid is based on the argument that development requires resources and more the resources are available the easier it becomes to accelerate the pace of development. Since the less-developed countries do not possess adequate savings, foreign exchange and technical resources, foreign aid is viewed as an effective supplement to jack up the rate of their growth.

It has been argued that aid is not a one-way process of donor-donee relationship; the development of the less developed countries is a benefit to the whole world, including the developed countries. In the past, the less developed countries were important to the developed countries as suppliers of raw materials, as markets for their exports and as an outlet for investment specially private investment through multinational corporations. Although in the case of raw materials, the dependence upon the less developed countries seems to have been reduced to some extent in recent years, poor countries hold still potential markets for the products of the rich countries. It is as discussed earlier aid expands exports of the donor countries and thus helps them reduce their unemployment problem and make profitable uses of their surplus capacities.

Thus, the economic interest is also a major factor in motivating the flow of foreign aid. Americans had also this motivation which was aimed at increasing its exports through the sale of products under PL 480 food assistance programme.

It is because of the above interests and motivations, foreign aid has always been acted as an instrument to achieve the foreign policy objectives of donor countries and it has been practised by super powers as well as by middle range powers in various forms depending on their material resources, bases of the state and level of economic development.

° Motivation of the Recipient Countries:

The motivation of the recipient countries towards the foreign aid is very simple. From their point of view, the rationale behind the external assistance is intimately related to their quest for rapid economic development with a view to achieving an improved standard of living. The vicious circle of poverty, they believe, can be broken only if people can save and invest adequately. This being a painful and difficult process because of the inadequate resources, lack of capital formation, etc., foreign aid does play a supplement role in finding the necessary capital to meet their needs, and thus, preventing political and social disorder. This was also an inherent objective of India in receiving American aid.

From the donor's angle, the motives of foreign aid thus, range widely - from purely humanitarian to political and economic ones. The plurality of objectives has apparently made aid a complex phenomenon rather than an easily comprehensible subject. The multipurpose nature of aid is a major cause of uncertainty about its goals and its effectiveness. It is because of this multipurpose goals and objectives of foreign aid, Norman D. Palmer has agreed with George Liska's expressive terminology that it has assumed the status of "the new statocraft".²⁶ The scale of foreign aid, its integration into the foreign policies of many states and its conspicuous role in international relations have justified its status as 'the new statocraft'.

Now, let us consider some of the statements and remarks given by important American statesmen, scholars, diplomats, administration officials in examining the motivations inherently involved in the US foreign aid programme. Dean Acheson, former US Secretary of State says, "It is not philanthropy that motivates us. But there is a hard-hearted self-interest in this programme".²⁷ The US Department of State Bulletin notes: "Our foreign assistance program has

26 For details, see George Liska, The New Statocraft : Foreign Aid in American Foreign Policy, Chicago University Press, 1960, and see also Norman D. Palmer, "Foreign Aid and Foreign Policy : The New Statocraft Reassessed", Orbis, vol.XIII, Fall, 1969, no.3.

27 Department of State Bulletin, Washington, D.C., February 4, 1952, p.369.

played a fundamental role in American foreign policy since the end of World War II. It has been a major weapon in our effort to build up the military strength of the non-communist world. It is a part of American international economic policy, directly involved in financing exports and in the development of markets".²⁸ Max F. Millikan, a US economist says, "Foreign aid is not a goal of the US nor even a separate element in our foreign policy, but rather a handy multipurpose instrument of that policy".²⁹ David A. Baldwin, another 'aid' expert writes, "Foreign aid is ... a means by which our nation tries to get other nations to act in desired way".³⁰ The terms on which US aid is provided are many and diverse. The USA takes into consideration a country's importance for its interests before selecting it as "aid" recipient. This condition found expression in the Foreign Assistance Act and in Agency for International Development (AID) official documents.³¹ Further, it has been pointed out in the document 'Legislation on Foreign Relations' that a country must be friendly towards the US, "not dominated or

28 Ibid., May 25, 1964, p.831.

29 Quoted in Robert A. Goldwin (ed.), Why Foreign Aid?, Chicago, 1963, p.90.

30 David A. Baldwin, Foreign Aid and American Policy, New York, 1966, p.54.

31 Principles of Foreign Economic Assistance, Agency for International Development, Washington, 1965, p.3.

controlled by the international communist movement"; it must "share the view of the US on the world crisis".³²

The above statements and remarks do indicate sufficient strength to show the many ways of US motivation and in which 'aid' is used as a weapon of American foreign policy. The US motivation and objective in giving economic aid to India and how far it worked, was amply explained by Chester Bowles, former US ambassador to India. He remarked that by helping India's economic development it was suggested and believed that we might bring India into closer agreement with America's approach to current international questions. But India acted in a different manner. For instance, Indian Government had been sharply and unfairly, critical of American policy in various international issues. India supported Chinese membership in the U.N., which the Americans had opposed. On many other international issues the Indian Government has taken positions different from that of the U.S. Government.

Implications

The implications of foreign aid are also far-reaching, diverse and multifarious. If the foreign aid is provided without or with strings or conditions mutually acceptable, then it is certainly a boost to the economic development and political stability of the poor and underdeveloped countries.

32 Legislation on Foreign Relations, US Government Printing Office, Washington, 1966, pp.5, 44, 45.

American aid to India is an example where we find that in spite of whatever her political motivations, she did not succeed in bringing India to her fold or enabling her to remain as a stooge of the American policy makers. This was because of many reasons and the most potential and formidable among them is the non-partisan and non-aligned attitude of India under the towering leadership of Jawaharlal Nehru which was a setback for the Americans to achieve their cherished objectives through economic aid. While answering to the critics of foreign aid, Prime Minister Nehru asserted (in Parliament on December 15, 1952:

"Provided we are strong enough ourselves, I really do not see why we should be afraid of the kind of foreign aid that helps us to progress more rapidly, with that aid we could do many things which we would otherwise like to postpone. Foreign aid involves a slight risk, not so much of being tied down as of compromising in a moral sense. There is no reason, however, why we should be afraid of accepting foreign aid, if it does not influence our policy or activities in any way".³³

The implications of foreign aid would be adverse if the donor country tries to steer the domestic and foreign policies of the recipient countries. This was the case with the American

33 Jawaharlal Nehru's Speeches (1949-53), The Publications Division, Ministry of Information and Broadcasting, Government of India, New Delhi, 1954, pp.100-101.

aid to the countries like Vietnam, Korea, Taiwan and certain African and Latin American states.

India is a developing country and her scarce means, her lack of technical knowhow and sophisticated machinery and meagre resources for capital formation have caused her to rely on foreign aid in order to make her economy self-reliant. During the last 38 years India has adopted many strategies for self-reliant economic development, and with considerable success. But the many distortions in India's development that are visible show that our struggle to delink from the world capitalist system is not complete. Indian development is a mixed bag of liberation as well as collaboration with the world capitalist system. Consequently, political struggle in India has to work to strengthen self-reliance and eliminate structures of linkages with the capitalist world.³⁴ Amongst the aid-giving nations, the US was the main contributor of economic aid to India. The bond of democratic partnership between India and the US was strengthened mainly through American aid in the form of loans and grants though both the countries were not free from their divergences of objectives and attitudes which have been discussed and analysed in the subsequent chapters.

Another major implication and consequence of the large amount of American aid is the emphasis on the private investment (though the amount to this sector was less during the

34 C.P. Bhanbhri, "India : Self-Reliance the Safeguard", World Focus, vol.5, no.8, August, 1984, p.33.

1950s, but increased in the later period) which helped enhancing American business and enlightening American exporters, and this in turn, encouraged the private monopoly business houses and the development of capitalist path in the Indian economy. While the Indo-US relationship has gone through many phases, the record of linkages between the two countries is impressive. Out of 7,056 joint ventures with foreign companies approved by the Government of India during 1957-82, the share of US companies was 1,391 or 20 per cent. Such collaborations are on the increase. ³⁵

(Yet another adverse impact of American aid which often strained the Indo-US relations, was because of the public debates in U.S. and, the overt attempt made by the successive US Administrations to use economic aid as a lever for political influence. The lengthy debates in the US Congress preceding the shipment of large quantities of wheat in 1951, which was occasioned by India's recognition of the Government of the People's Republic of China and her active mediatory role in the Korean war are the few examples. As a result, political impact of US aid was considerably diminished and Indian reaction to it was also remained ambivalent, if not hostile.

Further, India's aid relationship with the United States was marked by certain controversies. To some extent this was

35 Ibid., p.34.

due to the differences in their ideological perspective. While India was committed to a policy of planned economic development with a major role assigned to the public sector, the US preference was for free enterprise and private sector. Such differences in their ideological perspectives had important consequences for Indo-US relations.

To conclude on the basis of the above discussions, the implications of US assistance on India's economic development was, no doubt, significant and far-reaching. But at the same time as has been analysed, it has also posed certain strains and controversies in their political relations which was resulted due to the divergences of objectives, motivations and attitudes of both the countries. Although these controversies and strains had adverse implications on the Indo-US political relations, but their economic cooperation in the 1950s remained as the milestone in their bilateral economic relations. It should be noted here that the trends developed on American aid to India after 1950s (as has been discussed in the last chapter) created serious contradictions and difficulties which were aimed at perpetuating India's dependence on the U.S. and other Western countries and deviating her from the path of self-reliant economic development. Hence, the logical conclusion is that foreign aid should be treated as a necessary evil even if it gives short-term benefits.

CHAPTER II

U.S. AID TO INDIA : TENSIONS OF DIVERGENT OBJECTIVES AND ATTITUDES AND ITS POLITICAL IMPACT

Foreign aid is, as we have seen, an instrument of foreign policy to serve the national interests of the donors. Whereas donors looked on aid as an important instrument of policy, for India it was a question of obtaining the right type of aid on the best possible terms in order to assist her existing policy objectives. The Indian leadership had a clear comprehension that our economic development required international cooperation and they looked towards the United States for a positive contribution towards India's gigantic task of economic regeneration. Our economic planners did not opt for an 'open door' policy towards the industrialised countries, but they were very clear that a policy of isolation or autarchy would mean a perpetuation of under-development and poverty.¹ Hence, the Indian policy-makers and planners started devising various goals and strategies to establish structural economic linkages with the U.S.A. The United States which was then seeking for global domination took it as an opportunity to maintain their presence and evolved many specific strategies to deal with the post-colonial nation-states. The relationship between India and U.S.A. arising out of the American economic aid

1 C.P. Dhambhri, "U.S.A. and India : Conflict and Convergence", Mainstream, vol. XX, no.46, July 17, 1982, p.7.

programmes should be examined in the context of certain specificities and peculiarities of foreign policy goals of these two countries which in fact, had given rise to the divergences of objectives and attitudes between them. According to Donald E. Nuechterlein, "All United States interests and policies can be fitted into one of these three broad categories: defence, trade and commerce, and the building of a stable world order".² Foreign aid has been used as a tool to serve all the three interests in varying degrees. It was used to get strategic positions, it facilitated economic well-being and provided an opportunity to directly or indirectly influence the emerging world order. Its foreign policy acted as a restraint as well as motivation for economic aid. However, the political atmosphere of the United States and of the aid receiving country became important factors in an appraisal of an economic aid programme because aid is not given by one country to another in a vacuum. Hence, there is always some structural linkages between the donor and the recipient in their aid relations.

This chapter deals with the political impact of American aid to India arising out of the divergences of objectives and attitudes between the two countries. Here, the author has in most cases resorted to the materials of primary sources in order to explain and justify the position and behaviour of

2 Donald E. Nuechterlein, United States National Interests in a Changing World, The University of Kentucky, Kentucky, 1973, p.8.

both the countries in their aid relations and its impact on their overall political relations. Before going into these details, it would be worthwhile to discuss first, in brief, the US policy towards the Third World countries in general because of the global perspective of the concept of foreign aid.

U.S. Aid Policy Towards the Third World

Dialectics of the U.S. foreign aid programmes lie in her overall national interests. She was facing two external challenges, first, ideological and political differences with the Soviet bloc and secondly, the consequences of the political and economic revolutions taking place in Asia, Africa and Latin America. The U.S. apprehended that the communist ideology, if merged with anti-colonial political and economic movements, would acquire unprecedented opportunities to spread. Growth of communism in Asia from 1945 onwards was interpreted as the revolt of backward people against the Western imperialism. Therefore, the basic problem before the United States was what political and economic systems would emerge in most of the developing countries. There was every possibility that political and economic systems anti-thetical to the United States might evolve in these countries. The determinants of the emergence of a system are, the historical background of a country, the leadership acquiring political and economic control, international power structure, ideological inputs and the pace of political and economic development. Hence, the United States chose and moulded its foreign aid programmes in

in order to influence the process of political and economic development of the Third World countries and thereby to bring them to her favour and at large, to link them up with the world capitalist system.

Significance of India to U.S.

India was important to the United States for several reasons. First, India's population of about 400 millions in early fifties represented 40 per cent of all the people living in the underdeveloped countries under non-communist system which was equal to the combined population of the continents of Africa and Latin America. Secondly, India is the largest democracy and her constitution has enshrined the concepts of individual freedom, representative government, free and periodical elections and rule of law similar to the concepts enshrined in the U.S. constitution. Thirdly, India occupies a strategically important position. Two great communist powers stand at the northern frontier of the Indian sub-continent and India shared a long boundary in the north with People's Republic of China. Thus, in the cold war competition against the communist bloc, India occupied significant strategic position. Fourthly, if India successfully combined economic development with democracy, she could set an example for other emerging nations of Asia, Africa and Latin America. If her experiment failed, it would mean that the whole of Asia, Africa and Latin America might accept the totalitarian system as the key to solve their problems. Such development

threatened the very existence of democratic institutions all over the world and would have been adverse to the interests of the US. Hence, the success of India's development plans was considered as significant international consequence for the United States. Fifthly, India with its vast land, rich natural resources and manpower had the potentialities of developing into a modern major power; therefore she should be saved from communism. Even if she had not aligned herself with the United States, at least, she should be prevented from joining the rival bloc which could serve America's national interests.

Areas of Convergences and Conflicts between India and U.S.A.

American aid relationship with India had certain special political characteristics, based on that country's high status in American diplomatic and ideological priorities. Similarly, India's attitude and perception in its foreign policy framework in the post-independent years did not start on an anti-American stance or posture. Professor S. Gopal's biography of Jawaharlal Nehru, clearly brings out that the Indian leadership did not have any a priori hostility towards the United States. Emphasizing upon the formative period of India's foreign policy professor Gopal writes, "But the fact remained that, whatever the theoretical premises of non-alignment, India was much nearer to Britain and the United States than to the Soviet Union. It was to the Western Powers

that India looked for economic and technical assistance; and her political and trade connections were also mostly with them. So it was but logical that Nehru, strengthened by the Commonwealth connection, should be willing to explore the chance to develop direct relations with the United States."³ India's aspiration for a close and positive relationship with the U.S. was clear from a conversation between Nehru and Krishna Menon where Nehru remarks, "Why not align with the United States somewhat and build up our economic and military strength?"⁴

The United States was not seen generally as a colonialist power and as Nehru frequently acknowledged, 'Indian political thinking was considerably influenced by American liberal and democratic ideas'.⁵ During his visit to the United States in 1949 the two countries seemed to have achieved some reasonable degree of mutual sympathy in general outlook on world affairs, though this was soon to change with the emergence of the People's Republic of China and the outbreak of the Korean war. India's close contacts with the Western Powers were reaffirmed by Gulzarilal Nanda, then India's Planning Minister at the

3 S. Gopal, Jawaharlal Nehru : A Biography, vol.2 (1947-56), Delhi, 1979, p.57.

4 Ibid.

5 See Nehru's address to a Joint Session of both Houses of the U.S. Congress, Washington, D.C., 13 October 1949, quoted in Jawaharlal Nehru, India's Foreign Policy : Selected Speeches, September 1946-April 1961. The Publications Division, Government of India, 1961, pp.589-92.

Singapore Conference of the Colombo Plan powers in October 1955, when he said, "The United Kingdom is a traditional exporter of capital to this part of the world and we hope that the country will continue to play its traditional role". And he added that he was "hopeful that the U.S. will also take an increasing interest in investment in India."⁶ Even the political commentator of the Hindustan Times thought that Nanda was "pleading rather abjectly for investment of British capital in India".⁷ The most objectionable portion of Nanda's pronouncement came later when he was "reported to have hinted strongly that any retarding of economic advancement in countries of this region would drive them into the arms of communism".⁸ This servile attitude of bargaining, throwing the dirty bait that if aid is given communism will be fought, was not expected from a sovereign and independent country like India which is playing a great role in international affairs."⁹ Even Prime Minister Nehru also admitted India's closer and historic relations with the U.K. and the U.S.A. To quote him, "It has been repeatedly said that we incline more and more towards the Anglo-American bloc. It is perfectly true that during the last few years we have had more economic and other bonds with the United Kingdom and the United States of America than with other countries. That is a situation we

6 New Age, New Delhi, vol.III, no.5, October 30, 1955,p.2.

7 The Hindustan Times (New Delhi), October 25, 1955, quoted in New Age, op.cit.

8 The Times of India (New Delhi), October 22, 1955, quoted in New Age, op.cit.

9 New Age, op.cit.

have inherited and unless we develop new bonds we shall have to continue as we are doing. We maintain our old ties with these countries because a nation cannot live in isolation. We wanted certain things that we could not get from elsewhere.... That some people obsessed by passion and prejudice disapprove of our relations with the Anglo-American bloc is not sufficient reason for us to break any bond which is of advantage to us".¹⁰ Pointing out India's dependence on the Western Powers during the early periods of Independence he further remarks: "I cannot deny that there is danger and risk when a country begins to depend upon another. Whatever the form it takes, dependence is always bad and one should be on one's guard against it. Yet a country, placed as India is today, has inevitably to depend on other countries for certain essential things. We are not industrialised enough to produce all that we need. We have to depend on other countries for most of the things.... Of course, we must try to build up basic industries so that we can produce things for our essential needs but what are we to do in the meanwhile? We have got to get them from somewhere and we have tried to get them from those countries where our existing economic contacts made it easier for us to do so. It is very difficult for us to build new channels of trade and commerce overnight. We are perfectly prepared to explore these possibilities; for

10 Jawaharlal Nehru's Speeches (1949-53), op.cit., p.217.

instance, we are perfectly prepared to deal with Soviet Union or any other country that can supply us with the particular goods we need. But the fact remains that at the moment it is simpler and easier for us to import things from America, England, France and other countries".¹¹

It is due to this close dependence of India on the Western capitalist powers, the central headquarters of the Communist Party of India issued a statement in January 1953 declaring that the Five-Year Plan of India 'would only lead to further dependence of India on British and US imperialism and further impoverishment of the people because the financing of the plan would go on, not from the profits of the monopolists, but by increased burdens on the people, and thus intensify the crisis'.¹² The Election Manifesto of the party went on to criticise Nehru's so-called independent policy of neutrality and stated: 'A Government tied to imperialism ... cannot pursue an independent and progressive foreign policy, a genuine policy of peace'.¹³ Denying these charges and reiterating India's peace, non-aligned and independent policy, Nehru stated: 'We want to be friendly with the United Kingdom and the United States but neither pressure tactics nor lure of help will make us give up a position which we are convinced is

11 Ibid.

12 Quoted in M.R. Masani, The Communist Party of India: A Short History, Derek Verschoyle, London, 1954, p.233.

13 Ibid., p.147.

right from every point of view'.¹⁴ He further asserted, 'So far as our policy is concerned, in spite of the fact that we deal largely with the U.K. and the U.S.A., - we buy our things from them and we have accepted help from them - we have not swerved at all from our policy of non-alignment with any group. We stuck to our policy even though we had to deny ourselves the offered help. That is why other countries realize that we cannot be bought by money. It was then that help came to us and we gladly accepted it; we shall continue to accept help provided there are no strings attached to it and provided our policy is perfectly clear and above board and is not affected by the help we accept. I realize - I frankly admit - that there are always certain risks involved. There may be no apparent risk but our sense of obligation might affect our policy without our knowing it. All I can say is that we should remain wide awake and try to pursue our policy consistently and honestly'.¹⁵

This initial positive response of the Indian leadership towards the Western Powers and the United States in particular, did not last very long, and a few significant factors responsible for this may be identified here. The United States' foreign policy makers failed to understand the meaning of Indian nationalism and the nature of the Indian ruling class.

14 Nehru's personal telegram to Krishna Menon, 11 September 1949, quoted in G. Gopal, op.cit., p.53.

15 Jawaharlal Nehru's Speeches, op.cit., pp.221-22.

India had won its freedom from British rule after a long struggle and its bourgeoisie was not a compradore class. The Indian bourgeoisie and political leadership of the national liberation movement had struggled to achieve control over the Indian market, and they were not willing to change their masters from the British to the Americans. The Indian bourgeoisie had an objective experience of British exploitation of our market. This was an integral part of their consciousness. This class wanted to develop the home market, and this could be achieved by a foreign policy of non-alignment, peace and self-reliant economic development.¹⁶

Thus, three factors are primarily responsible for a conflict of relationship between India and the United States. First, the Indian bourgeoisie and its political leadership were objectively conscious of the potential development of the Indian market, and its benefits to the Indian ruling classes. The US Government failed to recognise that India was not a small 'banana republic' and its ruling class could not be completely subservient to the US strategy of global domination. Secondly, India and the United States have different perspectives on problems of world peace, war and militarism. Since the end of the Second World War, the United States, as the leader of the world capitalist system, has relied upon its military power to protect and promote its

16 C.P. Bhanbhri in Mainstream, op.cit., pp.7-8.

global interests. Indian policy makers have expressed their opposition to the US policies of military alliances and military solutions to world problems. The reasons for India's opposition to the US policy of military intervention are very clear. First, Indian policy makers have argued that the policy of military solutions leads to competition for arms build-up. Any policy which leads to an acceleration of the arms race is a threat to peace. Secondly, India as a developing country has a vested interest in peace. Excessive expenditure on defence for India is at the cost of its economic development. A fundamental contradiction exists between expenditure on defence and the goals of economic development. India believes that neither military solutions can achieve peace nor can we afford to be involved in an arms race without sacrificing the goals of economic development. Thus India's opposition to the US policies of military alliances and bases is based not on moral postures or a sense of moral superiority but on the firm calculation that excessive expenditure on defence would hurt and retard our economic development. Thirdly, India has experienced that US foreign policy makers do not hesitate to exercise pressures in periods of crisis. During the Sino-Indian border dispute of 1962, and also much before that on various occasions, Anglo-American pressure was exercised over India to settle the so-called Kashmir dispute with Pakistan. During October-November 1962, the Indian nation was in distress, and the US wanted to

pressurise India for a settlement with Pakistan. The lesson is that during a period of crisis the US is not a reliable friend or supporter. On the contrary, Indo-Soviet relationship is based on mutuality, reciprocity and confidence based on predictable reliability. The experiences of nations during periods of crisis condition their perceptions of friends and opponents in international affairs. India has experienced hostility from the US during periods of crisis. The US has always demanded a price for friendship from India.¹⁷

Thus, in spite of the initial positive response of the Indian leadership and their closer ties with the United States, the relationship between the two countries was not free from divergent perceptions, attitudes and bitter experiences. This can be better understood by the discussions that follow here.

Cold War Tensions and US Attitude

The first substantial outflow of American aid to India occurred in 1951 under the India Emergency Food Aid Act, whereby large quantities of wheat and rice were shipped to meet famine conditions arising from the monsoon failure of the previous year. Unfortunately the shipments were preceded by a bitter and lengthy debate in the US Congress,¹⁸

17 Ibid., pp.8-9.

18 See U.S. Congressional Record, 82nd Congress, First Session, vol.97, part 2, 5th March 1951, Washington, D.C., pp.1920-3362.

which took place in the context of strained foreign policy relations, caused by India's recognition of Communist China and her active mediatory role in the Korean war. As the first of its kind, the debate was instructive. Humanitarian concern for India's plight coupled with fears of dangers to its infant democracy were the dominant themes, yet the political impact of aid eventually sent was considerably diminished by the bitter opposition in some quarters against India's foreign and other policies. An emergency request was received in February 1951, but the necessary legislation was not completed until 15th June of that year. The critics seem to show little appreciation of India's concern to establish her newly won independence and sovereignty in the conduct of foreign policy. One issue in the debate particularly illustrates this: 'It was noted that India had placed an embargo on the export of certain materials relevant to military purposes',¹⁹ Of particular interest to the United States was monazite sand, which contains thorium - vital to America's atomic energy programme. It was demanded by the US Administration that the wheat loan be made conditional on India allowing export of monazite and beryl materials and on the granting of rights to explore and develop uranium deposits in India. This question was also raised in the Indian Parliament and then the Minister of Food and Agriculture,

19 Ibid., p.1920. Statement by Senator Maybank.

K.M. Munshi categorically denied any export of strategic raw materials to the US in lieu of the wheat loan.²⁰ It was only after hectic debates and discussions in the US Congress resulting in heated exchanges and deadlocks, the specific reference to the strategic materials were excluded from the agreement.

The Indo-US Technical Cooperation Programme,²¹ established in 1951, provided the first institutional arrangement for American aid to India. This development was strongly influenced by Chester Bowles and Sherman Cooper. Apart from the wheat loan, only technical assistance projects under this programme were forthcoming during the First Plan period. The Wheat Loan debate worsened the already strained relations, in spite of the eventual extent of assistance. Following this, India's mediatory policies in Korea and Indo-China came into increasing conflict with the Dulles policy of ideological polarisation and massive military containment of communism.

To the US security system, India was rated very high in terms of ideological factors and spread of communism in South Asia. It is with this contention, the United States apprehended that if the present political structure of India did collapse, the resulting vacuum could provide a situation in which communism would grow. Several American Administrators argued in the

20 Parliamentary Debates, Part I, vol.IX, no.1, 1951, cols. 227-28.

21 For details, see The Indo-US Technical Cooperation Programme - Report, Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi, December 1963.

US Congress that the political objectives of preventing growth of communism will be fulfilled if the standards of living rise in India as a result of economic growth would depend to a large extent on economic aid programmes. W.W. Rostow stated, "If we can get in the next decade the completion of this India take off and a stage of sustained growth, we would not only have preserved an independent India - which is a major military and strategic objective - but we will have done something else. We will have demonstrated that in a country with the most acute problems of poverty and overpopulation, that the political method of consent can produce growth as a regular feature without accepting totalitarian government".²²

Reaction to Soviet Aid and India's Socialist Economy

The period approximately from 1954 to 1958, witnessed the lowest level of Indo-American relations. Opposition to neutralism reached its highest point in the US Congress and this was accompanied by strong hostility towards the type of socialist economic policy laid down in India's Industrial Policy Resolution of 1956. India's alleged prevarications during the Hungarian Uprising in that year further exacerbated relations. The incursion of Soviet aid on a substantial scale

22 U.S. Senate, 85 Congress, II Session, Committee on Foreign Relations, "Hearings", Review of Foreign Policy, 1958, Washington, D.C., p.283.

thus came at the worst possible time, when in 1954, the Soviet Union adopted the economic technique of statecraft and signed an agreement for the Bhilai Steel Plant with India. It had repercussions on the US policy planners. The US reaction to Soviet aid to India was that in case Soviet Union had no competition in developing countries, she would attach increasing strings to aid. Therefore, the United States should provide an alternative for the developing countries to weaken the position of the Soviet Union. President Eisenhower emphasized the strategic importance of Asia and recommended long-term economic assistance to this region. He said, "significant testimony to the success of our mutual security programme appears in the new turns and development of Soviet policy. Aggression through force appears to have been put aside, at least temporarily, and the communists are now making trade approaches to many nations of the free world".²³ He warned that these approaches had to be watched carefully. He requested the Congress for authority to make commitments for upto 10 years to assist underdeveloped countries in long term projects.²⁴ India figured prominently in this competition.

As a result of the emergence of Soviet aid, a reappraisal of American aid policy towards India was considered essential

23 Message of the President on the Mutual Security Programme for 1957, Committee of Foreign Relations, Documents on Foreign Relations, 1956, p.72.

24 Ibid.

and this resulted in undertaking a special survey by the Senate on the Foreign Assistance Activities of the Communist bloc and their implications. Its report recognised the fact that the cold war was still on and the present Soviet economic assistance policy, aimed at underdeveloped countries was part of it.²⁵ Therefore, it was suggested that (a) the U.S. should continue economic assistance in her own national interest; (b) she should not withdraw economic aid from the countries receiving aid from the Soviet Union; and (c) long-term commitments for aid should be made by the United States. Hence, the incursion of Soviet aid led to a drastic reappraisal of both the size and conception of American aid in India and from 1956 onwards American aid became much more substantial.

American Aid and India's Policy of Non-Alignment:

India's policy of non-alignment has been a source of strain in Indo-American relations.²⁶ The continuous public debate in the US in giving aid to India has aggravated these tensions. In India there has been nothing to parallel this debate on aid and terms of aid, since attention has been largely centred on her total economic effort, as expressed in the Five-Year Plans. On the whole, India's leaders have

25 See, Foreign Assistance Activities of the Communist Bloc and Their Implications, a study prepared at the request of the Special Committee to Study the Foreign Aid Programme, U.S. Senate, Washington, D.C., March 1957, pp.1-2.

26 For a useful study of Indo-US relations see, S.L. Poplai and P. Talbot, India and America - A Study of Their Relations, Harper, New York, 1958.

remained fairly imperturbable in the face of attacks on their foreign policy, and have largely contended themselves with periodic justifications of 'non-alignment' as opposed to denunciations of Western interference, imperialism, etc.

Non-alignment for India was the policy of political and economic development. It helped India diversifying its sources of foreign aid, trade and technological collaboration. A polity operates in international system and its interaction with other polities helps or hampers the process of development. Political and economic development take place when there is no international war and a polity is not threatened by external aggression. Vijay Lakshmi Pandit, while analysing India's need for peace and freedom emanating from her policy of non-alignment writes: "... our need for peace is imperative. It is not merely desirable or preferable, it is vital necessity and daily prayer. We have problems to face in India that would tax the energies and resources of a nation far better equipped and developed than ours ... we need it in order to eat, to be clothed, and housed and made literate. We need it. We need it for these basic unadorned reasons and we will not jeopardise their realisation by even a remote word or action that might add to the unhappy tensions that already exists."²⁷ Nehru envisaged that development of any

27 Vijay Lakshmi Pandit, "India's Foreign Policy", Foreign Affairs, vol.34, no.3, April 1956, p.435.

country was closely linked up with international forces. He, therefore, decided to evolve a bold, pragmatic and imaginative foreign policy to attract capital and the technological knowhow from rival blocs and ensure security and peace till the development reached the take-off stage. The policy of non-alignment enabled India to get aid for economic development according to her plans from both the blocs. But the United States remained critical of such policy of India as she could not derive the sympathy and support of India in various international crises (as pointed out earlier) in spite of her massive economic assistance as the major donor country.

U.S. Aid and the Attitude of Liberalism

The Soviet Sputnik space-launching heralded an era of nuclear stalemate, a consequent thawing of the cold war and a closer attention by both the United States and the Soviet Union to the interests of the non-aligned nations. It is against this background that the steady improvement in Indo-American relations from about 1958 till the early sixties must be viewed. At the same time the acute foreign exchange crisis of 1957-58 involving urgent appeals by Indian Ministers to America and the World Bank produced the growth of a strong pro-India lobby in the Congress and the Administration. This was spearheaded by such personalities as the former ambassador Bowles and Cooper, Professor J.K. Galbraith, later appointed as ambassador to India, and senators Kennedy,

Humphrey, Mansfield and Fulbright. An outstanding achievement by this group was the establishment in August 1958 of the World Bank Consortium to study India's development needs and plans and to coordinate the annual allocation of funds by donor countries. World Bank opinion and influence have thus become crucial for the realisation of India's economic objectives. Hence, India's economic strategies and goals were steered by world imperialist institutions like the World Bank and the IMF. The United States which is the leader of these institutions and the leader of the world capitalist system played a vital role in allocation of funds to the poor developing countries. But since the present study focusses attention on the areas of contradictions and collaborations between the United States and India in their bilateral official aid relations, we need not emphasize much upon the multilateral institutions.

With the election of John F. Kennedy as the President in 1960, the views of the group mentioned above became dominant, a fact which was reflected in massive aid increases to India. During this period, questions of public enterprise, socialist planning and non-alignment were treated with greater flexibility. There was a steady diminution in hostility towards Soviet aid and involvement in India. Above all, India was recognised as a key Asian country, in whose stability and growth the West had a prime interest, transcending differences of policy and outlook. However, it must be noted that the Kennedy 'liberal' view failed to achieve complete acceptance,

and even before the President's death reassertations of more rigid ideological attitudes found voice with growing effect. Increasing difficulty was encountered in steering the foreign aid programme through the Congress. In a vain attempt to placate the conservatives the Clay Committee was appointed to study the aid programme. After a lightning world tour the Committee produced a report²⁸ which consisted of a series of dogmatic assertions based on unexamined assumptions. Of these the most significant for India was the following statement:

"... we believe the United States should not aid a foreign government in projects establishing government-owned industrial commercial enterprises which compete with existing private endeavours. While we realise that in aiding foreign countries we cannot insist upon the establishment of our own economic system ... the observation of countless instances of politically-operated, heavily subsidised and carefully protected inefficient state enterprises in less developed countries makes us gravely doubt the value of such undertakings in the economic lives of these nations. Countries which would take this route should realise that while the U.S. will not intervene in their affairs to impose its own economic system, they too

28 See, Clay Committee Report on Foreign Aid, 25 March 1963, Official Text, United States Information Service, 1963.

lack the right to intervene in our national pocket-book for aid to enterprises which only increase their costs of government and the foreign assistance burden they are asking us to carry."²⁹

These lines provide a good case for rejecting public sector projects, but the tone of the statement scarcely gave confidence that individual projects were to be examined on their merits. The Clay Report was crucial in causing the rejection of the Bokaro Steel Project by the House of Representatives on 22 August, 1963,³⁰ which resulted in Prime Minister Nehru withdrawing India's request. In India the report played an important part in dashing hopes that had been built up by the Kennedy 'New Order',³¹ of weakening the prestige of the liberals and of hardening the image of American policies as ideologically predetermined. However, during the foundation period of India's economy and polity which we are studying here, America's stand was not much rigid as she was solely preoccupied with the task of containment of communism in this region. So she did not want to delve deep into the contradiction of the public-private sector

29 Ibid., p.4.

30 The Hindu, Madras, 23 August 1963.

31 Nehru described the Kennedy Administration as 'the friendliest American Government that India has encountered'. Quoted in Report No.9, Public International Development Financing in India, New York, 1964, p.69.

dichotomy and allowed India to maintain her existing economic and political system. But with regard to India's external policy particularly her policy of non-alignment, the US seemed to be unfriendly and critical and went to the extent of attacking it as 'immoral'.

U.S. Aid for India's Development and Democracy

During the 1950s, it was in the interest of the U.S. that India should become politically and economically stable and retain its democratic institutions. In India national unity pivots on the goal of achieving economic growth. This drive for economic growth, in a way, is a continuation of the Indian National Movement and the Indian leadership after independence looked for the Western powers for economic aid in order to overcome its poverty and underdevelopment. The United States, then the leading global economic power, came forward with massive economic aid considering India's strategic significance and her own national interests in the region. The U.S. leaders perceived that the people of India would evaluate the performance of their government in terms of how widely and rapidly the process of modernisation takes place under the democratic system. If development is retarded, there is every danger of India falling under the influence of some other system whether it is communism or fascism or some other 'ism'. Such developments were considered contrary to the interests of the United States. She apprehended that if the national plans for economic development failed then the central government in India would lose

power and mass anarchy would result. If this happens the power of the central government would be usurped by rival factions. Millikan and Rostow write in *Foreign Affairs*:

"The commitment of most of Indian leadership to the methods of consent and non-violence is so deep that even if economic development lags, an early communist take-over is exceedingly unlikely. What is likely over the years, if development loses its momentum, is increasing conflict and confusion within the Congress Party, a resurgence of sectional and linguistic interests perhaps breaking into violence, a heightening of the political and social tensions created by mass unemployment in short, a reversion to the kind of political and social instability which tempts otherwise moderate persons to support anyone who can maintain order.

While there is no communist-inspired crisis at present, the prospects are poor for stable and effective government if the present development programme fails".³²

To sum up, with the above specific objectives Indo-US aid relations, in its totality evolved round two opposite trends - one trend was drawing the two nations closer in economic terms and the other trend was throwing them apart on account of the diversity of interests and attitudes in

32 M.F. Millikan and W.W. Rostow, "Foreign Aid : Next Phase", Foreign Affairs, vol.36, no.3, April 1958, pp.431-32.

their approaches to the world issues in the framework of their national interests. Aid relations explain the cause as well as the consequence of overall politico-economic strategies of the two countries. The United States aid policies towards India evolved in piecemeal style rather than on the long-term planning rooted in overall Indo-US relations. Relations between the two countries had to be viewed in the wider perspective of the U.S. interest in South Asia and her cold war strategies in Asia particularly her relations with China and Pakistan. India's adherence to the principle of non-alignment and America's perception of the problems of security requiring military alliances in this region led to tension-orientated relations. Although India, as a matter of principle and pragmatism, did not join any power bloc. Yet, America adopted policy measures to prevent India from joining the rival bloc and aid was used as one of the instruments for this purpose. Thus, the economic relationship between the two countries was better and consistent during the period of the present study than the political relations which did not seem to be cordial and cogent because of the persistence of divergences of objectives and attitudes.

CHAPTER III

U.S. AID : THE INDIAN RESPONSE

This chapter specifically lays emphasis on the responses and reactions of the Indian parliamentarians to various aid programmes received from the United States during the period, 1951 to 1961. It has been discussed here how this American economic aid had created divergences of opinions and feelings amongst the Members of Parliament.

It may be argued that during this period it was India itself that had largely determined the nature and pattern of aid negotiations. There were two basic reasons for this; first, the fact that all aided projects had come within the scope of the Five-Year Plans meaning thereby that initiation and administration had been an Indian responsibility. Foreign experts were used in an advisory rather than supervisory capacity. The more important reason why initiative lay substantially in Indian hands was that she had insisted on formulating her own economic priorities, refused to link aid with the question of alliances and ideology and stoutly defended herself against attacks on her domestic sovereignty. This was made amply clear on May 1, 1951 when the Indian Prime Minister, Nehru declared in a broadcast to the nation that India would not accept food from any country if it had political strings attached to it. The New York Times reported, "Indian opinion strongly supports Nehru's view. Every important newspaper published official and Parliamentary

reaction to the speech by Nehru in which they expressed a similar view".¹ It testifies that the political impact of the various aid programmes will be determined largely by the relevance of the donor's response to India's economic needs. India's basic policy towards aid is that it would assist in the achievement of her own stated economic objectives. This point must be taken care of. It has been analyzed subsequently that foreign aid is a necessary evil in the sense that it perpetuates the recipient's dependence on the donor country.

The very nature of India's international position makes the whole question of economic aid specifically a delicate one. Despite her bargaining power, however, the reverse side of the coin is that she is subject to various pressures not experienced to the same degree by other recipient countries. She is necessarily in the limelight of world politics and the receipt of aid on a massive scale emphasizes this fact. An extensive, continuous and public debate is carried on in the West, especially in the United States, through Parliamentary and Congressional debates, through press, radio and television media and through periodic statements by Heads of State, ambassadors, etc.²

1 The New York Times, May 2, 1951.

2 P.J. Eldridge, Politics of Foreign Aid in India, New Delhi, 1969, pp.64-65.

During the foundation period of the Indian economy, India was badly in need of economic assistance from abroad in order to overcome her poverty and under-development. Hence, she tried to formulate strategies to establish economic relationships with foreign countries which facilitated the path of dependence on them. Of all the countries, the U.S. was the major donor of economic aid to India in various forms and through various agreements as have been discussed in the first chapter. The objectives and attitudes of the U.S. Administrations in providing aid to India have been discussed in the preceding chapter. Now, we shall analyze, in this chapter, the attitudes and reactions of Indian Parliamentarians in receiving American aid. The data collected and analysed in furnishing this chapter are mainly based on the primary sources like the proceedings of the parliament debates, statements by political leaders, reports and publications in newspapers, etc.

A close look and examination of the proceedings of the Lok Sabha debates provide sufficient knowledge in understanding the differences of opinions and attitudes among its members. No doubt, the Indian Government resorted to a defensive stand in receiving American aid in order to meet with her economic needs, but at the same time it tried to evade some pertinent questions raised by the Members of Parliament. Of course, America in spite of her political motivations and strategies

could not succeed in deriving substantial gains from India. This was due to the independent and non-aligned policy pursued by India under the dynamic and enlightened leadership of the Prime Minister Nehru. This has been made clear from the speeches and statements of Nehru on various occasions and at various forums.

Now, let us discuss the important and interesting part of this chapter, i.e., the interactions among the members and the government in their reactions in receiving American aid. This will help us in evaluating the impact of American aid in India, both internally and externally. While raising a question in the parliament by the Member, Shri R. Velayudhan regarding whether the price of wheat will have to be raised by two rupees because of about Rs 60 crores for shipment charges, the Minister, K.M. Munshi, instead of providing the appropriate answer, replied that it could not possibly be anything like Rs 60 crores because the value of the wheat itself is about Rs 90 crores.³ Another issue reacted by the Member, Shri Alexander whether the repayment of the loan may take the form of supply of strategic materials like monazite needed by the United States subject to mutual agreement by the Government of India and the Administration of economic operation in the U.S., the Minister, K.M. Munshi replied,

3 Parliamentary Debates, part I, vol.IX, no.1, 1951, col.227.

'India does not export strategic materials'.⁴ This stand of the Indian Government also led to hectic debates and deliberations in the American Congress giving rise to the differences of opinion amongst the Congressmen. Finally, such condition was withdrawn because of India's insistence and policy objectives.

The political attitudes to aid are related to far wider questions of foreign policy, internal politics, economic, social and administrative issues. Aid cannot easily be considered in isolation, and will thus always be viewed by any given group, especially 'decision-makers', in terms of their own preoccupations. It must be stressed that the nature of policy-making and debate is necessarily different in India from the donor countries, the most striking contrast being with the United States. In the latter case aid is linked up to other issues, but yet stands out far more as an issue in its own right, being considered as a major means whereby the United States may achieve certain objectives, whereas in India political issues mainly arise when the form or terms of aid, its diminution, withdrawal or threat of withdrawal conflict with established policy objectives. There is thus not the same regularity or continuity in consideration of aid issues and political opinions are largely reactive. Here one must distinguish between two problems. The first relates to the

4 Ibid.

immediate issues of a political nature arising from aid programmes and negotiations. The second raises long-term questions as to the extent and direction in which foreign aid ultimately changes the Indian economy, which will in turn naturally affect the shape of internal politics. As the second proposition could not be suited to India during the foundation period of the Indian economy and planning, what follows here is mainly concerned with the first problem.

The political characteristics of American aid have given rise to ambivalent attitudes and reactions among the Indian policy-makers and parliamentarians. Before dealing with specific issues, some preliminary comments are necessary on the political nature of aid administration. It has become almost a truism that India does not accept aid to which she considers there are 'strings attached'. This has been, as discussed earlier, made clear by Nehru on various occasions. The Planning Commission of India also struck a cautious note while stating that "external assistance is acceptable only if it carries with it no conditions explicit or implicit, which might affect even remotely the country's ability to take an independent line in international affairs. There are also obvious risks in excessive reliance on foreign aid which depends on the domestic political situation in lending countries and which might be interrupted by any untoward international developments".⁵ Strings may be of various kinds

⁵ Government of India, The First Five Year Plan, Planning Commission, New Delhi, 1952, p.26.

ranging from the crude and obvious to the subtle and scarcely perceptible. In the former category are attempts, through hints of withdrawal, reduction or unfavourable modification of aid, to persuade the recipient country to alter its foreign or domestic policies. In the case of India, the most obvious targets have been her policies of 'non-alignment' and socialism. Certain specific issues of foreign policy have at times also caused difficulties, such as the annexation of Goa, the Kashmir issue, the refusal of transit to American troops en route to Korea, recognition to Communist China, etc. India has stood firm against all these pressures. India's independent and non-aligned foreign policy irked the United States and as such, their political relations could not be firm and cordial unlike the economic one during the 1950s.

A review of the proceedings of parliamentary debates provides the observation that the attitudes and reactions of the Indian parliamentarians to American aid have been both positive and negative. While some believed it as an important contribution towards India's economic development and political stability, others took it as a necessary evil in the sense that it would perpetuate India's dependence on the United States and conversely, the United States would be facilitated in her design to link up India with the world

6 P.J. Eldridge, *op.cit.*, p.67.

capitalist system. The second argument though quite pertinent in American aid politics, could not apply to India because of the formulation of her own interests, purposes and priorities. In the distribution of food aid under the India Emergency Food Aid Act, 1951, India evolved her own system. This was made clear by the Food and Agriculture Minister, Shri Thirumala Rao while answering a question raised by Shri Krishnanand Rai that whether the Government of U.S.A. had asked the Government of India that U.S.A. representatives should be associated in some way in the distribution of food under the India Emergency Food Aid Act. The Minister replied that no such arrangement was made.⁷

One of India's primary economic interests in aid negotiations with U.S.A. was to secure the most advantageous terms possible with regard to interest payment and the period of repayment. It is observed from the Lok Sabha debates from 1951 to 1961 that the members were convinced of the low interest rate of 2.5 per cent in most cases and a long period of repayment.

Foreign Experts : India's Discontent

There have been undercurrents of discontent in India as to the quality and remuneration of foreign experts, periodically expressed in Lok Sabha. Several questions were raised

⁷ Parliamentary Debates, part I, vol.IX, no.1, 1951, cols. 492-93.

with regard to the necessity of U.S. technical experts to the Indian conditions instead of devising indigenous methods and techniques in order to meet with her requirement for development. But the Government side defended it on the ground that India needed the experience and improved methods in order to increase her production. One interesting example can be given from Lok Sabha Debates regarding the interchange on the functions of Ford Foundation technical assistance to the development of cottage industries which produced a witty supplementary from Shri Mohiuddin when he said, "May I know in what cottage industries, they had experience in America?"⁸ A senior Minister, T.T. Krishnamachari, then the Minister for Commerce and Industry, once went so far as to say that India was chary of accepting technical assistance due to the large number of casualties in the past.⁹ This clearly reflects that the Indian Government instead of moving towards 'Indianisation' of enterprises, were strangely relying on the assistance of foreign technical personnel which created controversies in their bilateral political relations.

Conflicting Goals

Turning to broader policy issues, the reaction of foreign donors to the relative allocation of roles between public and private sectors in Indian economic policy which may be construed as a question of socialism versus free enterprise, is an

8 See, Lok Sabha Debates, part I, vol.II, 1954, starred question 1534, cols 1677-79.

9 The Hindu, Madras, 3 November 1954.

important factor in shaping official attitudes towards foreign aid. Opposition has been most vigorous in the case of U.S. aid to India. Two dominant reactions on the part of Indian policy-makers did seem to emerge. First, in spite of some considerable irritation with such hostile attitudes, there seemed to be an attitude of philosophic acceptance of such ideological bottlenecks, coupled with the outlook that within the wide framework of India's mixed economy everyone's preferences and prejudices could be accommodated. The sharper edges of this issue are somewhat blunted by the fact that America was prepared to aid public sector projects in such basic services as power, irrigation, communication, etc. However, as the Indian economy grows, manufacturing industry will presumably constitute an increasing proportion of the gross national product, and thus policy issues here are likely to become more sharply defined. Secondly, there seems to be a wide measure of agreement that 'non-alignment' has paid off in economic terms. The substantial inflow of Russian aid from 1954 acted as a spur to vastly increased Western, and in particular, American aid. Of more importance, probably, is the fact that Russia's willingness to support public sector projects, unacceptable to the United States, has made possible breakthrough to patterns of economic development. Simultaneously, American attitudes have sharpened the internal conflict over the issue of 'socialism', or more specifically, the respective roles of the public and private sectors. But, however, during

the 1950s, although America was strongly guided by her ideological priorities, favoured India's planning and economic development and extended more aid to the public sector in order to remove the apprehension of India being falling prey to communism.

The reason behind the enormous goodwill that the Soviet offers are able to generate among the people than that of the United States constituted two contrasting character of the lines which the two aids helped to develop. For, on one side is the Bhilai project, to produce one million tons of steel by 1961, and on the other there is hardly in any such single project in the public sector which the U.S. might have helped to build for the country's basic progress.¹⁰ The experience with the USSR and the socialist countries has been totally different from the experiences with U.S. and Western aid. The projects for which Soviet assistance has been given are those which the country had put high on its scheme of priorities. Beginning with the Bhilai steel project - for which the first Soviet credit of Rs 63 crores was offered in 1955 - all the schemes in which it has been collaborating, fall in the category of heavy industries.¹¹ The U.S., on the other hand, was unwilling to provide assistance to the large public sector projects which could have brought India long-term material

10 New Age, (New Delhi), vol.VII, No.10, March 8, 1959, p.3.

11 Ibid., vol.VII, No.5, November 8, 1959, p.10.

benefits. The 'New Age' dated April 1, 1956 editorially comments, "The U.S. assistance is never given with a view to help us in rapidly overcoming our economic and technical backwardness, in the rapid industrialisation of our country. The millions of dollars that have been given as loans and grants by the United States have not helped us to set up such an important enterprise as the Soviet assistance did in the matter of setting up of the Bhilai steel plant has done".

Oppositions' Views on American Aid

The opposition members in Indian Parliament though less in number remained critical of American aid and sharply reacted that it would help establish structural linkages with U.S.A. It is on this ground and also due to unfavourable terms and conditions a group of 43 members of Parliament set a cable despatch to the American Congress opposing the India Emergency Food Aid Act of 1951. Prime Minister Nehru while giving a statement in the House relating to the cable despatch pointed out it as 'deprecatated which might lead to more controversies with regard to the policy which the government pursues. He stressed that the members enjoy freedom to send any message to any foreign officer and government, but if the members act like giving different opinions and suggestions without referring the government would be more controversial and harmful for the recipient country.¹² The general case for receipt of

12 Parliamentary Debates, part II, vol.8, 1951, col.2988.

foreign aid has been accepted by the Indian government since the beginning of Five-Year Plans, but especially since the foreign exchange crisis of 1957-58, in spite of some evidence of reluctance on the part of Pandit Nehru. Outside the government there has been a minority offering opposition at regular intervals. Apart from communist opposition,¹³ the primary considerations seemed to be a distaste for receiving charity, playing the role of beggar, loss of independence, dignity and above all sense of self-reliance. These ideas were always a factor in Indian thinking, though in actual formulation of policy, economic necessity overrode such fears. Jawaharlal Nehru constantly warned against relying on foreign aid for any longer than necessary.

The Communist Party of India's reactions to the American aid were well summed up by Mr. Ajoy Ghosh, then the General Secretary of the Party. He said, "We have been very critical of the acceptance of American aid because we saw that certain conditions were sought to be imposed about the manner in which the aid is to be spent. Secondly, the whole experience of international politics teaches us that American imperialism seeks to transform the country which receives aid from it into its satellite.... As between two Governments we are not opposed to getting loan even from America but on equal

13 For examples, CPI's attitude to US aid, see speeches by C.R. Chowdhury, Lok Sabha Debates, part II, vol.III, 1953, cols.3826-30: '... what locust is to vegetation, what cancer is to human body, the American dollar investment is to our national economy and to our body politic'; and by H.N. Mukherjee (Parliamentary Communist Party leader at that time), who described the Indo-US Technical Cooperation Agreement as a 'Slavery Bond'. Lok Sabha Debates, part II, vol.II, 1954, cols.2607-18.

terms".¹⁴

While dealing with India's relations with the USA, S.A. Dange, the leader of the Communist Group made a brilliant contribution to the debate on foreign affairs in Lok Sabha on December 8 and 9, 1958. He expounded American policy in an apt slogan, so to say: "Dollars to Delhi and arms to Karachi" and he added: "I do not say we reject dollars outright. Only, sometimes, we should be cautious, and the gentlemen who go to negotiate for those dollars, should discuss only dollars. I do not mean to suggest that the dollars given to us have been accepted with any strings, or that we have agreed to any policy which will compel us to follow the line of America in regard to dictatorship or martial laws or our own internal government. But, after all, dollars are dollars, and when it comes with its old habits, then one has to be careful about it... Internally it (dollar) may not do much for the present but internationally, it might sometime ask for something and I am sure the Prime Minister will guard that that asking shall not be carried out".¹⁵

It has been generally accepted that a country, like an individual, cannot consistently take without giving in return; aid must therefore lead to dependence, since even if no conditions are attached, the recipient must be involved

14 New Age, vol.III, No.49, September 2, 1956.

15 Ibid., vol.VI, No.11, December 14, 1958, p.2.

in a moral obligation to the donor country.¹⁶ This would seem to be a theoretically logical point, but it is hard to see that such considerations have had any practical impact on Indian policy. A common reaction in Parliament in the early years of Indo-American technical cooperation to the announcement of missions by American experts in various fields, ranging from physical education to agriculture, was first to question the relevance of such expertise to Indian conditions, and then to demand whether corresponding Indian experts had been sent to America.¹⁷ H.N. Mukerji while asking a question to the Finance Minister, C.D. Deshmukh, whether the American Director of Technical Cooperation has to give his consent to whatever recommendations involving the allocation or expenditure of funds which are made available by the U.S. Government and whether this has not militated against our sovereign rights? The Minister replied: "In the first place there is no question of any infraction of sovereign rights, because this is an arrangement which we have accepted for certain considerations. The

16 See, the speech by Shrimati S. Kripalini, in a foreign affairs debate relating to aid issues, Lok Sabha Debates, part II, vol.II, no.1, 1952, cols.1629-30.

17 Lok Sabha Debates, part I, vol.IV, 1953, starred question no.1316, cols. 2027-8, question of visit of American physical education expert, Dr. Jay B. Nash, part I, vol.III, no.21, 1952, starred question no. 918, cols. 1088-90, question on the work of Dr. Laubach, American adult education expert, part I, vol.VI, no.XII, 1951, col.1576. In a question to the Minister of Agriculture, K.M. Munshi, on the work of American agricultural experts, Dr. R.S. Singh asked if corresponding Indian experts had been sent to the United States. The Minister replied (one imagines with monumental impassivity) that no such request had been received.

arrangement is that inside the plan, we work out certain projects, we indicate certain projects for which we feel this assistance ought to be spent. Then those proposals are referred to this Director, who is here in the capacity, so to speak, as a consultant or advisor to the Central Committee, which is the Planning Commission. And usually the consultation results in agreements over a large part of the field. He may have alternatives to suggest again within the plan, and if they appeal to the Central Committee, then his proposals are accepted. We have found that in practice this arrangement has not resulted either in friction or in a violation of our sense of sovereignty.¹⁸ This reply signifies that the Indian Government stood defensive and in close collaboration with the United States in meeting challenges from the Indian opposition parliamentarians.

In another context in order to perpetuate India's dependence on USA for food aid, a member has raised a question that in view of the repeated announcement of the Government of India to the effect that the food position in the country is becoming more and more satisfactory and in view of the agreement which we have entered with USA under PL 480 for import of 70 million tons of foodgrains over a period of four years, whether the Government is thinking that if more foodgrains are

18 Lok Sabha Debates, part I, vol.V, 1953, cols.120-121.

produced in the country the import under this scheme will become surplus and if so will we import a lesser quantity. The Minister for Food and Agriculture, S.K. Patil, replied in favour of importing and said, "We are not still out of the woods. This agreement is for a longer period for four years. We shall watch the situation. There is an annual review of how much we need, etc. I cannot just say that every season would be as good as we wish and we may not need it. I want four years to stabilise the food situation in the country."¹⁹ In a speech to the Lok Sabha the Food Minister, A.P. Jain also laid more emphasis on import instead of generating increasing internal production which would help in reducing India's dependence on foreign countries, particularly the U.S.A. An extract of his speech may be quoted here to authenticate India's reliance on USA for import of food aid. He says, "So far as wheat is concerned, we have a fairly ambitious programme for import, and there is not much difficulty... Now, we hope to conclude a fresh agreement for the import of wheat under PL 480 from US, and the wheat under the new agreement will begin to arrive from the month of September or October, 1958."²⁰

Reacting to the utilisation of American aid, the member, D.N. Tiwari asked the question whether the Government have any hand in the utilisation of earmarked PL 480 loan funds for

19 Ibid., vol.LI, 1961, col.3740.

20 Ibid., vol.XIV, 1958, col.8174.

financing specific schemes of economic development and whether it is a fact that money in this account in Export-Import Bank (for re-lending) has remained unspent. In answering this question Finance Minister, Shri Morarji Desai said: "The schemes are selected by the Government of India and finalised in consultation with the U.S. authorities. The EX-IM Bank of U.S.A. grants loans to U.S. business firms and their Indian affiliates from rupee funds placed by the U.S. Government at the Bank's disposal under what is known as the Cooley Amendment to the PL 480. Only one loan of Rs 10 lakhs has been granted by the Bank so far. The firms selected should be mutually acceptable to the Bank as well as to the Government of India. According to the agreed procedure, the firms who need the loans have to address their loan applications to the Bank. In cases where the Bank is prepared to act favourably upon an application, it consults the Government of India. The initiative thus rests firstly with the private sector firms, who need the loan from the EX-IM Bank, and have, therefore, to apply for it, and secondly, with Bank, which has to consider such applications and then consults the Government of India".²¹ This answer made the point further clear that Indian Government sought the collaboration of the United States in finalising various projects and thus, allowed the latter to penetrate into the Indian economy. Secondly, the EX-IM Bank of USA gave priority

21 Ibid., vol.XXVII, 1959, cols.4841-42.

to the private sector firms which showed their desire and willingness in strengthening that sector in India though the amount given during the period of the present study is very low (as discussed earlier) due to the policy pursued by the Nehru government in giving much emphasis on the public sector enterprises.

Thus, it can be concluded here that an analysis of the proceedings of the Parliament Debates revealed the mixed feelings and reactions of the Indian Parliamentarians to the American aid. But the prevailing emphasis was on the need for freedom from foreign aid as soon as possible. This had been highlighted by Nehru time and again. At the height of the 1957 foreign exchange crisis, he stated that although foreign aid was most welcome, if not a rupee came from outside, India would 'fight the present foreign exchange crisis and win it.'²² The Nehru government, although gave emphasis on self-reliance and 'do away with foreign aid' as soon as possible, but they depended on USA for economic aid in order to overcome India's abject poverty and underdevelopment. Excepting few irritants and misunderstandings, Indo-American aid relations during the 1950s were not much tension-ridden and acted as one of the examples of India's economic development and political stability. However, certain opposition party members in the Parliament as analysed in this chapter reacted sharply and remained critical of American aid on the ground that it would perpetuate India's dependence

22 The Hindu, Madras, 18 September 1957.

on the United States and allow her to penetrate and influence the decision-making process of India. Although America could not be able to succeed in her objective and motivation in giving aid to India, but the oppositions' views should not be discounted because foreign aid is always a necessary evil and must be avoided by increasing mobilisation of internal resources and self-reliance.

CHAPTER IV

CONCLUSION : AN OVERVIEW, LATER DEVELOPMENTS AND SUGGESTIONS

One primary impression that emerges from the discussions in the preceding chapters is that although the areas of mutual interest clearly existed, there were substantial differences in the emphases and objectives between India and the United States in their bilateral aid relationships. The U.S. was motivated to use economic aid as a lever for political influence, while India took it as a means for its economic development. This, in fact, has created divergences of objectives and attitudes and has posed strains in their political relations. Thus, it has been observed and analysed in the present study that foreign aid always acts as a necessary evil in the sense that it not only helps perpetuate a country's dependence on the donor country, but also gives rise to various misunderstandings and tensions in their bilateral relations.

Relations between India and the United States have had their ups and downs since 1947, when India gained independence. Although every American Administration has gone on record as being in favour of large-scale aid to India, misunderstandings had arisen as to India's political objectives and policies. America's misgivings about Indian foreign policy, particularly in relation to Soviet Union and communist countries, have affected the magnitude of and the conditions under which aid has been granted. The U.S. had a major involvement in India's economic sector as a donor of aid and as one of India's principal trading

partners; but the relationships between the two states had been far from cordial, particularly in matters of aid. To some extent this was due to differences in their ideological perspectives. While India was committed to a policy of planned economic development with a major role assigned to the public sector, the US preference was for free enterprise and private sector. Therefore, Congressional opinion in the US was opposed to the idea of giving aid to the public sector. Such differences in ideological perspectives had important consequences for the Indo-US relations. Besides, the economic link, which was established between India and the US in the 1950s, survived political strains because its content was amended from bilateral aid to multilateral assistance and trade.

Indo-US relations were strained particularly because of the public debates in the US, and the overt attempts made by successive US Administrations to use economic aid as a lever for political influence. The lengthy debates in the US Congress preceding the shipment of large quantities of wheat and rice in 1951, which was occasioned by India's recognition of the Government of People's Republic of China and her active mediatory role in the Korean war, served as one of the fine examples of the political characteristics in U.S. aid to India during the fifties. It was due to this, Indian reaction to U.S. aid had remained ambivalent and public opinion had been much less appreciative of US aid than that given by the Soviet Union.

During the 1950s, India was exposed to the realities of cold war strategies of the U.S. Government. The Indian leadership concretely experienced direct threats to our national security and independence from the US policies which were conditioned by cold war perceptions of President Eisenhower and Dulles, the Secretary of State. During the 1950s, the nationalist leadership in India correctly identified itself with the resurgence of nationalism in Asia, and the Indian leadership saw that US foreign policy was in contradiction with emerging Asian nationalism. Besides, the ideological suspicion felt towards India's policies reinforced caution on the part of the U.S. Administrators and as a result America's contribution to India's First Five-Year Plan was limited to technical assistance, apart from the emergency Wheat Loan of 1951. The early years of the Second Plan in many ways marked the nadir of Indo-American relations. During this time differences became acute, but at the same time quite new demands were being made on the United States Congress for assistance. In retrospect, this may be seen as a transition period leading to a more balanced assessment of the American interest in India. During this period there was less concern over non-alignment and socialism and a greater concern that India should achieve growth, development and thereby stability, which would in turn reinforce the peace and security of the whole region. Although not stated in these terms, it would appear that America was prepared to invest substantially in Indian development in order to maintain an important component of the global status quo.

However, this proved to be a more complex strategy than the one initially anticipated. At its inception such an outlook assumed a continuous dialogue at top Government level over broad economic priorities, the place of American aid in the plans, and the right of India to define and implement its own basic objectives being accepted. This aspect of divergences of opinions and attitudes between the American and Indian policy makers and parliamentarians has been explicitly dealt with in the previous chapters. It had necessary implications on their political relations which were reduced to a low key.

The Indo-American Relations : Post-1960 Phase

During the last thirtyeight years, India and the United States have had interaction on the basis of their perceived roles in the contemporary world. The United States has global interests and it has economic and political power to pursue its goals of foreign policy. The United States has pursued its global foreign policy goals by forming military alliances with its friends, and it has used its immense economic power to achieve its foreign policy goals. In the pursuit of its global foreign policy, the US Government experienced opposition and resistances from some newly-liberated countries of the Third World. The military and economic power of the US failed to influence these countries to view global reality from the US perspectives. Indian nationalism came into conflict with US globalism, and this has been the basic reason of

differences between India and the United States. During the last thirty-eight years, India has not only resisted the US military and economic power, it has also championed the cause of those countries which felt threatened by US globalism. The basic explanation for understanding foreign policy conflicts between India and the US is provided by the framework in which Indian nationalism comes into conflict with US globalism.

Indo-American relations during the 1950s were at their worst in spite of large-scale aid because the Americans were searching for military allies and India was asserting its national sovereignty through the foreign policy of nonalignment. The US foreign policy makers in the 1950s condemned India's nonalignment as 'immoral' and the Indian leadership viewed world events from a positive nationalism perspective, and because of these differing perspectives India and the United States failed to find any meeting ground in international relations.

India experienced many difficult situations during the 1960s, and in dealing with the problems of the 1960s India found that the US followed a foreign policy of pressure and dictation. During the 1960s, the US Government dealt with three Indian Prime Ministers - Jawaharlal Nehru, Lal Bahadur Shastri and Indira Gandhi. The decade of 1960s was the most difficult phase in Indian foreign policy and the reality of US foreign policy was revealed to the Government of India that US is interested in exercising pressures on India.

During the Sino-Indian border conflict of 1962, the Government of India out of this difficult and desperate situation approached the United States for military help in order to defend herself from the Chinese aggression. The United States responded clearly by stating that in return for military aid, India would have to resolve the Kashmir problem with Pakistan. The US Government suggested a quid pro quo in return for military assistance. The moment India recovered from the shock of the Sino-Indian border conflict, it asserted its independence against the US pressures. While India was recovering from the shocks and the pressures of the US Government during the Sino-Indian border dispute, Pakistan invaded India in 1965 and the United States equated India and Pakistan in the war of 1965. A legitimate expectation in India was that the aggressor and the victim of aggression could not be equated, but the US Government did not see any lack of logic in its response to the Indo-Pakistan war of 1965.

The cumulative effect of the wars of 1962 and 1965, and of the serious drought on 1965-67, was felt on the Indian economy, especially on the food front. India had been receiving food aid from the US under Agricultural Trade Development and Assistance Act of 1954, but during the drought of 1965-67, the US Government used food aid as a pressure to influence India's foreign policy. The US President Lyndon B. Johnson had clearly stated that the shipment of food aid should be linked with Indian statements on US actions in Vietnam.

The Government of India was extremely critical of the American war in Vietnam, and President Johnson wanted to restrain India in return for food aid. Political and economic weaknesses of India during 1965-67 brought the US pressure for devaluation of the Indian rupee in return for foreign aid. The rupee was devalued but the promised aid did not come, and the Indian leadership which had agreed to the US suggestions earned public ridicule. During 1965-67, President Johnson regulated grain shipments to India, successfully pressurised India to devalue the rupee, and he failed to deliver the goods in time of need for India. His policies towards India during this phase were tied more to political events than to economic performance.

The lesson from the events of 1960s is that the US foreign policy makers believe in an unequal relationship among nations, and they exercise pressures and dictate terms in return for military and economic aid.

India and the United States were involved in a serious conflict situation on Bangladesh and President Nixon's termination of bilateral aid during the Bangladesh liberation War in 1971 brought to a head Indian resentment of the American tendency to politically manipulate economic assistance. Thereafter the flow of American aid to India continued to decline with the successive US Administrations. This is due to the persistence of their conflicting foreign policy goals and differing perceptions to international issues. During the

1970s, the Government of India felt concerned over the militarisation of the Indian Ocean by the US. The US foreign policy of 1970s was determined by its oil interests in the Middle East, and for this its geopolitical interests in the Indian Ocean assumed great significance. India felt threatened by the developments in the Indian Ocean, but the US global interests were clearly in conflict with the legitimate concerns of India as a littoral state.

The US Government is arming Pakistan to protect and promote its own interests in the Middle East, but the Government of India is concerned about the US policies in Pakistan. The Government of India is convinced that Pakistan is arming itself with US assistance on the pretext of the developments in Afghanistan. The real goal of Pakistani armed strength is to confront India and even inflict another war on this country. An alarming development in Pakistan is its new nuclear weapon policy, and the Government of India thinks that the US Government can intervene and influence Pakistan not to undertake a nuclear weapons programme. Prime Minister, Rajiv Gandhi during his visit to Washington on June 14, 1985, spelt out India's anxieties over Pakistan's military build-up and nuclear weapons programme. His arguments that the American military aid to Pakistan is imposing burdens on our resources fell on deaf ears. Regarding the nuclear weapons programme of Pakistan, Rajiv Gandhi achieved nothing in the US and the Indian plea to exercise restraint on Pakistan failed to evoke any response.

The above resume of relationships between India and the United States reveals a consistent pattern, that India as a nation-state should be pressurised because it has refused to accept the status of an ally for the promotion of US military and economic interests. India has experienced US hostility, and the US has subjected India to pressure on the military and economic fronts. Since India did not agree to become an ally of US in military pacts, India was made to suffer wars on this account. When Indians were undergoing starvation, the US Government wanted a political price for food and economic aid. If India feels threatened by nuclear Pakistan which is an ally of the US, India has been told to resolve this issue on a bilateral basis. How can India expect US friendship on terms of equality? This has been the crux of the conflicts between India and the United States.

Political relationships among nations determine the foundations of their economic interaction. Political harmony facilitates economic relations among nations. India and the United States have strongly differed in international forums on issues of disarmament, world peace, apartheid, etc. The political perspective of India on global issues has been disapproved by the US Government during the last four decades. This has influenced levels of economic cooperation between India and America.

During the last thirtyeight years, India has been involved in a basic struggle to build a relatively self-reliant

capitalist economy, and for this India has always looked for cooperation with developed industrial countries. A catalogue of successes and failures of India in dealing with the United States reveals that relationship has gone through many ups and downs. India approached the United States for a steel plant in the public sector during the 1950s and the response of the US Government and the World Bank was negative. It was proposed by the aid-givers that a steel plant in the private sector in India would be supported by the US and the World Bank. Thus, India's first experience with US was an unhappy one because an attempt was made by the US to dictate a policy in return for aid. During the 1960s President Johnson openly used food aid to pressurise India to support the American policy on Vietnam. Further, India's economic difficulties during 1965-67 were exploited by the US Government to dictate economic policies to this country. During the 1980s, the US Government and the multilateral institutions maintained by it are pressurising India to approach the international banks for commercial loans instead of asking for bilateral and multilateral foreign aid. India's effort to get a loan from the Asian Development Bank has been scuttled because of American opposition. On the supply of technology, the Americans have dictated a Memorandum of Understanding to ensure that US technology is not clandestinely transferred by India to the Soviet Union. The moral is that India's foreign economic policy has not had a smooth journey. The US Government has always tried to dictate policies to India in return for economic aid and cooperation.

The above discussions on the conflicting situations in Indo-US relations do not mean that they lacked areas of economic cooperation and understanding. It only means that their bilateral relations have not been smooth. The US is India's largest trading partner. India and US are involved in a large number of technological collaborations. The US Government has always sold an ideology of economic development based on free market economy and whenever the Government of India wanted to deepen economic relations with the US it was always suggested that India should open its economy and liberalise imports from the advanced industrial countries. The crux of the issue is that India can hope for a smooth relationship with the US if it accepts a policy package of development prescribed by the aid-givers and investors from the advanced industrial countries. In bilateral economic relations, the US Government has not recognised India's national aspiration to build a relatively self-reliant capitalist economy. Prime Minister Rajiv Gandhi's visit to the US in June 1985 has not changed the quality of Indo-American relationship because of the differing perspectives of the two countries. He has failed to persuade the US policy makers to agree to greater economic aid. The level and quality of relationship between India and US will have to be on a low key as the history of the last thirtyeight years clearly reveals.

Suggestions

It may be concluded here with a few suggestions which would help in overcoming the complexities and political hobnobbing

associated with the foreign aid relations. In the first place, a donor country in order to enable the donee to have a self-reliant economy and develop socially and politically, must pursue the objective of creating conditions so as to gradually prepare the donee to do without it. In other words, foreign aid's success lies in its own elimination and a successful donor is one who creates the conditions where no donor is needed. If the purpose of aid is to keep the recipient economy in a state of perpetual dependency, assistance virtually becomes counter-productive. Secondly, persistent and consistent efforts must be made by the recipient country for mobilising internal resources along with foreign aid for the rapid economic development of the country. Foreign aid should be regarded as a temporary palliative to generate the process of economic development and not as a substitute to attain the self-sustained growth. Hence, increasing mobilisation of internal resources with greater productions is the best answer for a self-reliant development. Thirdly, all decisions regarding foreign aid, trade and collaboration should be discussed, scrutinised and approved by a statutory standing committee of all party membership of Parliament. Fourthly, the donor country should stop forthwith the idea of asking political price in return for aid which is suicidal for the domestic sovereignty of the recipient country. Finally, since neocolonialism is a threat to national sovereignty, the

custodians of such a sovereignty are all members of Parliament who should exercise greater vigilance and watch over the foreign economic dealings of India.

To sum up, foreign aid is a necessary evil in the sense that it leads to control by the aid-givers over the aid receivers and also perpetual dependence of the latter on the former. Brazil, Argentina, Mexico, Chile, Poland and many other countries have experienced serious crises in spite of and because of foreign capital. If India has to escape this route to disaster, an anti-neocolonial movement has to be built in this country. The imperialist countries have succeeded in creating lobbies in India for foreign aid, multinational corporations and the superiority of Western technology. By co-opting the politico-bureaucratic power elite of India, the legitimacy of neocolonial penetration into Indian economy and politics gets justified. Indians have been divided on the issue of foreign aid, trade and collaborations, and lobbies of foreign countries fight battles in India against Indians who stand for self-reliance, national sovereignty and import-substitution. This is the strategy of neocolonialism championed under the leadership of the United States. Colonial rule destroyed and distorted our national development which should not be allowed to be repeated. The struggle against neocolonialism has to be fought relentlessly in India. The largest social base of modern imperialism in India is the neocolonial middle class;

an attack on its consumerism would be an essential strategy to delink it from imperialist countries. The diversification of India's global economic relations has paid rich dividends but the threat of neocolonialism persists over India because leading social groups are involved in making compromises with imperialism. The Indian monopolists, politico-bureaucratic power elite and the middle classes are the social base of neocolonialism in India and a powerful political movement should be started against unnecessary foreign aid and collaborations. Positively, the strategy for self-reliance should be strengthened because this is the only safeguard against the neocolonial penetration in India.

APPENDIX I(A)

FOREIGN AID DURING THE FIRST FIVE-YEAR PLAN OF INDIA

<u>Donor Country</u>	<u>Per cent</u>
United States	69.3
Canada	10.1
Australia	2.7
Norway	0.3
New Zealand	0.2
United Kingdom	*
World Bank	17.4

* Less than 0.05 per cent

Source: India's Development and Economic Aid, Embassy of the U.S.A., (New Delhi: 1965).

APPENDIX I(B)

FOREIGN AID DURING THE SECOND FIVE-YEAR PLAN OF INDIA

<u>Donor Country</u>	<u>Per cent</u>
United States	54.1
West Germany	8.9
United Kingdom	8.6
Soviet Union	5.4
Canada	5.3
Japan	1.1
Australia	0.5
New Zealand	0.2
Norway	0.1
World Bank	15.8

Source: Ibid.

APPENDIX II

VALUE OF AMERICAN AGRICULTURAL COMMODITIES
COVERED BY AGREEMENTS WITH INDIA, 1951-61

(In Million of Dollars)

India Wheat Loan of 1951	189.7
Section 402 of Mutual Security Act (P.L. 665)	67.8
P.L. 480, Title I:	
First Agreement, August 29, 1956	354.5
Second agreement, June 23, 1958	55.3
Third Agreement, September 26, 1958	259.8
Fourth Agreement, November 13, 1959	297.9
Fifth Agreement, May 4, 1960	1,369.8
P.L. 480, Title II	4.9
Miscellaneous relief grants	5.5
P.L. 480, Title III	116.8

Source: Food for Peace (Madras: United States Information Service, 1962).

APPENDIX III

COMPOSITION OF AGRICULTURAL COMMODITIES COVERED
BY U.S. AGREEMENTS WITH INDIA, 1951-61

Commodity	Unit	Quantity stipulated in Agreements	Quantity imported by India through June, 1961
<u>Wheat and Flour</u>			
Wheat Loan of 1951	Ton	2,000,000	2,000,000
Section 402 of Mutual Security Act	"	636,000	636,000
Five agreements under P.L. 480, Title I	"	26,400,000	13,230,000
P.L. 480, Title II	"	10,000	10,000
Total Wheat and Flour	"	29,046,000	15,876,000
<u>Rice</u>			
P.L. 480, Title I	"	1,580,000	639,000
P.L. 480, Title II	"	10,000	10,000
Total rice	"	1,590,000	649,000
<u>Corn and Sorghum</u>			
P.L. 480, Title I	"	832,000	832,000
Total foodgrains	"	31,468,000	17,357,000
<u>Cotton</u>			
Section 402 of Mutual Security Act	U.S.bale	86,000	86,000
P.L. 480, Title I	"	1,150,000	1,150,000
Total cotton	"	1,236,000	1,236,000

...continued...

Commodity	Unit	Quantity stipulated in agreements	Quantity imported by India through June, 1961
<u>Tobacco</u>			
P.L. 480, Title I	Ton	4,000	4,000
<u>Non-fat dry milk</u>			
P.L. 480, Title I	"	24,000	24,000
P.L. 480, Title II	"	4,000	4,000
Total non-fat dry milk	"	28,000	28,000
<u>Soyabean oil</u>			
P.L. 480, Title I	"	3,000	3,000

Source: Ibid., 1963.

APPENDIX IV

LEVEL OF FOOD IMPORTS THROUGH P.L. 480, 1956-61

(In crores of rupees)

Year	Total imports of foodgrains - value	PL 480 imports of foodgrains - value	Per cent of foodgrains imports through PL 480
1956-57	108	33	55.6
1957-58	165	96	58.2
1958-59	151	88	58.3
1959-60	150	91	60.7
1960-61	213	150	70.4

Source: The Hindu Weekly Review (Madras), 6 December 1965.

APPENDIX V

AMERICAN AID TO RIVER-VALLEY PROJECTS IN INDIA,
1951-63

(Amount in crores of rupees)

Project	Amount
Chambal (Rajasthan)	27.1
Hirakund (Orissa)	4.6
Demodar Valley (Bihar, West Bengal)	7.5
Mahi Right Bank Canal (Bombay)	2.0
Kakrapara (Bombay)	3.0
Nagarjunesagar (Andhra Pradesh)	29.5
Kosi (Bihar)	17.0
Bhedra (Mysore)	7.9
Tungabhadra (Andhra Pradesh)	7.1
Mahanadi Delta Irrigation (Orissa)	5.2
Kundah (Madras)	7.6
Koyna (Bombay)	11.4
Total:	130.0

Source : Indo-U.S. Aid Programme (New Delhi: USIS, 1964).

APPENDIX VI

AMERICAN-AIDED POWER PROJECTS IN INDIA WHOSE
ENTIRE ANTICIPATED COST WAS MET BY THE U.S.

Project	DLF loans in millions of dollars	Rupee Loans in Rupees in crores
<u>Thermal:</u>		
Chandrapure Thermal Power Station (Damodar Valley)	30.0	20.5
Durgapur Thermal power Station Extension (West Bengal)	20.0	3.4
Barauni Thermal Power Station (Bihar)	3.8	1.3
Kanpur Thermal Power Station Extension (U.P.)	1.6	1.0
Talcher Thermal Power Station (Orissa)	33.0	8.5
Amlai Thermal Power Station	6.4	6.6
Total Thermal:	96.8	41.3
<u>Hydroelectric:</u>		
Barapani Hydroelectric power project (Assam)	2.5	6.2
Sharavathi project, Stage II	21.5	17.2
Total hydroelectric	24.0	23.4
Grand Total:	120.8	64.7

Source: C. Tyler Wood, "Indo-US, Economic Cooperation",
The Hindu (Madras), June 12, 1960.

APPENDIX VII

AMERICAN-AIDED PROJECTS IN A LARGE NUMBER
OF SCHEMES IN INDIAAid to Agriculture:

- Acquisition and distribution of fertilizers.
- Acquisition and distribution of iron and steel for agriculture.
- Agricultural economics research.
- Agricultural information, production and training.
- Augmenting fertilizer supply.
- Calcutta milk scheme.
- Crop production and development.
- Dairy development.
- Development of forest research and desert afforestation.
- Expansion and modernisation of marine and inland fisheries.
- Fertilizers imports.
- Flood Control.
- Ground-water exploration.
- Ground-water irrigation.
- Hybrid maize and other improved seeds.
- Jungle-reclamation machinery.
- Milk schemes.
- Modern storage of foodgrains.
- Provision of engineering services to Damodar valley corporation.
- Provision of technical advisory services to Central Water & Power Commission.
- River-valley development.

- Soil laboratories.
- Soil and water conservation.
- Steel for agricultural implements.
- Survey of Sindri expansion.
- Technical services in water resources and power development.
- Technical assistance to irrigation-research institute.
- Uttar Pradesh Agricultural University.
- Water-resources survey and minor irrigation works.

Aid to Industry:

Assistance to coal industry

- Assistance to industrial research and technical organisation.
- Augmenting steel supply.
- Bombay Central Training Institute for Craftsmen and Instructors.
- Building-materials development.
- Cement.
- Delhi Thermal Plant.
- Exploratory lignite excavation and development; Geological Survey of India.
- Improvement of Rajasthan Power facilities.
- Industrial credit and investment corporation of India.
- Industrial Finance Corporation.
- Industrial Technical Services.
- Mineral development.
- National Productivity Council.
- Orissa iron ore.

- Refinance Corporation for Industry, Ltd.
- Rihand Valley Development.
- Rural electrification.
- Sharevathi Hydro-Electric Project.
- Small-industries development.
- Telecommunication development.
- University of Roorkee (technical education).

Aid to Health:

All India Institute of Medical Sciences Hospital.

Assistance to health agencies.

Assistance to medical colleges and allied institutions.

- Control of filaria.
- General nursing.
- Health education.
- Health Instruction Training Centres.
- Malaria eradication.
- National water supply and sanitation programme.
- Medical education.
- Medical College, Baroda.
- Medical College, Trivandrum.
- Osmania Medical College, Hyderabad.

Aid to Transport:

Expansion of aviation ground facilities.

Indian Airlines.

Jet liners for Air India International.

Radar and other equipment for airports.

Railway rehabilitation and expansion of national highways.

Aid to Education

- Adult education
- Assistance to Central Institute of Education.
- Assistance to Educational Administration.
- Agricultural education and research.
- Assistance to extension programme for secondary-school teachers.
- Assistance to National Institute of Basic Education.
- Assistance to National Professional Education Centre.
- Assistance to teacher training in audio-visual education.
- Assistance to technical-education institutions.
- Assistance to training in adult education.
- Audio-visual education.
- Indian Institute of Technology, Kanpur.
- Indian Institute of Technology, Kharagpur.
- Rural institutes.
- School-building improvement.
- Social-welfare education.

Aid to Miscellaneous Projects:

- Assistance to nuclear research.
- Community development programme.
- Housing construction.
- Establishment of Central Labour Institute.
- Industrial safety.
- Investment promotion and tax study.
- Organization and management techniques.
- Social Welfare.
- Study of effects of thermal environment conditions.
- Training in public administration

Source: S. Chandrasekhar, American Aid and India's Economic Development (New York: 1965).

APPENDIX VIII

SUMMARY OF U.S. ECONOMIC AND TECHNICAL ASSISTANCE
PROGRAMMES IN INDIA BY TYPE OF PROGRAMME (1951-61)

(In millions of Dollars)

	1951- 56	1957	1958	1959	1960	1961
Development grant	47.5	6.2	6.3	7.4	8.7	8.0
Malaria Control & eradication	21.1	6.5	12.0	10.2	15.6	13.5
Development financing prior to June 30, 1957	259.1	47.5	-	-	-	-
DLF Loans	-	-	64.9	100.0	98.7	159.1
Orissa Iron Ore Project	-	-	18.4	-	-	-
Export-Import Bank Loans	-	-	151.9	-	13.6	79.5
<u>Food for Peace</u>						
1951 Wheat Loan	189.7	-	-	-	-	-
P.L. 480, Title	-	354.5	55.3	259.8	1,667.7	-
P.L. 480, Title II	3.5	1.4	-	-	-	0.3
P.L. 480, Title III	60.4	17.8	17.6	19.4	10.0	18.4

Source: Fact Sheet on U.S. Economic Assistance to India
(New Delhi: USIS, 1965).

APPENDIX IX

EXPORT-IMPORT BANK LOANS TO PUBLIC SECTOR IN INDIA,
(1951-63)

(In millions of dollars)

	Value of orders placed	Amount drawn from credit
Equipment for irrigation project	3.5	2.378
Equipment for Dandakaranya project	2.5	0.245
Equipment for power projects	2.2	0.305
Equipment for iron-ore mining	3.8	2.180
Equipment for National Coal Development Corporation	19.4	13.247
Equipment for Neyveli Lignite Corporation	1.1	0.570
Equipment for Dugda Coal Washery	6.0	3.886
Equipment for roads and bridges	3.0	0.158

Source: American Aid to India (New Delhi: USIS, 1964).

APPENDIX X

EXPORT-IMPORT BANK LOANS TO PRIVATE SECTOR IN INDIA, 1951-63

(In millions of dollars)

	Value of orders placed	Amount drawn from credit
Equipment for textile industry	24.0	6.856
Equipment for engineering industry	4.6	2.305
Equipment for machine tools for various industries	4.5	1.928
Equipment for chemical industry	18.9	4.491
Equipment for automobile industry	10.4	4.009
Equipment for aluminium industry	5.7	-
Equipment for private manganese and iron-ore industry	0.8	0.726

Sources: Ibid.

APPENDIX VI

EXPORT-IMPORT BANK GENERAL LOANS TO INDIA, 1957-1961

	<u>Amount</u> <u>(in dollars)</u>
Sundatta Cotton Seed Utilization, Ltd.	60,000
National Rayon Corporation	1,800,000
First-line of credit to Government of India.	150,000,000
Hindustan Aluminium, Ltd.	13,650,000
Air India International (first loan)	4,100,000
Second line of credit to Government of India.	50,000,000
Orient Paper Mills, Ltd.	18,500,000
Air India International (second loan)	8,100,000
East India Hotels	717,000
Third line of credit to Government of India.	25,000,000
Total:	271,927,000

Source: Fact Sheet on U.S. Economic Assistance to India
(New Delhi: USIS, 1962).

APPENDIX XII

AMERICAN AID TO PRIVATE INDUSTRIES IN INDIA, 1951-63

(In crores of Rupees)

Otis Elevator of India, Ltd.	0.10
Good-Year Tyre and Rubber Co. of India, Ltd.	2.25
Mysore Cements Limited	0.55
Hindustan Aluminium Limited	1.00
Synthetics and Chemicals, Ltd.	5.42
Merck, Share and Dohme Private, Ltd.	0.50
Ex-Cell-O (India) Private, Ltd.	0.20
Premier Tyres, Ltd.	0.30
Seshasayee Paper and Board, Ltd.	2.00
Lederle Laboratories (India), Private, Ltd.	0.25
Gabriel India Private, Limited.	0.05
Carrier Air Conditioning and Refrigeration Private, Ltd.	0.37
Total:	12.79

Source: "Cobley Fund Loans" in U.S. Economic Assistance to India (New Delhi: USIS, 1964).

APPENDIX XIII

AMERICAN AID TO INDIAN INDUSTRIAL DEVELOPMENT, 1951-61

(In millions of dollars)

Purposes	Amount
Capital equipment for such industries as jute, cement, automobile, rayon, paper, etc.	298.2
Mineral development	21.2
Financial institutions	25.0
Industrial research organizations	12.3
Nuclear engineering and research	1.4
Electric-power generation	162.1
Rural electrification and electrical distribution systems	3.4
Steel supply	145.8
Total :	669.4

Source: Fact Sheet on U.S. Economic Assistance to India
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