THE UNITED STATES ECONOMIC FOREIGN POLICY TOWARDS INDIA 1964 - 1976

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P R E F A C E

PREFACE

In recent years the United States foreign policy has acquired a significant interest among scholars, writers and foreign policy experts. Such is the nature of America's involvement in world affairs, more particularly after the World War II, that the magnitude of interest evinced is inevitable. The diplomatic, strategic, and geo-political considerations have remained supreme in several appraisal of U.S. foreign policy. The vital economic interest of the United States in the realm of its foreign policy has, however, gained scant attention. Although many works have come up in this area, yet it needs a renewed emphasis from time to time.

The present dissertation is a modest exercise in this vein. The U.S. economic foreign policy is an ever challenging subject for scholars to probe. The present scholar wishes to investigate merely some of the aspects that have come to stay in this sphere. Hence the proposed dissertation is an attempt to emphasize those economic aspects of U.S. foreign policy towards India, which have, otherwise, been obliterated from the view. The thesis, however, does not account for all economic issues that transpired between India and the United States during the period 1964-1976.

This work has been divided into five chapters. The first chapter focusses primarily on the mechanics and execution of American foreign policy. How these factors are intertwined with each other have also been analysed. The relevance of economic nunances and their overall bearing in the making of foreign policy have, briefly, been discussed.

The second chapter is devoted to the analysis of American economic interest in South Asia after the Second World War. The U.S. stakes in India as a newly independent country have been dealt with.

The third chapter relates to the U.S. economic foreign policy towards India during the period, 1964-1976. It brings out the processes of American aid, trade and investments in this country.

The fourth chapter deals with India's demands for the U.S. economic aid and investment as well as its priorities as allocated in its plans structure. The chapter also analyses the official as well as non-official attitudes of the government of India and its people.

The last chaptër is the conclusion of the thesis. It broadly reflects the sum total of major points analysed in the preceding chapters. However it is not a detailed summary of the dissertation.

In this work, I have mainly relied on the official documents pertaining to the United States and some of the documents concerning the United Nations. The articles from leading journals as well as important newspapers have been of immense help in developing the thesis.

I wish to record my appreciations and deep sense of gratitude to my supervisor, Professor R.P. Kaushik for providing me valuable advice and encouragement and for his remarkable forbearance. If inspite of this I have failed to come up to his expectations, it is largely due to my own imperfections.

In my work, a number of people have extended substantial help. I am grateful to Suranjana, Neelanjana, K.M.Manikfan and P.Shekhar for their valuable advice and suggestions. I also thank the various members of the staff of the libraries of Jawaharlal Nehru University, Indian Council of World Affairs and other libraries in Delhi.

Above all, I must thank my parents for encouraging me and having borne with me patiently during my work at Jawaharlal Nehru University.

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CHAPTER - I

ECONOMIC FACTORS IN U.S. FOREIGN POLICY

ECONOMIC FACTORS IN U.S. FOREIGN POLICY

The foreign policy of a country in the present day world is subjected to a great deal of challenges and pressures. In a democratic country, considerable efforts are made to assess and evaluate the public opinion, with a view to harness it for its national needs. Although there exists a distance in measuring the strength of public opinion between the people and the Government, more particularly in the context of foreign policy, it does, nevertheless, make its impact in one form or the other. The process thus continues with its course of actions and decisions, made by the state while dealing with other nations. The primacy of its national objectives remains uppermost in its consideration.

The United States of America has been no exception to this rule. It has followed in the past and continues to follow its interest as determined by its political, geo-political and strategic considerations in different regions of the world. Equally important has been the pursuit of its economic interest with other countries in this regard. An attempt is made in this chapter to reflect briefly on the mechanics that work in executing foreign policy aspects in the United States.

Presidency

There are important decision making bodies that are involved in shaping and modifying foreign policy processes. The Executive branch is one important body that plays a central role in policy formulation. The political system of the United States has placed major responsibility on the President regarding the conduct of foreign relations. "The President is the heart of the whole policy making process and thus holds the most powerful political office in the world".[1] He, therefore, bears ultimate responsibility for all the decisions. He outlines the general policy that is to be followed on important issues and questions. Sometimes he makes personal decisions on matters that require his immediate attention. However, there exists an elaborate staff infrastructure to assist him in his work.

The innermost circle in this infrastructure consists of the staff in the White House itself along with the President and his closest associates.[2] It has on its rolés the administrative and personal assistants, aides and secretaries. The special assistant to the President, who deals entirely on foreign affairs is also an important office bearer. The

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1. Charles O. Lerche Jr., Foreign Policy of the American People (Englewood Cliffs, N.J.: Prentice Hall Inc., 1958), p. 33.

2. Peter Szanton & Graham Allison, Remaking Foreign Policy: The Organizational Connection (New York: Basic Books Inc., Publishers, 1976), pp. 63-64.

Senate, in the U.S. Congress, exercises its influence in determining the course of foreign policy, its implementation and thus exerts pressure on the executive branch from time to time.

The principal military adviser to the President is the Chairman of the Joint Chiefs of Staff, of the three Armed services. The Chairman is responsible for basic strategic recommendations. He provides the official channel through which the views of the Armed Services reach the President. The counterpart to the Joint Chiefs of Staff is the Office of Defense Mobilisation, under a Director who heads the Government organisation for defense. The Director is the principal adviser to the President on matters of domestic mobilization, manpower and economic controls. He is also concerned with the overseas aid programmes, mobilization at home, stockpiling economic stabilization and such other related matters.

The pervasive nature of foreign affairs in American life today is illustrated by the fact that the Council of Economic Advisers is also included in the Office of President. This Council established in 1946, does not have a direct connection with foreign policy but is quite important in so far it carries economic strength as a major international weapon of the United States.[3] Its task is to make recommen-

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3. Lerche Jr., n. 1, p. 37.

dations to the President, on measures to be taken to maintain the maximum productivity and prosperity of the American economy. Its recommendations must match with the office of Defense Mobilisation.

National Security Council

An important part of the Executive Office of the President is the National Security Council, which is unique in its composition and functions. It was created by the congressional legislation in 1947, and "is the highest body for evolving American Security policy".[4] The National Security Council consists of the President as Chairman, the Vice-President, the Secretary of State, the Secretary of Defense, the Director of Office of Defense Mobilization and other officials invited by the President. The Council performs two important functions. In the first place it makes recommendations to the President on all matters pertaining to the security of United States, which require Presidential decision. Secondly, it brings together at the highest level, the most important offisials concerned with foreign policy and provides a setting for free and frank discussion among them, thus making National Security a body of great importance.

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4. Sydney W. Souers, "Policy for National Security", American Political Science Review (Washington), (June 1949), p. 530.

The subordinate body to the National Security Council is the Central Intelligence Agency (CIA) established by the National Security Act of 1947. The CIA seeks to co-ordinate all the information gathered by the other agencies upon which the policy decisions of the United States are based. It also serves as a central agency for the distribution of intellegence data, as a correlator of intelligence emanating from other sources, and as a synthesizer of "intelligence estimates". It performs a number of intelligence activities of its own, and its detailed operations are one of the most security cloaked activities of the government.[5]

The Bureau of the Budget is another executive staff agency to merit mention. It plays a key role in all budgetary matters and has authroity to review all requests for legislation made by the various departments. Since three-fourth of the expenditures of the Government is now represented with foreign affairs, the role of the Bureau in passing on, approving or disapproving, raising or lowering appropriations, has a great impact on the substance of policy. The Director of the Bureau is one of the major fiscal advisers to the President.

Department of State

The Department of State headed by the Secretary of

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5. Sherman Kent, Strategic Intelligence for American World Policy (Princeton, N.J: Princeton University Press, 1949), p. 21.

State constitutes the major single source of foreign policy decisions in the entire governmental structure. The pressures of international problems have increased and the Department can no longer retain an exclusive control over foreign policy matters. The inter-departmental consultations and coordinations are necessary. However, it is generally the Department of State that serves as the principal conduct of cooperative actions. The Secretary of State is the most important decision maker and a major adviser to the President on foreign policy matters. The Secretary's relationship to the President is an elastic one. The law of 1789 that created the office did not give any detailed responsibilities to the secretary but directed him to assist the President. The most important role in policy making carried on by him is that of coordination. The Secretary of State is one of the many senior officials close to the President in matters relating to execution of foreign policy. He has been authorised by the Department of State to give policy guidelines to such operating bodies as the foreign Operations Administration and the United States Information Agency. The heads of these agencies seek guidance from the Secretary. As the senior member of all coordinating bodies, the Secretary is in a better position to exert influence in determining the decisions. What all this means is that the major job of the Secretary is to deal with policy - both in terms of advising the President and sometimes formulating decisions himself - rather than with the administration.

Department of Defense

The significant changes in the American foreign policy making since 1945 can be attributed to the ínclusion of military point of view.[6] The Department of Defense and the three service departments under its direction share directly in the foreign policy process at all levels. The Secretary of Defense has a special foreign policy assistance in the form of an Assistant Secretary or other high ranking officials. He is charged with direct responsibility for making the departments contribution to all inter-agency or joint decisions. Since so many operational decisions are taken on a multi-departmental basis via the National Security Council or lower level joint bodies, great care is taken to have the military point of view represented in almost every sort of decision making body.[7]

Treasury

Among the "big three" Cabinet Departments, the Treasyry constitutes the third important department in the foreign policy area. Since foreign affairs constitute a great bulk of the annual budget of the United States, this Department serves as a limiting factor particularly in military and

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6. Burton, M. Sapin and Richard C. Snyder, The Role of the Military in American Foreign Policy (Garden City, N.H.: Doubleday, 1954), p. 51.

7. Samuel P. Huntington, The Soldier and the State (Cambridge, Mass: Belknap Press of Harvard University, 1957), p. 63.

foreign aid programmes - which has a great effect on controlling and directing American policy, ~~International Monetary Fund.~~ The Treasury Department has operational responsibilities. A major share of American policy deals with financial and monetary matters, hence the Department makes basic decisions in this regard. The Office of International Finance under the Treasury Department is concerned with the general problem. Its major concern is therefore to comprehend with the American membership in the International Bank for Reconstruction and Development; Tariff Administration, direct international loans and other aspects of economic foreign policy. These are thus the different areas in which the Treasury Department plays a very significant role.[8]

The other Cabinet Departments also have their share in policy making. All the administrative heads participate in Cabinet meetings, and thus have access to the President when international issues are discussed. In addition, all of them enter the field of foreign policy to some extent in performing their statutory duties. The significant among this group are the Department of Agriculture and Commerce, as they are responsible for the whole matter of foreign trade. Agriculture plays an important role in such fields as the international movement of food products and the procurement of agricultural experts for American technical assistance programmes. The rest of the Cabinet departments - Labor, Post

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8. Lerche Jr., n. 1, p. 46.

Office, Justice, Interior and Health, Education Welfare also have a direct role as Agriculture and Commerce but a limited one.

Role of the Congress

There are many functions of policy making which are shared with the U.S. Congress. The competition and frequent conflict between legislature and executive are as normal as is cooperation. It is the "general function of the legislation that the whole Congress comes squarely to grips with foreign policy".[9] There are only few areas of foreign policy in which the President can move freely without the necessity of any legislation, usually some implementing law must be passed before policies can effectively be carried out. This means that most of the major programmes must be submitted to Congress in the form of bills. The Congress may exercise its amending or negating authority, and it is rare for an executive suggestion to pass through the Congressional mill without being reshaped in some way.

The potential impact of Congress on any project can be judged from the fact that the executive tends to consult with Congressional leaders in advance so as to tailor its requests to what Congress will accept. To the extent that policy declarations come to be formalised into specific programmes

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9. Francis O. Wilcox, Congress, the Executive and Foreign Policy (London: Harper & Row, 1971), p. 22.

of action - Congress has great power to alter the executive designs. Such a possibility requires that the President and his advisers always take Congressional opinion into account. Because of the operation of checks and balances in the American system, the Congress is prone to exercise some form of negative control on executive decisions, either by refusing to accept them or by changing their substance, direction or timing. This fact represents the nature and extent of Congressional power over foreign policy.[10]

The mechanics involved in execution of foreign policies has more or less remained the same over the years but the trend of foreign policy itself has presented a chequered history. The position of United States in the world affairs has undergone a revolutionary transformation. For almost 20 years, following the end of the Second World War, the international scene has been characterised by the existence of the two super powers - the United States and the Soviet Union. The related developments of this period, though subordinate were the relative decline of the two traditional West European allies, Britain and France, and the revolutionary transformation of the vast colonial areas of the world into independent states. The first factor brought the withdrawl of the British and French from their overseas commitments, and presented the United States with the hard choice of assuming

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10. Robert Dahl, Congress and Foreign Policy (New York: Harcourt, Brace & Co., 1950), p. 97.

responsibilities, in many of those areas or risking the possible consequences of Communist domination of the areas. The two fold basis of foreign policy - isolation from Europe, and expansion in the New World, obviously did not account for all the activities on the international scene until 1900. There were, of course, occasional departures from these principles, but they do represent the essential aims.

The broad principles of United States has been guided by objective of national interest. For the achievement of national interest, the state has to undertake decisions and action so that the goal set forth is reached. The objective of national interest is reached through a variety of forms. These forms of action broadly fall into four traditional categories of state action. The four instruments for execution of foreign policy are : political action through the mechanisms of diplomatic representation; economic action which takes the form of trade, aid and investment; psychological action which takes the form of mass persuasion, and coersive military action through armed force.[11]

Economic Aspects

Economic power has been a major weapon in the hands of U.S. Government. The economic action undertaken by the United

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11. K.J. Holsti, International Politics: A Framework for Analysis (New Delhi: Prentice Hall of India Private Ltd., 1978), p. 243.

States Government can be manifested in its Economic Foreign Policy, which wields a considerable influence on its international economic relations. The economic foreign policy of the United States includes the economic components of its national interest. It also involves economic techniques that the United States employs towards its advancements. Its economic interest can be viewed in terms of its economic foreign policy and its impact on the society. The economic foreign policy involves a large share of the expenditures of the Government and it costs a great deal of money. The expenditures for foreign policy fall into three budget categories : national security, mutual security, and international affairs and finance. The American citizens have to bear the economic costs in terms of expenditures which is generally raised through taxation, or in terms of key resources for which the private individuals have to compete with the Government. The economic interest of the American Foreign Policy is fully subserved if it provides economic stimulus to the nation.

The instruments which the United States Government employs to maximize its economic interest takes the form of foreign aid, trade and investment. Foreign aid is an important instrument of Economic Foreign Policy which the United States Government uses to achieve certain political advantages. The economic or military aid has played a major role, in the formulation of U.S. foreign policy. It has been an instrument of foreign policy for the last three decades to manipulate world events. During and immediately after the Second World War, as has been argued, the United States through judicious use of aid, prepared the groundwork for a post-war economic advantage at the expense of Europe. The programme of aid, despite its humanitarian overtones, sought to lay the basis for the integration of much of the world's economy on American terms and for the construction of a system of societies open to political manipulation and to the pressures of free enterprise. The economic justification for aid was camaflouged into humanitarism and strategic aspects.

The Second World War and thereafter emerged an immense sales opportunity to the United States. It sought further markets and more of its influence abroad. The developments in the f ield of electronics gave the U.S. industrial complex the necessary dyhamism to acquire new markets. The liasion between this industrial complex and the Pentagon soon made the United States look not only for markets and influence but also for domination over other societies. The aid extended to countries was one way of achieving this objective. The United States started its foreign aid programme when war-torn Europe was limping back to peace after the Second World War. Unlike its allies the United States was more prosperous at the end of the war than when it began the process. During the war its industrial production had quadrupled. The war boosted its economy. The United States was in a position to help war torn Europe, which needed food and clothing apart from monetary assistance to reconstruct its shattered economy.

The foreign aid has not always been pursued with the objective of economic advancement of the receipient country or with humanitarian considerations. The United States has been undertaking and programmes for bigger and more material benefits for itself even at the cost of others. "American administration has tried to tell the American people and Congress that aid is in the best interests of the United States".[12] It was the commercial aspect of aid which had made the aid-receiving countries sore. The U.S. administrators had openly admitted that foreign aid boosted trade. Some of them had testified before the U.S. Congressional Committees that if aid were reduced, it would adversely effect American exports, employment, hurt the prosperity and welfare of the United States. David Bell, U.S. AID Administrator, who gave stability and purpose to the aid programmes, stayed longer than anyone else as Administrator, said in Pittsburgh on October 23, 1963, that "U.S. foreign assistance programme had a major effect in financing U.S. exports of goods and services and a relatively small and declining effect on the U.S. balance of payments deficits". He added:

12. T.V. Kunhi Krishnan, The Unfriendly Friends: India and America (New Delhi: India Book Company), p. 211.

> Foreign aid today in a overwhelming degree takes the form of U.S. goods and services - not U.S. dollars - going out to help the underdeveloped counries. And in the process, according to a private planning group's estimates, American assistance to the developing countries is responsible for at least several hundred thousand American jobs.13

Five years later, William S. Gaud, the Chief of U.S. AID under President Johnson, affirmed that "Ninety three percent of AID funds are spent directly in the United States to pay for, U.S. equipment, U.S. raw materials, U.S. expert services and U.S. food given to developing countries as aid". He said that "the biggest single misconception about foreign aid is that we spend money abroad".[14]

Apart from the control of the economics of the third world, another objective of U.S. aid was to cultivate the friendship of the developing countries so that their support to the United States in international disputes at international forums was assured. The programme guidance manual of US. AID states :

> Aid as an instrument of foreign policy is best adapted to promoting economic development. Development is not an end to itself, but it is a critical element in U.S. policy, for in most countries some progress is essential to maintenance and the growth of free, non-Communist societies.

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13. The New York Times, October 24, 1963.

14. William S. Gaud, "Foreign Aid; What it is; how it works why we provide it" Department of State Bulletin (Washington, Vol. LIX, No. 1587 (Dec. 9, 1968), p. 603.

The American policy planners were not content merely with the growth of non-Communist societies and their systems, but wanted them to act according to their wishes. Aid was more often used as a lever to twist the arms of nations. Most of the U.S. aid had been given under bilateral agreements and not through international agencies. Even when aid was channelled through international agencies, the United States had been able to exercise some amount of control and used it as a political weapon, often forcing aid receiving countries to pursue policies favourable to it.

The United States of America had mainly four types of aid programmes: (1) military aid, (2) technical assistance, (3) grants and commodity import programmes, and (4) development loans. The first one was probably the oldest, for military aid was a traditional technique for buttressing alliances. Military aid was given to those nations who could be used to combat communism and were willing to accept the United States as the leader of the anti-Communist world. "Military aid was made into a political currency, a talisman of U.S. friendship."[15] Since World War II, the United States had spent more resources on military aid than on their other foreign economic programmes - and the objective had been the traditional one of safeguarding their own security by streng-

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15. William A. Brown and Redvers Opic, American Foreign Assistance (Washington, D.C.: Brookings, 1953), p. 18.

thening the military capabilities of allies. Technical assistance was the least costly of all types of aid programmes provided by the U.S. It was meant to disseminate knowledge and skills rather than goods or funds. Personnel with special skills were sent to countries to advise on a variety of projects. American programmes like "Point Four" and organisations such as Peace Corps had been associated with projects such as malaria control, agricultural mechanization, public administration, development of fisheries, teaching programmes, land reclamation, road construction and development of medical and sanitary facilities.[16]

Until the late 1950's, the preferred method of transferring capital and goods by U.S. was to donate outright grants or gifts, for which no economic repayment was expected. American funds in this form was dispensed in the European Recovery Programme, and the Mutual Security Programme The grants and gifts were given by the United States whenever an ally country faced an emergency like military threat, famine or floods. Under Public Law 480, also known as the "Food for Peace" programme, the United States annually distributed abroad several million tons of surplus food for which the receipients paid low prices in their own currencies, rather than in dollars. The payments were usually kept in special funds that were lent back to the receiving country for economic development projects.

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16. Holsti, n.11, p. 261.

The foreign aid which United States granted in the form of loans had not been, strictly speaking, aid at all. These loans represented a short term transfer of funds, but since receipients paid back principal and interest, the transfer was only temporary. Only to the extent that bilateral and multilateral loans were made to receipients with poor credit ratings, or at interest rates lower than those prevailing in international financial markets, could be considered aid. The loans involved economic "strings", that for a variety of reasons the receipients preferred to avoid, as it caused considerable disillusionment. The bilateral loans were often tied and receipients were required to use loan funds to buy products from the donor. Often these were at costs above market rates, or the goods were of inferior quality. Despite these negative features of loans, the U.S. had used it to wield political influence over receipients.[17]

The overall economic implications of foreign aid could be understood by studying the aspects of military aid and defense support extended by the U.S. to its allies. It has been pointed out that international obligations constitute a net drain on the available goods and services. But a close look at the foreign aid figures makes it evident that primary stress occurred at the point of military expenditures rather than its foreign-assistance programmes. At particular pressure

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17. Joan M. Nelson, <u>Aid, Influence and Foreign Policy</u> (New York: Macmillan, 1968), p. 83.

points in the economy, there could be some cause for complaint that foreign assistance might actually work a hardship on Americans. This contention was offset, however by the considerable, if immeasurable, extent to which foreign assistance programmes have stimulated other more normal trade activities and thus brought about a net economic gain to the United States.

An economic issue of immediate pertinance to the total of American foreign policy was the question of status of international trade. America's strategic economic position had made it possible for the United States to use international trade as a weapon against the Soviet Union. Denying exports to hostile nations, or extending trade and exchange concessions to friendly ones, and the employment of promises or threats to do either, while bargaining proved useful to the American negotiators.[18] The Government of U.S. imposed regulations on the trading country in the form of tariffs and quotas, to bring about a desired political result in the country with which it is trading. What the use of trade control as a tool of policy had meant, however, had been a systematic denial of the pledges of "normal" trade relations made by the United States. Freely operating multilateralism in international economic relations had been a casualty of the cold war.

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18. Lerche, n.1, p. 451.

Trade instruments at the disposal of U.S. were normally used for three purposes: "(i) to achieve any foreign policy objective by exploiting need and dependence and offering economic rewards, or threatening or imposing economic punishments, (ii) to increase its capabilities or deprive its enemy of its capabilities. (iii) to create economic satellites (that is, guaranteed markets of sources of supply) or help maintain political influence in satellites or "spheres of influence", by creating a relationship of economic dependence".[19] All of these matters entered into United States trade policy and affected the broader pattern of American policy.

Another significant aspect of the operation of U.S. Foreign Economic Policy was private foreign investments. The U.S. undertook foreign investment programmes mainly through its multinational corporations which might indulge in indeginous investment or joint collaboration with the recipient country. Private foreign investment was done broadly in three areas: (i) that required sophisticated technology, (ii) import substitution (iii) export-oriented industries.[20] There was equity participation with certain fixed percentage when the multinational corporations went in for joint collaboration which was a viable attractive proposition.

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19. Holsti, n. 11, p. 245.

20. P.G. Salvi, Aid to Collaboration: A Study in Indo-U.S. Economic Relations (Bombay: Popular Prakashan Pvt. Ltd., 1978), p. 95.

The fact that the activities of the multinationals tended to have a decisive influence in the domestic as well as foreign affairs of countries they operated is no longer disputed. More often than not, the battle between these transnational economic units and nation states tended to become bitter indeed. The reason being that both the parties knew that they needed to cooperate to reap sufficient benefits but the varying objectives of the two resulted in never ending tussle. While the companies were primarily obsessed with business prospects, the nation states liked to use the services of the companies in terms of finance, managerial capabilities and technical knowhow for its own developmental purposes. The method of operation and its effectiveness varied according to the country concerned and their ability to withstand the onslaught of the corporate activities. The preposterous role of multinationals in Latin American countries and in some regions of Africa had been subjects of wide discussion. The foreign economic policy of the United States could thus successfully materealise with the active cooperation of its foreign private investment.

Modern nations are politically and technologically interdependent, so they do rely upon each other for resources and commodities that enable them to sustain viable economies. Because economic resources are often scarce but necessary to fulfill national values and objectives, possession of such economic resources can be used for foreign policy purposes.

The United States of America had also used its economic instruments to achieve its political objectives. The economic action undertaken by America could by manifested in its Economic Foreign Policy which had a paramount effect on its foreign policy execution.

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CHAPTER - II

U.S. ECONOMIC FOREIGN POLICY IN INDIA

Chapter - II

U.S. ECONOMIC FOREIGN POLICY IN INDIA

There were two major aspects concerning the U.S. Economic Policy towards Asia and more particularly in regard to South Asia. First, that a sizable quantum of U.S. aid and economic efforts had been needed in Asia as it constituted a vital region to the U.S. interest. The second, that Asia had been considered important for American interest as it had played a vital role in the recovery of European economies which had had a direct impact on the American economy.

The postward years were dominated by circumstances and power relationships identified with World War II. The period between 1948 and 1950 marked the expansion and intensification of the cold war. The developments that took place in the international sphere brought about the U.S. economic and military aid as instruments of this policy. This in turn determined the form and content of the later Mutual Security Program in Asia.

From the days of the Marshall plan, the United States constantly expanded the scope of its commitments from Western Europe to other parts of the world, and South Asia in particular. The motivating factor in this direction was the containment of Communist ideology. To immunise the South Asian region against Communist infection, there was massive flow of American aid. Thus the onslaught of the cold war made it imperative for America to contain the threat from Russia. In 1951, George C. McGhee, Assistant Secretary of State said:

> South Asia is the most stable area that exists today in Asia which includes countries oriented to the West, that are aware of the internal problems of communism and are determined to defend themselves against aggression...
>
> In this area, are 450 million people, one-fifth, approximately of the people of the world, and about a third of the people in the free world....
>
> If we should ever lose these people to communism, that would give communism the majority of the people in the free world....[1]

The postwar foreign economic policy had a more positive and "internationalist" tone. The rise of American economic strength in the world gave rise to a feeling of American responsibility to safeguard it with a view to promote the international economy, which would ultimately meet the interests of the United States. The American policy planners restored to a three-fold means: financial, diplomatic and

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1. 82nd Congress, 1st Session, The Mutual Security Program, (Hearings before the Committee on Foreign Affairs, House of Representatives, July 24, 1951), p. 940.

organisational.[1] The large scale military and economic aid, military "offshore procurement", technical assistance, stockpiling of strategic materials, "counterpart funds", and other devices were added to the mechanics of foreign economic policy or assigned a more prominent place in it. All these devices helped America to have an indirect recourse to the countries of South Asia which served the interests of the United States. The President of National Foreign Trade Council, Mr. W.S. Swingle remarked :

> The enlightened self-interest of the American people requires that our foreign policy be directed, consciously and deliberately, toward the promotion of our national security and well-being and preservation of our freedom. It requires that our foreign economic policy be dedicated to the maintenance and upholding of America's economic and military strength.... It should be made clear however that the primary purpose of such assistance is the promotion of the mutual security of the U.S.[2]

The United States needed assured production and availability of strategic raw materials, military weapons and other products which were essential to its security and freedom. Provision had to be made for the intensified development of the existing sources and for the discovery and development

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2. 83rd Congress, 1st Session, U.S. Foreign Economic Policy (Hearings before the sub-committee on Foreign Economic Policy of the Committee on Foreign Affairs, House of Representatives, March 12, 18, April 1, 21, 30 and May 12, 1953), p. 78.

of new sources. Therefore, the American private capital flowed into the South Asian region to provide the expanded output of raw materials and manufactured products in which the military security and economic well-being of the United States depended. Kenneth H. Campbell, Assistant Secretary of the Foreign Commerce Department, in a Statement said:

> Stockpiles of strategic and critical materials should be developed to the extent consistent with the needs for defense and essential civilian production...
>
> It should also be provided that countries receiving economic or military aid afford this country opportunity to secure at reasonable terms such materials as are not available here or which are in actual or potential short supply. The need for preservation of healthy domestic industry, however should be recognised in legislative authorisations and in the acquisition of stockpile materials.[3]

This form of U.S. foreign investment gave rise to cries of undue interference by the countries of South Asia. Asian governments accused the United States of practising "neo-colonialism" and demanded aid/investments without strings attached.

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3. Statement of Kenneth H. Campbell, <u>what the National Chamber stands for in World Affairs</u>, (Declarations of International Commercial and Political Policy, Chamber of Commerce of the U.S., Washington D.C. 1953), pp. 16-17.

ERP and South Asia

The political involvement of Western Europe in South Asia was also instrumental in attracting the attention of U.S. policy makers while it was involved with European Recovery Program (ERP) during 1948-50 period. The basic policy behind ERP was so clearly articulated and so highly regarded at the program's inception as to invite application to other areas. The ERP, no less than later Asian aid programmes, was motivated by a multiplicity of overlapping and sometimes conflicting objectives: political, economic, humanitarian, and strategic. But dominant among these objectives was restoration of Europe's social and political strength through the use of economic means. In the course of the annual ERP Congressional Hearnings from 1948 to 1950, the Administration repeatedly expressed its view that the same policy was not necessarily applicable to the South Asian Countries. It was stated that conditions there were quite different, in particular that a ground for using economic means to build stronger political commitments did not exist. But the Congressional pressure mounted for applying the policy of Economic Cooperation Act (ECA) to Asia. This pressure was partly due to domestic politics and to special Congressional advocacy of more U.S. assistance to Nationalist China. But Congressional pressure for aid to Southern Asia was also due to the fact that ECA's objectives and premises, as expressed in the ECA Act, seemed to be quite general in their implications. Bipartisan Congressional initiative was in large part responsible for urging and obtaining their application in Southern Asia.[4] Another factor contributing to the influence of the South Asian trade with Western Europe's ERP was that in directing the attention of Washington.

Historically Southern Asia had been one of the important regional trading partners for Western Europe. In 1948, at the start of ERP, merchandise exports from Southern Asia to Western Europe accounted to $ 18 billion or about 8 percent of Western Europe's total imports.[5] Europe's pre and postwar sources of rubber, tin, tea and copra were in Southern Asia. With the progress of European recovery, Europe's demand for these and other commodities were bound to rise. If the recovery of Europe's industry was to be hampered by rising import costs, increased output and exports were needed from Southern Asia.

The South Asian region was also traditionally an important market for European manufactures. In 1948, Southern Asia's imports from Western Europe was $ 2.2 billion and about 12 percent of the Western Europe's total exports. Increased real income in Southern Asia was therefore likely to contribute to European recovery by raising the demand for European

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4. U.S. Foreign Policy for a Post War Recovery Program (House Hearings, 1948), pp. 97, 245, 2174-2175. Extension of ERP (Senate Hearings, 1950), pp. 97-101.

5. Economic Bulletin for Asia and Far East (Bangkok), Nov. 1956, pp. 77-79. Total imports for Western Europe are from International Financial Statistics (International Monetary Fund, Washington), April 1957, pp.22-25.

exports. The importance of Southern Asia was a theme that recurred in Congressional Hearings on ERP, and was one of the more frequently used arguments by which the Asian minded members of Congress sought and were able to direct the Administration attention to the needs of South Asia.

The international economic order formed at Bretton woods after the Second World War was largely to the advantage of the United States, mainly because of the dominant position of America in the world economy. The U.S. was successful in moulding the international monetary and trade policy conducive to its national interest than any countries with less economic power. The surplus money generated by the war economy was mainly to be utilized for importing raw materials. The official policy laid down by the U.S. President in his economic report was of the following nature :

> Our interests require that we concentrate on domestic productive efforts in those fields where we can produce more efficiently, and not draw upon our exhaustible resources unduly. We need large imports to strengthen and conservation policy to increase the stockpile of critical material.
>
> ...Even with the maximum feasible level of imports, substantial foreign investments will be needed to maintain a level of exports sufficiently high to avoid a painful readjustment in certain areas of domestic, agricultural and industrial production.[7]

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6. Ibid.

7. President's Economic Report, <u>Department of State Bulletin</u> (Washington D.C.), 16 January 1949, p. 760.

It would be interesting to view the U.S. policy towards Asia in the light of the above policy.

The forces of nationalism as generated in the newly independent countries was not unnoticed by the U.S. Government. The fear as it existed then was that the present state of turbulent condition in the developing countries could be exploited by the Communist States to their advantage. It was realised that the "position of the U.S. as the leading exporting and creditor nation of the world", would be of some help to stabilise their condition. Besides "American commerce and industry will, of course, continue to have an active interest in Asia as a source of supply and as a market". In this connection, "American Governmental loan would fall far short of the magnitude of Asia's capital requirements. Only private capital could be of some use".[8] But for that the country desirous of American capital must express their desire "by creation of conditions which give prospects of reasonable treatment and return for foreign capital".[9] It has been the opinion of other experts that American economy had become so dependent on foreign raw materials of host countries, that the U.S. foreign policy is designed to ensure that host countries continue to be receptive to foreign investment.[10]

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8. W. Walton Butterworth, "Asia Today", Department of State Bulletin, 12 October 1948, pp. 492-494.

9. Ibid.

10. D.I. Blake and R.S. Walters, The Policies of Global Economic Relations (New Jersey: Printice Hall, 1976), p. 103.

Therefore it could be categorically laid down that though short term security interest in preventing the menace of communism was present but long term economic interest was also taken into account.

As Gunnar Myrdal, the noted social scientist points out that "the spurt of interest in the problems of underdeveloped countries of South Asia particularly on the Western side was induced by internal interest and pressures increased by the dominant social strata but was brought to be justified by the security of Western countries.[11]

The interests of the United States in the countries of South Asia was mainly for its own development and sustenance of its own security, power in the region. American interests were focussed towards India with the intention of finding a viable market for the supply of raw materials and to diminish the communist threat of subversion. The economic foreign policy of the U.S. used its tool of foreign aid and investment for achieving this objective.

U.S. Interests in India

The official policies of the United States that have been pursued both at home as well as in the host countries, had had a direct bearing on the flow and presence of its aid

11. P.C. Mahalanobis, "Asian Drama: An Indian View", Economic and Political Weekly, (Bombay), July 1969, p. 119.

and investment activities. In fact, the bilateral relations with the host country tended to get strained or smoothened, to a large extent, as a result of the receipients country's attitude towards American capital. Therefore, it naturally followed, in the case of a country like India which was eager to maintain its independence and self-reliance, that foreign aid and capital investment of the nature that the United States gave would create a sense of suspicion and doubt such instruments. A review of the relationship of the U.S. with India revealed a slow and persistant feature of the American policy, that had undermined the indigenous industrial capability. Such a state of affairs lead the United States to have its own frustrations with a country like India. After building Western Europe as a bulwork against the Sino-Soviet bloc, the United States felt the need to bring the less developed countries of Asia and Africa to its own sphere of influence. The instruments of aid, investment and technical collaboration was to be offered to augment their rate of savings, raise the level of technical know-how so that these countries are perpetually dependent on the United States for their economic growth. The U.S. public opposition against continuous economic aid to less developed countries resulted in Government laying more emphasis on private capital.

Therefore Point Four, Technical assistance Program for the Asian countries had a plan to increase American private investment abroad. The U.S. Department in its pamphlet referred to the "stimulation of a greatly expanded flow of private investment abroad", added the State Department, "depends upon the reduction and elimination of risks, peculiar to such investment which tend to deter the investors from participating in many foreign countries". It added further that :

> Much can be done to reduce risks involved, through efforts already under way to bring about conditions of greater political and economic scarcity in the areas concerned. In addition the negotiations of bilateral treaties with foreign governments which would give mutual assurances of fair and equitable treatment and relieve the investor of the burden of double taxation should contribute to a more favourable climate for foreign investment and give greater confidence to investors.12

Though India's commerce with America was a small fraction of America's total trade but still it was considered important. The National Foreign Trade Council of America observed :

> India is the sole source of supply of eight important commodities and the exporter of more than 80 per cent of our imports of fifteen other items. Thus the actual importance of India in American foreign trade has been greater than the relative volume of trade.13

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12. John R. Steelman,"Goals and Practical Problems of the Point Four Program,"Department of State Bulletin, 12 June 1948, pp. 760-63.

13. Ibid., p. 765.

The United States also laid great importance on the import of strategic materials from India. This has been revealed by the Committee on Foreign Affairs, House of Representatives, in 1948 when India was cited as a major source of a "wide range of strategic and raw materials" of which there existed an insufficient supply in the United States.[14]

The Committee stressed that fifteen commodities on Munition Board Group I stockpile list of particular military importance will be produced in India (manganese, mica, monazite, shellac, material rubber, chromite etc).[15]

Besides this, other steps were taken to put pressure on India. It was reported that U.S. Ambassador Henry F. Grady went round the country demanding concessions for private American capital and changes in the internal economic policy of India. The obstacles, such as complicated tax structure was to be removed and in November 1947, he threatened that no American loan would be forthcoming unless plans for nationalisation were dropped.[16]

In addition to the aid and investment, the United States derived large profits from trade with India. Because of her monopoly position in the trade of many, U.S. could pay

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14. 81st Congress, 1st Session, U.S. Foreign Economic Policy, (House of Representatives, March 12, 18, 1948), p. 96.

15. Ibid.

16. Ibid.

less for her imports and charge more for her exports. A United Nations study of the price levels of exports and imports of underdeveloped countries found that these countries received relatively much less for their exports to the United States and United Kingdom in 1947, than in 1913. The loss on account of the "terms of trade" was estimated at $ 2,500 to $ 3,000 million a year. Since 1952, India's terms of trade with the United States changed further to the detriment of India.[17]

The events and circumstances forced India to welcome American aid and capital, but as and when India tried to assert itself in regard to the policy matters, the relationship took a turn for the worst. The reason for being sceptical about U.S. capital was mainly because it was generally believed that in accordance with the prevailing equations and imperfect world structure, the influence of U.S. terms on the political composition and developmental objectives of host countries will be adverse.

India was confronted with the problem of shortage of foreign exchange, managerial and technical know how and thus was compelled to invite foreign capital to achieve rapid economic growth. Having suffered the hazards of foreign

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17. U.S. Department of Commerce, Foreign Commerce Yearbook, 1951, p. 823.

capital, the interim national Government of India had decided to avoid the same story again. In the resolution of the Indian National Congress, it was laid down that foreign capital resulted in the acquisition of control over India's economic and political life which had, both, warped and retarded national development. It was unanimously decided when it observed :

> ...goods which the country cannot produce at present but should be in a position to produce later on should continue to be imported from other countries rather than local manufacture which should be started or expanded by foreign firms. In the course of time it will be possible to restrict or discontinue foreign imports but foreign vested interest once created would be difficult to dislodge.[18]

Even the business groups were aware of the need for a national Government and economic freedom for further growth. The leading industrialists agreed that foreign capital had created vested interest that was inimical to the development of Indian economy and society. They also suggested that any further influx of foreign capital should be discouraged and attempts should be made to expel existing foreign capital in crucial sectors by a scheme of nationalisation in independent India. The difficulty that presented itself in this

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18. Michael Kidron, Foreign Investments in India (London: Oxford University Press, 1965), pp. 68-69.

rapid industrialization programme was the lack of capital goods, which could be obtained largely from the United States. The Indian Governments explanation about the non-availability of the necessary supplies was a heavy demand on U.S. resources under the European recovery programme and India's meagre dollar reserves. But the main reason was that Indian officials and businessmen had been rebuffed when they tried to buy machinery in the American market.[19]

The American stake that their foreign capital investments were undertaken with a view to promote India's industrialization programme is questionable. The following table would indicate that it was not so altogether.

Table

		Rs. Crores
Total American investments in India (on June 30, 1948)		36.97
(i)	Short and long term debts of central and local Governments, Reserve Bank, Port and Improvement trusts.	11.73
(ii)	Portfolio investments	8.33
(iii)	Direct investments in controlled enterprises.	16.91

Direct investments were distributed as follows :

Branches of American insurance companies Rs. 15 lakhs

contd.....38/-

19. D.R. Gadgil, "Economic Development in India" in B.K. Madan, ed., Economic Problems of Underdeveloped Countries, (Bombay: Allied Publishers, 1964), p. 83.

table cont...

Branches of American banks	Rs. 678 lakhs
Branches of other American Companies	Rs. 588 lakhs
Indian Subsidiaries of American Companies	Rs. 304 lakhs
Indian joint stock companies, forty percent or more of whose shares were owned in the United States	Rs. 107 lakhs

In addition, American managing agencies with an insiginificant investment, controlled Indian companies with a total capital of Rs. 8.56 crores.

Of the direct investments, only Rs. 4.73 crores were invested in manufacturing, compared to Rs. 6.93 crores, in banks and insurance companies and Rs. 4.84 crores in trading. Thus, nearly, three-fourths of the American capital did not help the industrialisation of India. Over one-third of the capital was utilised for banking and insurance which could have been done otherwise by Indian firms.

The relative importance of the various types of American investment emerges clearly from the estimate of interest, dividends and profits (after taxes) extracted from India by the United States in 1947-48, published in the Reserve Bank of India Bulletin for February, 1952. From an investment of Rs. 20 crores, in the official sector and in portfolio investments, the United States derived a profit of Rs. 8 lakhs. But it received Rs. 2.69 crores or 97 per cent of all profits, from 17 crores of direct investments. The rate of profit of American controlled Indian companies was 21.3 percent compared to only 68 percent for British controlled companies. Among the branches of American companies, those engaged in trading were the most profitable. With a capital of Rs. 4.04 crores, they earned Rs. 1.67 crores, representing an enormous return of 41.3 percent.

In its study of India's balance of payments, the Reserve Bank of India gave the following accounts under the title investment income relating to dollar countries :

Table

	(in crores of rupees) Payments	Receipts
1952 - first half	2.0	0.2
1952 - second half	2.9	0.3
1953 - first half	3.7	0.3

Source: India, Government of, Reserve Bank of India Bulletin, October 1953, p. 794.

Though these figures do not fully indicate the profits of dollars, since they exclude reinvested profits, but they show the progressive increase in the repatriation of investment income. The following table shows the net drain from India on account of "investment income" to the dollar area and the sterling area :

Table

	(in crores of rupees)	
	To dollar area	To sterling area
1952 - first half	1.8	3.7
1952 - second half	2.6	3.1
1953 - first half	3.4	1.5

Source: Ibid., pp. 792-794.

The above table clearly indicates the fact that though the sterling area countries have a much larger investment in India than the dollar area countries, the dollar area has tended to represent a greater drain than the sterling area.

Official American statistics showed the same striking profit rate. American direct private investments in India (including insurance companies were estimated for $ 410 million. Between 1943 and 1951, about $ 27 million of new capital was added. During the same period, the total repatriated earnings, after taxes and excluding substantial reinvested or undivided profits amounted to $ 105 million. Thus the profits were four times the new capital, and two and a half times the capital in 1943.[20]

20. U.S. Department of Commerce, "Survey of Current Business", November 1949, October and December 1951, and December 1952, pp. 124, 206, 103 respectively.

The separate figures that are available for India, tell the same story of American investors extracting more profit compared to the investments that were made. Figures are available from 1949 on when the American private investment was estimated at $ 27 million.[21]

Table

(in millions of dollars)

Year	New Capital	Undistributed Subsidiary Earnings	Total Investment at the end of the year
1950	10	1	38
1951	7	4	49
1952	9	5	63

Source: Survey of Current Business, (Washington, January 1954,), p. 105.

The new capital did not aid the manufacturing industries. Three million dollars of new capital was invested in manufacturing in 1950, but there was no further addition in 1951, and an equivalent amount was withdrawn from manufacturing in 1952.

The flow of American private capital into India increased from about $ 3 million in 1949 to $ 10 million in 1950.[22]

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21. U.S. Department of Commerce, "Direct Private Foreign Investments of the United States - Census of 1950", (January 1954), p. 78.

22. U.S. Department of Commerce, 'Survey of Current Business', (Washington D.C., January 1954), p. 105.

As the New York Times indicated, this increase was due to the recession in the United States and the modified economic policy of the Indian Government. Another important reason was the devaluation of the Indian rupee in September, 1949.[23]

Profits on the American investments were as follows:

Table

Year	(In million of dollars) Earnings after taxes	Earnings transferred to the United States	Percentage of earning to capital at beginning of year
1950	14	12	52
1951	15	10	39
1952	16	10	33

Source: Survey of Current Business, (Washington, December 1953), p. 92.

It is therefore clear that American investments had been a serious drain on the Indian economy. Instead of adding to the capital of India, they funneled away its wealth. In order to increase the accumulation of capital for industry in India, the elimination of American capital, rather than for its requests were necessary. An increase in American investments would aggregate rather than solve the balance of payments problems of India.

23. New York Times, May 22, 1949, p. 21:5.

Apart from investments, India had looked to American aid as the solution for India's economic problems. Regardless of the Indian reliance, there is no doubt to the fact that India had been growing after the Second World War as an important area in the estimate of the United States.

> The key to Asia is now India. If India is lost, then all Asia is lost. The smaller nations would not have the capacity to survive.
>
> America would then stand alone without allies. It might then be too late to win even a war.[24]

In 1949 when the food situation was particularly serious, the Indian Government, looked for special consideration and assistance from the United States where it had spent millions of dollars since the war to purchase foodgrains. Negotiations were begun in August for a million tons of American wheat to set up a stockpile to control prices, reduce hoarding and increase rations.[25] But on December 28, 1949, India was obliged to drop the whole matter as the negotiations had begged down. The reason for this failure was not a scarcity of wheat in the United States.

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24. See the Speech of Justice William O. Douglass in W. Norman Brown, The United States and India and Pakistan (Massachusetts:Harward University Press, 1963), p. 12.

25. Statement by State Department Press Officer Michael McDermott in The Statesman (Calcutta), October 11, 1951.

There was an enormous surplus in Government stores. The storage and carrying charges alone were costing the United States Government $ 237,000 a day.[26] The negotiations broke down, Indian press reports indicated it as a result of American insistence on conditions not related to the barter arrangement.

The food situation became even more critical in 1950, and in June, the Indian Government purchased 196,744.3 tons of grain sorghums through the Economic Co-operation Administration (ECA). The parity price (including subsidies to American farmers), was calculated at $ 1.87 per 100 pounds, and Indian paid $ 1.40, the ECA accounting for the remainder as aid. Another 427,000 tons were purchased in October on the same basis. After months of debate, the U.S. Congress passed the "India Emergency Food Aid Act 1951". The legislation became law on 15 June 1951. This enabled India to buy food grains on a long term loan of $ 189.7 million (Rs.1422.8 million).

The U.S. wheat loan to India helped a lot in solving India's problem of food. The loan of $ 190 million (Rs. 1422.8 million) which carried interest at 2.5 percent a year, was repayable by India, in dollars in half-yearly instalments over a period of thirty years.[27] It was made available to

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26. Ibid.

27. Foreign Affairs Record (India, Ministry of External Affairs), April 1966, p. 107.

India to enable it to finance the purchase of two million tons of wheat from the United States. When India made a request for food to the United States, the differences between the two countries on several issues had already come to the surface.

Non-alignment as a Factor

The United States had not taken kindly to the Indian policy of non-alignment. The Indian attitude to the Japanese Peace Treaty and the Korean issue had caused great resentment in the United States. The Indian stand on the resolution of 1 Feburary 1951, condemning China as aggressor in Korea had specially soured Indo-U.S. relations. Inspite of these differences, the U.S. Government extended aid to India, because of its strategic importance in Asia. The U.S. President suggested that food shipments should commence by April. He even recommended that a substantial portion of the aid should be on a grant basis. However, it was only after four months of debate in Congress that the Indian Emergency Food Assistance Act was able to secure passage. The delay in the passing of the Act created some resentment in India. Chester Bowles wrote :

> During the Congressional debates a series of amendments were considered which would have required India to make certain adjustments in its foreign policy as a quid pro quo for wheat. Although the amendments were defeated by a narrow margin, Nehru

> felt we were taking advantage
> of India's food shortage to
> drive a hard bargain.[28]

On July 9, 1951, following the United States wheat loan to India, the two Governments signed an agreement pursuant to which the Indian Government allowed duty free entry and defrayed inland transportation charges on supplies shipped by relief agencies registered with the State Department. Six agencies carried on relief activities under the agreement. Chrch World Service, War Relief Services, National Catholic Welfare Conference, Co-operatives for American Relief Everywhere (CARE), American Friends Service Committee, Luthiran World Relief and Minnonite Central Committee.[29]

There were some good results from the efforts of these charitable organisations but their methods of operations raise perturbing questions. The Indô-American Government elevated these six groups to a unique status enjoyed by no others. By exempting their supplies from taxes and paying inland transportation costs, the Indian Government in fact had subsidised the agencies programmes. The advantages to the Americans were obvious: their prestigge as humanitarians was boosted with the assistance of the Indian tax payers. In the light of charges of questionable practices by American

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28. Chester Bowles, Promises to Keep: My Years in Public Life, 1941-49 (Bombay: Allied Publishers, 1952), p.39.

29. U.S. Department of State Bulletin, August 4, 1952, p. 182.

missionaries, it is doubtful whether the six agencies were of a religious character.

In foreign trade, the U.S. was able to earn not only the American market value of commodities, but a higher "export price". This is clearly evident from the American grain loaned to India in 1951-52. The same is true in the case of other exports. In 1951-52, India purchased 4,329,000 pounds of tobacco leaf in the United States at 85.6 cents a pound, while the American market price at port of exportation was only 628 cents; 275,007,00 pounds of cotton at 478 cents a pound, while the market price was 44.4 cents, 771,000 barrels of lubricating oils at $ 20.70 a barrel, while the market price was $ 15.98, and 607,000 pounds of copper at 38.6 cents a pound, while the market price was 27.0 cents.[30]

Apart from these gains, there were more profits accruing from the trade of American owned companies domiciled abroad. In view of the economic power of the United States, American custom duties were not normal charges, but represented a form of over charge and under payment. In 1952 for instance, India paid $ 8,799,000 in customs on her exports to the United States.[31]

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30. U.S. Department of Commerce, Foreign Commerce Yearbook, 1951, p. 823.

31. U.S. Department of Commerce, Statistical Abstract of the United States, 1953, p. 926.

Another trend in economic relations began on December 28, 1950, in the context of the agreement for technical co-operation under the Point Four Programme. It was duly signed between India and the United States. India received direct aid from the United States on a grant basis equal to $ 1,200,000. Technical Co-operation Administrator Henry O. Bennet said: "The new Point Four agreement with India creates a magnificient opportunity for two great nations to work together for their mutual progress, and well being."[32] On 5 January 1952, Prime Minister Nehru and U.S. Ambassador in India signed an agreement in New Delhi. The United States agreed to provide assistance under an expanded Pointed Four Program for speeding up the economic development of India. The purpose of the Technical Co-operation Mission (TCM) established in 1952 was to aid the peoples of the economically underdeveloped regions of the world. The TCM commenced its work in India in 1952 with American technicians and profe-ssional personnel.

A law called the Agricultural and Trade Development and Assistance Act (PL-480) was enacted in July 1954. It came into operation in South Asia in the fiscal year 1956. Under Title I of PL-480, the United States sold agricultural commodities to the developing countries on liberal terms.

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32. U.S. Department of State Bulletin, 8 January, 1951, p. 67.

Title II and Title III envisaged donations of agricultural commodities to help famine stricken countries for distribution through voluntary agencies. The Act of 1956, joined these two titles into a new one, viz. Title II. An agreement between India and the United States for the import of surplus agricultural commodities under Title I of the Agricultural Trade Development and Assistance Act, U.S. Public Law 480 was signed on 29 August 1956. The agreement provided a sum of $ 360 million (approximately Rs. 1,720 million) for the supply of American agricultural commodities to India.[33] The purpose of PL-480 was to encourage the sale and export of American agricultural commodities. This was the biggest single agreement between India and the United States. This enabled India to meet its basic food needs at a time when there was low agricultural production and the situation was getting worse owing to the pressure of growing population. Besides importing large quantities of agricultural commodities from the United States, under PL.480, India used the major part of the rupee funds available to it for development purposes.

In 1953-54, American aid became avilable in other fields of economic development also and was described as Development Assistance. The largest part of U.S. aid to India was in respect of surplus commodity assistance - under the title of Public Law 480 or PL-480 - repayable in rupees.

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33. Foreign Affairs Record, Vol. II, 1956, p. 130.

The loans received by India do not fall under the heading of American aid. However, it is a well known fact that the United States owned the largest block of shares in the bank, that the bank had borrowed mainly from the Wall Street, that its president was normally an American, and that the loans could not have been obtained from the Bank without American approval. The international Bank granted six loans to India, totalling $ 116.7 million till end of 1954.[34]

Table

Date of Agreement	Amount (in million of $)	Maturities	Interest Rate %	Project
Aug. 18, 1949	32.8	1950-64	4	Railway rehabilittion, purchases of locomotives, boilers etc.
Sept. 29,1949	72.0	1952-56	3½	Purchase of tractors and other agricultural machinery
Aug. 18, 1950	18.5	1955-70	4	Purchase of equipment for Bokaro-Konar thermal station
Dec. 18, 1952	31.5	1959-67	4½	Expansion of capacity of Indian Iron and steel company
June 23, 1953	10.5	1956-77	$4\frac{7}{8}$	Development in damodar Valley (electric power, flood control and irrigation
Nov. 19, 1954	15.2	1958-74	4½	Construction of a thermal station in Trombay island, Bombay

Source: India, Govt. of, Reserve Bank of India, Annual Reports, 1955-56, p. 105.

34. U.S. Department of Commerce, Statistical Abstract of the United States, 1945, pp. 650, 651.

Several factors have to be considered regarding these loans to assess the actual assistance received by India. The loans carried an average interest rate of over 4¼ percent which cannot be described as low. The loans granted were not large compared to India's share of $ 400 million in the capital subscription of the Bank. The Bank called for and India paid $ 80 million, including) 8 million in United States currency.[35] It was mainly for expenditure in United States the loans were granted, and it facilitated the sale of American goods.[36] They helped American contractors such as the Kuljian Corporation in the Bokaro-Konar project and the Ebasco Services in the Trombay power project. The latter loan also ensured electric power to the American standard Oil Refinery in Trombay island.[37] The loans were also spent for purchases under the guidance of the Bank specialists, and in at least two cases, there was indication that a considerable amount of money was wasted. The first loan was spent partly on the purchase of locomotive from the Baldwin Lima Hamilton Corporation in Philadelphia. It was revealed in connection with purchases under the United States and programme that the prices quoted by Baldwin in 1954 were twice those of Japanese, German and British firms.[38]

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35. B.K. Madan, Economic Problems of Underdeveloped Countries in Asia (Bombay: Allied Publishers, 1964), p. 156.

36. The New York Times, August 21, 1949.

37. Times of India (New Delhi), August 25, 1953.

38. Times of India (New Delhi), August 22, 1954.

In 1953, the American Government purchased, first grade Indian manganese ore for stockpiling at about $ 2.25 ton, while paying $ 2.30 for the domestic ore of the same quality.[39] When supplies became plentiful in 1954, even these low prices were not maintained. <u>The Hindu</u>, reported on May 4, 1954, that operations in mines producing second grade ore had practically ceased, and that prices of first grade ore had declined by more than 30 percent within the previous seven or eight months. The above example goes to prove the point as to how the International Bank, American capital and American aid converged on expanding production of a commodity with the result that India suffered the depletion of valuable ores, as well as unemployment, and bankruptcy in an important industry, while the United States gained through greater supplies and cut rate prices far in excess of aid.

Since the end of the Korean war boom, however, Indian Government increasingly realised the ill effects of American economic policy. This was reflected in the statements of the Indian Merchants' Chamber in June 1952, the all India Manufactures Organisation in September 1952, and the Federation of Indian Chambers of Commerce and Industry in March 1953, calling for restriction of foreign investments and competition.

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39. 83rd Congress, 1st and 2nd Sessions, <u>Stockpile and Accessibility of Strategic and Critical Materials</u>, (House of Representatives, Feb. 27, 1950), p. 211.

The oil refinery arguments, providing for the largest American investments to date were criticised by Indian business. The Bombay shareholders Association represented to the Union Production Minister in September 1953, that the provision reserving all the ordinary shares to foreigners were discriminatory and grossly unjust to the Indian investing public which was both unwilling and anxious to participate.[40] At the annual meeting of the Indian National Shipowners Association at Bombay on Feburary 20, 1954, President N. Dandekar complained to the Production Minister that "Indian owned tankers have been excluded from the operating, even in coastal oil traffic" under the refinery agreements.[41]

Demands for a change in Indian policy were reinforced by the Soviet offer of assistance in 1954, particularly the Soviet proposal to establish a steel mill on long term credit at low interest and without special concessions to the private investors, and the offer to supply tractors ideally suited to Indian conditions at about half the prices of American tractors purchased by India.

India needed aid for its second Five Year Plan. In 1958, United States came forward to give India a loan of $ 325 million. In addition it offered $ 350 million to

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40. Times of India (New Delhi), 24 September 1953.

41. Times of India (New Delhi), 21 Feburary, 1954.

India to enable it to buy wheat under PL-480. On May 4, 1960, an agreement for the largest signle transaction ever made by the United States with any country under PL-480 came into existence. This amounted to $ 1,276 million (about Rs. 6060.4 million).

In November 1961, the United States set up U.S. Agency for International Development (USAID), to bring all its economic aid programmes under one single unified administration. This agency was, to supervise the activities previously administered by the International Co-operation Administration which was represented in India by the TCM; the Development Loan Fund and the Food for Peace Programme (PL-480). USAID provided loans for development purposes. It also gave grants for malaria eradication, small pox eradication, higher education, community development and a number of other projects in India. These loans advanced by USAID were repayable in dollars. On 26 March 1962, the United States signed an agreement to give a loan of Rs. 2,568 million to India. The loan amount was to be made available to India from the sale of PL-480 commodities.[42] Again on Feburary 4, 1964, the United States signed yet another agreement with India in order to extend to it a loan of $ 225 million (Rs. 1,070 million) and facilitate the imports it needed to make for its economy.[43]

42. <u>Foreign Affairs Record</u>, Vol. 8, 1962, p. 90.

43. Ibid., Vol. 10, 1964, p. 73.

Therefore all the American aid programmes were not undertaken for humanitarian causes so that India could overcome its difficult situation. Under certain programmes, the surplus agricultural produce was exported to India so that the agricultural prices in the U.S. economy was not effected. Had the surplus not been exported it would not have fetched remunerative prices for the farmers. Aid and loans were often given to enhance its position in the world and extract profits through varying rate of interest.

Viewing the questions from all angles, the characterisation of South Asia particularly of its major power by the U.S. administration as an area of low or marginal strategic importance and low foreign policy priority should be examined in a differentiated way rather than accepted uncritically. Both the words and deeds of U.S. administration spoke eloquently on the point that South Asia was of strategic importance to America. The strategic importance of the area in the eyes of U.S. administration lay in the area's strategic involvement in the central balance of power and as a resource base for key raw materials.

Relations with India were conducted on a rather formal level until 1951. The question of the wheat loan to India at a time of grave food crisis attracted much attention and in the fall of 1951, the appointment of Chester Bowles as ambassador marked the beginning of a period of warmth in

Indo-American relations. India's negative attitude towards basic American policies such as the development of mutual security arrangements was matched by a running American criticism of the basic policy of non-alignment which it described as neutrality or neutralism. Apart from such differences, the thorn in the relations involved the question of foreign aid.

From the Indian view point, American Economic policy was not very favourable. The aid was essential for the country as it had just gained independence and wanted to industrialise fast. In the beginning, the investments and aid were in meagre quantity. In the late 50's and early 60's, aid was increased but after much delay and load of interest. The foreign economic policy had political motives as has been visualized in the American aid, investment and trade programmes.

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CHAPTER - III

U.S. AID, TRADE AND INVESTMENT (1964-1976)

Chapter - III

U.S. AID, TRADE AND INVESTMENT (1964-1976)

It has been emphasised earlier that the economic foreign policy has played a vital role in the framing of the U.S. foreign policy. The United States tried to achieve various objectives in this regard. Its economic foreign policy did not stimulate economic growth alone but in some countries, it served as a reliable instrument for protecting and promoting central U.S. interests. As a result, it came to serve and reflect the entirity of U.S. interests in developing countries. This policy consisted of several kinds of approaches and programmes of which "the public transfer of a portion of U.S. national product was an important, but not the only one".[1] It was fear of Communism that committed the American Government in developing countries which President Kennedy chose to call "improving the climate of freedom". On June 13, 1961, at the U.S. National Conference on International Economic and Social Development at Washington, he viewed the matter of aid and assistance as essential aspects of the "U.S. security".[2]

1. Andrew F. Westwood, Foreign Aid in a Foreign Policy Framework (The Brookings Institute: Washington D.C., April 1966), p. 204.

2. Department of State Bulletin, January-June 1961, p. 207.

The subject of U.S. aid was entrusted to a Presidential Committee, "to strengthen the security of the "Free World". It was headed by General Lucius D. Clay. The Clay Committee Report entitled, The Scope and Distribution of United States Military and Economic Assistance Programme was published in March 1963. It stated :

> If countries with a will to be free are to become or remain so and if their governments are to prove to their peoples that the democratic, non-communist route to political and economic well-being is the better one, some form of external assistance to their internal efforts is necessary.[3]

The Clay Committee unambiguously laid down that U.S. aid must be made an instrument of U.S. foreign policy. It was during this period that the U.S. began discussing the question of assisting India's fourth gigantic steel plant at Bokaro. The Committee took a decision that it was against giving aid to a government enterprise where they were in competition with private industry. The report emphasized :

> We believe that U.S. should not aid a foreign government in projects establishing government owned industrial and commercial enterprises which compete with existing endeavours.[4]

3. The Scope and Distribution of the U.S. Military and Economic Assistance Programs - Report to the President of the United States from the Committee to strengthen the security of the world (Clay Committee Report) (Washington, D.C., Department of State, 1963).

4. Ibid.

The U.S. attitude became further clear when Lucius D. Clay was called by the U.S. Senate Committee on Foreign Affairs to depose on the matter of aid for Bokaro Steel Plant in India. He opposed any American help for the state sector steel industry and remarked arrogantly :

> We certainly have a right to say where the money that we make available to these countries should be used.[5]

The Senate Committee report expressed its agreement with the conclusions of the Clay report. The Committee's recommendations also included a general restriction on assistance for projects :

> establishing or otherwise assisting government owned manufacturing, utility, merchandising or processing enterprises in any country or area, except where it clearly appears that goods or services of the same general class are not or cannot be adequately provided by private business located within such country or area.[6]

The author of the first draft of PL-480 dreamed of dazzling prospects.

> I could see the possibility of the American government controlling a

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5. Clay Committee Report, extracts published in Gustav Rains (ed.), The United States and the Developing Economies (New York: W.W. Norton, 1964), p. 71.

6. Ibid.

> couple of dozen countries through these free-food shipments. In its simplest form this is how I saw that these food shipments would work. A country with riots coming on could be controlled by letting our wheat ships be outside the port, like a carrot on a stick. A leader whom we considered dangerous would lose the support of the masses because everyone would know that we are not going to unload the wheat if he became the top man.... We might not stop all riots and revolutions this way but we could keep away a lot of them from starting.[7]

U.S. Aid to India

American aid to India however had been overwhelming in the form of loans. The United States gave her aid through the following main channels: (i) Technical Cooperation Mission (TCM), (ii) Development Loan Fund (DLF) and its successor to the AID (iii) The Export-Import Bank, and (iv) Public Law 480/665 programmes and others.[8]

Until June 30, 1954, the U.S. assistance under the Technical Cooperation Programme was entirely in the form of grants. There after, the form of aid changed. The development assistance under the TCM programme was made available to India in the form of loans. Repayment on loans could be

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7. B.N. Banerjee, Foreign Aid to India (Delhi: Agam Prakashan, 1977), p. 102.

8. Report to the U.S. Congress- examination of economic and technical assistance program for India - INTERNATIONAL COOPERATION ADMINISTRATION, DEPARTMENT OF STATE (1950-58) by COQU-S (1959), pp. 22-26.

made either in terms of dollars or rupees at India's option with amortization to start four years after the first disbursements and extending over 36 years.[9] The interest rate charged on these loans was 4 percent if repayable in rupees and 3 percent if repayable in dollars. Loans extended to India by DLF had a maturity period ranging from 5 to 20 years and the rate of interest charged on its loans varied from 3½ percent to 5½ percent per annum. The DLF loans were normally repayable in rupees.[10] In 1961, the DLF loans was replaced by the AID, the loans of which were repayable in dollars. In the beginning, the rate of interest during the grace period and the period of maturity on AID loans was as low as ¾ percent and the interest during the maturity period to 3 percent. The AID loans were repayable over a period of 40 years with a grace period of 10 years.[11]

The U.S. Agency for International Development was created on November 3, 1961. It was administered in India by the Technical Co-operation Mission (TCM), and the Public Law 480 Programmes in India, till June 1973. Both grants and loans were extended by the US AID Mission in India. For the technical co-operation programme, the US AID mission extended grants and made available the services of American specialist

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9. *New York Times*, 7 January 1960, p.10:1.

10. *New York Times*, 8 January 1960, p. 4:5.

11. *Department of State Bulletin*, Jan-June 1961, pp. 950, 978.

at the request of the Government of India. Under this programme aid had been extended to malaria and small pox eradication, agricultural and technological universities, the development of high yielding cereals, dairy development the training of craftsman, community development and many other nation building activities. Dollar grants since the beginning of the programme totalled $ 450.1 million (Rs. 337.58 crores).[12] Since 1951, about 3030 American specialists served in India sharing their skills and experiences with their Indian colleagues. The specialists whose services were made available at the request of the Government of India belonged to many technical fields such as agricultural education, agronomy, engineering etc. They worked with Government of India Ministers, educational institutions. Another important AID activity concerned the provisions of the advanced training in the United States of Indian officials, teachers, engineers, health specialists, other personnel and facilitation visits by Indian specialists to the United States and other countries to enable them to learn further developments in their fields of work. The total number of these Indian participants stood at 6229 in 1973.[13]

Loans extended to India by the USAID and its predecessor organisations were of two kinds: (i) Those repayable in rupees and (ii) those repayable in dollars. Loans extended to India

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12. M.S. Khan, <u>India's Economic Development and International Economic Relations</u> (Bombay: Asia Pub. House, 1966), p. 29.

13. R.K. Sharma, Foreign Aid and Indian Economic Development, <u>PACT</u>, Vol. 2, No. 3, May 1973, pp. 710-712.

by the Development Loan Fund were repayable in rupees. These loans totalled $ 505.8 million (Rs. 379.35 crores). Prior to November 1961, TCM had extended loans totalling $ 154.1 million (Rs. 115.58 crores) to the Indian Government. These were either repayable in rupees or dollars at the option of the Government of India. For the sake of convenience a sum of $ 5.8 million (Rs. 4.35 crores) was also included in the form of Italian, French and Japanese currencies in exchange for Indian rupees. USAID Mission extended 49 loans repayable in dollars. These totalled $ 2,633.4 million (Rs. 1,975.05 crores). The term of repayment was scheduled over 40 years with no payments of principal during a grace period of the first ten years. These loans bore an interest of 2 percent per annum during the grace period and 3 percent thereafter.[14]

The U.S. Export-Import Bank authorized loans, guarantees and insurance to facilitate the foreign trade of the United States. The Bank authorised 31 loans to India totalling 521.3 million (Rs. 390.97 crores) till 1973. Its loans were in dollars, and its payment was also to be made in dollars. In deferring interest rates, the Bank considered its own cost of borrowing money. The standard interest rate was 5.5 to 6.0 percent per annum.[15]

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14. R.K. Sharma, Foreign Aid to India: An Economic Study (New Delhi: Marwah Publications, 1977), p. 42.

15. Ibid.

The Wheat Loan marked the beginning of the programme of U.S. aid to India in 1951. The loan of $ 189.7 million (Rs. 142.28 crores) which financed the purchase of two million tons of wheat to meet an acute food shortage, in 1951, was repayable in dollars. The loan carried an interest of 2.5 percent per annum. Since India had scarce foreign exchange, the U.S. Government deferred principal and interest of the loans. The repayments due in 1959-68 to 1986-95, and $ 8.7 million (Rs. 6.53 crores) out of $ 10 million (Rs. 7.5 crores), due in 1968-69 to 1978-79. India did not pay additional interest on account of these deferments.[16]

A lion's share of U.S. assistance to India came under PL-480 programme, which may be cited as the "Agricultural Trade Development and Assistance Act of 1954". PL-480 stands for Public Law 480 legislation, which was enacted by the U.S. Congress in 1954 to enable the U.S. to supply agricultural commodities at concessional rates. It accounted for about one-fourth of the entire assistance under this programme.[17] Food grain imports, under this programme, in India began in 1955. Till 1971, when it had ended, the country imported nearly 60 million tonnes of foodgrains and other agri-

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16. V.K.R.V. Rao and Dharam Narain, Foreign Aid and India's Economic Development (Bombay: Asia Publishing House, 1963), pp. 48-53.

17. H.D. Malviya, India-US: A Blunt and Cold Relationship (New Delhi: Everest Press, 1978), p. 42.

cultural commodities under Title I of the programme. The total bill of these imports came to Rs. 2,557 crores. Of this, Rs. 314 crores were repayable in dollars, and rest in rupees.[18]

There was another provision in the programme called Title II. Under this USA had given Rs. 618.3 crores worth of foodstuffs to India. But, this was a donation and India did not pay anything for it. Over the years, the USA stiffened the terms for the PL-480 supplies, reflecting the reduced surpluses of agricultural commodities at home.

In 1966, the US Congress amended Title I to change the terms of repayment. Agreement signed thereafter provided for progressive transition from repayment in rupees to payment in dollars. The U.S. Embassy acquired the right to sell rupees at its disposal to U.S. tourists visiting this country. These cut into the normal foreign exchange earnings of India, but the Government had to surrender before Washington's pressure of giving selling rights to the U.S. Embassy.[19]

The PL-480 played a major role in, both, American domestic farm programme as well as in foreign assistance programme. It was, both, an instrument of domestic farm policy and

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18. India, Govt. of, Planning Commission, Third Five Year Plan (New Delhi: Author, 1961), p. 107.

19. Malviya, n. 17, p. 66.

of the foreign policy of the United States. It helped support farm income and utilized an abundant productivity of American agriculture to help the developing nations around the world. Broadly, the programme's emphasis was at the disposal of U.S. agricultural surpluses through export as it was :

> the policy of Congress to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture, national welfare, to make maximum efficient use of surplus agricultural commodities, in furtherance of the policy of the United States, and to stimulate and facilitate the expansion of foreign trade in excess of the usual marketings of such commodities that may be sold through private trade channels, and foreign currencies accepted in payment thereform.
>
> It is further the policy to use foreign currencies, which accrue to the United States under this act to expand international trade, to encourage economic development, to purchase strategic materials to pay United States obligations abroad, to promote collective strength and to foster in other ways the foreign policy of the United States".[20]

The PL-480 assistance should have been more than an instrument of surplus disposal. But in actuality it was meant

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20. Fact Sheet on United States Economic Assistance to India, No. 23 (United States Information Service, April 1956), p. 27.

to develop new markets for the United States agricultural commodities, as well as to procure equipments, materials, facilities and services for the common defence including internal security.[21] The PL-480 assistance though helped to improve the debt profile, but there was a heavy burden on the balance of payments. The different agreements under PL-480 programme upto April 1, 1977 were as follows :

Table

Commodities	Programmed quantity in thousands of metric tons	Value in million dollars	Approximate quantity in thousands of metric tons
Wheat	52,233.2	3,185.8	50,180.0
Sorghum/Maize	5,542.3	278.8	3,347.9
Rice	1,848.1	225.9	1,864.1
Cotton	4,059.6	464.1	3,080.4
Tallow	170.0	28.7	165.8
Tobacco	7.4	17.3	7.1
Milk dry, non-fat	24.9	4.6	21.6
Oil, soyabeens/ cotton seed	506.7	124.4	409.2
Milk evaporated	13.0	4.1	14.99
Milk, dry whole	0.23	0.3	0.23
Cheese processed	0.08	0.1	0.10
Fruit bnned	0.40	0.1	0.42

Source: Reserve Bank (India), Annual Reports, 1970-71.

21. John D. Montegomery, The Politics of Foreign Fund, Council of Foreign Relations (New York: Prager Publishers, 1962), p. 52.

The PL-480 Title I sales at favourable concessional terms continued to allow importation, of essential agricultural and other commodities without increasing the strain on the weak balance of payments position of the country's international credit rating. At the same time PL-480 Title I sales, contributed to sustain economic growth by relissing resources for importation of intermediate and capital goods. Thus PL-480 played an important role for industrial development and export promotion of the country. India achieved economic progress,to a certain extent with the support of PL-480 funds, in the fields of agricultural development programmes, population control, transportation, education, and labour improvement. The assistance was provided in the form of grants as well as loans, the break up of which in different fields is given in the following two tables :

Table

GRANTS FROM U.S. PUBLIC LAW-480 SALES PROCEEDS

For the development of	Amount in crores (Rs.)
Agriculture	38.83
Industry	6.61
Transportation	19.60
Labour	39.46
Health and Family Planning	123.88
Education	100.97
	Grand Total 329.61 crores

Source: Reserve Bank (India), Annual Reports, 1970-71.

Table

LOANS FROM U.S. PUBLIC LAW-480 SALES PROCEEDS

For the development of	Amount in crores (Rs.)
Agriculture	235.90
Industry	396.26
Labour	48.90
Health and Family Planning	99.90
Education	137.74
Transportation	775.65
Grant Total	1410.75

Source : Ibid.

The United States of America has been the largest single contributor of foreign aid to India. The U.S. accounted for more than 42 percent of the total aid made available to this country by various foreign countries and international financial agencies upto March 1973. The total American aid to India upto 1971-72, amounted to Rs. 5171.6 crores. PL-480/665 food assistance accounted for 44.4 percent. Industrial development got a lion's share of the total American aid. It was about 32.7 percent of the gross. The distribution of American aid to India in public sector and the direct aid to private sector claimed only 2.9 percent.

Table

Purpose	Amount in Rs. Crores	Percentage of the total	Share of sectors (in percentages)		
			Public	Private	Publ./Priv.*
Transport and Communications	244.1	4.7	100	Nil	Nil
Power Projects	192.9	3.7	94.7	5.3	Nil
Industrial Development	1689.8	32.7	6.6	8.5	84.9
Agriculture	56.8	1.1	100	Nil	Nil
Wheat Loans	420.7	8.1	100	Nil	Nil
PL-480/665 Food and Commodity Aid	2306.9	44.4	100	Nil	Nil
Miscellaneous	227.5	4.4	Mostly to public sector		

Source: Reserve Bank of India, Report on Currency and Finance, 1971-72, p. 43.

*Note: Publ./priv. - refers to non-project and semi-project aid (i.e. aid fixed within the broad categories) Component of term aid is classified as Public/ private in official publications.

It is quite clear from the tables that India received no money from America for setting up of heavy industries in her economy. Thus we see that the U.S. safeguarded her interest by avoiding investment in heavy industries. The distribution of American aid to India clearly indicated that in general, infra-structural investment received a large sum of the American aid.

The 22-year U.S. economic assistance in India, came to an end in 1973. Under this programme, 8 Agricultural Universities, 12 river valley projects, 5 fertilizer plants, 5 Indian Institute of Technology, and engineering Colleges and the National Productivity Councils among others were established. Several thousands of Indian scientists, engineers, teachers were also trained in the U.S.A. Although the total PL-480 funds swelled to an astronomical figure of Rs. 2660 crores, the actual balance in the U.S. budget reached Rs. 661 crores by the end of March 1974. According to U.S. estimates, the balance with the Reserve Bank of India of the U.S. account was Rs. 685 crores, and the remainder had been advanced as loans.[22]

The U.S. accumulations in India were broadly of two categories: PL-480 and non-PL-480 funds. These funds had arisen from the deposits made by India for purchase of agricultural commodities under U.S. Public Law-480. Non-PL-480 funds had arisen from the repayments made by India on certain development loans received earlier, were repayable with interest in rupees. India had been purchasing wheat and other agricultural commodities from America under PL-480 since 1957.[23] The last agreement was signed in April 1971. Till

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22. Sharma, n. 14, p. 45.

23. K.N. Sharma, "Self-Reliance and Aid: No positive relation", <u>The Economic and Political Weekly</u> (Bombay), Vol. II, No. 50, December 23, 1967, p. 2210.

1967, India made payment for such purchases entirely in rupees. Agreements concluded between 1967 and 1971, provided for payments, partly in rupees, and partly on long term credits, called "convertible local current credits".[24] All payments on PL-480 projects were deposited in the United States Disbursing Officer's Account (USDO's account), in the Reserve Bank of India. From the total deposits so made, the U.S. earmarked funds for different purposes - loans and grants to the Government of India, Cooley loans to Indian borrowers, and expenditures for U.S. uses in accordance with the proportions for different uses agreed upon in the PL-480 Commodity Agreements. Actual disbursements were then made by U.S. from time to time against these earmarked funds. The PL-480 funds flowing into the USDO's account from time to time were also deposited in the Reserve Bank, and were earmarked for American uses.[25]

The consolidated picture of U.S. Economic Assistance to India till June 30, 1973, is shown in the following table:

Table

Agency	Million dollars	Rupee at current* rates (million)
1. USAID Mission/Technical Corporation Programmes		
(a) Development grants (not repayable)	461.4	3450.5.

contd....

24. Banerjee, n. 7, p. 32.

25. Lester B. Pearson, "Partners in Development", Report of the Commission on International Development (New York: Praeger Publishers, 1969), p. 73.

table cont...

	Agency	Million dollars	Rupee at current* rates (million)
	(b) Loans repayable in rupee or dollars	153.9	1154.2
2.	USAID Development Loans (a) Repayable in dollars	2647.8	19858.5
	(b) Repayable in repees	503.5	3776.3
3.	PL-480 Title I (grants and loans repayable in rupees)	4495.0	33712.0
4.	PL-480 Title II (donations not repayable)**	824.4	6183.0
5.	Emergency flood and famine relief grants (not repayable)	5.5	41.3
6.	U.S. EXPORT/IMPORT BANK LOANS (repayable in dollars)	519.9	3899.2
7.	WHEAT LOAN OF 1951	189.7	11422.8
	TOTAL	9801.1	73508.3

Source: Reserve Bank of India Bulletin, December 1973, p. 456.

Note: * Rs. 7.60 per dollar.

** Title II was discontinued in 1971 following the Bangladesh struggle for independence by the United States

Of all the problems that marred Indo-US relations, the one relating to the final disposal of the PL-480 funds was the most persistent. It had assumed ugly overtones long before the emergence of the Bangladesh crisis or for that matter, the termination of concessional food imports from the U.S. under PL-480 itself.

Apart from the various cooperation and assistance programme, the U.S. also provided non-project aid to India. Indian industry put to work $ 132 million non-project assistance during 1969-70. Through non-project aid, United States had furnished India a large number of items of merchandise and construction equipments, raw-materials, spare parts other necessities for agriculture, chemical and drug vital to the public health etc. In September 1970, there was a significant change in regulations governing U.S. loans, including non-project credits. Until then, the loans were extended by the U.S. Agency for International Development (USAID), only on purchases in the United States. President Nixon, in September 1970, decided that U.S. loan funds could henceforth be spend for aid goods from a list of 90 lower income countries. The list included all independent countries which were not prohibited by American law from receiving USAID assistance. It meant that Indian firms could bid on the same footing as American firms for USAID loan financed orders.[26] A consolida-

26. P.G. Salvi, Aid to Collaboration: A Study in Indo-US Economic Relations (Bombay: Popular Prakashan, 1978), p. 104.

ted picture of non-project loans to India by America is presented in Appendix I.

Costs of U.S. Aid

Had foreign aid not been available or been available in much less a volume than hitherto has become possible, more resources could have been allocated to agricultural sector. Foreign aid, it has been argued, had retarded the growth of agricultural sector, by diverting the allocable resources to industrial sector and thus had enhanced our dependence on foreign aid especially for our food requirements.[27] It was pointed out that foreign aid especially under PL-480 of the U.S. had artificially held down the price of wheat in comparison with other crops whose prices went much higher.[28] That PL-480 imports exercised a downward pressure on food grain prices may not be controverted. More allocation of resources to agriculture would have yielded better results than hitherto obtained. The basic question was whether the country could have founded its economic development on agriculture.

The PL-480 aid in its indirect effects was detrimental to the economy, in the sense that it involved a social cost. Two indirect detrimental effects often cited are : (i) dis-

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27. B.R. Shenoy, Indian Planning and Economic Development (New York: Asia Publishing House, 1963), p. 107.

28. S.C. Gupta, Freedom from Foreign Food - Pernicious Effects of PL-480 (New Delhi: Vikas Publications, 1965), pp. 18-19.

incentive effect on the Indian farmer to increase his farm output, and (ii) the inflationary influence on the economy created by the use of the PL-480 funds in the Indian economy which are analogous to deficit financing. An expert committee appointed by the Government of India, Ministry of Finance, under the Chairmanship of Dr. A.M. Khusro, in the year 1968, to study the impact of PL-480 on the Indian economy was understood to have come to the conclusion that "PL-480 transactions could, in certain circumstances, have an inflationary effect on the monetary system".[29] Besides it was apprehended that the Government could not resist the temptation of importing substantial quantities of wheat under PL-480 programmes even in the years of good harvest. The reason behind such imports seemed to be that the rupee counterpart funds created by PL-480 imports were available for financing the country's plans. Thus it was clear that India was depended on other countries not only for her foreign exchange requirements, but also in respect of "rupee resources".

> If these imported rupee resources are not available, the government may have to face the dilemma of stepping up internal taxation, or tapping other internal resources. In all probability the incidence of taxation is likely to fall on the rural sector which has been given a series of concessions like the abolition of land revenue instead of mopping up the surplus income in the agricultural sector.[30]

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29. *The Economic Times*, January 24, 1969, p. 4.

30. H. Laxminarayan, The Small Farmers should be the strategy Base, *Yojana*, December 8, 1968, p. 6.

Though PL-480 imports were available on easy terms, serious concern had been expressed because of national vulnerability involved, besides the deep seated dissatisfaction with the inability of a primary agricultural country to produce even the minimum requirements in respect of food grains for its population. The food policy of the Government of India based on these supplies was shaken in its very foundation. To quote Professor Dandekar, "the circumstances in which this was made known and the manner in which the Government of the country reacted to this challenge, made it clear beyond any shadow of doubt that the country had come to depend on such food supplies to the point of national humiliation. Thus, it seems has been the most certain of all the impacts of food imports under PL-480 and it was all achieved within ten years of the signing of the first agreement in August 1956".[31]

The manifest of purposeful motive of U.S. to fulfill its economic and political objectives is clearly visible in its foreign aid programmes to India. The PL-480 food aid undertaken by the U.S. though helped India to meet its emergency situation of famine and flood, it also had its negative effects on the Indian economy. By 1968, almost all

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31. V.M. Dandekar in forward to "Impact of Assistance under PL-480 on Indian Economy" by N.Rath and V.S. Patwardhan (Poona: Asia Publishing House, 1967), p. 9.

economists in the country, irrespective of political ideology were agreed on inflationary aspect of the funds. Prof. B.R. Shenoy, had shown that during the three-year period, 1964 to 1967, PL-480 deficit financing (monetisation of the special securities of the Government of India, in the custody of the U.S. Disbursing Officer by RBI credit, i.e. printed money) was larger than the 'total deficit financing by Rs. 95 crores. In the absence of PL-480 deficit financing the Central Government budgets during this period had shown an aggregate deficit of Rs. 764 crores. The extent of PL-480 deficit financing, in this period, was of the magnitude of Rs. 859 crores. Total money supply had increased by Rs. 1202 crores i.e. by 32 percent, and prices had registered an annual rise of 15.3 percent. During the five year period 1967-68 to 1972-73 PL-480 deficit financing contributed 40 to 50 percent, of the total budget deficits.[32]

In 1968-69, at the height of a public outcry against both the political blackmail which America was doing and the economic disaster, which it was beinging, PL-480 funds were "frozen" with RBI. A tentative agreement was arrived at between the Government of India and the U.S. administration. Under the tentative agreement, a three way division of the accumulated funds were made. First, part of it namely Rs. 75

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32. B.R. Shenoy, The significance of foreign aid, Economic and Political Weekly, May 24, 1974, p. 705.

crores was to be paid back in dollars. Secondly, Rs. 675 crores were to be set apart for U.S. embassy in India. Thirdly, the remaining Rs. 1500 crores was to be given as grants to the Government of India for financing specified projects. The point to be noted here is that the agreement converted a part, though smaller in amount, of the funds into dollars. To this extent, it was an additional burden on the meagre foreign exchange resources of the country. India's foreign debt servicing was above Rs. 700 crores a year approximately in 1969-70.[33]

According to the statement, made in the Lok Sabha by K.R. Ganesh, the then Minister of State for Finance on March 23, 1973, the total amount payable by India to the USA under PL-480 (as on December 31, 1972) was Rs. 2643 crores. The break up was as follows :

(a) PL-480 rupee loans, repayable in rupees upto 2012 A.D. = Rs. 1501 crores.

(b) Loans repayable in rupees upto 1998 = Rs. 202 crores.

(c) PL-480 convertible local currency credits to the Government of India, repayable in dollars by 2011 A.D. = Rs. 374 crores.

(d) U.S. rupee funds held in special securities at the Reserve Bank of India in New Delhi, payable in rupees : Rs. 611 crores.34

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33. A.P. Srinivasa Murthy, "India's External Public Debt Servicing Capacity", Indian Economic Journal, Vol. 16, 1969, p. 201.

34. India, Govt. of, Ministry of Finance, Economic Survey, 1974-75, pp. 42-43.

The areas for which grants were available had been dictated by the USA. These were mainly family planning and other such non-priority fields. Consistent efforts to distort the development plans were made. There was further impetus to inflationary pressures which was already playing havoc with the economy, and the living conditions of the people. The efforts of pumping in Rs. 1500 crores of money into non-productive fields had been pointed out in an editorial of the Times of India in the following words :

> ...the proposed terms for liquidating this country's PL-480 debts... do not wholly accord with the requirements of this country's economy, not so much because these involve a payment of $ 100 million to the United States in foreign exchange, as because they provide for the use of $ 900 million by Washington in the region. This cannot but aggravate the inflationary pressure which is already proving unbearable for the Indian economy. The same is true of the way the remaining $ 2000 million are to be used within this country. The grants to the Government of India, for whatever purpose, would in-effect amount to creation of new money.[35]

The grant element of 58 U.S. loans is given in Appendix II. Most of the U.S. loans to India were in the form of long term and medium term loans, and carried a high rate of interest. The 58 U.S. loans had on the whole a grant element

35. Times of India, (New Delhi), September 21, 1973.

of 35.14 percent and a loan element of 64.86 percent. Therefore it is clearly evident that India faced a pressure on her foreign exchange reserves as the loan element was more in the total amount of assistance provided by the U.S. The loans had to be serviced in foreign currency (generally, but rarely in local currency, depending on the agreement made), thus becoming a liability to the Government of India.

The character of U.S. aid is important and has to be analyzed carefully rather than the quantum of aid. The major part of the aid made available to India had been tied to specific projects and programmes, and only a minor part has been available for the financing of general import requirements. Repayment on the other hand was demanded in convertible currency (i.e. dollar). The use of such aid had not been tied to the exports which introduced an additional element of hardness.

A lion's share of the total aid extended to India by the U.S. has been in the form of project-tied aid. During the period 1966-67 to 1968-69, a substantial share of aid from United States has been in the form of non-project loans.

Table
($ million)

Country	1966-67		1967-68		1968-69	
	Project	Non-Project	Project	Non-Project	Project	Non-Project
U.S.A.	74.6	381.6	14.0	277.7	117.0	225.7

Source: The Banker, January 1970, p. 687.

This trend continued and non-project authorisations by the USA also increased more than four-and-a-half times to Rs. 125 crores by 1975-76.[36] The debt refinancing was assuming greater proportions over the years and there was an increase of about 65% from 1973-74 to 1974-75 (i.e. from Rs. 22 crores to Rs. 34 crores). See Table below.

Table

(Rs. crores)

Country	1973-74			1974-75		
	Project	Non-Project	Debt Refinancing	Project	Non-Project	Debt Refinancing
U.S.A.	-	-	22	6	91	34

Source: Compiled from Reserve Bank of India, Report on Currency and Finance, 1974-75, p. 221.

The project tied aid of the U.S. reduced the flexibility of India in respect of the utilisation of aid. The Columbia University study also highlighted the same fact and observed that "...if the tying donar has not been a traditionally important trading partner of the receipient, delay may arise because of the need to locate appropriate new suppliers and because of the unfamiliarity of the users of

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36. Reserve Bank of India, Report on Currency and Finance, 1976-77, p. 301.

capital equipment with new specifications. The disadvantages have all prevailed in the case of U.S. loans to India for the purchase of capital equipment and have therefore reduced the value of aid. Indeed, considerable amounts of aid offered by the AID have remained unused for substantial period because of these difficulties."[37]

In the year 1964-65, utilisation was very close to authorisation mainly because authorisations from the U.S.A. and Aid India Consortium were largely in the form of non-project aid. Similarly in the year 1974-75 utilisation has been very close to authorisation because the share of project aid had come down from 63 percent in 1973-74 to 43 percent in 1974-75.[38]

Not only has project aid been responsible for the fact that aid utilisation was well below aid authorisation but it also caused idle capacity in several industries. Project tied aid did not meet India's most urgent needs of requirements as Manubhai Shah has pointed out that "some of India's industrial capacity built up over a number of years at substantial cost has been under-utilised for want of free foreign exchange to import essential raw materials, components and intermediate products. This has been, in part, responsible

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37. <u>Public International Development Financing</u>, Memeographed (New York: Columbia University Press, July 1964), p. 42.

38. India, Govt. of, <u>Committee on Utilisation of External Assistance, Report</u>, (New Delhi), 1975, pp. 44-45.

for the slow rate of growth in some years of India's Third Plan. Even imports of fertilizers, so necessary for increasing agricultural production had to be restricted by India for the same reason with adverse consequences on the agricultural performance".[39]

A large part of the aid received by India was source tied and the share of source tied aid varied from 77 percent in the second Plan to 87 percent in the Third Plan. The only loans which were untied were those of IBRD and IDA. Aid tied to the source or country reduces the freedom of the receipient country to buy goods of right quality from the cheapest source. Since 77 percent of the external assistance utilised by India was in the form of source tied, the price paid for the purchases of machinery equipment, had been substantially higher than the international prices. Michael Kidron had estimated that "India is normally paying anything between 6 and 15 pescent, sometimes as much as 20 to 30 percent above the ruling prices for aid supported imports.[40] The loans given by the Government of the United States of America were comparatively costly. "If the same goods of the same quality were purchased in other

39. Manubhai Shah, Developing Countires and the UNCTAD (Bombay: Vora & Co., 1968), p. 69.

40. Michael Kidron, Foreign Investment in India (London: Oxford University Press, 1965), pp. 74-75.

international markets India would be able to secure them at prices varying from 30 percent to 40 percent less than the American price".[41]

Most of the U.S. aid was related to "tying". Aid tying imposed many different costs on aid received from the United States. India was required to purchase American consultancy services under the U.S. aid programme attached with "stings". And the American consultancy services to India prepared the blue print for development with the purchase of American equipment, machinery, industrial raw materials, spares, etc. from the United States at prices substantially above those in the competitive international market prices. "It was a continuous process of drainage of precious foreign exchange from India".[42]

Under this disguised trading in the name of foreign aid, the Americans took back about 80 percent of all U.S. aid which it provided in the shape of grant or loan to India. India retained only 20 percent in its economy for its development. It would not suffice to point out that 600,000 U.S. workers were employed in the U.S. economy directly or indirectly because of the demand for goods

41. Columbia University Press, n. 38, p. 43.

42. B.M. Wali, "Tied Loans: Costs and Problems", Indian Journal of Commerce, No. 84, September 1970, p. 83.

and services financed by American aid. Tying of shipping and insurance added further to such direct costs of the aid that India had to bear. India paid another 20 percent in shipping and insurance, above the project costs. Indirect costs were less evident but not less serious. The utilisation of U.S. aid involved unnecessary imports for "projects of low priority" in which India had little or no interest. This created an adverse effect on both domestic consumption and export potential of India. It was the common complaint that this kind of "strings" attached to U.S. aid to India, over and above political manipulation, was no aid at all. It reduced the value of aid far more than a small margin.[43] This resulted in unfavourable balance of trade for India, and consequently India was forced to devalue its rupee in the spring season of 1966 at the instance of the United States. This devaluation was accompanied by a major stream of reforms of the import licensing system, and fiscal policy. As a result of devaluation, "a large part of the $ 900 million aid offered by the World Bank - remained unutilized because the Government of India could not relax the tight money policy that was then in force in India".[44]

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43. B.N. Banerjee, Foreign Aid to India (Delhi: Agam Prakashan, 1977), p. 272.

44. Gunter Duke, "Aid plus trade", Eastern Economist, Vol. 57, Dec. 3, 1971, pp. 181-182.

The chief motive behind America's aid programme was best explained by the Clay Committee Report which stated:

> Each of our Presidents since foreign aid began has repeatedly expressed his judgement that this assistance is essential to the national interests of the United States and to the curtailment of communist efforts in all parts of the world.[45]

It is obvious therefore that the U.S.A. was not concerned about the national interests of the receipient country but its own. Secondly, assistance was not directed towards the economic development of the receipient country to relieve the misery of the developing nations. As one of the former senior economists of the Agency for International Development (AID), M.B. Chenery observed, "Economic assistance is one of the instruments of foreign policy that is used to prevent political and economic conditions from deteriorating in countries where we value the preservation of the present government".[46] Both the project-tied and source-tied aid limited the effectiveness of assistance to India by reducing economy and manoeuverability of foreign exchange was too costly.

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45. Clay Committee Report, extracts published in Gustav Ranis (ed.), The United States and the Developing Economies (New York: W.W. Norton & Co., 1964), p. 77.

46. H.B. Chenery and A.M. Strofit, Foreign Assistance and Economic Development, American Economic Review, No. 4, Vol. 56, 1966, pp. 679-680.

Pattern of U.S. Investments in India

India and U.S. Co-operation in private enterprise is relatively insignificant when compared to the magnitudes involved in the Government to Government programme. But over the long run this relationship had considerable potential in view of the fact that most of the industrial expertise in U.S. was lodged in the private sector. Furthermore, the U.S. involvement in Indian private enterprise was not limited to private U.S. companies. Part of the orientation of the U.S. public assistance was directed towards the development of the private sector in the Indian economy. Unlike investments from other countries, the flow of U.S. capital into and out of the private sector in India included substantial loan investment from the U.S. Government agencies which in many ways effected the decisions of the U.S. company investors in developing countries. The table illustrates the flow and status of the U.S. business investments in Indian business enterprises for selected years.

Table
(Rs. crores)

	1956		1958		1962		1965		Outstanding at end March 1965
	Gross in-flow	Net in-flow	Gross in-flow	Net in-flow	Gross in-flow	Net in-flow	Gross in-flow	Net in-flow	
U.S. Total	7.4	7.2	7.6	7.5	14.8	10.1	45.4	31.3	193.2
Private direct	7.4	7.2	7.6	7.5	1.5	-2.4	13.9	11.5	93.1
Private portfolio	-	-	-	-	0.7	0.3	6.8	6.2	15.9
Official portfolio	-	-	-	-	12.6	12.2	24.7	21.6	84.2

Source: Government of India, Economic Survey, 1965-66, p.41.

The total outstanding U.S. business investments amounted to Rs. 193 crores of which Rs. 84 crores were from official U.S. sources in the form of loans. The figures are inclusive of the U.S. Government funds which were channelled to state owned business enterprises, such as the Trombay Fertiliser Project. Another important resource of the private sector (not included in the table) were the U.S. Government loans to the Indian Government for the purpose of financing both capital and raw material imports of industry. The significant role of the U.S. Government financing of private enterprise in India was not limited to the direct or indirect provisions of funds. The U.S. Agencies also extended guarantees and risk coverages which the U.S. companies heavily relied upon. As of March 1965, U.S. investment in private business enterprises in India constituted about 20% of the total of about Rs. 936 crores. Till 1959 the U.S. investments amounted to Rs. 67.7 crores which increased to Rs. 193 crores by 1965, showing dominant position of U.S. in India's foreign investments.[47]

An important characteristic of the U.S. investment had been the diversification from petrolium to manufacturing. By 1965, the U.S. investment in petrolium were reduced

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47. India, Ministry of Finance, Economic Survey, 1966-67, pp. 51.52.

to 27% of the total investments while investments in manufacturing increased to 64% from 27% in 1956. The table given below shows the growth of U.S. investment in various sector since 1956.

Table

(Rs. crores)

Sectors	1956	1959	1962	1965
Plantations	0.1	0.1	0.1	0.1
Mining	0.1	0.1	-	-
Petroleum	30.2	45.7	43.6	52.3
Manufacturing	12.7	18.1	59.0	123.0
Services	3.9	3.7	6.2	17.8
Total	47.0	67.7	108.9	193.2

Source: Article on "Foreign Investments in India", Reserve Bank of India Bulletin, April 1966, p. 641.

Apart from petroleum companies, financial institutions were already operating in India prior to World War II. The American companies also had interests in about five jute companies. Since the influx of the U.S. companies increased from 1967, there were about 180 manufacturing ventures involving American equity participation. Of these about 150 were operating under the U.S. technical or licensing agreement.

According to a study by the Reserve Bank of India, total foreign business investment in the private sector, excluding banking and insurance increased to Rs. 12306 million in March 1967, as compared with Rs. 9950 million in March 1965.[48] The study revealed that the USA was the major source of supply of capital during the two years period ending March 1967 and accounted for Rs. 950 million or over 40% of the total increase of rupees 2356 million in private foreign business investment. The share of the USA which has increased from 4.2% in 1948 to 21.6% in 1965 increased further to 25.2% in 1967, thereby implying that U.S. had control over one-fourth of private foreign capital.[49]

This increasing trend was noticed in later years also. U.S. investments in India rose from $ 281 million in 1968 to $ 294 million in 1969. U.S. investments in the manufacturing industries in India increased from $ 132 million in 1968 to $ 143 million in 1969.[50] A study on U.S. Direct Foreign Investments abroad, published by the Department of Commerce, revealed that the overall earning ratio of U.S. investments in India rose from 7.3% in 1968 to

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48. India, Govt. of, Reserve Bank of India Bulletin, April 1968, p. 456.

49. Ibid.

50. U.S. Department of Commerce, "Survey on Current Business", 1970, p. 705.

9.2% in 1969. Profitability in respect of U.S. investments in the manufacturing sector in India rose from 9.2% in 1968 to 14.7% in 1969. India ranked among the few countries along with Denmark, Switzerland, Germany, Panama where U.S. profitability recorded a healthy upturn in 1969 as compared to 1968.[51]

Another study the U.S. Department of Commerce indicated that the overall earning rates of U.S. investments in India rose from 9.9% in 1969 to 11.2% in 1970.[52] In respect of manufacturing industries in India, the rate of return for U.S. manufacturing industries was 14% which was higher than the corresponding rates for Canada (65%), Latin America (10.6%), Europe (12.1%), and Africa (12.6%). The overall earning rates of U.S. investments rose from 11.1% in 1970 to 12.1% in 1971. The rates of return of U.S. investments in different countries and industries for 1970 and 1971 are given in Appendix III.

The state of affairs in India provided sufficient handle to people in Johnson administration to reap benefits and turn the tide in their favour. One person who played a major role during the period was U.S. Secretary of Agri-

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51. Ibid.

52. U.S. Department of Commerce, Survey on Current Business, 1971, p. 163.

culture ORVILLE FREEMAN. The food aid sought by the Indian Government became the basis against which inroads for U.S. companies were made in India. The food aid of $ 50 million loan was to be given provided fertilisers were brought from United States. Even this assistance was not given in a single agreement. It was made contigent that food supplies from U.S. would be shipped on month to month basis, depending on compliance of terms by India.

The fact is that certain companies too had a role in the month to month shipment of food grains. During that time besides having to deal with the high handed claims of Bechtel Consortium, the Indian Government had to deal with standard oil of Indiana Allied Chemical - all of them wanting a guarantee free price and distribution of market for setting up their fertilizer concerns. However, a time limit was set for only those who secured licenses before the end of March 1967. Even here a relaxation was being pressed by the President of the World Bank.[53] Not only that, the Indian Government had also to assist to agree for concessions regarding crude petroleum distribution. The World Bank too was pressing upon the Indian Government to abandon the use of naptha - a petroleum by product which

53. <u>Indian Express</u> (New Delhi), 28 September, 1966.

India had in abundance.[54] It was stated that the two oil producers of Mid East had approached the World Bank about their problems in February 1965. This the Indian Government had to give up her objective of handling all the distribution of fertiliser produced in the country and pricing it as well. It was then that AID shipment was put on a month to month basis until Indian Government let standard of Indiana to market the fertiliser itself at its own prices. Thus we have clear evidence of AID officials working closely with World Bank, and a group of oil companies to make a dent into the fertiliser industry in India. The changes in the fertiliser industry was taking place even when Food Corporation of India had the necessary capacity to design at least two fertiliser plants a year, less costly and involving considerably less foreign exchange and more suited to Indian condition.[55]

The situation in India had reached quite a critical stage. The proportion could be gauged from a report in <u>TIMES</u> (LONDON) :

> .....that starved of foreign exchange to finance the imports it needs, Indian industry is coming to halt in many sectors.

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54. <u>Times of India</u>, (New Delhi), 29th September 1966.

55. <u>The Statesman</u> (Calcutta), 24 August 1966.

> The continuing suspension of American aid, especially that 240 million dollars pledged last year for aid not tied to particular projects is the cause of this sharp breaking of the Indian industrial sector, and all indications are that the lapse will not be turned on again until the Indian Prime Minister visits Washington.[56]

The policy of month to month shipment of food grains by President Johnson paid dividents. A number of terms sought by the U.S. Government were conceded. It was announced by the Indian Petroleum and Chemicals Minister, Humayun Kabir that all ferlizer plants licensed upto 31 March 1961 would be ablt to set their own prices and organize their distribution network for a period of seven years. The accomodative stance was duly taken notice of by the Watson Committee on staff Advisory Committee on Private Enterprises in Foreign Aid which commented that climate in India has improved.[57] The achievements of India were lauded in a report brought out by U.S. Embassy in Delhi entitled, INDIAN DEVELOPMENT AND ECONOMIC AID, released in December 1965. India was successful in securing the fertiliser loan worth $ 50 million.

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56. (i) Times, 2 February 1966.
    (ii) DAWN, 24 February 1966.

57. New York Times, 27 December 1965.

The facts put in order helps in partially revealing the attitude and stances of the U.S. administration towards India. The smooth friendly relations at least on the surface level of the Kennedy years was no longer evident. However, it did not mean that the policy had completely changed in the Johnson administration. The policies pursued were the same, except that they had assumed a much more forth right character. The veneer of humanitarism and other friendly soft feelings said to be pursued in U.S. policy in earlier years were cast aside for a more pragmatic and matter of fact attitude. It can also be seen that the policies accrued sufficient dividends because the conditions were quite congenial for American policy makers. The critical times that India was undergoing provided them the necessary leeway. Besides the aid and assistance giving U.S. agencies were undergoing structural changes. Their role in furthering the cause of U.S. companies were being defined more clearly.

American businessmen and industrialists were becoming aware of the business opportunities that were available in India, and Indo-U.S. trade investment India's growing industrial base and her record in allowing repatriation of profits and dividends show that foreign investment in India constituted an attractive proposition. A study of Indo-U.S. collaboration showed that assists of such joint ventures increased at an annual growth rate of 6 percent between 1966 and 1971. During the same period, the gross return on capital employed rose from 9 percent to 12 percent.[58]

New American private investments were mainly directed to oil refineries chemical and pharmaceutical industries, and to mining and manufacturing of strategic raw materials. Survey conducted by Reserve Bank of India in 1974-75 revealed that multinationals were keen on transferring technology under pure technical collaboration, i.e. to import technology in the form of patents, sophisticated machinery, experts and technicians. For this yielded them high rate of profit through royalties and technical fees on a lower rate of taxation, fixed rate of interest on loans and credits for imports of machinery and plant free of taxation under Indian Income Tax Act. Their licences were tied to purchase of machinery plant and spares from the foreign company - or its associates at high cost and exports were restricted at certain companies so as to maintain the world wide hold that the foreign company had.

Again, a little over one-third of the subsidiaries had been able to secure 100 percent foreign ownership.

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58. Times of India (New Delhi), Nov. 11, 1974.

A list of some U.S. subsidiaries show that most of them had been able to secure 100 percent ownership (see Appendix IV).

Consequences of U.S. Investments

The most elaborate study of private investment in India is that of Michael Kidron whose analysis leads to the conclusion that this type of investment imposes significant costs - including balance of payments costs on the economy while its benefits in the form of transfer of technical know-how are much smaller than it is believed. Michael Kidron for instance estimated that during 1948-61, foreign investors have taken out of the country's general currency reserves three times more than what they have directly contributed.[59]

Some of the profit figures which came up during the course of debate in Indian Parliament revealed the inormous amount of profits which the multinationals had amassed in their énterprises in India. In a session in the Indian Parliament, some questions were raised regarding the assets of multinationals in India. Figures that were quoted and cited in these debates showed a great disparity between the

59. Reported in Times of India (New Delhi), 7 April 1965. Also in V.N. Balasubramanym, "Foreign Collaboration in Indian Industry", Economic and Political Weekly, 27 November 1971, p. M-159.

investment capital of these multinationals and the profits that they, in turn got from the host country i.e. India.

In the drug industry, Abbot Laboratories, Glaxo Laboratories and Fertilizers Ltd., with insignificant initial investment from abroad, have made fabuleus profits which they have sent back to their country or utilized to build up their assets further in India. Abbot with initial investment of Rs. 1 lakh had repatriated Rs. 22.65 lakhs in 1970 and same in 1971 and had amassed assets worth Rs. 5 crores. Glaxo with an investment of Rs. 1.5 lakhs had assets worth Rs. 68 crores in the country. In the same way, Pfizer Ltd., with an investment of Rs. 5 lakhs had assets worth 52 crores in the country. Coca Cola invested Rs. 66 lakhs of capital and had taken out Rs. 7 crores and built up an asset of nearly Rs. 6.5 crores.[60]

Another method of incurring profit was by claiming huge deduction in the name of head office expenses, and under-invoicing of exports. Study conducted by Revenue Department of the Finance Ministry disclosed that such deduction claims reached upto 78 percent of profits in case of the well known international data processing company - International Business Machine (IBM). The company

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60. India, Lok Sabha Debates, Series 5, Vol. XXV, No. 30, 2 April 1973, Col. 306.

itself came forward with a voluntary disclosure that there was an excess claim on account of Head Office expenses, to the extent of $ 450,000.[61]

The above facts have been further corroborated by the United States Supreme Court. It gave permission to India, Iran and Philippines to sue six U.S. drug manufactures - Pfizer Incorporation, American Cynamid Company Bristol Mayers C., Squibb Corporation, Olin Corporation, and Upjohn Corporation for charging excessively high prices for antibiotics sold in these countries.[62]

A study of 159 multinationals in six developing countries by Paul Streeton and S. Lall has shown that in 91 percent of the companies, the balance of payment benefit to the host countries was in the negative. With regard to India, of the 53 companies examined, 48 had negative impact on balance of payments. The reason for this was the low inflow of capital and large outflow on account of imports, royalties, dividends and head office payments.[63]

U.S. Trade With India

India's trade relations with the United States had

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61. India, Fifth Lok Sabha, Public Accounts Committee, 176th Report, Appendix II.

62. News item in Hindustan Times (New Delhi), 24 Jan.1978.

63. India, Lok Sabha Debates, Series 5, Vol. LX, No. 25, 15 April 1976, Col. 206.

always been important both qualitatively and quantitatively. The American economy had been importing over the years, large quantities of India's traditional exports. Thus it had been a major customer for Indian jute goods, tea, cashew and cotton textiles. In the 1960's, when the Indian economy diversified the production and exports, United States had been importing in recent years a wider range of goods from India including marine products, sugar, precious and semi-precious stones - worked and unworked, and other works of art etc. The table in Appendix IV gives the direction of imports and exports by India since 1938 and onwards.

In 1967-68, India's export to U.S. was Rs. 2,063 million and imports Rs. 7,715 million. But food imports and imports under project aid accounted for more than two-thirds of the total imports. On strict commercial terms, India had small surplus with the United States. India's imports from the United States had been growing faster than its exports from 1956-72. Barring the Korean War boom and similar exceptional circumstances, Indian exports were around Rs. 1,000 million until 1960-61. They began to rise thereafter and reached Rs. 1,450 in 1964-65. Then until the year 1968 exports steadily declined. In 1968-69, Indian exports underwent an overall growth. Imports from the U.S. on the other hand almost doubled during 1956-62, reaching an annual rate of Rs. 2,500 million. By 1967-68, total imports from the U.S. were Rs. 7,900 million in post devaluation figures (or Rs. 4,800 in pre devaluation figures). India was one of the few "billion dollar markets" of the United States.[64]

The composition of India's trade with the U.S. had also undergone significant changes in the period under consideration (1960-68). India diversified its export basket and a number of engineering items found openings in the American market. In imports, cereals and fertilisers were the most dominant items. Imports of cereals as well as fertilisers remained around Rs. 1,000 million annually and rose significantly in the later years.[65]

A disturbing feature of India's trade with the U.S. was that out of its total exports of Rs. 276 crores to the latter in 1972-73, jute manufactures accounted for as much as Rs. 98 crores. Considering the fact that jute products were under continuous pressure from synthetic substitutes, this dependence became particularly alarming.[66] Moreover,

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64. M.P. Narayana Pillai, "India in a Fix", Far Eastern Economic Review, Vol. LXIV, No. 25, June 19, 1969, p. 63.

65. Ibid.

66. Directory of Foreign Collaboration in India, Vol. 2-3 (New Delhi: Indian Overseas Publications, 1975), pp. 162-163.

India's own imports from the USA was not only the largest from any country but was also appreciably dynamic both in volume and range. Apart from its reliance on U.S. wheat as filler imports during years of scarcity, India had to reckon with the fact that it was regularly dependent on the U.S. for part of its requirements of raw cotton, edible oils, chemicals and fertilisers, iron and steel, copper and other non-ferrous metals, electrical or other machinery and transport equipment.

In 1972-73, the country's total imports from the U.S. amounted to Rs. 225 crores and although this was Rs. 51 crores less than its exports to the U.S. in that year, its balance of trade with the U.S. became a problem in the later years as its requirements of imports grew diversified in the period of the Fifth Plan. India's need to procure more supplies of industrial raw-materials and capital goods from the United States increased. The U.S. accounted for 13 percent of Indian foreign trade turnover in 1972-73. India ranked twenty-sixth among the trading partners of the United States, the conclusion being inescapable - there was substantial scope for improvement of India's position in the U.S market.[67]

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67. A. Hariharan, "South Asia Swallows its Pride", <u>Far Eastern Economic Review</u>, Vol. 86, No. Nov. 1, 1974, pp. 36-37.

The unusual trade surplus India enjoyed during fiscal 1973, reverted to a sizable deficit for the fiscal year, due mainly to large imports of high priced foodgrains, fertilisers, steel and petroleum. The United States was benefitting from India's strong need for imported goods, services and technology. While total U.S. exports declined with the sharp fall in U.S. bilateral aid, U.S. exports not financed by aid rose from $ 148 million in 1971-72 to $219 million in 1972-73. Among the more promising export categories for U.S. manufactures were power generation equipment, textile machinery and equipment, and waste disposal equipment.

In fiscal year 1974, (April 1974-March 1975), Indian exports were about U.S. $ 5.5 million, of which American share was 16%. Exports totalled U.S. $ 4 million (the U.S. share was 11%). India was considered a good market for specialised machinery, raw materials and operating supplies required for production of Indian exports, development of iron ore and other natural resources, construction of facilities to exploit off shore oil fields etc. Indian exports to the U.S. during April-November 1975, amounted to Rs. 2,960 million (U.S. $ 333.33 million), while imports for the same period were placed at Rs. 6,744 million. While there had been considerable growth in trade, India's adverse trade balance with the U.S. was steadily growing.[68]

Indo-US trade reached a level of $ 1845 million during 1976 with India's export limited to $ 710 million, an increase of 29.5 percent and United States exports rising to $ 135 million, a decrease of 12.2 percent. The trade balance for 1976 was $ 425 against India. Thus it can be seen that the volume of India's exports to the United States had risen in quantitative terms but in terms of its share in the total American imports it had fallen compared for the three years i.e. 1974-76. The table given below indicates the Indo-American trade position on a calender year basis.

Table

Indo-United States Trade Position

Calender Year	India's exports to U.S.A.	India's imports from U.S.A.	India's balance of trade
1970	$ 298	$ 572	-319
1971	$ 329	$ 648	-319
1972	$ 427	$ 350	+77
1973	$ 437	$ 527	-90
1974	$ 560	$ 760	-200
1975	$ 548	$ 1290	-742
1976	$ 710	$ 1135	-425

Source: Government of India, Department of Economic Affairs Foreign Trade, 1976-77, p. 310.

68. A. Hariharan, "Cutting the Apron Strings", Far Eastern Economic Review, Vol. 93, No. 27, July 2, 1976, p. 67.

Impact of U.S. Foreign Trade

The United States foreign trade with India had a number of harmful effects on the Indian economy. The large scale tying of aid with purchases from America played a major role in changing the direction of trade. Source tied aid led to trade diversion even though total trade increased, but this trade diversion involved a shift from lower cost to higher cost sources of imports for India. The source tied character of U.S. foreign aid has been to a great extent, a cause for distortions or dislocations of India's foreign trade. Restrictions on procurement diverted the expenditure of Indian nationals towards the goods and services of the donor country, in U.S. As a result, efforts by India to improve the competitiveness of its products and services was considerably reduced. In short, it attempted to promote exports through trade diversion. According to John Pincus, "the most important motive for tying is often the donor's desire to penetrate the receipients market in order to create long-term trade ties."[69] In the words of Little and Clifford, aid tying "affects the cost of aid to the extent that it enables firms situated in the donor country to sell their goods overseas at prices which they would not be able to obtain except under financed

69. John Pincus, Trade, Aid and Development - The Rich and the Poor Nations (Prentice Hall: Englewood Cliffs, 1968), p. 78.

contracts".[70] Speaking about the commercial motive in typing and, the study conducted by Freedman and others says, "much aid is however, tied for very definite commercial reasons. EXIM Bank loans have, of course, always been tied, that Bank with its clear legislative mandate to promote U.S. exports has never been empowered to grant loans in other form. Even the aid administered by the US AID, which is tied primarily for balance of payments reasons', is to a large extent on commercial grounds".[71] George D. Woods, former President of the World Bank, said, "to the extent that (foreign aid) is tied, it represents help for the exporters in the donor country.... Some donor countries have made it clear that they see development finance as nothing more than disguised subsidy for their exporters".[72]

Economic assistance and investment programmes served as a good leverage for U.S. to expand its horizon of exports to India. In 1968, Henry H. Fowler, who was the secretary of U.S. Treasury, wrote to the President in the following terms:

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70. I.M.D. Little and J.M. Clifford, International Aid (London: George Allen and Unwin Ltd., 1965), pp. 62-63.

71. The Guardian, 1 Auguest 1967.

72. George D. Woods, Finance for Developing Countries - A Time for Decisions (Columbia: Columbia University Press, April 1967), p. 4.

> Some of the most important by-products of economic assistance are trading benefits arising from the development and growth of viable economies abroad. We trade and prosper together, our tied bilateral economic assistance, which transfers real resources, has the effect of facilitating the introduction of American goods and services to these foreign markets. In distant areas purchases of capital goods, often bought to last for a life time, provide a continuing intfoduction of the product names of our factories to foreign buyers.... In 1969, we must concentrate on developing follow up sales after these early "Calling Cards" have been delivered.Industry, assisted if need be by government, must expand upon the export opportunities created by our economic assistance. This will require a substained and positive programme. The Commerce Department has co-operated with AID in seeking ways to maximise U.S. commercial export following upon the foreign assistance programme.73

The statements made by all these writers and authorities confirm the notion that foreign aid was used for the purpose of export promotion, and improving the balance of payment position of the donor country. It would be quiet clear from the following table that the source tied aid

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73. U.S. Department of State Bulletin, "Maintaining the Strength of the U.S. Dollar in a Strong Free World Economy, (Washington D.C., December 1968), p.

Table

Direction of India's Foreign Trade

Country	1960-61			1969-70			1974-75		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
U.S.A.	327.56	102.53	-225.03	467.22	237.97	-229.25	729.05	375.79	-353.30
W. Germany	122.52	19.87	-102.65	84.44	29.89	-54.55	306.87	105.43	-210.44
Canada	19.86	17.62	-2.24	74.87	26.33	-48.54	130.42	44.04	-86.37
Japan	60.78	35.27	-25.51	67.41	179.36	+111.95	453.47	295.25	-158.22
U.K.	217.15	172.48	-44.68	102.59	165.07	+62.48	213.40	307.00	+93.61
U.S.S.R.	15.87	28.81	+12.94	171.53	176.37	+5.04	402.49	418.17	+15.68

Source: Foreign Trade Review, Vol. III, No. 4, January-March 1976, p. 398.

that was made available to India by U.S. resulted in increasing trade. U.S.A. was able to increase its exports to India mainly because of its source tied aid. At the same time, restrictions were also imposed on the import of goods from India. That is why India had an adverse balance of trade, and foreign exchange problems with America.

India's foreign trade has been directly affected by the massive utilisation of foreign aid. The direction of Indian imports had been greatly influenced by it. There was a substantial increase in exports to India which was closely related to the authorisation of foreign aid. The U.S. provided substantial aid and the proportion of aid authorized by U.S. to total imports had been very high (see table).

Table

Utilisation of External Assistance as percentage of total imports from selected donor countries during the first decade of Indian Planning

Countries	Percentage
U.S.S.R.	74.5
U.S.A.	53.2
Canada	50.6
New Zealand	18.0
West Germany	17.0
Norway	8.0
Australia	7.6
U.K.	6.7
Japan	4.7

Source: Bipin Bihari, Facets of Foreign Aid (Bombay: Vora & Co., 1968), p. 99.

The increasing dependence on foreign aid led to increasing external debt for India. The burden of repayment became heavier every year, and a number of loans which were due for repayment, added to the strain. Payments on foreign loans not only constituted a real deduction from the national income but also rendered the balance of payments position vulnerable India's debt burden was increasing year after year. The burden of debt in 1961-62 was only Rs. 143 crores. It rose to Rs. 333 crores in 1967-68, and in 1974-75, it amounted to Rs. 626 crores. Table shows the fantastic increase in India's external debt obligations from first plan period to 1975-76.

Table
(Rs. crores)

Period	Amortisation	Interest payment	Total debt servicing
First Plan	10.5	13.3	23.8
Second Plan	55.2	64.2	119.4
Third Plan	305.6	237.0	542.6
1966-67	159.7	114.8	274.5
1967-68	210.7	122.3	333.0
1968-69	236.2	138.8	375.0
1969-70	268.5	144.0	412.5
1970-71	289.5	160.5	450.0
1971-72	299.3	180.0	479.3
1972-73	327.0	180.4	507.4
1973-74	399.9	195.9	595.8
1974-75	411.0	215.0	626.0
1975-76	470.0	230.0	700.0

Source: Compiled from data published in Economic Survey, Government of India, 1975-76, pp. 305-306.

The servicing of external debt had a short term as well as a long term aspect. In the short run, the burden of servicing can be measured by the share of export earnings absorbed by service payments. This is referred as the debt service râtio. As India received more and more of aid in the form of loans, rather than grants, the burden of the service charges on her balance of payments went on increasing. The deterioration in trade balance was wholly due to a sharp deterioration of 27 percent in India's terms of trade. This was in turn the consequence of a sharp increase in import prices. India's repayment obligations imposed a tremendous burden on the Indian economy. Repayment burden as a proportion of foreign exchange was steadily increasing and had reached 29.8 percent in 1971-72. Appendix V indicates the share of export earnings absorbed by debt services.

Thus the view which has been propagated that United States did not heed to less developed countries and India in particular is borne out by facts. The analysis above shows that it was in U.S. interest have an active participation in the development and well-being of these nations. The fear of India passing into Soviet sphere of influence was ever present. Therefore, though in the initial years, U.S. policy framers were bothered about European reconstruction but in the later years, the states of Third World - India being no exception engaged their attention. All their Foreign Aid/Assistance, Private Investment and trade programs as well as policies are an indicator in that direction.

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CHAPTER - IV

INDIA'S DEMANDS AND ATTITUDE

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Perhaps colouring the American foreign policy as an imposition on the newly independent countries would give us a misguided picture. Notwithstanding the awareness among such countries that the driving motive behind undertaking of American economic foreign policy is their own national interest, there had been certain compulsions which persuaded them to demand U.S. aid and investments. In order to get a compernhensive picture we shall look at the conditions prevailing in India and her attitude towards trade, aid and investment with the United States.

India as a newly independent country was confronted with the problem of shortage of foreign exchange. The money for investment purposes as well as managerial and technical know how was acutely needed. It had the compulsions to invite foreign capital and seek foreign aid/assistance to achieve rapid economic growth. Having suffered the hazards of foreign capital, the interim national Government of India had decided to avoid the same story again. In the resolution of Indian National Congress, it was laid down that foreign capital had resulted "in the acquisition of control over India's economic and political life which has both, warped and retarded national development".[1] It took the decision that :

> goods which the country cannot produce at present but should be in a position to produce later on should continue to be imported from other countries rather than local manufactures should be started or expanded by foreign firms. In the course of time it will be possible to restrict or discontinue foreign imports but foreign vested interests once created would be difficult to dislodge.[2]

Even the business group in India were aware of the need for a national government, and economic freedom for further growth. In the Bombay Plan for the Economic Development of India (1944), the signatories of which included leading industrialists like J.R.D. Tata, G.D. Birla and Purushottamdas Thakurdas, agreed that foreign capital had created vested interest that was inimical to the development of Indian economy and society.[3] They also suggested that any further influx of foreign capital should be discouraged and attempts should be made to expel existing foreign capital in crucial sectors by a scheme of nationalisation in independent India, while arguing that given the underdeveloped conditions of the Indian economy, some foreign capital was necessary. They emphasised

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1. Michael Kidron, Foreign Investment in India (London: Oxford University Press, 1965), pp. 68-69.

2. Ibid.

that this was to be done through the mediation of the State, so as to utilize its far greater power of absorption without succumbing to domination of a foreign power. The national state should be using the greater capacity to raise finances and try to develop indigineous basic industries so as to reduce dependence on foreign finance for capital goods.[3]

Though the initial attitude was of little encouragement to foreign capital, but the events conspired to change the official attitude. The loss of "food marketing areas" to Pakistan made the import of grain on a large scale necessary. Other consumer imports soared as demands were relieased after the war. Something urgent was to be done to start the Indian industry moving, lest political and social chaos engulfed the country.

The difficulty that presented itself in the rapid industrialization programme was the lack of capital goods which could be obtained largely from the United States. The Indian Government explanation about the non-availability of the necessary supplies was, heavy demand on U.S. resources under the European recovery program, and India's meagre dollar reserves. But in fact the main reason was that Indian

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3. A. Mukherjee, "Indian Capitalist Class and Congress on National Planning and Public Sector 1930-47", Economic and Political Weekly, 2 September 1978, p. 1517.

officials and businessmen had been rebuffed when they tried to buy machinery in the American market.

India's demands for foreign aid and investments

The Economic Policy of India since 1951, was aimed at making the country economically viable. Its policy was to make the country's economy more self-reliant in a shorter period. This meant, in return that India complied largely for its needs in food, essential raw materials, and capital goods, in a self-sufficient manner.[4] In the absence of sufficient foreign exchange resources, these imports had to be arranged against foreign credits. Thus reliance was placed on the construction of a variety of foreign-based projects on a turnkey basis. A number of such projects were launched in the Second Plan, both in the public and the private sectors. The necessity to go along with this particular aid as a route, was, however, of a comparatively short duration. It was regarded as a passing phase. But in course of time it grew into a near unshakable habit.[5]

The flow of private foreign investment continued, though it trickled down for a short period only. As figures compiled by Reserve Bank of India indicated that in 1962, the share of

4. H.D. Malviya, India-U.S.: A Blunt and Cold Relationship (New Delhi: Everest Press, 1978), pp. 42-43.

5. H. Venkatasubbiah, The Anatomy of Indian Planning (Bombay: Vora & Co. Publishers, 1969), pp. 13-14.

United Kingdom was 15 percent and that of U.S.A. 24.6 percent.[6] For quite some time, the policy of foreign investor was one of "wait and see". The situation in India was one of turmoil-the aftermath of Chinese invasion, the political uncertainities about the successor to Nehru, India's acute foreign exchange problems, shortfall in the targets of Third Five Year Plan, the imposition of the super profit tax in 1963 budget, made the investors a bit apprehensive.

The Indian policy was made known to the foreign investors that Indian Government was willing to open its doors wider to foreign capital not only in the private sector but also in the public sector - the condition being that the investment should fit into the framework of India's Five Year Plan and should not place burden on the precarious balance of payment situation. Though certain industries were to be kept out of reach from the foreign capital (PLANTATION INDUSTRIES, TRADING AND COMMERCIAL ACTIVITIES, BANKING AND INSURANCE). On the other hand, in a large number of industries foreign capital would be welcome, especially those involving technical know how. It was also made clear to U.S.A. that Government of India has always adopted a pragmatic attitude as opposed to a dogmatic one. The continuing shortage of foreign exchange and compelling need on the part of the Indian Government to go ahead with its development plans had

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6. India, Lok Sabha Debates, 7 March 1963, p. 2691.

forced its hands to grant concessions to prévate sector - in return for foreign exchange and technical know-how, required to implement technical know-how.[7]

The first suspension of U.S. economic aid in 1965, which formed a major component of all foreign and flow, at the time of armed conflict with Pakistan, aroused a strong sentiment in favour of self-reliance, in the strategy of economic development. The clear need for better utilisation of existing capacities in equipment and machine making sector which had come up by this time exercised its own influence in favour of greater indigenous content for new projects and programmes. The high cost of foreign credits and turkey jobs called for a serious exploration of the ways and means to promote Indian talent and skills in engineering, designing and consultancy. A selective approach to the import of technology was adopted with a view to maximise the use of indigenous equipment and machinery. The outright purchase of process know-how from abroad was preferred over import of technology from abroad, mainly from America.

India's request for military aid was made just after the Chinese attack in the autumn of 1962. Besides the grant which were expected to work out at $ 300 million in five

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7. Venkatasubbiah, n. 5, p. 19.

years preceding 1969, the American Government agreed to provide annual credit of $ 50 million for procurement of supplies by the Indian Defence Ministry. This credit was for purchases of hardware from American private firms.[8]

India planned to erect six ordinance factories with the help of U.S. assistance. Agreements were also signed for U.S. assistance to India's first nuclear power plant, to be set up at Tarapur. At the Aid India Consortium meeting, in May 1964, the U.S. pledged $ 4435 million, the same level of aid that was granted in the previous two years. American Government pledges for 1964-65, in the first four years of India's Third Plan, added upto $ 1850 million. Indian agreements with the U.S. under Public Law 480, covered commodities about Rs. 11,840 million till January 31, 1964, of which about Rs. 11,840 million had accrued as sales proceeds. The PL-480 agreement which expired on June 30, 1964 covered 16 million metric tons of wheat and a million tons of rice. India asked for another PL-480 agreement for supply of food grains in view of failures on the food front for three consecutive years.[9]

India realised that the agricultural sector must be reorganised by introducing new crops and technology. A developing agriculture would release labour and provide raw

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8. Far Eastern Economic Review (Hongkong), July 9, 1964, Vol. XLV, No. 2, p. 64.

9. Ibid.

materials for industrial development. Also, because of its relative size agriculture in early stages of development would introduce a major proportion for expanded industrial output. The food market was a major source of inflation, because of a larger share of total consumer expenditure. In these circumstances, food assistance from abroad and primarily from the United States offered a major means of restraining prices. The foreign exchange which would have been spent on food imports went for capital goods and raw materials needed for India's industrial development. Thus the Green Revolution with the major contribution and assistance from the United States took hold in the 1960's causing temporary improvement in food deficit situation in India. Thus the gap between production and consumption was reduced considerably. But it did not eleminate the growth of population. So there was a lag in the agricultural development and the population explosion.

The PL-480 aid played a vital role in providing food requirements for the development of India's economy on concessional terms. India was benefitted for the concessional assistance to reduce her needed food imports and to save foreign exchange for her social, economic and industrial development over two decades. Eighty percent (80%) of the resources employed in India's economic development came from India herself. Foreign aid accounted for the remainder 20 percent. Of this 20 percent, the United States provided 56.5 percent of all foreign AID utilized by India.[10]

There were a few negative aspects of foreign aid too which ought to be mentioned here. It had been suggested that PL-480 was responsible for the near absence of fiscal discipline in the country. Since large funds were available from the sale of this aid programme for balancing the budget year after year, the Indian Government virtually lost the habit of putting any limit on its non-development expenditure, so much so that it persisted in its ways even after the PL-480 programme was terminated in 1971. Since then, the Government of India painfully resorted to deficit financing on a frightening scale.

The food received by India under PL-480 was at the high, subsidized prices in the protected U.S. market, which was higher than the prices at which it could be brought from the international market. No concession was shown to India in the matter of prices, and the food had to be shipped in U.S. ships for which India had to pay in dollars. Gunnar Myrdal had said that it would be more realistic to call PL-480 food aid as American "national agricultural aid, instead of as foreign aid".[11] The economic crisis of the

10. K.N. Raj, "Plan or No Plan"? Economic and Political Weekly, Special Number, July 1968, p. 1001.

11. Gunnar Myrdal, Challenge of World Poverty (London: Penguin Books, 1970), p. 341.

1970's had led to a disturbing situation. There was no room for complacency in the face of economic difficulties and situation scarcities.

The big dose of foreign aid which had started in 1963-64, coincided with the spell of economic stagnation in the same period. Experience had shown that foreign aid solved the problem of payment crisis only temporarily but aggravated it later. This was more so when aid was increasingly sought, not to build permanent assets but for current consumption. The mischief was done by the so called non-project aid. The actual idea behind non-project aid was to finance the import of spares and components instead of complete plants. This had become necessary after the machine-building industry started coming up in India. But in practice the concept of non-project aid was distorted. It was used to finance maintenance imports, which went in for the production of current consumption goods, mostly non-essential items.

The foreign aid that India received from the United States was available mostly for buying capital equipment for various projects. A small amount was available in case of articles such as steel and fertilisers. Foodgrains (mostly wheat) and some quantities of raw-cotton were imported under American PL-480 assistance (as also some milo and maize). The rest India had to buy out of its own earnings from foreign exchange. The increase was not very fast as much of India's production of semi-manufactures and manufactured goods were barely sufficient to meet the rising domestic consumptions.[12]

Under the Cooley amendment to PL-480, 25% of local currency proceeds of the sales of American agricultural commodities were being made available for lending in the private sector to firms in India which had connections with U.S. enterprises. By January 31, 1964, about Rs. 614 million had become available to the Cooley Fund, and of this amount Rs. 323 million had been allocated to 24 enterprises. Firms which received more than Rs. 10 million from the Cooley Fund were : Coromandel Fertilizers Ltd. (Rs. 107.6 million); Synthetics and Chemicals Ltd. (Rs. 65 million), Goodyear Tyre and Rubber Company of India (Rs. 22.5 million), Union Carbide Ltd. (Rs. 21.6 million), Seshasayee Paper and Board Ltd. (Rs. 20 million), Mandaya Paper Mills Ltd. (Rs. 15 million), Mysore Cements Ltd. (Rs. 10 million), Kirloskar Cummins Ltd. (Rs. 12.5 million), Hindustan Alumunium Ltd. (Rs. 10 million).[13]

Commodity aid from U.S.A. alone in 1962-63 amounted to about one fifth of all aid to developing countries.[14] Natu-

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12. B.N. Banerjee, Foreign Aid to India (Delhi: Agam Prakashan, 1977), pp. 274-275.

13. Far Eastern Economic Review (Hongkong), July 9, 1964, Vol. XLV, No. 2, p. 66.

14. I.M.D. Little and J.M. Clifford, International Aid (London: George Allen and Unwin, 1965)m p. 174.

rally such a large share in the aid amount, in form of commodity aid had a significant role to play. Total commodity assistance authorized to India amounted to Rs. 1948.84 crores (at pre-devaluation rate of exchange) of which Rs. 1748.84 crores was from America alone.[15] India utilized Rs. 1723.90 crores of this assistance. These figures relate to the period between 1955-56 to September 1968. In their study on "Impact of Assistance under PL-480 on Indian Economy", Rath and Patwardhan acknowledge that "this aid provided substantial additional resources for investment in plans of economic development. In the absence of the funds obtained through the sale of PL-480 imports in the country, India would have possibly taken to either a smaller plan or larger deficit financing, or more stringent measures for raising local resources, each one of which would have been a unpleasant alternative".[16]

India's relations with the United States became sour when Washington decided to withhold the $ 87.6 million economic aid that was in the pipeline in December 1971, on the ground that India attacked Pakistan. Washington did not stop the aid in the pipeline to Pakistan. The U.S. action ignored India's stand and held her responsible for war in the sub-

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15. India, Govt. of, Economic Survey, 1967-62, Table 7.2 and 7.3.

16. N. Rath and V.S. Patwardhan, Impact of Assistance Under PL-480 on Indian Economy (Poona: Asia Publishing House, 1967), p. 199.

continent. The U.S. State Department's bureau of public affairs claimed that the aid was suspended because India did not comply with the resolution on Bangladesh passed by the U.N. general assembly. William Rogers, the U.S. Secretary of State, said in January 1972 that if Washington were to provide very substantial amounts of foreign aid and the aid receiving nations got involved in warfare, aid would go down the drain. He asked: "Is that a wise investment of money? And that is what we did. In India's case we have stopped foreign aid for the moment and we are going to take a hard look before we renew aid".[17] He said that the United States had to stand on certain principles and "the idea that it must always side with the winner was fallacious.[18]

The United States, weary of aid programmes, had been looking for an excuse to cut off aid to India. Senator Everett Jackson, a Senior Democrat said in January, 1972: "I think we have spent enough and got very little in return. I am willing to drop India".[19] U.S. displeasure was shown when the World Bank's assessment of India's requirement of $ 1,250 million for 1972 was not accepted by the United States, although all members of the consortium had approved it. After the gross indifference shown by Washington, New Delhi did

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17. U.S. Department of State Bulletin, Jan. 3, 1972, Vol. 69, No. 1853, pp. 9-10.

18. Ibid.

19. Ibid., p. 12.

not want U.S. AID to operate in India, and tightened its stand on the use of PL-480 funds. New Delhi decided to discontinue the facilities given to U.S. AID to operate its training programmes for third countries with PL-480 funds in India. However, after India and the United States moved closer to each other in 1973 India's attitude changed and a satisfactory solution for the disposal of the accumulated PL-480 funds was found.

In March 1973, when India's relations with the United States was improving, the official announcement from Washington that the U.S. Government was resuming arms shipments to Pakistan gave a jolt to the Indo-U.S. relations. The severed relations had assumed such astronomical propositions that India was having doubts as to whether or not to accept U.S. economic aid of $ 87.6 million frozen since late 1971.[20]

A week after the resumption of arms supply to Pakistan, the decision of the Nixon administration to release the commodity aid of $ 87.6 that was in the pipeline at the time of the Bangladesh war, and was frozen by the U.S. Government, did not work spontaneous appreciation from India. India did not make outright acceptance of the U.S. offer, as this aid was earlier meant for the import of commodities such as fertilizers, steel and non-ferrous metals. India had explored world

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20. Capital (Calcutta), 22nd March 1973, Vol. CLXX-4256 p. 433.

markets and had made alternative arrangements for the import of its minimum needs.[21]

The American authorities had themselves admitted that India had reduced its dependence on foreign aid from about 25 percent of its total plan outlay in the fifties to 10 percent in the Fourth Plan period: But at the same time, India's debt repayment obligations had been rising steadily and assumed vast proportions by the Fifth Plan period. India could not reject the U.S. offer, as otherwise had to seek new assistance for imports or for repayment of past loans.

However, the question of foreign aid has to be viewed from the overall impact on the economy and the society. It was widely recognised that liberal PL-480 imports made India obvious of the needs of agricultural development. India was unable to make partial payment for the vast amount of assistance required, and any aid given was considered an outright assistance and not "sold" against soft currency or on long credits.[22]

In fact, the bulk of U.S. aid to India had been in the form of farm surpluses like wheat and cotton which the

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21. Ibid.

22. S. Chandrashekhar, American Aid and India's Economic Development (New York: Frederick A. Praeger, 1965), pp. 109-110.

United States could not keep with itself for fear of a crash in the price of these and other agricultural commodities. Out of 23 agréements of cooperation and assistance signed between India and the United States, only the first that was for constructing the Sindri fertilizer in Bihar (with some aid from United Kingdom also), had anything to do with the objective of making India a modern industrialized nation. All the other 22 agreements covered supply of fertilizers, training of fertilizer technicians, livestock improvement and an agricultural economic research milk projects, Nagarjuna Sagar reservoir construction, rural electrification and help for building agricultural universities.[23]

Thus U.S. aid, though helpful did little to make India stand on its feet. The United States was dolling out to a destitute nation as an act of benevolence and charity. For more than two decades, the assistance from the United States made India more dependent on American resources. Since 1967-68, anything between 30 and 50 percent of it had been spent on repaying earlier debt in dollars. Over and above this U.S. aid had never been free of strings. In 1966, the devaluation was taken under the pressure from the United States. During 1971, the aid was stopped in

23. Banerjee, n. 12, p. 276.

order to make India toe the American line on the vital issue then facing the Indian sub-continent (liberation of Bangladesh).[24]

India's Demand for U.S. Capital/Investment

A peculiar love and hate relationship between U.S. capital on the one side and the Indian Government and capital on the other, has prevailed since India gained political independence. This has manifested itself in many forms. The anxiety to attract foreign capital, in particular, to open the doors wide for multinational corporations, (with their huge capital resources) was seen in Government approach and policy. It only grew and became more pressing when India embarked upon its development programmes. The emphasis in approach, shifted alternately on both sides. On the part of Government, a keen desire for fresh foreign capital was combined with laying down of limits of its operation to what were outlined as priority sectors from time to time and restrictions on remittances of profits. The effort of the Indian capital had been to curb competition from foreign capital in the vast Indian market while seeking to enter into collaboration deals with U.S. companies for exploiting its growing potential and profitability.

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24. Ibid.

Efforts were made to increase the pace of American private investment in India. A high level meeting in April 1964 between American businessman and Indian officials helped to dispel some of the American businessmen's misconceptions about the Indian climate for foreign investment. According to Reserve Bank of India estimates, till the end of 1960, American investments in India totalled US $ 237 million out of total foreign investments of $ 1,450 million.[25] This estimate is for the post-war period. At the end of 1948, American private investment in India stood at only $ 23 million. Some other estimates placed, American investments in India till 1960, a little over $ 300 million with an annual flow of around $ 30 million.[26]

The more significant instances of American contribution of equity capital or technical assistance were: Allied Chemical Corporation with a firm in Andhra State for a fertiliser factory, Caltex and Intarnational Minerals and Chemicals Corporation for another fertiliser factory in Andhra, Carrier Corporation for air conditioning plant, Coining Glass International; General Telephone and Electronics International; Hercules Power Company for heavy organic Chemicals.

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25. India, Govt. of, Reserve Bank of India Bulletins, 1961-62, pp. 69-70.

26. Far Eastern Economic Review (Hongkong), 9 July 1964, Vol. XLV, No. 2, p. 66.

By 1960, the Indian Government was largely successful in getting the companies to import crude or rather refined products - thus saving considerable foreign exchange. There are evidence which indicates that U.S. official as well as business circle were taking unusual interest in India's Third Five Year Plan. It was sufficiently made clear to the Indian Government that the degree of Cooperation from the side of the U.S. was dependent on India's willingness to come to terms with the economic policies.[27]

The rising demand for oil and soaring import bill were threatening to offset the savings. Herein came the Soviet offer to supply India with large quantities of low priced crude oil on a barter basis. It was reported that the offer was at a price 25% below that of British and American companies. Besides the provision of payment it in rupees would also save the much needed foreign exchange.[28] However, the companies refused to handle the Soviet oil because most of the profitability lies in the crude oil rather than in refining or marketing.[29] Besides, there would be pressures from other quarters of the globe too demanding the companies to use Soviet oil.

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27. New York Times, 9 August 1960, 41:7

281 National Herald (Lucknow), 16 July 1960.

29. (i) New York Times, 9 August 1960, 41:7
(ii) Commerce (Bombay), 23 July 1960, p. 41.

The rejection of the Soviet offer by the oil companies was themain cause for the formation of an Indian Government committee to investigate the problem of oil pricing. The Committee found that prices were disadvantageous and recommended that the companies (1) buy crude oil from the lowest price suppliers or (2) force their own suppliers to cut crude oil price to lowest competitive price including that of the Russians (3) eliminate the intermediate purchasing companies between the producing end of an international oil company and its refining affiliate in India i.e. have the refinery in India and buy directly from the producers in the Middle East.[30]

There was pressure from the World Bank to modify its oil policy. A World Bank Mission had suggested in the summer of 1960 that "a change in this policy could free significant amounts of foreign exchange for other uses during the Third Plan by attracting additional foreign capital into the oil industry.[31] Initially stanvac and Burmah shall had offered to reduce prices to meet the Soviet challenge but gave a firm negative reply to Government of India for refining Soviet crude.[32]

30. Government of India, Ministry of Steel, Mines and Fuel, Dept. of Mines and Fuel, Reports of the Oil Price Enquiry Committee (New Delhi, 1961), pp. 16-24.

31. Capital (Calcutta), 8 September 1960, p. 353.

32. New York Times, 18 & 19 July 1960, 37:4.

The warning of the Indian Petroleum Minister went unheeded. The intransigient stand of the oil companies could be explained on three grounds. Firstly, the initial aggrements allowed them to choose their own sources of supply, and secondly guarantee against nationalisation for 25 years. Thirdly they had the added confidence that it was their home Government that India would turn to for aid and assistance in her industrialisation desire.[33]

The warning of the Petroleum Minister that if the companies fail to fall in line, the Essential Commodities Act would be resorted to did not perturb the companies. It was understood that such a step could not be undertaken in actuality because it would block the much needed U.S. foreign capital.[34]

The reason why the oil industry was the main target of Indian Government's controlling efforts was it was one of the vital necessities which powered all organs of defence and basic industries. To have left it completely in foreign hands would also result in allowing it indirectly to play with the national interest of the country. Now it so happened that the fear was far fetched. It was expressed by

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33. Reported in STAR, 17 Aug. 1960.

34. Indian Express (New Delhi), 30 Sept. 1960.

the then Petroleum Minister, K.D. Malviya, "The requirement of an independent economy and defence dictated the need for an independent oil industry in India".[35]

The Indian Government was trying to control the vital and basic industries for reasons of national interest, at the same time it was also fully aware that it could not ward off foreign capital altogether especially from United States. United States was one of the leading partners of India accounting for 21 percent of her foreign trade.

The United States Government and business circles too had a close eye on Indian Government's swiftly changing stances. There was also the eagerness to make the best use of it and come to terms with it. The stiffned and changed attitude of India did not go unnoticed in U.S. Government and business circle. It was officially declared by James W. Macnley, Assistant Director of Commerce that since Indian Government had elminated some of the obstacles and an atmosphere of confidence and security was created, American investors and businessmen expressed sincere desire to expand dealings with India.[36] The adequate loans would be forthcoming from Development Loan Fund and it would also be ready to undertake the special risks involved, announced

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35. <u>Indian Express</u> (New Delhi), 2 Dec. 1962.

36. <u>New York Times</u>, 7 January 1960, 10:1.

by Vance Brand, Managing Director of U.S. Development Loan Funds.[37] The head of International Cooperation Administration testified before the Senate Foreign Relations Committee that "the new aid policy would concentrate on INDIA, PAKISTAN AND TAIWAN - since these countries had institutions and human resource base on which rapid growth can be built".[38]

The private foreign investment in the two decades (1950-1970) had been concentrated in technology, intensive product lines (particularly basic chemicals, industrial machinery and electrical machinery). The technique of investment in kind enabled the big U.S. firms to invest easily in these fields by exchanging capital goods and know-how for equity shares even without committing any funds. The financial collaboration occured also in consumer-goods-industries that did not involve complex technology - such as milk powder, glassware, transistors, air conditioners, gums and cosmetics. The main consideration was to utilise foreign brand names for profit rather than to build up a dynamic industrial structure.

At the end of 1963, forty American firms were operating in India under licensing or technical assistance agreements only, and 74 firms in trading and services.

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37. <u>New York Times</u>, 8 January 1960, 4:5.
38. <u>New York Times</u>, 24 March 1960, 7:1.

There were another 56 firms in actual industrial production which had equity investment or technical assistance from the United States.[39] Some American firms had cooperation agreements with the Government or subsidiary organisations. As a matter of fact, the collaborator's equity participation accounted for only 27 percent of the total imported plan cost in the 79 cases, which had to rely on other foreign exchange loans for financing the bulk of their capital goods import.[40] Clearly foreign investment played only a small part in helping capital formation and in easing the foreign exchange constraints in India through obtaining substantial ownership stake at the same time.

The increased internal pressure from different political parties, made the Indian Government consider ways to bite more into restrictions without scaring the companies away. The accepted policy was that foreign equity holdings in the companies normally should not exceed 40 percent. Accordingly many foreign firms that had chosen to expand their equity base in 1972, took special care to increase the level of Indian shareholdings. An additional condition that was put in 1973 was to ask the companies to to repatriate only upto 40 percent of their profits. The

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39. Far Eastern Economic Review (Hongkong), 9 July, 1964, Vol. XLV, No. 2, p. 64.

40. Ibid.

logic was that 40 percent could meet the dividend expectations of a similar percentage of equity holders and any excess holding would prove non-yielding.

As a gesture to foreign investors India amended the strict Foreign Exchange Regulation Act (FERA) of 1973, which required foreign shareholdings to be reduced. The FERA required a stipulated level of Indian equity. The existing companies had foreign holdings of 40 percent, 51 percent or 74 percent (again in some cases even 100 percent) depending on the business they were in.[41] The licensing policy had also undergone changes in keeping with the emphasis on raising production at any cost. Nationalisation became a more selective process. Burmah shell was nationalised as Bharat Petroleum in 1976. Indian Government also nationalised three engineering groups - Burn, Indian Standard Wagon and Braithwaite - after assuming their management two years ago. The Government was also examining a proposal that the ailing companies could be merged with healthier ones to make them viable again.

American investors were particularly lukewarm about opportunities in India. Fourteen collaboration proposals from U.S. companies were approved in 1972 involving an equity investment of Rs. 40 million. In 1971, twelve

41. Far Eastern Economic Review (Hongkong), July 30, 1976, Vol. 93, No. 31, p. 67.

companies were given clearances but the investment came to only Rs. 10 million. The new Indian guidelines on foreign investments and the streamlining of licensing procedures in 1973 did not show any appreciable increase in actual investment. But initial reaction in foreign circles had been favourable. According to official sources, given the correct political climate, officials believed that there will soon be a reversal of trend of declining foreign capital investment.[42]

Thus the foreign companies operating in India were suffering from certain stagnation. They were of course making large profits. This helped them in enlarging their capital base and building up reserves, together with adequate repatriation of profits. But they could not be fully satisfied with this situation. The U.S. companies wanted to put their enlarged resources and assets into new business investments for higher profits. They did not envisage bringing in of new capital or new technology, except very marginally for their expansion and diversification plans. Their only interest was to energise their reserves and to raise some capital within India to fulfill the requirements of dilution of foreign equity without losing their control.

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42. *Far Eastern Economic Review* (Hongkong), June 3, 1974, Vol. 84, No. 22, p. 64.

This gave them enough resources to expand and increase their profits without undertaking new risks or making any technological or financial contribution.

Requirements for U.S. Exports and Imports

A close look at India's foreign trade indicates that substantially half of India's foreign trade was with British Commonwealth. The close interdependence of India with Commonwealth Countries was an outgrowth of historical association, trade policy, investment and mutual economic advantage.

Prior to the Second World War, trade of U.S. with India was comparatively unimportant. Relatively India was less important as a market for American exports than as a source of imports. For a long time India received little more than 1 percent of the total American exports and was the source of 3 percent of American imports. For India, U.S. goods included were 10 percent of India's total exports and 7 percent of its imports. During the war, there was twice as much as increase in Indo-American trade, especially in exports. In 1947, American trade with India was thirteen times the 1938-39 average, and two and a half time that of 1946.[43]

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43. Report of the Committee for India and Pakistan - US NATIONAL FOREIGN TRADE COUNCIL - AMERICAN ECONOMIC RELATIONS WITH INDIA AND PAKISTAN (New York, July 1964), p. 32.

It was a overlooked fact that though value of Indian imports still represented only a small fraction of American total foreign trade, India was the sole source of supply of eight important commodities and the exporter of more than 80 percent of American imports of 15 other items. Included in the later category were raw cotton, myrobalan fruits, lemon, glass oil, chashew-nut shell, oil elmenite, mica films and spilling lac, shellac and jute goods. "Thus the actual importance of India in American foreign trade has been greater than the relative volume of trade would indicate".[44] For e.g. the first nine months of 1948, 65 percent of the commodities arriving from India consisted of material classified as strategic or critical by U.S. Government.[45] American imports from India have largely been non-competitive with American domestic products. The items listed above were in two categories, those not produced in United States, such as jute, burlap, shellac, lac, tea, cashew nuts etc., and those produced in insufficient quantity to meet American needs such as mica and manganese. In 1946, jute constituted, 38 percent, shellac, lac, cashew nut, tea, raw hides skins, raw cotton and cotton waste 34 percent, tea, chashew-nuts about 9 percent

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44. Ibid.

45. 82nd Congress, 1st Session, INDIA EMERGENCY ASSISTANCE ACT, 1951. Report of the Committee on Foreign Affairs, House of Representatives, p. 6.

of India's export to United States. As far as U.S. was concerned, wheat constituted about 34 percent, foodstuff 43 per cent, chemicals 10 percent and machinery 7 percent of its exports to India in 1946.

Dependence on aid for all sorts of imports (including food) increased considerably in the Third Plan period. The value of imports financed by aid went up from Rs. 344 crores or 34.5 percent of total imports (Rs. 996.3 crores) in 1961-62 to Rs. 675 crores, or 49.5 percent of total imports (Rs. 1362.9 crores) in 1964-65.[47] Correspondingly, the percentage share of imports financed by the foreign exchange went down from 65.5 to 50.5 percent in the same period. The Economic Survey for 1967-68, estimated that for the Third Plan period as a whole, aid financed imports were 46 percent of total imports including food. In other words, India depended on external assistance of one kind or another for financing private sector imports also. The non-project assistance received from the U.S. (Government) Agency for International Development Association helped to satisfy the import demands of private industries and public sector projects for maintaining production at a high level. But for it, the value of imports might have gone down further.

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46. U.S. National Foreign Trade Council, n. 43, p. 32.

47. Government of India, <u>Economic Survey</u>, 1965-66, pp. 45-46.

Increase in food imports for cash to supplement imports against food, loans, mainly from the United States, made considerable demands on "free" foreign exchange (i.e. foreign exchange earned by India with which it can buy anything from anywhere), with the result that capital flowed into the country from the American Government and institutions earmarked for specific purposes, could not be reduced. Free foreign exchange could not finance any part of the capital imports foreign aid was financing. Even in respect of food aid, the U.S. felt that other countries with food surpluses were not giving enough and that India itself was not exerting to get foodgrains from other quarters besides the United States either as loan or for cash. Here again the Indian position was seen as getting conditioned to U.S. food assistance. The lags in Indian agricultural production were themselves attributed to this conditioning, although it was recognised that extra-ordinary situations like drought neutralised the modest improvement that had been achieved in farming. Even as balance of payments difficulties made consortium members tighten their purse strings, dwindling food surpluses in the U.S. made it insist a little more strongly that India take effective measures to reduce dependence on imported food. Using more fertilizer was crucial to growing more food. Increased fertilizer production within the country would save about

$ 100 million of foreign exchange per year. The World Bank as well as the U.S. was keen that India should take steps to expand fertilizer production rapidly.[48]

Towards the end of 1966, the U.S.appealed to the Organisation of Economic Co-operation and Development-OECD (which included all countries in Western Europe besides Canada, the U.S. and Japan) that its members should consider the establishment of a fund to stimulate agricultural development. The appeal mentioned specifically the Indian drought and the rising demand for fertilisers, and signified that American anxiety that Europe and Canada should better appriciate the gravity of the situation and act in concert, so as to give according to their capacity.

India aggravated its own problems of external finance in two or three ways. Its dependence on maintenance imports became much more substantial than originally forseen, and it became difficult to persuade aid giving countries particularly U.S. to give a larger proportion of their aid as non-project aid. A heavy industry base had been created in the Second and Third Plan periods. Many projects had to be completed - iron and steel, machine, building units, heavy electrical equipment, petroleum refining, fertilizer plants, etc. Besides capital equipment with tied credits, India

48. Balraj,Mehta, Failures of Indian Econ omy (New Delhi: Chetna Publications, 1974), p. 127.

needed raw materials and certain machine parts which were not covered by these credits. Expansion of heavy industries could be slowed down for paucity of development finance but completion of projects in progress could not be delayed. A slow down of the latter would prolong the dependence on American foreign capital equipment by the large number of processing and manufacturing industries. These needed a lot of raw materials immediately.

In the normal course growing export trade should have taken care of maintenance imports - at least a large part of them. But owing to the high cost of industrialisation and inadequate output of commercial crops, India failed to make much headway in exports. The obvious experiment to try in the circumstances was to devalue the currency. The rupee was devalued on 6 June 1966. This step was caught in two contrary considerations from the outset. Devaluation to the extent effected (57.5 percent) would not make all exports sufficiently compítitive, and so a selective scheme of export assistance (including cash subsidies) had to be retained. On the other hand, the fear that the fall in the unit value of exports in terms of foreign exchange may unduly depress export earnings, made the Government levy or raise export duties on some traditional export articles like jute manufactures and tea - especially since it was the experience in the past that the foreign demand for them was not necessarily affected by changes in prices (unelastic demand). India's balance of payment was caught between low export earnings and high debt service charges.

Meanwhile the invisibles account in the balance of payments had to bear a new handicap. The freight on shipments of agricultural commodities under PL-480 had to be paid in foreign exchange. Towards the end of 1966, the Government was also confronted with some unexpected demands for foreign exchange. Imports of raw cotton, which were already large and continuing, had to be increased owing to a shortfall in the Indian cotton crop. Even so, a curtailment of cotton textile production could not be avoided. Other agricultural commodities which made further demands on the meagre foreign exchange resources were raw jute and vegetable oils. The credits from the International Monetary Fund had to be drawn in full. As the Economic Survey for 1965-66 pointed out, the major problem India faced in the Fourth Plan period was that of securing a balance in its external payments, consistent with the desired rate of growth, which was expected to be between 5 to 6 percent per annum.[49] Therefore demand for most of the U.S. loans

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49. Government of India, Economic Survey, 1965-66, p. 47.

(if not all) was on soft terms, in order not to make the burden of debt servicing more intolerable.

The Indian economy needed to reduce its dependence on foodgrain imports as quickly as possible. Imports under PL-480 programme assumed considerable significance in any action, to reduce food imports because they formed such a large proportion of the total. In the 10 years, 1956-57 to 1965-66, the value of India's total foodgrain imports amounted to Rs. 1871 crores. Of this imports under PL-480 accounted for Rs. 1256 crores or two-thirds of the total.[50] This certainly reduced what the country might otherwise have had to spend in foreign exchange. But it also served to emphasise how established the dependence on imports became.

The Economic Survey for 1966-67 pointed out that with the utmost aid India could get, foreign exchange outlay on food imports mounted from $ 103 million in 1964-65 to $ 240 million in 1966-67.[51] The only way to avoid both long term debt and short term foreign exchange drain - both undesirable in their different ways - was to work consciously for self sufficiency in food. When, therefore the United States hinted indirectly that PL-480 supplies to India must

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50; Ibid.

51. Government of India, Economic Survey, 1966-67, pp. 117-118.

sometimes come to an end, it was to India's own interest to weigh the suggestion from the financial point of view as well. The proportion of foodgrain imports under PL-480 to total food imports had been going up, creating the impression that, given the persisting foreign exchange difficulties, India would come to rely more and more, rather than less, on imports under PL-480. Domestic production failed to rise rapidly and consumption could not be restricted except marginally in rationed areas. The black market flourished in them anyway. Between 1956, when the first agreement under PL-480 was signed and by 30 April 1967 India had actually imported 38.9 million tonnes of wheat (or an average of 3.5 million tonnes a year), and 1.76 million tonnes of rice. The following table shows the value of imports under PL-480.

Table
(Rs. crores)

Year	Total imports of foodgrains	PL-480 import of foodgrains
1956-57	108	33
1957-58	165	96
1958-59	151	80
1959-60	150	91
1960-61	213	150
1961-62	117	64
1962-63	166	107
1963-64	196	162
1964-65	282	240
1965-66	332	225

Source: Government of India, Ministry of Finance, 1966-67 p. 323.

Payment for PL-480 sales to India being in rupees, imports under the programme undoubtedly relieved India's balance of payments, over the years. The more critical the balance of payments as during the Third Plan period, the greater was the relief. The loaning of the counterpart rupee funds by the American Government to the Government of India helped in financing of many development projects.

During the 1970's, U.S. continued to be India's largest trading partner and in 1972, there was a nominal trade surplus due to less imports and a reduction in the receipt of U.S. credits. However, the overall balance of payments position remained unsatisfactory for India, when payments for loans was accounted for. With the exception of a few developed countries, till 1974 India stood as one of the ten trading partners of the U.S. In 1973, India accounted for \$ 959 million worth of two way trade with the U.S. and it was expected that this trade may further reach the level of \$ 1.2 billion in 1974. Statistics available for the first eight months of 1974 on Indo-U.S. trade revealed a total trade of \$ 785.1 million with U.S. exports to India figuring at \$ 412.5 million and imports from India at \$ 372.6 million.[52]

52. Financial Express (Bombay), 28 October 1974.

Despite the vicissitudes Indo-US relations had passed through during 1971-73, together with the virtual halt in the U.S. economic aid, the bilateral trade between the two countries had shown remarkable resilence and immune from the ups and downs on the political front. India's exports to the U.S. registered a rise from \$ 298 million in 1970 to \$ 435 million in 1973 - an increase of nearly 46 percent. Imports from the U.S. to India, though have not been of the level attained in the 60's, made a remarkable recovery in 1973, rising from \$ 350 million in 1972 to \$ 524 million in 1973, (recording a rise of nearly 50 percent), thus leaving India with a balance of trade deficit to the tune of \$ 89 million.

The U.S. in 1974 accounted for only 13 percent of India's total trade, though her share in 1950-51 was in the region of 18 to 19 percent.[53] Although the U.S. had a predominant place in India's exports its share in the total imports of the former had been declining. India's share in U.S. imports dicreased from 1.1 percent in 1967 to 0.67 percent in 1973, which again reinforced the fact that India had hardly scratched the surface of the vast potential of the American market. This was specially true in the case of non-traditional items, exports of which edged upwards slightly rising from 11 percent of the total in 1968 to

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53. Ibid.

17 percent in 1972.[54] It was felt that India and United States could expand their trade relations, and thus put Indo-US relations on a firm foundation of mutual trust, respect and of co-operation.[55]

India's Attitude towards U.S. Policy - Official/Non-Official

Economic self-reliance was enshrined as a prime national objective since the very inception of planned economic development in India after independence. With the economy caught in a deep crisis and the government leadership prone to rely on foreign crutches, rather than make effort required for independent and self-reliant development, the U.S. policy could have an edge in India's national affairs.

Broadly speaking, there was criticism regarding India's too much dependence on foreign aid and technology. Dr. S. Hussain Zaheer, then the Director General of the Council of Scientific and Industrial Research had warned at a meeting of the Indian Parliamentary and scientific Committee as far back as in January 1955, that "there was a great danger that large scale dependence on foreign tech-

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54. Capital (Calcutta), 25th Jan. 1973, Vol. CLXX-4248, p. 1502.

55. Capital (Calcutta), 1st Nov. 1973, Vol. CLXXI-4281, p. 1767.

nology would have serious consequences. There were cases, he had pointed out, where even when Indian know-how had been equally good, if not better, foreign collaboration had been permitted. There were instances of technology discarded in other countries having been brought into the country through foreign collaboration. If Indian know-how was faced with competition from foreign know-how, especially with foreign capital participation, there was a danger that various non-scientific factors would always work in favour of the foreign collaboration. This caused great frustration among Indian scientists",[56] he pointed out. Dr. Zaheer, therefore asked for a basic policy dicision that "where Indian know-how is available to equally good technical and economic feasibility or where Indian know-how requires only to be supplemented by foreign know-how, the Government should not agree to foreign collaboration".[57]

Dr. H.J. Bhabha, Atomic Energy Commission Chief was even sharper in this regard. "Dependence on foreign consultancy and technique amounted to paying for research and development, in other countries and keeping our own backward"[58] he emphasised in his address to the same committee in the year 1955. Dr. Bhabha showed that by the policyof self-

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56. Balraj Mehta, n. 48, p. 119.

57. Ibid.

58. Ibid.

reliance, India had advanced in the field of atomic science while in conventional fields, dependence on foreigners had kept the country backward. He cited the experience of atomic power generation. The second unit of the Rana Pratap Sagar atomic power station was proposed to be an indigenous affair, and it was estimated that "the foreign exchange required for its atomic side would come down to only about one crore rupees. But for the conventional part of the project, nine crore rupees in foreign exchange were estimated to be necessary. The expenditure on research and building up of indigenous technology", he showed "from the experience of the pilot plutonium plant was a net saving".[59]

Again in 1965, a move was initiated in the Planning Commission by the late S.G. Barve, then Member, Industries to draw up a comprehensive report on the existing state of consultancy and engineering services in the country, and what should be done to develop and strengthen the crucial services if any real advance was to be made in the field of industrial development.t The highlight of the report, which came as somewhat of a pleasant surprise even to those who had prepared it, was that "India already at that time possessed consultancy and engineering services of a high

59. Ibid, pp. 119-20.

order but they were not getting a modest chance to display their talent and competence in the industrial life and development of the country".[60]

There was controversy among the rightists and leftists who attacked India's reliance on foreign aid. The rightists argued that aid, "by encouraging central planning and public prestige projects, discouraged the growth of private savings and private initiative, frightened away foreign enterprise, discouraged the economy in the use of capital, and generally distroyed the basis of decentralised decision taking",[61] which in their view was the prerequisite of development. Aid thus was thought to perpetuate the system which made aid necessary, some went further and said that if pauperised the country, making it increasingly dependent on external assistance.

The leftists attacked aid on the ground that "by supporing reactionary groups in power, it retarded the introduction of the institutional and political reforms, particularly effective land reform, which was necessary for development. Aid, in their view proped up reform resisting

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60. Ibid., p. 120.

61. Paul Streeten and Michael Lipton, ed., The Crisis in Indian Planning: Economic Planning in the 1960's, (London: Oxford University Press, 1968), p. 333.

oligarchies and conservative and feudal social systems, and again perpetuated the system which made it necessary.[62]

Inspite of such criticisms and report by persons of repute, not much was done to reduce dependence on foreign capital and technology. The situation in other areas of development seemed to be different. Foreign tied credits and turnkey arrangements, for construction were accepted, to begin with, for the first series of projects. But the same arrangements were subsequently tended to be perpetuated. At one stage in the early sixties, efforts were initiated to reduce, if not to end altogether, dependence on foreign agencies. The withdrawl of the request for U.S. aid for the Bokaro Steel project was the high water mark of the effort to shake off such dependence. It had become the beginning of a new, technologically self-reliant, stage in the development effort on a wide front. More so because it occured at the right moment when the first stage of industrialisation process had been built and a large pool of engineering services had come up. What was needed was to mobilise the material and human resources within the economy, and harness them to the tasks of self-reliant development. But the things did not move in this manner. The withdrawl of request for U.S. aid for Bokaro proved to be only a flash in the plan and did not grow up to be a

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62. Ibid.

firm policy. On the contrary as the generale economic situation began to deteriorate rapidly during the drought years in the mid sixties, and planning of economic development itself ran into difficulties, official policy turned to object solicitation of aid, on any terms. Technological self-reliance had suffered the biggest set back in these conditions. Design and engineering services within the country - both in public and private sector - had since been grossly under utilised and odd spectacle of unemployed young engineers emerged in the country needing rapid industrial development for the solution of all its problems - social, economic and political.

During the 1970's, a lot of hue and cry was raised regarding the operations of American multinationals in India. It was felt in certain quarters that the working of multinational corporations (MNC's) had partially helped the process of economic development but also hindered it to a considerable extent. The Government policy should therefore have been flexible enough to utilise them fruitfully while preventing their absues. An economist had observed: "We should take care not to throw the baby with the bath water".[63]

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63. M.R. Meher, "Uses and Abuses of Multinational Corporations in India", in Capital (Calcutta), 25th Oct. 1973, Vol. CLXXI-4286, p. 1709.

Monopoly houses in India have been strong advocates of the MNC investment. Some of them by starting the so-called joint ventures abroad wanted to emerge as multinationals. As Raunaq Singh noted: "MNC's are no longer the monopoly of developed countries; India exports whole projects to West Asia and Africa".[64] While noting that these Indian joint ventures abroad are nothing like the MNC's of capitalist countries like U.S., not only in quantative terms but also qualitatively, it was admitted that the Government of India had also been keen on importing more MNC capital. Indian ministers of finance, commerce and industry, all three had gone on record in favour of foreign and MNC investment in India. Besides the Government of India had been permitting Indian big business houses to collaborate with MNC's in third countries, thus helping MNC's to penetrate the third world under cover of Indian participation.[65]

The Government of India made quantitative and structural changes in the industrial policy resolution of 1956, and the industrial licensing policy through "guidelines" (1973-74), giving unwarranted concessions to foreign invest-

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64. G.J. Rama Rao, "Multinational Corporations and India" in Menace of Multinationals, (New Delhi: People's Publishing House, 1977), p. 37.

65. Ibid.

ment. The foreign exchange regulation act (FERA) for one thing was not strictly implemented, the existing foreign companies could still retain a 40 percent controlling chunk of shares, while the other 60 percent of shares was scattered to a large number of public. Moreover the FERA granted expansion and diversification and entrance into the core industry as an incentive to dilution of shares and further investment. And this had resulted in expansion or extension of foreign companies into quick profit yielding consumer industries.

Some MNC's fans in India (including ministers) argued that even the Soviet Union and other socialist countries have accomodated the MNC's. This argument conviently forgets some important facts. The nature of the state and the system of economy in the socialist countries are not merely different but strong enough to withstand the politico-economic pressure and blackmail of the MNC's. MNC's collaborate there not with private individual capitalists but with the socialist state. The collaboration is based not on repatriation of profits, royalties etc., but on product sharing. In other words, the socialist countries pay for MNC technology through exports. The technology equipment and other things transferred by the MNC become the property of the socialist state, and whatever rights the MNC's are accorded are strictly limited to a period of time, after which the MNC's ceased to have those rights.[66]

The Government of India, in 1974, imposed restrictions thereby restraining companies from paying dividends of more than 12 percent or one-third of net profit, whichever was less. This restriction was removed on July 6, 1974. As a consequence, the Government as well as a section of Indian industry appeared to have a new sense of pragmatism about the role of foreign capital. The basic policy of allowing foreign investment only in selective spheres where local know-how was not fully developed remained unchanged.[67] At the same time, the FERA was amended in mid April 1974, to permit some of the overseas companies to have 51 percent foreign holding which otherwise would have to be reduced to 40 percent. The attitude in official as well as non-official circles was that such a change in the Government policy would add substantially to the flow of foreign capital and technology.

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66. Ibid.

67. A. Hariharan, "A Change in Climate", in <u>Far Eastern Economic Review</u> (Hongkong), July 30, 1976, Vol. 93, No. 31, p. 68.

CHAPTER - V

C O N C L U S I O N

Chapter - V

C O N C L U S I O N

The United States of America had the most favourable position in the world economy because it was empowered with the crucial technology and surplus resources. This enabled it to influence the activities of the other nations to a large extent. The most important economic weapons which America put into action for influencing other developing countries of the world were its aid, trade and investment policies.

The poorest nations of the world are concentrated in the tropical areas of Africa and in the Asian subcontinent. Taking the case of South Asian region, it may not be wrong altogether to say that most of the countries in this region were in the development process and hence they were in need of massive investment programmes. They often turned to the United States for help. The U.S. while providing help, made it sure that the countries that receives such aids is conforming to its expected norms of interest.

There have usually been three objectives in having accorded such an aid: (a) to increase the availability of capital for investment (b) decrease the strains on the domestic economy (c) the inherent interest of the donor country. From an ideological point of view it is often remarked that United States offered aid because it was keen on the economic growth of the underdeveloped countries. But there is no denial that aid besides accelerating growth, helped to bring better terms of trade for the United States. It has also been pointed out that the developing countries are the major source of raw materials for the industrialized countries of the North. When a developed country is in need of certain raw materials, she gives aid to the developing countries for such projects which help in extracting those materials.[1] Thus in many instances, by receiving aid, these countries helped in increasing the supplies of materials needed by the developed world. The United States has been a vivid example of this rule. A glimpse of the American attitude can best be obtained from an excerpt of the speech of the President in which he laid down the economic objectives by saying :

> We have an economic interest in providing the development of the free world. In the years to come, the increased economic strength of less developed countries shall prove mutually beneficial in providing growing markets for exports, added opportunities for investment and more of the basic materials we need abroad.[2]

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1. Charles P. Kindleberger, The terms of trade: European Case study (New York: Harper & Row, 1966), p.34.

2. The President's Message to Congress on "Mutual Security Programme for 1959", The New York Times, 20 Feburary 1968.

The economic objective thus cited carried the basic thrust of its foreign policy. Whether the primary motivation was to hold the line against communist expansion or to establish mutually beneficial relations with the receiving countries, the American aid programmes were the instruments of a general political strategy, although it was not always so clearly spelt out. The aid was primarily a political weapon. It was one of the important instruments to effect the growth and the spread of the American power all over the world. Senator, J.W. Fullbright (Democrat, Arkansas), Chairman of the Foreign Relations Committee in the Senate, reiterated :

> It is a misnomer to speak of the foreign aid programme, it is a conglomeration of programmes - to support foreign armies, to maintain American bases in foreign lands, to build roads, dams, steel mills, to pay foreigner's import bills, to grow more food; to rent communications station; to train foreign tax collectors, to provide emergency relief for natural disasters, and to support multi-farious United Nations activities which themselves range from feeding children to killing malarial mosquitoes.[3]

The U.S. aid thus became a convenient proposition to elicit the support of poor countries, as well as gain the

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3. J.W. Senator Fullbright, "The Foreign Assistance Programme", Department of State Bulletin, March 4, 1965, p. 202.

basic objectives of American interest. Walter Lippman, the famous columnist remarked :

> Our ancestors crossed an ocean for a purpose, they then turned to opening up, consolidating, and making secure the continental territory under the two Roosevelts and Wilson, new improvisations of national purpose in democratic and foreign affairs were demanded and created. Now we have reached a point and in our relations with the rest of the world where we have fulfilled and outlived most of what we use to regard as the programmes of our national purposes.[4]

As for the South Asian region, and more particularly for India, it was discovered that American was able to extract raw materials and semi-processed good at throw away prices from this country. This materialized by laying down terms and conditions for U.S. aid and its economic assistance programmes. Therefore, India bore the burden of American economic aid in an indirect fashion, contrary to the belief that it was the receipient of a liberal gift from the United States.

Over half of the aid India received from America, it utilized the aid in the form of commodities (even the non-

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4. Rineheart Wilson, The International Purpose (New York: Macmillan Co., 1960), p. 28.

project aid took the form of commodities). A small amount of this aid was received under the U.S. Mutual Security Act (PL-665), ~~but a larger part of this aid had come under the U.S. Mutual Security Act (PL-665)~~, but a larger part of this aid had come under the U.S. Agricultural Trade Development and Assistance Act (PL-480) particúlarly under Title I), which authorised the sale of U.S. agricultural commodities for foreign currencies. Between India's first PL-480 agreement in 1956 and the end of the Third Plan, the total sales proceeds of PL-480 imports amounted to Rs. 156,730 million. Four-fifths of these counterpart funds were lent or granted to India, 7 percent were loaned to U.S. private enterprises, the remaining funds (13 percent was retained by the U.S. Government for its own use.[5]

The direction of India's trade over the period (1964-1976), showed a remarkable change in India's imports from the United States, which were about $ 230 million in 1948-49, increased five fold by 1972. There was a massive increase of U.S. exports to India, while American imports from India accounted for only 0.7 percent of the total U.S. imports.[6] A large part of American economic assistance to

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5. India, Govt. of, Ministry of Finance, Economic Survey of India, 1965-6 (1966), Table 1.4.

6. Foreign Trade Review, Vol. III, No. 4, January-March 1973, p. 398.

India was given as export finance to promote U.S. exports to India.[7] Some part of the aid, about Rs. 250 crores went to finance. U.S. investments in India and helped the United States to become the largest foreign investor in India (second being Soviet Russia). [see Appendix].

An important development as a result of American aid was the emergence of a new form of dependence as Erhard Eppler, the Federal German Minister for economic cooperation, referred to it as "the technological colonialism of the developed nations".[8] It sought to transfer western consumer habits by encouraging production of luxuries, applied to most of U.S. investments in India. The aid helped the United States to achieve greater prosperity by fetching higher prices for its goods and services at the cost of developing countries. The goods purchased in America had invariably been estimated to increase costs by twenty to forty percent.[9]

American collaborations with Indian firms did not produce happy results. This was because of the monopolistic, over-bearing attitude of American capital with its preference for the transfer of consumer habits to India,

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7. India, Govt. of, Reserve Bank of India, Report on Currency and Finance, 1965-6(1966), p. 28, Table 28.

8. Erhard Eppler, Not Much Time for the Third World (London: Oswald Wolff Ltd., 1972), p. 154.

9. Ibid.

the restrictive and suspicious nature of the response of officials in New Delhi towards all foreign collaborations. Moreover the junior position of the Indian entrepreneur had made many collaboration projects useless as far as the development of a sound Indian economy was concerned. In many cases the loan to the Indian entrepreneur was taken out of PL-480 funds, and the labour as well as staff paid out of the same source. In some cases, the written down value of the equipment and machinery supplied by the U.S. collaborator to the Indian entrepreneur was known to be nominal - too low to be considered an economic factor. Since the royalty to the U.S. collaborator, irrespective of the output of the factory, went out of India, the indirect costs were much higher.[10]

A careful analysis of the aid and investment of America, absorbed in the Indian economy showed that the pattern of utilisation of external assistance provided only marginal possibilities, if at all, for reducing the direct damage to development.[11]

During the years 1960-66, the position of external resources had been highly uncertain, so much so that the

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10. T.V. Kunhi Krishnan, The Unfriendly Friends: India and America (New Delhi: Indian Book Co., 1974), p.223.

11. National Council of Applied Economic Research, Occasional Paper No. 15 (New Delhi, 1969), p. 15.

Economic and Political Weekly came with the comment that "the outlook for all aid is very uncertain. Those who promised great bounties a year ago (at the time of devaluation in June 1966), conditional on our adopting policies strongly recommended to us (this refers to Bell Commission recommendations) and those who were naive enough to take them at their words have certainly a great deal to be embarassed about".[12]

The position in the year 1968-69 on the external assistance front till the closing days of the calender year 1968, had not been better either. The whole picture had been summed up in an editorial of Yojana under caption "Growth Without Aid":

> In the last few years there has been a progressive decline in the quantum of foreign aid with the result that what used to be a flow has been reduced to a mere trickle. For instance in 1966, India received $ 385 million from the U.S. alone, which came down to $ 320 million last year and is likely to be as low as $ 160 million this year. The reasons for this, apart from shrinking of funds at the disposal of World Bank and the International Development Association are the economic problems with which donor countries are faced. Whatever the reasons, however the

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12. Economic and Political Weekly, Special Number, August 1967, p. 1440.

> fact remains that this amorphous pattern of aid giving has been having a deleterious effect on India's development programme.[13]

In the later years of 60's and early 70's, India had made rapid strides and advancement in industry as well as agriculture. As a result dependence on American aid and investments was reduced.

The attitude of people (official as well as non-official) in India was very suspicious and critical of the U.S. Economic Foreign Policy. It was pointed out that this policy was probably one of the major reasons why planning efforts could not be made conspicious to the masses. Most of the economists in the country felt that too much reliance on U.S. aid and investment was harmful for the country's economic development. They emphasised that foreign aid in soft loans followed by trade was good in the context of situation existing in the country. The PL-480 loans on rupee account had piled up to a potentially dangerous proportion. This allowed the U.S. Government to hold a sizable amount of the country's money in circulation which was also a potential source of inflation.

The main conclusions that emerges from the foregoing analysis is that the U.S. Economic Foreign Policy

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13. <u>Yojana</u> (Ministry of Information and Broadcasting) 27 October 1968, p. 2.

(during the period under consideration) had grave consequences on India's economic development. It had negative impact on Indian industrial and agricultural life. The U.S. manufacturing firms catered to their internal markets by installing their risky firms on Indian grounds and using cheap raw materials available from India. There was little excess production available for India to export and it could not compete in foreign markets. As a consequence, India became a debt burdened country, a place from where U.S. could have goods and services at throw away prices. The pattern of U.S. investments makes it obvious that it contributed very little to development of capital intensive project which is the mainstay in a country's development process. Consumer's demand conditions in India moved in line with those prevailing in America because of its trade policy with India. India should have adopted a selective approach with regard to its policy with U.S. It was a question of determining what is the most advantageous pattern of aid and investment from the cost and national point of view. A deeper analysis of the economic rationale should have been carried out. Import substitution in place of expensive imports could be carried out. The saving effort should have been geared up to tie over the balance of payment difficulty and to meet the gap in foreign exchange requirements. Of course, no one can deny the marginal benefit which accrues in the process of such aids within the short and immediate time frame that the aid is received.

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APPENDICES

APPENDIX - I

U.S. Non-Project Loans to India

Sl. No.	Loan No.	Date	Purpose	Dollars (millions)	Rupee Equivalent (crores)
1.	Ex-Im. Bank	Feb. 27, 1958	First line of credit to GOI	150.0	112.50
2.	DLF-13 A	Dec. 24, 1958	Steel Imports	17.7	13.28
3.	DLF-13 B	Dec. 24, 1958	Steel Imports	21.7	16.28
4.	DLF-40	Dec. 24, 1958	Capital Equipment	14.9	11.18
5.	DLF-78	July 12, 1960	Steel Imports	19.5	14.63
6.	Ex-Im. Bank	Dec. 1, 1960	Second line of credit	50.0	37.50
7.	DLF-157	Dec. 5, 1960	Capital Equipment	24.6	18.45
8.	DLF-159	Dec. 5, 1960	Steel Imports	25.0	18.75
9.	DLF-206	Oct. 26, 1961	Non-Ferrous Metals	20.0	15.00
10.	Ex-Im. Bank	April 19, 1962	Third line of credit to GOI	25.0	18.75
11.	DLF-217	June 21, 1962	Non-Project I	199.8	149.85
12.	AID-82	Feb. 25, 1963	Non-Project II	238.5	178.88

contd.......172/-

Appendix-I cont...

Sl. No.	Loan No.	Date	Purpose	Dollars (Millions)	Rupee Equivalent (crores)
13.	AID-103	Feb. 24, 1964	Non-Project III	224.5	168.37
14.	Ex-Im. Bank	June 11, 1964	Fourth line of Credit to GOI	25.0	18.75
15.	AID-111	Nov.30, 1964	Non-Project IV	49.4	37.05
16.	AID-138	June 17, 1965	Non-Project V	189.3	141.98
17.	AID-155	May 13, 1966	Non-Project VI	97.5	73.13
18.	AID-160	July 8, 1966	Non-Project VII	149.8	112.35
19.	AID-168	May 10, 1967	Non-Project VIII	131.7	98.78
20.	AID-176	Oct. 20, 1967	Non-Project IX	50.0	37.50
21.	AID-184	May 15, 1969	Non-Project X	224.6	168.45
22.	Ex-Im. Bank	June 3, 1968	Fifth Line of Credit to GOI	20.0	15.00
23.	AID-196	Dec. 26, 1968	Non-Project XI	194.0	145.50
24.	AID-200	Oct. 17, 1969	Machinery Imports	20.0	15.00

contd.......173/-

Appendix-I cont...

Sl. No.	Loan No.	Date	Purpose	Dollars (millions)	Rupee Equivalent (crores)
25.	Ex-Im. Bank	Dec. 4, 1969	Sixth Line of Credit to GOI	15.0	11.25
26.	AID-207	June 23, 1970	Non-Project XII	160.0	120.00
27*	AID	March 1971	Non-Project XIII	155.0	116.25
			Total	2,512.5	1,884.41

* The amount of loan was later raised to $ 170 million (Rs. 1275 million), by another agreement concluded on April 22, 1971 for an additional loan of $ 15 million (Rs. 112.5 million).

Source: Gupta, J.N. ed., <u>Directory of Foreign Collaboration in India</u> (Delhi: Indian Overseas Publications, 1974).

APPENDIX - II

Grant element in 58 U.S. Loans

Sl. No.	i	G	T	No. of Loans	Loan amount in Rs. million	Grant element %	Grant element in Rs. million	Loan element in million
1.	¾	10	40	15	5464.00	65.27	3566.35	1897.65
2.	5¾	1	15	2	333.75	1.51	5.03	328.72
3.	3½	1	20	9	1197.00	18.30	219.05	977.95
4.	3½	3	14	1	27.75	16.70	4.63	23.12
5.	3½	1	15	1	11.25	15.12	1.70	9.55
6.	3½	2	15	1	151.50	16.00	24.24	127.16
7.	3½	10	30	1	150.00	28.37	42.55	107.45
8.	5	1	10	1	63.75	4.53	2.88	60.87
9.	5	1	15	1	33.75	60.05	2.40	31.35
10.	5¾	1	15	1	222.00	1.51	3.35	218.65
11.	5¾	1	20	1	185.25	1.83	3.39	181.86
12.	5	1	15	1	72.00	6.05	4.35	67.65

contd......175/-

Appendix-II cont...

Sl. No.	i	G	T	No. of Loans	Loan amount in Rs. million	Grant element %	Grant element in Rs. million	Loan element in million
13.	5¾	1	4	1	97.50	0.57	0.55	96.95
14.	5¾	2	15	1	53.25	1.60	0.85	52.40
15.	5¾	6	10	1	1125.00	1.58	17.77	1107.23
16.	5¾	5	10	1	375.00	1.50	5.62	369.38
17.	5¾	5	12	1	187.50	1.64	3.07	184.43
18.	6½	3	12	1	150.00	-2.95	-4.42	154.42
19.	5½	3	12	1	187.50	2.96	5.55	181.95
20.	5¾	5	7	2	107.47	1.26	1.35	106.12
21.	6½	7	10½	1	187.50	-1.42	-2.66	190.16
22.	5¾	6	10	2	139.87	1.58	2.21	137.66
23.	5¾	5	10	1	138.75	1.50	2.08	136.67
24.	5¾	4	14	1	5.40	1.25	0.06	5.34
25.	5¾	4	10	1	56.92	1.41	0.80	56.12
26.	5¾	4	9	1	29.25	1.34	3.91	25.34
27.	5¾	4	12	1	202.50	1.56	3.15	199.35

contd.......176/-

Appendix-II cont...

Sl. No.	i	G	T	No. of Loans	Loan amoutn in Rs. mill-ion	Grant element %	Grant element in Rs. million	Loan ele-ment in million
28.	5¾	4	10	1	15.60	1.41	0.22	15.38
29.	5½	3	10	1	81.47	2.65	2.16	79.31
30.	5½	2	8	1	51.22	1.90	0.97	50.25
31.	5½	3	10	1	25.05	2.65	0.66	24.39
32.	5¾	2	10	1	23.55	2.93	0.68	22.87
33.	6.1	3	10	1	15.00	-0.53	-0.07	15.07
				58	11167.30		3924.43	7242.87
							35.14%	64.86%

Source: Reserve Bank of India, <u>Annual Reports</u>, 1972 to 1973.

APPENDIX - III

Rates of Return on U.S. Direct Investment

Countries	1971			1970		
	Total	Mfg.	Petroleum	Total	Mfg.	Petroleum
Far East	13.5	16.2	9.5	13.6	16.8	9.4
India	12.1	14.2	n.a.	11.1	14.0	n.a.
Japan	15.6	20.1	4.5	14.8	20.5	5.3
Phillippines	7.5	9.2	n.a.	6.7	11.1	n.a.
Australásia	9.3	10.6	n.a.	9.2	11.3	5.0
Australia	9.1	10.3	n.a.	9.0	11.1	n.a.
New Zealand	12.4	14.9	n.a.	12.5	15.1	n.a.
Africa	17.0	6.8	22.5	6.2	12.6	28.7
Canada	8.0	8.8	7.2	6.9	6.7	6.2
Europe	9.6	11.5	0.1	9.7	12.3	Loss
Latin America	9.3	10.1	12.2	10.0	1.11	10.5
Middle East	113.2	0.8	126.5	13.7	5.8	81.6
TOTAL	11.9	10.6	16.4	11.2	10.6	13.5

Source: Directory of Foreign Collaboration in India, Vol. 2-3, p. 113. (Indian Overseas Publication, 1973).

APPENDIX - IV

India's imports from and exports to U.S. since 1938 are shown in the following table

	1938-39	1951-52	1953-54	1955-56	1956-57	1957-58
India's Imports	9.8	295.0	79.0	89.3	105.3	166.2
India's Exports	14.3	132.0	90.8	87.1	90.7	88.4
	1958-59	**1959-60**	**1960-61**	**1961-62**	**1962-63**	**1964-65**
India's Imports	169.1	208.0	327.5	259.0	450.0	510.5
India's Exports	86.0	96.1	102.5	115.7	129.9	146.9
	1965-66	**1966-67**	**1967-68**	**1968-69**	**1969-70**	**1970-71**
India's Imports	535.1	782.9	776.6	572.4	467.2	453.0
India's Exports	147.8	210.0	207.4	234.4	238.0	207.4
	1971-72	**1972-73**				
India's Imports	416.5	224.6				
India's Exports	263.1	275.7				

APPENDIX - V

(Rs. crores)

Year	External debt service	Export earnings	External debt as percentage of export earnings
1961-62	90.0	679.69	13.3
1962-63	86.6	713.61	12.1
1963-64	99.5	793.20	12.5
1964-65	121.4	816.30	14.9
1965-66	227.0	805.60	28.1
1966-67	274.5	1156.50	23.7
1967-68	333.0	1198.70	27.8
1968-69	375.0	1357.90	27.6
1969-70	412.5	1413.20	29.1
1970-72	479.0	1607.00	29.8
1972.73	50.70	1961.00	25.3
1973-74	595.9	2523.00	23.6
1974-75	626.0	3304.00	28.3

Note: Figures of debt servicing upto 1964-65 are in predevaluation rupees and thereafter in post devaluation rupees.

Source: Government of India, <u>Economic Survey</u> (Various issues).

APPENDIX - VI

Source Wise External Assistance Utilised in the First Three Plans (Rs. Crores)

Source	Loans	Grants	PL-480/665 Aid and Third Country currency	Total	Percent
U.S.A..	1041.5	160.6	1403.1	2605.2	58.1
IBRD/IDA	581.5	-	-	581.5	13.0
West Germany	339.7	2.0	-	341.7	7.6
U.K.	292.2	0.9	-	293.1	6.6
U.S.S.R.	282.1	1.2	-	283.3	6.3
Others	223.5	153.5	-	377.0	8.4
Grant Total	2760.5	318.2	1403.1	4481.8	100.0

Source: Reserve Bank of India, Report on Currency and Finance, 1965-66, Statement 83.

APPENDIX - VII

U.S. AID TO INDIA, JUNE 1957 TO MARCH 1964 (EXCLUDING MILITARY AID)

	U.S. $ million	Rs. Million	% of Total
Non-repayable grants	1,347.8	6,418	25.4
Loans repayable in dollars	1,605.8	7,647	30.2
Loans repayable in local currency	2,361.9	11,247	44.4
Total	5,315.5	25,312	100.0

Note: This statement covers only assistance for which firm agreements have been made

Source U.S. EMBASSY, NEW DELHI 1964.

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U.S. AID PROMISES FOR INDIAS III PLAN
(US $ Millions)

	From U.S.	From all western countries and Japan
1961-62	545	1,295
1962-63	435	1,070
1963-64	435	1,052
1964-65	435	1,028

APRIL MARCH PERIODS

Source: INDIAN FINANCE MINISTRY, NEW DELHI

contd.......182/-

Appendix-VII cont...

INDO - US TRADE
(Rs. million)

	Indian Exports	Indian Imports	Total Trade	Balance Against India
1963-64	1,287	3,902	5,189	2,615
1962-63	1,144	3,470	4,614	2,326
1961-62	1,167	2,335	3,502	1,168
1960-61	1,025	3,276	4,301	2,251
1959-60	961	2,090	3,051	1,129
1958-59	880	1,691	2,571	811
1955-56	871	893	1,764	22

APRIL MARCH PERIODS

Source; INDIAN COMMERCE MINISTRY, NEW DELHI.

APPENDIX - VIII

IMPORTS ESSENTIAL TO THE UNITED STATES, 1949

Commodity	Total imports (million dollars)	Imports from underdeveloped areas: Value (million dollars)	Imports from underdeveloped areas: Percent of Total	Principal countries of origin: Country	Principal countries of origin: Percent of Total
1	2	3	4	5	6
A. Articles for which the United States is wholly or largely dependent on imports and for which substitutes are non-existent or not satisfactory:					
Total:	2,275.4	1,601.2	70		
Necessities	1,130.2	499.0	44		
Metals:					
Antimony	3.8	3.0	80	Bolivia Mexico	34 33
Bauxite	16.4	16.4	100	Surinam	80
Beryll or beryllium ore	.9	.8	97	Brazil	87

contd......184/-

Appendix-VIII cont...

1	2	3	4	5	6
Cadmium	1.9	1.6	84	Mexico	83
Chrome ore or chromite	24.2	19.9	82	Turkey Philippines	37 13
Cobalt ore and metals	10.9	7.3	67	Belgian Congo	67
Columbium ore or concentrates	.6	.6	100	Nigeria	87
Corundum ore	.2	.2	100	Union of South Africa	99
Manganese ore	26.8	22.8	85	India Gold coast Union of South Africa	27 18 16
Mercury	6.8	.2	3	Mexico	3
Nickel	66.0	(x)	(x)		
Platinum group metals	11.9	1.8	15	Columbia	12
Tantalum ore	.2	.2	94	Brazil Belgian Congo	83 6
Tin	212.3	164.1	77	British Malaya Bolivia Indonesia	36 18 16

contd.......185/-

Appendix-VIII cont...

1	2	3	4	5	6
Titanium (ore) rutile	.2	-	0		
Tungsten ore and concentrates	6.3	1.1	18	Siam Bolivia	6 4
Uranium	(a)				
Zirconium ores	.6	.1	21	Brazil	21
NON-METALLIC MINERALS :					
Asbestos unmanufactured	33.9	6.2	18	Union of South Africa Southern Rhodesia	9 9
Graphite	1.2	1.0	83	Mexico Ceylon	34 29
Industrial diamonds	17.6	16.3	93	Union of South Africa Belgian Congo	67 24
Mica	19.3	19.1	99	India	88
Monazite sand and other thorium ore	(o)	-	-	-	-
Quartz crystals	1.5	1.4	98	Brazil	98

contd........186/-

Appendix-VIII cont...

1	2	3	4	5	6
TEXTILE FIBRES AND MANUFACTURES :					
Extra-long staple cotton	6.9	6.9	100	Egypt Peru	68 32
Burlaps	103.1	98.3	95	India	95
Manila or abaca fiber	22.4	22.4	100	Philippines	65
Sisal and henequen fiber	36.5	36.5	100	British East Africa Haiti	33 23
Silk waste	.3	(x)	6	Mexico	20
DRUGS AND CHEMICALS :					
Cinchona bark	.1	.1	100	Indonesia Belgian Congo Guatemala	38 25 20
Ergot	.3	-	0		
Opium	2.3	2.3	98	Turkey	91
Radium salts	1.7	-	0		
DYEING AND TANNING MATERIALS:					
Quebracho extract	10.6	10.6	100	Argentina Paraguay	60 39

contd.......187/-

Appendix-VIII cont...

1	2	3	4	5	6
Wattle bark and extract	3.8	3.8	100	Union of South Africa	89
<u>OTHER</u>:					
Goat and kid skin	36.0	33.9	94	India	20
				Nigeria	14
				Ethiopia	13
				Brazil	11
				British East Africa	10
Jewel bearings	5.1	-	0	-	
Newsprint	437.6	-	0	-	
Semi-necessities	1,145.1	1,102.1	96	-	
<u>FOODSTUFFS</u>:					
Bananas	52.7	52.7	100	Honduras	18
				Costa Rica	17
				Panama, Republic	13
				Mexico	11
				Columbia	11
Cocoa or cocoa beans	124.5	123.9	99	Gold Coast	34
				Brazil	27
				Nigeria	19

contd.......188/-

Appendix-VIII cont...

1	2	3	4	5	6
Coffee	795.5	795.2	100	Brazil Colombia	54 26
Tea	46.0	43.0	93	India Ceylon	37 36
Cloves	.4	.4	100	Madagascar British East Africa	49 47
Pepper, underground	22.4	22.3	99	India Indonesia	73 20
<u>DRUGS AND CHEMICALS</u> :					
Calcium cyanide	5.6	-	0		
Calciumnitrate	1.4	-	0		
Ipecac (emetine)	.2	.2	100	Colombia	72
Menthol	2.7	1.8	68	Brazil	68
Pawpaw juice or papain dried	.8	.8	100	British East Africa	78
Pyrethrum flowers	2.4	2.4	99	British East Africa Belgian Congo	68 30

contd......189/-

Appendix-VIII cont...

1	2	3	4	5	6
OILS AND OILSEEDS :					
Castor oil	16.1	16.1	100	Brazil	95
Rapeseed oil	.5	-	0		
Sperm oil	1.4	(x)	(x)		
OTHER :					
Agar	.5	.1	15	Mexico	15
Bristles	18.3	.3	2	India	1
Cork	8.4	1.3	16	Algeria	12
Cigarette leaf tobacco, Turkish type	45.4	41.6	92	Turkey	68

contd........190/-

Appendix-VIII cont...

1	2	3	4	5	6
B. Articles the supply of which is wholly or mainly imported, but for which, in most or all of their uses, a domestic product can be satisfactorily substituted :					
Total	425.4	401.7	94		
Selected items imported at a rate exceeding $ 100 million :					
Natural rubber	240.3	240.3	100	British Malaya	48
All other	185.1	161.4	87	Indonesia	26
C. Articles the consumption of which is largely supplied by domestic production, but of which considerable imports are necessary to supplement domestic production :					
Total	1,406.1	825.1	59		

contd......191/-

Appendix-VIII cont...

1	2	3	4	5	6
Selected items imported at a rate exceeding $ 100 million:					
Cane sugar	372.1	372.1	100	Cuba	85
Raw wool and related hair (except Mohair)	222.2	130.8	59	Argentina	20
				Uruguay	19
Copper	219.1	173.5	79	Chile	52
				Mexico	11
Wood pulp	182.4	-	0		
Lead ore, pigs, bars, scrap, and dross	119.0	72.6	61	Mexico	32
				Peru	12
All other	291.3	76.1	26		

(x) Less than one-half the unit;
(o) not available

Source: The International Development Advisory Board, Partners in Progress - A Report to the President (Washington, D.C., March 1951), pp. 110-113.

APPENDIX - IX

VALUE OF UNITED STATES IMPORTS OF STRATEGIC AND CRITICAL MATERIALS AND PERCENTAGE OF TOTAL SUPPLIED BY UNDERDEVELOPED AREAS, 1949

Commodity	Total imports (thousand dollars)	Percent of total supplied by underdeveloped areas										
		Total	Southern North America	South America	Africa	Turkey	Middle East	South Asia	South East Asia	Taiwan (Formosa)	Oceania	All other areas
1	2	3	4	5	6	7	8	9	10	11	12	13
Total imports, strategic and critical	1,276,339	73	9	19	9	1	(x)	5	30	(x)	(x)	27
Group I:												
Aluminium	36,082	3	(x)	-	2	-	(x)	-	(x)	-	-	97
Antimony	3,773	80	33	47	-	-	-	-	-	-	-	20
Asbestos:												
Amosite	1,654	100	-	-	100	-	-	-	-	-	-	(x)
Chrysotile	4,131	89	-	-	89	-	-	-	-	-	-	11
Crocidolite	957	94	-	1	93	-	-	-	-	-	-	6
Bauxite	16,353	100	-	85	-	-	-	-	15	-	-	(x)
Beryl	858	97	-	87	11	-	-	-	-	-	-	3
Bismuth	834	77	-	77	-	-	-	-	-	-	-	23

contd..........193/-

Appendix-IX cont...

U

1	2	3	4	5	6	7	8	9	10	11	12	13
Cadmium	1,899	84	84	(x)	-	-	-	-	-	-	-	16
Castor oil[1]	16,080	100	2	97	(x)	-	-	-	-	-	-	0
Xwlwarirw[2]	177	8	8	-	-	-	-	-	-	-	-	92
Chromite :												
Chemical grade	2,357	100	-	-	59	27	-	-	14	-	-	0
Metallurgical grade	18,451	77	1	-	16	44	-	1	6	-	8	23
Refractory grade	3,392	100	30	-	12	1	-	-	49	-	8	0
Cobalt	11,011	67	-	-	67	-	-	-	-	-	-	33
Coconut oil	15,271	99	(x)	-	-	-	-	5	94	-	-	1
Columbite	562	100	-	1	99	-	-	-	-	-	-	0
Copper	219,045	79	14	57	6	1	(x)	-	1	-	-	21
Cordage Fibers:												
Manila	22,419	100	34	(x)	-	-	-	-	66	-	-	0
Sisal	36,408	100	51	5	44	-	-	-	(x)	(x)	-	(x)
Corundum	186	100	-	-	99	-	-	1	-	-	-	0

contd........194/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Diamonds, industrial	17,643	93	(x)	2	91	-	(x)	-	(x)	-	-	7
Feathers and down, water-fowl, for beds	5,705	1	-	-	(x)	-	(x)	-	(x)	1	-	99
Fluorspar:												
Containing about 97 percent calcium fluoride	493	12	12	-	-	-	-	-	-	-	-	88
Containing not more than 97 percent calcium fluoride	1,056	73	73	-	-	-	-	-	-	-	-	27
Graphite:												
Amorphous	956	85	44	-	1	-	-	40	-	-	-	15
Flake	277	75	-	-	75	-	-	-	-	-	-	25
Crucible lump	14	100	-	-	-	-	-	100	-	-	-	0
Dust and other crystalline lump	14	100	-	-	-	-	-	100	-	-	-	0
Hyoscine (henbane)	50	90	-	-	90	-	-	-	-	-	-	100

contd........195/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Jewel bearings	5,117	0	-	-	-	-	-	-	-	-	-	100
Kyanite[3]	325	100	-	-	50	-	-	50	-	-	-	0
Lead	121,563	62	34	20	7	-	(x)	1	(x)	-	-	38
Magnesium	537	1	-	-	1	-	-	-0	-	-	-	99
<u>Manganese ore</u> :												
Over 10, but less than 35 pecent, manganese	304	100	-	(x)	100	-	-	-	-	-	-	0
35 percent & over, battery grade	1,966	73	5	-	68	-	-	(x)	-	-	-	27
35 Percent & over other	24,527	86	11	13	32	-	-	30	1	-	-	14
Mercury	6,762	3	3	-	-	-	-	-	-	-	-	97
Mica, total	19,316	99	(x)	7	3	-	-	88	-	-	-	1
Muscovite black, valued over 15 cents	1,423	100	-	51	4	-	-	42	-	-	-	(x)
Mica film	733	100	2	10	(x)	-	-	87	-	-	-	0

contd......196/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Mica splittings	16,178	100	(x)	1	2	-	-	96	-	-	-	(x)
Molybdenum[4]	3	0	-	-	-	-	-	-	-	-	-	100
Nickel[5]	65,999	-	-	-	(x)	-	-	-	-	-	-	100
Opium	2,349	98	-	-	-	91	7	-	-	-	-	2
Palm Oil	10,755	100	-	-	63	-	-	-	37	-	-	0
<u>Platinum group metals:</u>												
Iridium	367	1	-	-	-	-	1	-	-	-	-	99
Platinum	8,553	21	1	16	(x)	-	3	-	(x)	-	-	79
Pyrethrum	2,414	99	(x)	(x)	98	-	-	1	-	-	-	1
Quartz crystals	1,462	98	-	98	-	-	-	1	-	-	-	2
Quebracho, wood and extract	10,638	100	-	100	-	-	-	-	-	-	-	(x)
Quinidine	520	0	-	-	-	-	-	-	-	-	-	100
Quinine	251	12	-	11	-	-	-	-	1	-	-	88
Rubber, crude, natural	240,312	100	(x)	(x)	5	-	-	7	89	-	(x)	0

contd......197/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Sapphires and rubies	637	64	-	5	-	-	-	46	12	-	-	36
Shellac	6,048	95	-	-	-	-	(x)	83	12	-	-	5
Silk cocoons and waste	255	6	-	6	-	-	-	-	-	-	-	94
Sperm oil	1,393	0	-	-	(x)	-	-	-	-	-	-	100
Tale, steatite and Frenchchalk, crude and cut	40	13	-	-	(x)	-	-	13	-	-	-	87
Tantalite	237	94	-	83	11	-	-	-	-	-	-	6
Tin :												
Ore	78,176	99	(x)	48	2	-	-	(x)	49	-	-	1
Bars, blocks, pigs, etc.	133,706	64	-	(x)	6	-	-	(x)	58	-	-	36
Metallic scrap, except alloy	20	0	-	-	-	-	-	-	-	-	-	100
Alloys	401	35	-	35	-	-	-	-	-	-	-	65
Zinc:												
Ores	16,008	61	55	6	-	-	(x)	-	-	-	-	39

contd......198/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Old and worn out for remanufacture	223	5	1	-	2	-	1	-	1	-	-	95
Dross and skimmings	335	2	2	-	-	-	-	-	-	-	-	98
Blocks, pigs, or slabs	29,341	8	8	-	-	-	-	(x)	(x)	-	-	92
Sheets	8	0	-	-	-	-	-	-	-	-	-	100
Dust	4	0	-	-	-	-	-	-	-	-	-	100
Vanadium ore of concent-rates	272	100	-	100	-	-	-	-	-	-	-	0
Tungsten ore	6,439	19	(x)	7	1	-	-	(x)	10	-	-	81
<u>Group II</u> :												
Agar	471	15	15	-	-	-	-	-	-	-	-	85
Cryolite, natural	1,312	0	-	-	-	-	-	-	-	-	-	100
Diamond dies	80	0	-	-	-	-	-	-	-	-	-	100
Emetine	181	100	22	78	-	-	-	-	-	-	-	0
Iodine	720	80	-	80	-	-	-	-	-	-	-	20

contd........199/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
<u>Mica</u> :												
Muscovite, value not above 15 cents	25	100	-	100	-	-	-	-	-	-	-	0
Phlogopite block	93	78	-	26	-	-	-	52	-	-	-	22
Optical glass	12	0	-	-	-	-	-	-	-	-	-	100
Pepper	22420	99	-	-	1	-	1	74	24	-	-	1
<u>Platinum group metals</u> :												
Osmium	32	0	-	-	-	-	-	-	-	-	-	100
Palladium	1,593	1	(x)	-	-	-	1	-	-	-	-	99
Rhodium	873	0	-	-	-	-	-	-	-	-	-	100
Ruthenium	210	1	-	-	-	-	1	-	-	-	-	99
Osmiridium	231	56	-	-	56	-	-	-	-	-	-	44
Rutile	180	0	-	-	-	-	-	-	-	-	-	100

contd........200/-

Appendix-IX cont...

1	2	3	4	5	6	7	8	9	10	11	12	13
Selenium	317	0	-	-	-	-	-	-	-	-	-	100
Talc, steatite, ground	537	-	-	-	-	-	-	(x)	-	-	-	100
Zirconium ores	637	21	-	21	-	-	-	-	-	-	-	79

1. Includes castor beans
2. Includes strontianite or mineral strontium carbonate and celectite or mineral strontium sulphate.
3. Includes sillimanite
4. Includes ore, concentrates, compounds, alloys, ingots, shot.
5. Includes ore, oxide, alloy, pigs, bars, scrap subes etc.

(x) Less than one-half the unit

Source: The International Development Advisory Board, Partners in Progress - A Report to the President (Washington, D.C., March 1951), pp. 114-117.

APPENDIX - X

Dependence of Multinationals on Foreign Earnings
1973

Commodity	Percentage of Earnings from foreign operations
Burroughs	41
Cocoa Cola	55
Dow Chemical	48
Gillette	51
Hoovee	60
IBM	60
Merck	44
NCR	53
Pfizer	57
Revlon	38
Richardson Merrel	43
Rohon and Haas	33
G.D. Searle	40
Sperry Rand	50
Sunbeam	38
Xerox	46

Source: Perspective (Calcutta), May 1978.

APPENDIX - XI

FOREIGN PAID UP CAPITAL IN MANUFACTURING - COUNTRYWISE SHARES OF SUBSIDIARIES (IN INDIA)

Manufacturing: Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
	100	100	100	100	100	100
U.K.	68.4	68.1	66.3	66.6	65.4	65.3
U.S.	10.3	10.2	9.3	9.5	9.2	10.7
West Germany	3.6	3.4	3.8	3.9	3.4	3.2
Switzerland	5.7	5.9	7.6	7.4	6.7	6.5
Canada	3.8	3.5	3.0	2.9	5.3	5.0
Sweden	4.2	3.9	4.2	4.1	3.7	3.5
Others	4.0	5.0	5.8	5.6	6.3	5.8
Of which Food Beverages & Tobacco	100	100	100	100	100	100
U.K.	94.8	93.1	92.2	92.4	91.9	91.9
U.S.	1.0	1.1	1.1	1.0	1.0	1.0
Textile Products:	100	100	100	100	100	100
U.K.	100	100	100	100	100	100
Transport Equipment:	100	100	100	100	100	100
U.K.	80.9	83.4	79.5	79.0	77.5	77.5
U.S.	.9	.7	.6	.6	.7	.6

contd.......203/-

Appendix-XI cont...

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
West Germany	18.2	15.9	19.9	20.4	19.6	19.7
Others	-	-	-	-	2.2	2.2
Machinery and Machine Tools	100	100	100	100	100	100
U.K.	43.5	45.8	45.2	51.1	49.6	52.1
U.S.	14.5	14.0	15.4	11.8	14.5	13.5
West Germany	4.0	4.0	4.4	4.3	4.2	4.0
Switzerland	-	-	-	3.2	3.1	2.9
Sweden	39.0	36.2	35.0	29.6	28.9	27.5
Metal and Metal Products :	100	100	100	100	100	100
U.K.	66.0	65.6	69.1	68.6	55.4	55.6
U.S.A.	2.7	2.7	3.1	3.1	2.5	2.5
West Germany	.4	.4	.6	.8	.9	.9
Switzerland	28.3	28.1	23.6	23.5	27.9	37.8
Canada	2.6	3.2	3.6	4.0	3.2	3.2
Sweden	-	-	-	-	.1	-
Others	-	-	-	-	-	-
Electrical goods & Machines	100	100	100	100	100	100
U.K.	36.8	40.5	38.6	36.6	39.0	32.4

contd......204/-

Appendix-XI cont...

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.S.A.	23.9	22.7	20.7	20.9	21.2	34.5
West Germany	7.7	6.5	8.0	8.9	5.9	4.8
Switzerland	11.9	12.8	11.4	11.5	11.6	9.7
Sweden	1.3	1.1	.9	1.4	1.4	1.2
Others	18.4	16.4	20.4	20.7	20.9	17.4
Chemicals and allied	100	100	100	100	100	100
U.K.	69.8	67.7	65.3	65.4	65.8	67.6
U.S.A.	10.7	10.6	9.4	11.0	10.5	11.0
West Germany	5.0	4.3	3.7	3.9	3.7	3.5
Switzerland	6.6	6.9	10.0	9.1	7.8	7.3
Sweden	5.3	4.6	6.0	5.5	4.8	4.4
Others	2.6	5.9	5.5	5.1	7.4	6.2
Rubber goods	100	100	100	100	100	100
U.K.	42.5	49.3	54.7	55.8	56.5	55.5
U.S.A.	35.7	31.4	28.1	27.4	27.0	26.6
Switzerland	21.8	19.2	17.2	16.8	16.5	17.9

Contd.........205/-

Appendix-XI cont...

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Stationary and office equipment	100	100	100	100	100	100
U.K.	69.6	69.9	69.9	72.1	75.8	78.8
U.S.A.	30.1	30.1	30.1	27.9	24.2	21.2
Miscellaneous	100	100	100	100	100	100
U.K.	66.2	66.2	49.3	49.2	54.9	55.0
Switzerland	18.8	18.8	30.9	31.0	27.5	27.4
Others	15.0	15.0	19.8	19.8	17.6	17.6

Source: Reserve Bank of India, Foreign Collaboration in Indian Industry: Second Survey Report, 1974 (Bombay, p. 146.

APPENDIX - XII

CORPORATE INDUSTRIAL AND COMMERCIAL ENTERPRISE OF UNITED STATES IN INDIA
(IN CRORES)

	1964			1965			1966			1967		
	DC	OC	Total	DC	OC	Total	DC	OC	Total	DC	OC	Total
	82.2	83.8	166.0	92.9	125.3	218.2	92.9	151.6	244.5	96.7	210.1	306.8
Plantation	-	.1	.1	-	.1	.1	-	.1	.1	-	.1	.1
Petroleum	45.8	1.8	47.6	44.2	7.6	51.8	38.2	10.5	48.7	35.7	10.8	46.5
Manufacturing	33.5	64.9	98.4	44.2	83.5	127.7	50.7	105.8	156.5	57.5	142.1	199.6
Services	2.9	17.0	19.9	4.5	34.1	38.6	4.0	35.2	39.2	3.5	57.1	60.6
	1968			1969			1970			1971		
	110.2	312.7	422.9	116.7	317.2	433.9	127.0	304.3	431.3	140.6	316.1	456.7
Plantation	-.1	.1	.1	-	.2	.2	-	.2	.2	-	.2	.2
Petroleum	41.7	28.3	70.0	42.8	35.6	78.4	41.2	37.9	79.1	36.1	34.2	70.3
Manufacturing	64.0	212.7	276.7	69.3	211.6	280.9	80.3	199.6	279.9	98.8	182.5	281.3
Services	4.5	71.6	76.1	4.6	69.8	74.4	5.5	66.6	72.1	5.7	99.2	104.9
	1972											
	154.8	331.1	485.9									
Plantation	-	.2	.2									
Petroleum	40.4	29.4	69.8									
Manufacturing	107.8	185.7	293.5									
Services	6.6	115.8	122.4									

DC = Direct Capital
OC = Other capital

Source: Reserve Bank of India Bulletin, July 1975, pp. 452-56.

APPENDIX - XIII

COUNTRYWISE DIVIDEND REMITTANCES OF SUBSIDIARIES
(in lakhs)

INDIA

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
United Kingdom	1106	1113	1365	1525	1447	1506
United states	381	212	190	295	326	516
West Germany	18	18	32	39	34	31
Switzerland	46	58	75	94	85	98
Sweden	27	27	31	29	32	31
Canada	-	59	59	57	69	84
Netherlands	19	23	24	53	40	42
Others	68	31	48	43	71	68
Total	1665	1541	1824	2135	2104	2376

Source: Reserve Bank of India, Foreign Collaboration in Indian Industry: Second Survey Report 1974 (Bombay), p. 39.

APPENDIX - IX

COUNTRYWISE DIVIDEND REMITTANCES OF SUBSIDIARIES

(Percentage)

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.K.	6.6	6.0	7.1	7.6	6.9	6.9
U.S.A.	8.1	4.1	3.6	5.2	5.3	7.8
West Germany	3.6	3.2	4.5	5.3	4.2	4.4
Switzerland	3.8	4.2	4.9	5.3	4.2	4.4
Sweden	4.1	4.0	4.4	3.7	3.6	3.1
Canada	-	5.9	5.8	4.8	4.2	4.7
Netherlands	7.1	7.4	6.8	12.9	8.6	7.3
Others	14.6	4.9	5.9	4.7	6.9	5.9
Total	6.6	5.5	6.2	6.8	6.2	6.6

Source: ibid.

APPENDIX - X

COUNTRYWISE ROYALTY REMITTANCES OF SUBSIDIARIES

(in Lakhs)

Country	1964-65	1965-66	1966-67	196768	1968-69	1969-70
U.K.	59	55	62	52	79	102
U.S.A.	71	34	116	83	104	141
West Germany	8	12	32	13	23	23
Switzerland	-	-	2	7	8	23
Others	3	2	1	4	10	10
Total	141	103	213	159	224	299

Source: ibid., p. 47.

APPENDIX - XI

COUNTRYWISE TECHNICAL FEES OF SUBSIDIARIES
(in Lakhs)

Country	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
U.K.	46	53	155	247	161	127
U.S.A.	27	21	43	48	30	39
West Germany	-	18	-	24	3	2
Switzerland	26	21	42	21	36	16
Others	19	37	42	40	121	48
Total	118	150	282	380	351	232

Source: Ibid., p. 49.

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