

**ECONOMIC DEPENDENCE AND FOREIGN
POLICY WITH SPECIAL REFERENCE
TO INDIA, DURING 1985-89**

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CERTIFICATE

Certified that this dissertation entitled **Economic Dependence and Foreign Policy with special reference to India**, during 1985-89 submitted by Vinu S. in fulfilment of nine credits out of twenty four credits for the award of the degree of Master of Philosophy (M.Phil.) of this University, is her original work and may be placed before examiners for evaluation.

This dissertation has not been submitted for the award of any other degree of this university or of any other university to the best of our knowledge.

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PREFACE

In the post-second World War period, suddenly the world found that there were more new States than old. But the international system was such that a few decide and the rest adapt and react. There was nothing much the poor, weak states could do to prevent this. Hence, it became imperative to preserve the autonomy of decision making within the limited spheres in which they could exercise it.

When the third world became an arena of great power competition, economic benefits were also used as baits to draw the less developed countries into tacit alliances, if not formal ones. Therefore, these benefits were accompanied by political costs, a constriction of their sphere of autonomy.

India provided an excellent example of a third world state that asserted its right to autonomous decision making, while simultaneously seeking external help for its developmental aspirations. But as India's external economic dependence grew, it was inevitable that it had concomitant foreign policy consequences.

In the mid-80's, India's leadership was keen on improving its political ties with all the major powers. The urge to encourage capital and technology flows from these countries into India was certainly an over-riding

consideration. The growing external economic ties during this period could be expected to have political consequences.

This dissertation attempts to analyze the linkage between economic dependence and foreign policy during the 1985-89 period.

The First Chapter introduces the subject of the linkage between economic dependence and foreign policy by making a brief analysis of some approaches to the study of the linkage and by taking a deeper look at the concepts involved.

The Second Chapter presents a profile of India's economic dependence over the years. This is done by identifying variables that indicate economic dependence and by studying the variations within and across the different types of dependence that result.

The Third Chapter attempts to study the continuity and change in India's foreign policy by taking into account the objectives, the forces that determine the relative weights of these objectives and India's pursuit of these objectives.

The Fourth Chapter attempts to analyse the linkage between economic dependence and the foreign policy of India in the 1985-89 period. This is done by studying the impact of economic dependence on the different foreign policy

positions taken by India on certain important issues during the period. The concluding remarks are made in the final Chapter.

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CHAPTER 1

ECONOMIC DEPENDENCE AND FOREIGN POLICY : AN INTRODUCTION

Economic dependence and foreign policy compliance are commonly believed to have a causal inter-relation, namely, that an economically dominant country can exact foreign policy compliance from its dependent economic partner.

Only more recently, since the latter half of the 70s has the intriguing proposition that 'a country's dependence on foreign economies may impinge significantly on its foreign policies' been tested empirically and systematically.

Empirical investigations of the economic dependence - foreign policy compliance correlation have broadly been based on two distinct and contrasting theoretical frameworks.

The dominant framework takes a bargaining approach to dependence and compliance and can thereby be said to function within the political economy of interdependence and the realist schools, the former due to its stress on mutual dependencies and vulnerabilities and the latter due to its assumptions that power makes up a key explanatory variable.¹

Richardson's contention that 'the foreign policy beha-

1. Kenneth J. Menkhaus and Charles W. Kegley, Jr., "The Compliant Foreign Policy of the Dependent State Revisited : Empirical Linkages and Lessons from the case of Somalia", *Comparative Political Studies* (Newbury Park, CA.,) Vol.21, No.3, October 1988, p. 317.

viour of dependencies is viewed as partial payment in exchange for the maintenance of benefits they derive from their economic ties to the dominant country' is an application of this approach.²

Within this bargaining framework, a combination of aid, trade, and investments is depicted as a relatively flexible policy instrument of reward and punishment that can be adjusted by the dominant state to exact compliance from dependent states. Likewise, the bargaining approach assumes that the dependent state's foreign policy positions are flexible and will react mechanically to economic pressures by the dominant state.³

Most of the earlier empirical studies on the dependence - compliance correlation have adopted a bargaining approach. These include Wittkopf's (1973) analysis of the U.N. voting of foreign aid recipients⁴, Richardson's (1978) examination of the voting compliance in the U.N. General Assembly of countries with economic dependence (sum of investment, aid, export trade dependence) on the United States⁵, Richardson &

2. Neil R. Richardson, *Foreign Policy and Economic Dependence* (Austin : University of Texas Press, 1978), p.64
3. Menkhans and Kegley, n.1, p. 318
4. Wittkopf, E.R. "Foreign Aid and United States Votes : A Comparative Study", *American Political Science Review* (Washington, D.C.) Vol.67, September 1973, pp. 868-88
5. Richardson, n.2

Kegley's (1980) investigation of trade dependence and foreign policy compliance that employed a longitudinal rather than a cross-national research design within the bargaining framework⁶, Ray's (1981) study that compared the dependence & compliance of the US and its Latin American dependencies with the USSR and its East European dependencies⁷, Armstrong's (1981) study of the relationship between economic dependence and political compliance.⁸

The alternative to the bargaining approach, a structural analysis, is under represented in existing empirical literature because, for many dependency theorists the dependency of Third World states on the industrialised North is viewed as a product of long term historical process not readily amenable to quantitative description.

Richardson noted that the structuralist concept of dependency is a work properly reserved for transnational rather than international perspectives on political economy. Relatedly, others (Cardoso, 1977, Duvall 1978, Hall, 1975)

6. Neil R. Richardson and Charles W. Kegley, Jr. "Trade Dependence and Foreign Policy Compliance: A Longitudinal Analysis", *International Studies Quarterly* (Cambridge, MA.,) Vol.24, June 1980, pp. 191-222
7. James Lee Ray, "Dependence, Political Compliance and Economic Performance: Latin America and Eastern Europe" in Charles W. Kegley, Jr. and pat. McGowan, eds., *The Political Economy of Foreign Policy Behavior* (Beverly Hills : Sage, 1981) pp. 111-36.
8. Adrienne Armstrong, "The Political consequences of Economic Dependence", *Journal of Conflict Resolution*(Newbury Park, CA.), Vol.25, no.,3, September, 1981, pp. 401-28

have argued that the meanings of dependency cannot validly be subjected to cross-national or quantitative measures of "variables"; for them, dependency is a contextual condition.⁹

Thus Richardson seeks to differentiate clearly between economic dependence and dependency. The word dependency functions as a synoptic label for a body of theory rather than a concept and hence does not find its way into empirical literature often.

One notable exception is Bruce Moon's structuralist critique of the bargaining model¹⁰. Moon contended that the bargaining theory rested on assumptions that are dubious on both theoretical and empirical grounds. For instance, he questioned the capacity both of the dominant state to give or withhold economic benefits and of the weak state to comply without regard to domestic pressure. He suggested an alternative, a theory of constrained consensus which implies much less confidence in the ability of the United States to fine tune the foreign policies of other nations without a prior and massive penetration of their economic and politi-

9. Neil R. Richardson, "Economic Dependence and Foreign Policy Compliance : Bringing Measurement closer to conception", in Kegley and McGowan eds., n.7, pp. 87-110.

10. Bruce E. Moon, "Consensus or compliance? : Foreign Policy Change and External Dependence", *International Organisation* (Cambridge, MA.), Vol.39, no.2, Spring 1985, pp. 297-329

cal systems.

More importantly, Moon's attempts at employing empirical methodology to test structural hypothesis proved fairly successful as he identified and employed variables that indicate the condition of structural dependence and also identified and used the control variable of regime change to substantiate his theory of constrained consensus, which argues that foreign policy compliance is actually constrained consensus, which develops as trade creates common interests among governing elites in core and periphery states.

Menkhaus & Kegley have argued that the difficulty in assessing Moon's structuralist critique of the bargaining approach assumptions is that the premise of transnational elite consensus is not measurable and is hence unverifiable and that a model of constrained consensus among transnational elites may accurately capture some concepts, but as an assumption writ large it risks over simplification of the complexities of transnational relations, and offers a static picture of a dynamic pattern of interaction among states and the shifting composition of and pattern of alignment among the elites governing them.¹¹

They then tried to develop a model that took note of some aspects of the linkage between economic dependence and

11. Menkhaus and Kegley, n.1, p. 319.

foreign policy that both the bargaining and structuralist models failed to take note of, for instance, both models have not attempted to establish the relative salience of the different types of economic dependence.

Menkhaus & Kegley's dependent State-centric model provided a new angle to studies of the linkage between economic dependence and foreign policy.

They questioned the assumption of earlier research models that only one dominant state exercises influence over a given weak state. On the contrary, they contend, single dominant states are the exception and not the rule and it is not contradictory to speak of 'competing dominant states' in the context of a stratified world system. They even suggest the plausibility of competition or collaboration between "core" and "semi-peripheral" powers to which a dependent peripheral state is concurrently tied.

They contend that their model has the capacity to generate information regarding the relative causal influence of different dimensions of dependence. Since competing dominant states will vary in the degree and nature of their relationship with a weak state (one may trade heavily with it, whereas another may primarily employ aid or military assistance to influence the weak state), this circumstance, when it arises, provides an opportunity to compare the relative influence of these variables.

More significantly, because a dependent state-centric

model focuses on a single dependent state at a time, it facilitates consideration of exogenous variables unique to the country under study and not otherwise amenable to quantification. Political, military, cultural, geographic, ethnic, religious and ideological factors are among the many non-economic variables that may play an important role in the unfolding of a dependent country's relations with those positioned to dominate it economically. Contextual and situational (environmental) factors can thereby be brought into the equation and treated.

Their work is significant for the successful application of their model to study the case of Somalia. However, it must be noted that there are many weak states that have a single powerful state as their largest trading partner, largest supplier of arms, largest source of aid, investment etc., at a given time. This model may be of limited use in its application to these states.

It can, therefore, be seen that each approach has its advantages and its limitations. No single body of theory can be said to have emerged that can explain the linkage between economic dependence and foreign policy satisfactorily and can be applied universally, although each study throws new light on the subject and is significant to that extent.

It is imperative to take a deeper look at the concepts before proceeding further.

Economic Dependence

The concept of 'economic dependence' is widely used, yet rarely defined explicitly. Most sources are vague about the matter, but generally it indicates some kind of a 'conditioning situation' in which the possibilities for economic progress in a nation are determined and largely limited by constraints imposed from the outside.¹²

Notwithstanding the problems of definition, it can be inferred that economic dependence is a characterization of a national economy significantly affected by its transactions with another. It is thus a relational property.

Scholars have gleaned a variety of meanings for dependence. The salient meanings include asymmetrical control (McGowan and Smith, 1978), autonomy limitation, external penetration, asymmetrical interdependence (Caperaso, 1978), asymmetrical sensitivity (Cohen, 1973), asymmetrical contingency (Duvall, 1978), asymmetrical vulnerability (Koehane & Nye, 1973), external reliance for need fulfillment (Russell, 1975)¹³; asymmetrical reliance (Armstrong 1981)¹⁴.

12. Benjamin D.Cohen. *The question of Imperialism : The Political Economy of Dominance and Dependence* (New York: basic books, 1973), p. 190. •

13. Tom A.Travis, "A Comparison of the Global Economic Imperialism of Five Metropolises" in Kegley & McGowan, eds., n.7, p.173.

14. Armstrong, n.8, p.401

From the dependencia literature (structuralist point of view), the oft-quoted definition of Dos Santos can be stated. "By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between those and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-starting, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development".¹⁵

In the words of Robert Keohane & Joseph Nye, "interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries".¹⁶ Dependence refers to a distinctly asymmetrical situation in which one country is significantly reliant on another even as the second country no more than slightly depends on the first. Here alone can actors have political opportunities to use this as leverage to alter the behaviour of their partners. Moreover, not all asymmetrical economic ties have equal impact on foreign policy.

15. Theotonio Dos Santos, "The Structure of Dependence" in K.T. Fann and Donald C. Hedges eds., *Readings in U.S. Imperialism* (Boston : Porter Sargent, 1971) p.226

16. Robert O. Keohane and Joseph S. Nye, *Power and Interdependence : World Politics in Transition* (Boston: Little Brown, 1977), p.8.

Following a lead by Waltz, Keohane & Nye distinguished between 'sensitivity dependence' and 'vulnerability dependence'. Sensitivity refers to situations where an asymmetrically dependent country may, if necessary, adjust with little difficulty or long-run cost to the loss of foreign capital, goods or markets on which it relies. Vulnerability, on the other hand, describes the condition of an economically dependent country that would suffer long-run dislocations from such an interruption being unable to adjust with relative ease or success. A sensitivity dependent country may or may not be vulnerability dependent as well, depending upon its capacity to alter policies in ways that minimize long run costs. Therefore, Keohane & Nye propose that it is only vulnerability dependence that may be used as leverage for political ends.

A variety of meanings have been associated to the term 'economic dependence' and consequently there are different operational definitions and measurement strategies.

A number of variables have been identified by scholars as potentially powerful in influencing the formation of the conditions of economic dependence.¹⁷ Travis, in his study of the global economic imperialism of five metropolises, identifies eight variables of economic dependence namely total trade, imports, exports, foreign aid, technical aid,

17. Ibid, pp. 11-15

currency area, currency link, foreign investment¹⁸. Some other important variables are military assistance and foreign debt.

Normally one variable in the dependence equation is treated. Very few attempts have been made to integrate the multiple contributing variables that potentially tap the condition of dependence.

Richardson's 1978 study considers trade, aid and investment relations separately and aggregates the dependence measures in each case to get total economic dependence.

Another notable exception is Tom Travis's work that combined eight variables to measure which of the five metropolises under consideration in his sample commanded the greatest dependence over its satellite states.

Though it runs the risk of over simplification of a complex phenomenon (apparently a multi-dimensional construct), single indicators have been used by researchers in order to circumvent the problems of multi-variate measurement. There is also the question of variable weights as recognised by Travis who confesses to not being able to develop a clear theoretical basis for assigning different variable weights.

Menkhaus & Kegley used the concept of competing domi-

18. Travis, n.13, p.168

nant states to differentiate the nature of dependence by type and assign relative weights to trade, military assistance and economic aid in the case of Somalia. They recommended that subsequent research should distinguish dimensions of dependence by type and account separately for variation within each type.

Almost every study recognizes the problems of measurement of 'economic dependence'.

Richardson made an appreciable effort to bring measurement closer to conception.¹⁹ After analysing measurement strategies used in some earlier studies and pointing out their limitations, he attempted to devise more accurate measures of both economic dependence and foreign policy compliance. Hence, his study begins with basic strategies, makes elaborations and goes even further in trying to bridge the gap between concepts and measures. The emphasis in his work is on the trade aspect of economic dependence.

Armstrong, whose study emphasises the importance of power disparities suggests that a nation may have power over another without actually having to use threats or rewards. He points out that implicit economic pressure is not easily measured, for in most situations there is no interaction to observe.

Mention must be made here of Bruce Moon's identifica-

19. Richardson, n.9

tion of variables that tap the structural conditions of dependence. The variables he identified are Consultations, Policy support statements, Visits, Troops stationed, Military assistance programme, Excess defence articles, Military Credit sales, Aid announcements, Economic assistance, Grants, Total events, Agreements, Improve relations events, Reduce relations events, Hostile events, Non-Military Force events, Military force events, Defense treaty, Consultation concentration, Event concentration, Common IGO memberships, IGO membership concentrations, Phone calls, Export concentration, Import concentration, U.S. trade, Commercial military exports, Balance of Trade and Export-Import Bank.²⁰

It must be noted that Trade and Aid dependence have found a place in most discussions of economic dependence. Sometimes investment dependence has been added.

Trade Dependence

Trade dependence is at the centre of discussion of virtually every review of asymmetrical international economics. As early as 1945, Hirschman distinguished between the 'supply effect' and 'power effect' of trade²¹ and suggested

20. Bruce E. Moon, "The Foreign Policy of the Dependent State", *International Studies Quarterly*, Vol.27 (1983), p.336.

21. Trade has a "supply effect" as exports pay for imports of valued goods from other countries. It has a "power effect" because of the power to interrupt commercial or financial relations with another country.

that the power effect of trade is more germane to dependence: "The power to interrupt commercial or financial relations with any country, considered as an attribute of national sovereignty, is the root cause of the influence or power position, which a certain country acquires in other countries, just as it is the root cause of the dependence on trade".²²

Moon's contention that governments have little control over trade as it is largely outside governmental jurisdiction and that it is too inflexible for use as a reward punishment instrument and hence is not useful in the investigation of the dependence-compliance linkage is questionable because in their relations with weak states, powerful states have been able to use trade as an instrument of control.

Trade dependence has been measured in different ways in both bargaining and structuralist analyses; sometimes only export dependence has been considered and sometimes total trade has been considered. As far as trade dependence goes, the three components, magnitude, composition and direction are significant.

Considering magnitude, for most poor countries, the percentage of foreign trade in GNP is significantly high.

22. Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945), p.16

India being a notable exception.

Even if trade between two countries is of equal value, its effects are not because the same amount represents a very small portion of the rich partner's annual economic activity, but a much greater share of the poor partner's economy. Thus, the rich partner has much less to gain or lose from major changes in its foreign trade patterns than does the poor one; a poor country is much more trade dependent.

Again, one actor (A) will be dependent on another (B) to the extent that A relies on B for large quantities (expressed as proportions of total consumption) of important goods, which cannot be easily replaced at sufferable costs while B acquires small quantities of unimportant goods from A which it can easily replace.²³

Usually the composition of trade becomes an important factor as poor countries tend to export primary goods (which is prone to the dangers of deteriorating terms of trade, fluctuating prices, and competition from other third world states) while they import specialized goods and services for which replacements are hard to find. Besides, dependence on single commodity export is not unusual and the increasing import of services has lent a new dimension to trade dependence.

23. James A. Caparaso, "Dependence, Dependency and Power in the Global System : A Structural and Behavioral Analysis", *International Organization*, vol.32, n.1, Winter 1978, p.22.

Direction of trade is significant in the context of trade partner concentration; that is, whether or not there is diversification of trade links.

Armstrong's measure of trade dependence illustrates this: ²⁴.

$$\text{Trade Dependence} = \frac{\text{Trade Magnitude} \times \text{Commodity Concentration}}{\text{Trade Partner Concentration}}$$

Trade dependence is, therefore, an important index of economic dependence, especially in the backdrop of burgeoning international trade flows.

Aid Dependence

Another extremely significant index of economic dependence is aid dependence. Aid can be categorized as non-military and military aid. The two categories can also be dealt with as two separate variables. Earlier studies of dependence relationship often left military assistance unexamined but later studies have been forced to pay attention to this aspect owing to the dynamic growth of military purchases by Third World states.

International aid, unlike foreign trade and investment is a transaction that occurs exclusively between the rich and the poor. By convention, foreign aid refers to outright

24. Armstrong, n.8, p.411

grants and to loans made available on concessional terms.²⁵ These grants and loans are made available by individual countries and by multilateral lending agencies such as the International Bank for Reconstruction and Development (World Bank), Asian Development Bank (ADB) etc. In addition, the International Monetary Fund (IMF) loans Foreign exchange to cover balance of payment deficits.

Multilateral agencies have assumed an increasingly prominent role as an alternative to bilateral aid sources. Multilateral lenders tend to promote general "reform" in the recipient's economic policy as a condition of aid receipt, while individual donors often 'tie' their aid by requiring that at least some of it be used by the recipient to buy goods and services from the donor. Lately, a large percentage of aid is 'project tied' and as regards bilateral assistance, the face value of tied aid is an inflated estimate of its worth.

Technological Assistance forms an increasingly important component of economic assistance. Sophisticated technology and specialized services are more sought after than ever before.

Aid from multilateral lending agencies has been a subject of controversy because of the influence of the large industrial countries (which are the major donors) in these

25. Richardson, n.2, p.44

institutions.²⁶

One critical view has it that efforts by these agencies to encourage reform or monetary stabilization in recipient economies actually renders them more dependent than would otherwise be the case, both in terms of sensitivity and vulnerability.²⁷ as far as the IMF goes, when less developed countries dip into the third tranche, it is authorized to induce borrowers to pursue economic reform programs simultaneously with receipt of further loans. It has been inferred that stipulations laid down by donors open the recipient to further dependence on foreign trade and foreign investment as well. As one critic observes, "Nations like individuals, cannot spend more than they earn without falling into debt, and a heavy debt burden bars the way to autonomous action. This is particularly true when one's creditors are also one's customers, suppliers and employers."²⁸

Military assistance

The potential of strategic considerations to further dependence cannot be overlooked because here there can be

26. Their influence is due to the weighted voting arrangements that allot member countries voting strength in rough proportion to the pledges of capital to the pool that borrowers draw upon.

27. See Teresa Hayter, *Aid as Imperialism* (Baltimore : Penguin Books, 1971)

28. Cheryl Payer, *The Debt Trap : The International Monetary Fund and the Third World*(New York : Monthly Review Press, 1974), p.214.

need and vulnerability. Military aid becomes extremely important in states which are threatened from within, without or both. The vulnerability that results from it can provide enough leverage for the supplying state to exert pressure on the receiving state.

Third world states involved in an arms race with hostile neighbours can be put in a special category where quantity and quality (sophisticated weaponry) of military assistance from dominant states have far reaching domestic implications.

As mentioned earlier, military assistance is left unexamined in most studies of dependence though lately the dynamic growth in military purchases by Third World States has forced observers to elevate their estimates of the importance of this element of dependence. For instance, this aspect of dependence finds an important place in Menkhaus and Kegley's study of Somalia's economic dependence.

Investment Dependence

Private investments by nationals of one country in businesses located in another country may leave the second country's economy dependent upon decisions made in the first. Direct private investment can be a source of dependence when it is widespread in a national economy. Direct foreign investment is now commonly identified with multinational corporations. In definitional terms 'multinational corporations' are those economic enterprises that are head-

quartered in one country and that, pursue business activities in one or more foreign countries' by means of ownership of local facilities.²⁹

Whether asymmetrical dependence does in fact result depends on the character of the host-society, the interaction between the enterprise and the world market, and the mode of production in which the investments are made. The psychological impact of widespread foreign investment on the host country is an aspect that cannot be ignored.

Foreign debt has become another significant variable in the study of economic dependence as an increasing number of less developed states are reeling under the pressure of heavy debt burdens.

Although only a few frequently used components of economic dependence have been discussed, due consideration must be given to the fact that in any dyadic relationship, particular variables may tap the condition of dependence better than others and there can be a certain dynamics about the weightage assigned to these variables with respect to time. Also, a search for new variables may be necessary when the explanatory powers of the existing ones are not satisfactory.

29. David H. Blake and Robert S. Walters, *The Politics of Global Economic Relations* (Englewood Cliffs, New Jersey: Prentice Hall, 1976), pp. 80- 81


Foreign Policy Compliance

Within the bargaining framework, foreign policy behaviour of dependencies is viewed as partial payment in exchange for the maintenance of benefits they derive from their economic ties to the dominant country. Hence, inquiries into the linkage have centered around the question of whether or not dependencies are compliant with the preferences of the dominant economic partner in their foreign policy behaviour.

Here, the question of what constitutes compliance, or for that matter defiance has to be dealt with.

Richardson notes that given that any two countries may agree on foreign policy matters we may regard as compliance only those agreements, wherein one of the two countries succeeds in convincing the other to adopt a policy position contrary to its original intent. He recognizes the need to distinguish compliance from consensus and suggests that compliance implies influence and is thereby different from consensus, the latter referring to policy agreement that may not include prior consultation and does not denote one party's capitulation.

Similarly, he distinguishes between dissensus and defiance in the case of disagreement between the two states. Dissensus refers to policy disagreements in which neither country attempts to persuade the other. Defiance, on the

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other hand, is a country's refusal in the face of efforts by a second country to influence the first to compromise its original policy intent. The relations among these concepts are suggested by the following table.³⁰

Foreign Policy Concepts

		Foreign Policy Agreement	
		Yes	No
Attempted Influence	Yes	Compliance	Defiance
	No	Consensus	Dissensus

A clear distinction between consensus and compliance may not be simple because, the detection of influence or its absence is a formidable problem and influence need not be overt. There is also the question of degree of influence.

Armstrong's attempts at addressing this problem need to be mentioned here. Armstrong took into account 'issue importance' in his analysis of the relation between dependence and compliance.

Armstrong's method involves comparing agreement levels in areas thought to be salient to the dominant country with those thought to be relatively insignificant. The latter areas generate 'normal' behaviour because no influence attempt occurs, whereas the gap between behaviours in salient and insignificant areas represents the effect of influ-

30. Richardson, n. 9, pp. 89-90

ence.

To quote Armstrong "By taking into account issue importance it is possible to develop a more sophisticated understanding of the relationship between dependence and compliance. As a result, it will be possible to determine under what "situation" the relationship will be strongest, weakest etc."³¹

As Armstrong saw dependence relationships as the basis for power, his categories include the following.³²

Issue Importance		Nation B (dependent nation)	
		Low (1)	High (2)
Nation A (dominant nation)	Low	Implicit Use of power by nation A	Economic Power not used by nation A
	High	Implicit, possibly explicit use of power by nation A (3)	explicit use of power by nation A (4)

After taking into account the costs and benefits of compliance in each cell, expectations are that compliance will be greatest in cell three, least in cell two and that compliance will be greater in cell one than in cell four.

Economic vulnerability is a powerful influence on the minds of decision makers of dependent nations, inhibiting a

31. Ibid, pp. 406-7

32. Moon, n.10, p. 305

policy shift which might otherwise occur. The more important the issue at stake for the dominant state, the greater will be the explicit pressure used.

Moon has, however, argued that what conventional analysts view as foreign policy compliance is actually constrained consensus which develops as trade creates common interests among elites in core and periphery states. He observes that Richardson recognises consensus as a logical possibility though he does not follow it up in his empirical studies.³³

Richardson suggests that some indigenous business elites in the poor state may be supportive of foreign policies that have the effect of continuing economic dependence because the links of trade, investment and aid from abroad advance their own businesses. However, countervailing pressure is put on the state by those other elites who instead regard dependence as a depressant or a threat to their economic activities. In other words, elites within the poor country may be greatly at odds with each other regarding foreign policy.³⁴

Indicators of Compliance

Almost every study of the linkage has used roll call

33. Moon, n.10, p.305.

34. Richardson, n.2, p.68.

voting behaviour of states in the U.N. General Assembly as the indicator of compliance.

Richardson contended that since political behaviour can be part of a political-economic exchange only when that behaviour is of value to its recipient, UN General Assembly votes had to be categorized on the basis of 'issue salience'. He partitioned the roll calls into two categories: "Cold War" and "others" since East-West issues were considered to be politically salient to the United States. The partitioning rule was: When the United States and the Soviet Union take positions in complete disagreement, the roll call is assigned to the "cold war" category and the rest go into the "others" category.³⁵

Many other studies including that of Ray followed this classification.

The most frequently used measure of compliance is Arend Lijphart's Index of Agreement (IA)³⁶

Lijphart's index is:

$$IA = [f + \frac{1}{2}g] / t$$

Where f = number of votes on which the pair agrees
(Yes - Yes, Abstain-Abstain, No-No)
g = number of votes on which that pair

35. Ibid., p.131.

36. Arend Lijphart, "The Analysis of Bloc voting in the General Assembly", *American Political Science Review*, vol.57, no.4, December 1963, p.910.

partially agrees
(Yes - Abstain, No - Abstain)
t = total number of votes on which the
pair voted.

Some studies recognize the limitations of voting in the General Assembly as an indicator of compliance but nevertheless justify its use in the absence of better indicators which make empirical verification possible.³⁷

In Armstrong's study, the variables operationalizing political compliance are based on voting agreement in the U.N. General Assembly and Azar & Sloan's Dimensions of Interaction event data.³⁸

As his categories are based on issue importance, the Index of Agreement (IA) represents interactions which are of a high policy concern to the dominant nation while of low policy concern to the dependent nation. Here voting on East-West issues (considered to be politically salient to the dominant nation) alone is considered.

The General Index of Agreement (GIA) which represents interactions which are of low policy concern for the dominant and dependent nation incorporates all the remaining roll call votes. Lijphart's index of Agreement is used to measure the degree of agreement between two nations in the

37. See for instance, Menkhaus and Kegley, n.1, pp.315-346. They have considered all UN General Assembly votes because North-South issues are of inherent importance to Somalia and the powers that dominate her.

38. Armstrong, n.8, p.412.

UN General Assembly in both cases.

Azar and Sloan's event data measures the levels of cooperation and conflict between pairs of nations.³⁹ Armstrong's analysis utilizes both cooperation and conflict scales devised by Azar and Sloan. A high level of cooperation does not necessarily mean there is a low level of conflict. The two scales do not exhibit an absolute inverse relationship. A pair of nations may exhibit a high level of cooperation and also a high level of conflict. In order to capture the relationship between the degree of cooperation and conflict, the following index is employed, namely, Dimensions of Interaction (DI).

$$DI = Z \text{ cooperation} - Z \text{ conflict}$$

where: $Z \text{ cooperation}$ = level of cooperation for a given year standardised

$Z \text{ conflict}$ = level of conflict for a given year standardised

In the context of issues important to the dependent nation, it must be mentioned that no study of the foreign policy behaviour of weak states can afford to ignore the influence on dependencies of other less developed countries.

All less developed countries have their poverty in common. They also share to a considerable extent an inabil-

39. Azar, E & T. Sloan *Dimensions of Interaction*, (Pittsburgh: International Studies Association, 1975).

ity to reverse their economic circumstances by individual action.

The underdeveloped countries have little say in the international financial institutions because of their exclusion from the management of these institutions though these countries are greatly affected by decisions made by them.

The fight for a greater say in the management and a greater share in the resources of the international economic system has been a rallying point for third world solidarity.

The ideal of solidarity which has inspired the persistent drive to build a coalition, competes with the desire to seize relative advantage, which has long been deemed the characteristic behaviour of independent states in an archaic international system. The push of solidarity versus the pull of national interests has determined the starts and halts of the Third World Movement.⁴⁰

The underdeveloped countries have utilised the Non-aligned Movement and the Group of 77 as instruments of collective pressure. The mobilizing themes of third world solidarity have evolved since the Bandung Conference of 1955 which marked the emergence of the Third World Movement.

Anti-colonialism was the central bond in the early years, to be supplemented by the aspiration to genuine

40. Robert A. Mortimer, *Third World Coalition in International Politics* (New York: Praeger, 1980), p.2.

autonomy from the great powers. In the late 1960s, a more militant brand of anti-imperialism came to the fore, fed by the War in Indo-China, the struggle for independence in Southern Africa, and the set-back to the Arab States in the Six Day War. From the outset, economic development was a common concern, an increasingly radical critique of global economic structures emerging in the early 1970's. The passing of (except in Southern Africa until the 90s) the era of anti-colonial struggle deprived the coalition of one of its sources of solidarity. In its wake came a resurgence of old hostilities and competitive nationalism, carrying along the phenomenon of greater power involvement in proxy wars.⁴¹ Once again in the late 80s (due to super-power rapprochement and the end of the Cold War) the international political economy became the most visible source of Third World solidarity. By and large, this has remained the most enduring source of Third World Solidarity.

From the above discussion of some previous studies on the linkage and of the concepts constituting the linkage, it can be inferred that there is great scope and need for further research that can provide new insights into the foreign policy consequences of economic dependence.

41. Ibid., pp.137-8.

CHAPTER II

ECONOMIC DEPENDENCE: INDIA'S PROFILE

Dependence refers to a distinctly asymmetrical situation in which one country is significantly reliant on another even as the second country no more than slightly depends on the first¹. Therefore, economic dependence accrues from asymmetrical reliance of one country on its economic relations with another. When this external reliance is for fulfillment of basic needs like food and security, the resultant dependence is of a higher degree and is potentially more powerful for exacting shifts in foreign policy from the dependent state.

It must be noted that economic dependence can be a sensitive issue with psychological effects. It is not uncommon to encounter biased and exaggerated estimates of dependence. Despite doubts being expressed about its survival in some quarters, the state is by far the most important unit of analysis in world politics, and sovereignty is an important attribute of the state. Anything that threatens sovereignty and undermines the autonomy of decision making of the state comes in for criticism and in a democratic political

1. Neil Richardson, "Economic Dependence and Foreign Policy Compliance: Bringing Measurement Close to Conception", in Charles W. Kegley, Jr., and Pat McGowan, eds., *The Political Economy of Foreign Policy Behaviour* (Beverly Hills: Sage Publications, 1981), p. 88.

set up public pressure is exerted on the government to meet such threats.

India's Economic Dependence

At the outset, it must be noted that India does not share a relationship with any country similar to that of the Latin American Countries with the United States or that of some East European countries with the erstwhile Soviet Union, India's vast size, geopolitical importance, strategic location, broad industrial base, huge internal market and an ambitious and perceptive leadership could be significant causes for this.

The first step towards studying India's economic dependence is to identify those variables that tap the condition of dependence. As it may not be possible to treat all these variables, it is necessary to determine the more important ones with sufficient weight to merit treatment. This can be done on the basis of prior studies, theoretical expectations and an understanding of the particular country under study. Availability of data is also a consideration that cannot be overlooked. The identification of these variables serves to distinguish the dimensions of dependence by type.

The next step after distinguishing the dimensions of dependence by type is to study variations within each type. Variations could be in the degree or nature of dependence, and different parameters suited to each type will have to be

used to study the variations.

The third step is to study variations across types which will capture the changing patterns of dependence. This can be done by studying the interrelations among the various types of dependence studied, over time.

Though the emphasis of the study is on the 1985-89 period the following analysis of India's economic dependence takes the entire post independence period into consideration to get a clear picture. However, some elaborations on the economic policy during the period 1985-89 will be made in the course of the analysis.

Dependence Variables to be Used in the Study

On the basis of prior studies, theoretical expectations and a fair understanding of the Indian conditions, four variables, namely trade, aid, investment and external debt are identified to be included in the study. It must be noted that aid includes military aid.

Trade dependence has been central to most studies of dependence. Trade forms the starting point of analysis as other variables explaining dependence are invariably affected significantly by variations in trade. In the case of India, both import and export trade must be considered, as both are significant for economic dependence. Magnitude, composition and direction of trade are the parameters used to study variations in trade dependence.

Aid dependence has also found a place in many studies of dependence. Dependence on external assistance has direct significance for economic dependence and hence must be considered. Dependence on external assistance has direct significance for economic dependence and hence must be considered. Dependence on both bilateral aid and multilateral aid is analysed.

External assistance has been utilised regularly by India to finance its trade deficits, meet balance of payments problems and also to repay earlier debts. Hence its significance to the other types of dependence is explicit. Military assistance is analyzed under bilateral aid.

Investment dependence has been considered in some prior studies of countries where direct foreign investment is widespread in the national economy. Though dependence on direct foreign investment did not reach gigantic proportions in India, the impetus given to foreign investment during the mid 80's necessitates its inclusion in the study.

Besides other than being a pre condition for IMF loans, facilitation of free flow of direct foreign investment is also a perpetual demand made on India by the US and hence this dimension of dependence needs to be studied.

The mounting external debt of India and the burden of debt servicing during the 80's prompt the inclusion of external debt in the study.

Before attempting an analysis of the variations within each type, one must note that a rigid compartmentalisation of these types is rendered impossible by the interlinking of the variables. For example, there is a definite link between trade and aid, especially when aid obligations are fulfilled through automatic conversion into trade flows. Instances of links between the variables are aplenty but still the study proceeds by considering them separately for the sake of convenience.

Foreign Trade and Dependence: Magnitude, Composition and Direction

India's trade, like that of most less developed countries, is dependent on the multifarious forces operating in the world economy over which it has no control. It can only react and respond to situations as they present themselves and conduct its trade in a way that best serves its interests. Hence this limited autonomy of decision making is sought to be preserved.

Magnitude

It must be noted that India has a relatively lower share of foreign trade to GNP compared to most other less developed countries, although the figure is significant in itself. ²

2. See Table 7

The total value of India's international trade has increased from Rs. 1,250 cr. in 1950-51 to Rs. 75,746 cr. in 1990-91³. The increase has chiefly been concentrated in the period after 1970 and even more so after 1980. In the eighties the substantial increase in imports was the cumulative effect of the rise in the prices of Petroleum, Oil and Lubricants (POL), the import liberalisation policy of the government, the unprecedented drought of 1987 and of course, the demands of a growing economy.

Growth of a country's foreign trade, especially in exports, depends on internal as well as external factors, as noted earlier. The internal factors are mainly connected with the generation of a sufficient volume of saleable surplus and its disposal at competitive prices abroad; the external factors relate to a variety of conditions such as access to foreign markets, advantage or disadvantage of terms of trade, elasticity of foreign demand for usual export items, effects of tariff and non-tariff barriers and, the continuity of a two way traffic to prevent lopsided balance of trade.⁴

On the side of imports, Nehru was convinced of the need to develop a broad industrial base in order that the economy

3. Ibid.

4. Radharaman Chakrabarti, *The Political Economy of India's Foreign Policy* (New Delhi: K.R. Bagchi and Company, 1982), p. 67.

would develop and become self-sustaining in due course. So the nation embarked on an ambitious development programme where the main thrust was on rapid industrialization. This meant import of capital goods, raw materials and technical knowhow on a large scale. Initially, besides developmental and maintenance imports, there were imports of consumer goods as well to reduce scarcity of such goods and prevent inflation (for example, food imports). There were also some defence imports to meet security needs.⁵

Though there is a tendency to slightly overemphasize the growth of imports, it must be observed that there has been a manifold increase in the value of both imports and exports. It must be clarified that though imports normally grew at a faster rate, there have been around twenty occasions (discrete, not continuous years) when the rate of change of exports has been more favourable than that of imports. However, there have been only two occasions in forty years since 1950-51 when exports matched imports and a slight trade surplus was generated (1972-73 and 1976-77).⁶

Increasing imports are characteristic of a developing economy and one way of avoiding the corresponding increase

5. Developmental imports are imports which either help to create new capacity in some lines of production or enlarge capacity in the other lines of production. Maintenance imports are imports which are made in order to make full use of the productive capacity.

6. See Table 1

in trade deficit is to step up exports. But it is extremely difficult for a developing country like India with its production problems and a vast unsatiated market to register a quantum jump in exports. Again, India's share in world exports has tended to remain around 0.5 per cent although it was 2.1 per cent in 1950-51,⁷ compounding the difficulty.

India attempted the twin strategy of import substitution and export promotion to keep trade deficit within manageable limits. The economic liberalisation of 1985 shifted emphasis to export led growth through import led exports.

The strategy of import substitution was intended to reduce imports and save foreign exchange. Public enterprises like the Oil and Natural Gas Commission and Indian Oil Corporation were set up to increase self reliance and reduce India's dependence on imports⁸. However, failure of some enterprises has led to increased dependence by being responsible for increase in imports. For instance, the underutilization of the capacity of steel plants built at tremendous cost necessitated continued imports of steel. Such conditions result in increased economic dependence.

The exports promotion drive had to be undertaken vigor-

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7. Economic survey, 1992-93, Government of India, pp. 5-94 to 96.
 8. Ruddar Datt and K.P.M. Sundharam. *Indian Economy* (New Delhi: S. Chand and Company, 1991), Twenty-ninth revd. edn., p. 158.

ously by the government as industry was indifferent to the export trade because it enjoyed the blessings of a sheltered home market⁹. The State Trading Corporation, established in 1965 and its associate organisations like the Mineral and Metal Trading Corporation (MMTC) play a crucial role in the export drive in the new found markets and popularizing non traditional items in old ones.¹⁰

The government followed a liberalized economic policy since 1978 which was further liberalized in 1985. The policy focused on export-led growths and import led imports to meet the balance of payments problem (instead of avoidance of non-essential imports and import substitution). As a consequence, there was a spurt in both imports and exports though imports far exceeded exports. A direct fallout of this policy was a rise in the import intensity of exports which in turn affected net foreign exchange earnings adversely. The effects of the New Economic Policy of 1985 on India's economic dependence will be analyzed subsequently.

The considerable increase in the total value of India's trade can be explained by increase in the quantum of trade as well as rising cost per unit of goods constituting imports and exports. The continuously rising value of trade brings out the significance of trade for the Indian economy

9. Chakrabarti, n. 4, p. 67.

10. Datt and Sundharam, n. 8, p. 158, and Chakrabarti, n. 4, p. 75.

and a higher degree of economic development and diversification of the economy ensure the increase in the value of trade.

The rise in the cost per unit of imports increased its import bill more than an increase in the quantity of goods imported.¹¹ Nevertheless the relative inelasticity of demand of its imports compelled India to go in for them. India's exports could not be expanded to keep pace owing in no small measure to the composition of its exports.

Composition

The theory of comparative costs that claims that all goods are equally important and that it does not matter in what a country specializes is contrary to reality. It does matter in what a country specializes and there exist different "importance specificities" of goods exported. Countries that rely on traditional exports that is, export of primary goods are at a great disadvantage owing to a number of factors. Countries dependent on raw material export can suffer due to country substitution and product substitution, including its particular form of backstop technologies (like synthetic jute, synthetic coffee or bauxite for example). The "importance specificities" theory also explains why the advanced countries produce their own food behind protectionist barriers even if they could buy it at cheaper

11. See Table 2

rates from the world market.¹²

The composition of India's trade is characteristic of a developing economy.

There are imports for production and imports for consumption. Import of essentials for consumption has direct and immediate consequences for dependence. When the flow of these imports is disrupted, the effects are felt instantly. The economic liberalisation of 1985 added a new dimension by including some items of elite consumption like billiard tables and balls to the open General License list. Such imports result in loss of foreign exchange for no useful purpose and increase external dependence.

Imports for production are essential for broadening the industrial base and for modernization. But India's management of its imports leaves a lot to be desired, because a considerable amount of imports can be avoided if capacity utilization is realised in existing industries.

Conversely, on the export side, while the increase in the share of certain exports like engineering goods could reduce dependence, the exports of certain raw materials, which can be used at home, could offset the effects. For instance, India exports large quantities of iron ore that

12. Kunibert Raffer, "Unfavourable Specialization and Dependence: The Case of Peripheral Raw Material Exporters", *World Development* (Tarrytown, NY.), vol. 15, no. 5, 1987, pp. 701-15.

can be used to make steel in the country which imports steel, while capacity utilization has not been reached in its own steel plants.

Indian exports chiefly consist of agricultural raw materials, its allied products and simple manufactures. Like any other exporter of primary goods, India also suffers from declining terms of trade compared to that of manufactured goods, a history of fluctuating prices, competition from other exporters which makes it easily replaceable, inelastic demand and an unfavourable tariff structure.¹³

The trends in imports and exports of some principal commodities are analysed here.

India's imports are chiefly composed of Petroleum, Oil and Lubricants (POL), capital goods, iron and steel, pearls and precious stones, chemicals, fertilizers and non-ferrous metals.¹⁴

The import of Petroleum, Oil and Lubricants (POL) is an issue that India's economic dependence is sensitive to and the repercussions of the two oil price hikes in 1973-74 and again in 1979-80 by the Organization of Petroleum Exporting Countries (OPEC) were felt in India well into the 80's. (The major drought in 1979-80 compounded the effect).

13. Richardson, n. 1, pp. 21-22.

14. See Table 5

The value of POL imports increased manifold over the years. It was Rs. 69 crore in 1960-61 and had risen to Rs. 5264 crores by 1980-81 and to a whopping Rs. 10,816 crores by 1990-91.¹⁵

The direct cost of an increase in POL prices is a sharp rise in the value of POL imports. The indirect effects stem from the fact that world trade is affected immensely by hikes in oil prices and India's exports suffer a set back as a fall out of it. (Conversely, when oil prices fall, India gains in a big way). Another indirect cost is that the resultant highly unfavourable balance of trade necessitates external assistance to cope with the balance of payments difficulties. The government had to approach the IMF for a loan of SDR 5 billions in 1981 consequent upon the oil price hikes of the 70's.¹⁶

'Food' is an important issue area for dependence. When a country depends on external sources for food, more so in a populous and vast country, the impact of such dependence is felt intensely. In fact, food imports were significantly high during the first three plan periods, even higher during the annual plans, but the share of food in imports was reduced drastically in the fourth plan (ten percent) and

15. Economic Survey, 1992-93, Government of India, S-86 to 88.

16. Deepak Nayyar, "India's Balance of Payments" in Uma Kapila, ed., *Indian Economy Since Independence* vol. 3 (Delhi: Academic Foundation, 1991), pp. 651-677.

continued to be low in the Sixth and Seventh plan periods.¹⁷ This is in no small measure owing to the arm-twisting tactics of the US when it suspended even food aid to India following the Indo-Pak war of 1971 which had the positive effect of goading India on to raise food grain production and attain self sufficiency in food. Despite improvements in food production, drought-years take their toll on the Indian economy and an increase in external dependence invariably results. Another not unrelated development is that excessive fertilizer imports due to unrealistic assessments of requirements hit the indigenous fertilizer industry badly.¹⁸

Import of defence equipments is another sensitive area. It was too much of a risk for a country that had faced two wars with Pakistan and an armed aggression from China to depend upon the judgements of external powers for the supply of defence equipment. Development of indigenous facilities was imperative as her borders lay dangerously open to foreign aggression. The unreliability of the United States brought India closer to the USSR which became the largest supplier of defence equipment to India. As, often the loan or the grant element is associated with such imports, it is also considered under bilateral aid. According to the SIPRI

17. See Table 3.

18. B.P. Mathur, "India's Trade Deficit and the Role of Foreign Aid", *Foreign Trade Review* (New Delhi), vol. 22, no. 3, October-December 1987, pp. 266-8.

Year Book, 1990, India was the largest importer of major weapons in the world during the period 1985-89,¹⁹ which reinforces India's dependence on external powers for her defence needs.

In a developing economy that aims at rapid industrialization and technology upgradation, imports of capital goods is bound to increase. The average annual import of machinery which was Rs.191 crores between 1951-52 and 1960-61 soared to Rs.6415 crores during the Seventh Plan period (1985-86 to 1989-90)²⁰. Increasing imports of capital goods could signify both industrialisation and a failure to develop indigenous technology and indiscriminate liberalisation in import policy serves to dampen the initiative for the development of such indigenous technology.

It can therefore be inferred from the above discussion that by and large the trends in the imports of principal commodities have been towards increased external dependence though there are a few bright spots.

India's principal exports include agricultural and allied products, ores and minerals, textile fabrics, jute, leather, gems and jewellery and simple manufactures like

19. SIPRI Yearbook, 1990, World Armaments and Disarmament (Oxford: Oxford University Press, 1990), pp. 228-9.

20. See Table 3.

ready-made garments, leather manufactures etc.²¹

India's traditional exports consisted of raw jute and manufactures, raw cotton and manufactures, tea, oil seeds, hides and skins etc. But since 1960, under the impact of industrialisation exports of non-traditional items are gaining in importance. These items consist of engineering goods, handicrafts which include pearls, precious and semi precious stones and jewellery, iron and steel, iron ore, chemicals, ready-made garments, sugar, fish and fish preparations, cashew kernels, coffee etc. These goods constitute more than fifty percent of India's exports now²².

The seventies saw a marked shift from products to projects. Project exports have occurred in low technology areas like power distribution and sugar plants as well as in relatively high technology areas like power generation, chemicals and machine tools²³. Increasing exports of electronic goods and computer software is a hallmark of the changing trends in exports.

Nevertheless, India still relies on agricultural and allied products, simple manufactures and raw materials to a large extent for exports.

21. See Table 4.

22. Ruddar Datt and K.P.M. Sudharam, *Indian Economy* (New Delhi: S. Chand and Company, 1994), Thirty-first revd. edn., p. 648.

23. H.R. Suneja, *Foreign Trade Financing and Foreign Exchange* (Delhi: Shakti Publishers, 1985), p. 19.

Increasing population and the consequent increase in domestic consumption do not permit any remarkable improvement in the generation of export surplus in many traditional agricultural products exported, like tea.

Therefore, as regards exports, India can be said to have had a mixed record of dependence. Given the constraints under which it operates, Indian export trade has been able to diversify its base and hence India does not suffer from the uncertainties that accrue from single commodity exports.

The liberalisation policy of '85 allowed export-oriented units to import freely. This had the effect of turning some industries into mere assembling units²⁴. A natural corollary is that such ties can lead to continued dependence on external sources for equipment, spare parts and servicing.

Therefore, mere export promotion and a widening of the export base alone do not lead to reduced dependence. The concomitant costs are also significant. Sometimes, costs outweigh benefits and at times disguised dependence results.

Direction

Trade partner concentration is inevitably linked to economic dependence. Even concentration in a region could

24. Datt and Sundharam, n.8, p.646.

increase economic dependence. Besides, dependence could be more when there is reliance on a single source for imports (or destination of exports) of one or more important commodities even if the percentage share of trade with that source in total trade is not very high.

India's policy from the very beginning favoured diversification of trade routes. The efforts were to develop new trade links while strengthening existing ones and also to seek help from as many sources as possible as the country embarked on its program of industrialisation. India's policy of nonalignment facilitated establishment and consolidation of trade links with both the East and the West during the cold war.

Despite attempts at diversification, there was an excessive dependence on trade with North America and West Europe till the late 60's. Initially, due to the historical links established, the United Kingdom was India's largest trading partner and was eventually replaced by the United States (US). Later, after 1971 (Indo-Pak war), there was a shift towards the East European countries (especially the Soviet Union), Asian countries and OPEC. Though trade with US picked up in the mid 70's, it was around the mid 80's that, partly owing to the economic crisis in the Soviet Union and the fall in its share in India's trade, the importance of India's trade with the US grew

significantly.²⁵ However, by then India had established a spatially dispersed pattern of dependence and hence the situation was different from that of the early decades of independence.

The significant changes in the direction of India's foreign trade can be roughly categorized as

- a) Those where foreign policy or relations played a prominent role (in other words, economic consequences of foreign policy or relations).
- b) Those where economic compulsions or considerations played an important role. This category includes those changes brought about by external factors on which India has little control like global recession, Iran-Iraq war, oil price hike etc.
- c) Those caused by a combination of both political and economic factors

For example, due to the India-Pakistan war of 1971, relations between India and United States were strained and consequently trade between the two countries declined (all aid was also suspended). Hence this change falls under the first category.

India's massive food imports from the United States during the first three plans and more so during the Annual

25. Datt and Sundharam, n.22, pp.648-50.

Plans was prompted by economic compulsions. Economic considerations led to increased trade links with the developing countries of Asia. These fall under the second category.

India's strengthening of ties with the USSR and other East European countries was prompted both by political and economic considerations and hence falls under the third category.

India's more important trading partners are the United States, United Kingdom, erstwhile Soviet Union, Germany, Japan, OPEC countries and developing countries. It is noteworthy that Belgium's share in India's imports was 7.6 per cent in 1989-90.²⁶

The United States

The share of the United States in India's imports, as noted earlier, remained significantly high in the first three plans, and during the annual plans chiefly owing to massive imports of food grains (33.6 per cent in 1950-51, 29.2 per cent in 1960-61 and 29.4 per cent in 1969-70).²⁷ The humiliation of the short tether policy followed by President Johnson (to be discussed under aid) and the hostile reactions of the United States to the Indo-Pak war of 1971 prompted India to reduce her dependence on the US. The

26. See Table 5.

27. Datt and Sundharam, n.22, p.649.

US accounted for 12.4 per cent of total imports in 1980-81 and during the Seventh Plan, the share of the US in India's imports was around 11 per cent.²⁸ It must be noted that the share of food in India's imports kept very low during the Seventh Plan period.

Therefore, foreign policy shifts and food seem to account for the variations in the share of the US in India's imports fairly well.

On the side of exports, India exported 18.6 per cent of her goods to the US in 1951-52, 15.8 per cent in 60-61 and 16.8 percent in 1969-70. Following strained relations between the countries after 1971, the share of the US in India's exports fell considerably in the 70's. It, however, picked up to around 18 per cent in the latter half of the 80's.²⁹

In fact, India had a marginal trade surplus with the US for four consecutive years 1986-87, 87-88, 88-89 and 89-90. India was identified as an unfair trading partner (along with Brazil and Japan) under section "Super 301" provisions of the US Trade Act (1988) in May 1989. The application of the Act was revoked by the US in mid-1990 after having

28. See Table 5.

29. See Table 6.

gained a few concessions from India on investment laws.³⁰

Soviet Union and other East European Countries

Trade with the USSR and other East European countries was of tremendous significance to India, especially after 1966.

In the 60's the inflexibility of trade with developed Western market economies forced India to look for better horizons on the trade front and it decided to improve its trade links with East European countries. Despite doubts expressed in some quarters the government was convinced of the advantages of such expansion and renewed the trade agreement with the USSR and other socialist countries of East Europe in 1966. The trade links developed with these countries stood India in good stead during the low phase in Indo-US relations after 1971.³¹

India was disillusioned when trade with the Western countries did not improve even after yielding to pressure applied by the Aid India Consortium and devaluing her currency by 57.5 per cent. The country had to rebuild her trade equations on the basis of this revaluation.

India could use the alternative channels of trade to

30. Ritu Sharma, "India's Autonomy and American Foreign Assistance : Politics of Uneven Equation", *Strategic Analysis* (New Delhi), vol.14, no.7, October 1991, p.833.

31. Chakrabarti, n.4, p.74.

inject a measure of competitiveness among its external buyers and stabilize the precarious terms of trade for many of its traditional exports. Over and above this, the urgency for expanding India's trade with East European countries stemmed from the new strategy of securing external imports for development through automatic conversion of debt and aid obligations into regular trade flows. This was probably the only commendable course open when the country had little convertible currency at its command to pay for development imports³².

The main items of imports from these countries are iron and steel, non-ferrous metals, chemicals, capital equipment, railway stores, paper, medicines and pharmaceuticals and petroleum products. The imports of most of these commodities are of crucial help for India's core projects and several industries of strategic importance. India exported tea, cashew kernels, tobacco, oil seeds, leather, metallic ores, jute manufactures, etc. - traditional items of exports, to this region. By the 80's manufactured goods also formed an important part of India's exports to this region.³³

Mutuality of interests is a striking characteristic of Indo-Soviet relations. Although economic relations with

32. Ibid., p.75.

33. Datt and Sundharam, n.22, p.650.

India played no hard currency role, Soviet imports of Indian consumer goods, agricultural and increasingly manufactured goods, tended to increase sharply in the eighties particularly after oil price increases improved Soviet terms of trade with India³⁴. The USSR saved hard currency by importing these goods from India.

India's economic interest was in

1. acquisition of arms without the expenditure of hard currency
2. acquisition of intermediate products like oil, fertilizers, newsprint and nonferrous metals against payment in inconvertible rupees; and
3. the Soviet market, which absorbed almost one-fifths of India's exports through much of the 80's.

India's trade surplus with this region was a fairly consistent phenomenon. Nevertheless, India's trade with this region fell drastically after the disintegration of the Soviet Union and major transformations in other East European countries in the late 1980's.³⁵

The share of the USSR in India's exports which was one percent in 1951-52 had risen to 12.5 per cent in 69-70, 18.3 per cent in 80-81 and was 16.1 percent in 89-90. Consider-

34. Santosh Mehrotra, *India and the Soviet Union : Trade and Technology Transfer* (Delhi: Oxford University Press, 1991), p.208.

35. *Ibid.*, p.27.

ing the imports side, the USSR supplied 0.2 per cent in 51-52, 10.4 per cent in 69-70, 8.1 per cent in 80-81 and 5.8 per cent in 89-90.³⁶

UK, Germany and Japan

Trade with United Kingdom was considerably high initially, partially due to historical ties and because imports from UK increased as it had to pay its sterling debt to India. The share of UK decreased as India's trade routes were diversified but continues to remain fairly significant.

The share of Germany and Japan in India's trade has steadily increased over the years and India's trade with these countries has reached considerable proportions in relation to its total trade.

The OPEC

The significant variations in India's trade with the OPEC countries have been (i) a significant increase in the share of OPEC in India's imports consequent upon the two oil price hikes of the 70's; (ii) the increasing share of Saudi Arabia and Kuwait (before the Gulf war of 1990) at the expense of Iran and Iraq owing to the long drawn out war between the two countries.³⁷

36. Datt and Sundharam, n,22, p.449, Tables 5,6.

37. See Table 5.

Developing Countries

The share of the developing countries in India's imports has increased from 11.8 per cent in 1960-61 to 18.4 per cent in 1990-91 and their share in exports from 14.8 per cent in 1960-61 to 16.8 per cent in 1990-91.³⁸ But what is more significant is that India's trade with developing countries of Asia has increased whereas its trade with the developing countries of Africa has suffered a setback. Raw material imports from these countries for her industries could be very beneficial to her economically. They can also offer good market for her manufactured goods.

From the above analysis of the variations in India's trade with regard to its magnitude, composition and direction it is explicit that trade has remained a significant factor in India's economic dependence throughout the period considered.

Though India's external trade and aid are inextricably linked, a separate analysis of India's aid dependence is attempted.³⁹

Foreign Aid Dependence

When a development plan is undertaken without adequate mobilisation of domestic resources and built in safeguards

38. Ibid.

39. Chakrabarti, n.4, p.36.

for a likely trade imbalance, there is no escape from aid dependence.

It is customary for governments to term aid as 'necessary' for a developing economy; 'necessary', but 'temporary', and to be avoided once the stage of self sustaining development has been reached.

However, aid dependence, arising initially from principal requirements of economic development (like capital goods, technical know-how etc.) is normally compounded by the common ailments of a backward economy like scarcity of essential commodities like food. In a situation like this, reliance on foreign aid does not diminish but increases over time, and, in the long run upsets all previous calculations about its safe handling. Once the situation gets out of hand, dependence on foreign aid becomes nearly routine and the focus shifts to minimizing the costs of aid. When aid becomes too scarce or too costly, other modes of drawing foreign capital (and technology), especially, direct foreign private investment is resorted to in addition to aid and trade.

Costs of Aid

Aid is no charity and all aid comes with concomitant costs. One economic cost generally associated with bilateral aid is that the donor country takes back much more than it gives because most bilateral aid is in the form of tied aid where the borrowing country is forced to purchase goods

or equipment only from the lending country and normally at inflated rates. Aid from multilateral agencies has its own cost as it requires conformation of economic policy to their specifications which directly impinges on national sovereignty in so far as the right to decide the nations' course of development is curtailed⁴⁰. For example, the IMF loan in 1981 had stipulated that India should use export promotion and not import substitution as the strategy for controlling adverse balance of payments. Progressive import liberalization in raw materials, intermediate goods and capital goods is almost an axiom of IMF conditionality.⁴¹

Nevertheless, most developing countries embarking on the road to rapid economic development have had to depend on foreign assistance to some extent. For India, economic assistance was readily available initially and considering its ambitious development program, the lure of foreign aid was difficult to resist.

Government Attitude Towards Foreign Assistance

Initially the government attitude towards foreign assistance was a combination of optimism and caution.

As the Planning Commission has noted, "external assistance is acceptable only if it carries with it no conditions,

40. See Teresa Hayter. *Aid as Imperialism*, (Middlesex: Penguin Books, 1971).

41. Deepak Nayyar, n.16, p.665.

explicit or implicit, which might affect even remotely the country's ability to take an independent line in international affairs."⁴²

Care was taken to emphasize that the country's policy of nonalignment was nonnegotiable and to diversify the base of economic aid from abroad. The payoff of nonalignment was there in a latent form visible only around the mid-fifties when the Soviet Union started taking substantial interest in India's economic development.

Initially, the US was keen on helping India because of the China factor, that is, the fear of a communist takeover of India. Soon, the Soviet Union also aided India substantially.

Wilfred Melenbaum wrote in a research report sponsored by American National Planning Association:

"India seems to be one of the few underdeveloped countries where both the United States and the USSR maintain aid programmes significant in terms of the country's estimated requirements. These evidences of the coexistence of East and West in India's economic and political life bear testimony to the skill with which leaders of India have conducted its domestic policy and international relations. Indeed, both American and Russian involvement in India's economic

42. Planning Commission, Government of India, First Five Year Plan, p.26.

affairs has tended to grow; India's nonalignment has not impaired such expansion".⁴³

India's increased economic dependence, however, caused a lot of concern, the moot question being: how far availability of alternative sources of aid could really diversify and lessen the magnitude of this dependence.⁴⁴

Aid in the Early Decades of Independence: Dependence on the US

For the first two decades, western aid, especially aid from the US was extremely significant for India.

Besides developmental aid and special aid programs for food, security concerns following the 1962 Chinese aggression compounded India's trade dependence. India relied on western aid for food due to persistent agricultural shortfall and for military aid due to the precarious position on India's borders in the 1960s, India was given a demonstration of the arm twisting tactics of the donor powers that would not stop short of policy compliance.⁴⁵

Nehru told the Lok Sabha a few months before his death:
Real freedom is ... economic freedom in the sense that you

43. Wilfred Malenbaum, *East and West in India's Development: The Economics of Competitive Coexistence*, National Planning Association, USA, 1959, p.3.

44. Chakrabarti, n.4, p.35.

45. Ibid., p.40.

do not have to rely on other countries. You are friends with them, you take their help, but you are not dependent upon them to carry on either for defence or anything else⁴⁶.

The decision of the US government to suspend all military and economic aid to India following the Indo-Pak war of 1965 put India in a quandary. The suspension of food supplies could easily be interpreted as an act of arm twisting.

The measure of vulnerability that grew from this near habitual dependence on the food front (PL-480 food programme) sharply reflected on the balance of payments position. Extended import commitments coupled with export shortfall and increasing burden of debt servicing forced a precarious downward sliding of the balance of payments. The stage was thus prepared for an abject surrender to international pressures for devaluation of the Rupee to the extent of 57.5 per cent in relation to the US dollar and the sterling in 1966.⁴⁷

Shortly after the devaluation, India's request for food aid was easily converted into a control handle as President Johnson chose to adopt a 'short tether policy' to release food on a month to month basis just to make sure that

46. Lok Sabha, Debates, August 22, 1963, Third Series, Vol. 19, Col. 2197-8.

47. Chakrabarti, n. 4, p. 43.

"India changed its farm policy." 48

In 1971 again after the Indo-Pak war, the US suspended all aid to India and carried on an all out offensive in the UN against the policies and actions of the Indian government.

Eventually however, those unfriendly gestures proved counter-productive. Even the withholding of aid did not have debilitating effects on the Indian economy, partly due to the liberal assistance it was promised from alternative sources in Eastern Europe. But politically, it had the remarkable effect of producing a strong will to self reliance, for, the 1971 crisis was the first of its kind when India as an aid recipient could successfully thwart the pressure tactics of its largest aid giver and make it eventually ask for restoration of normalcy on its own terms⁴⁹.

This event marked a watershed in Indo-US relations. From then on, the "largest democracy" appeal of a non-communist political leadership in India did not cut much ice against the frigid aid-weariness of the USA. The acceptance of an increasing dose of assistance from the Soviet Union also did not stir it on to a course of competitive charity. India had to look for other donors who look for economic

48. Lyndon B. Johnson, *The Vantage Point, Perspectives of the Presidency* (New York: Holt, Rinehart and Winston, 1971), pp. 225-8.

49. Chakrabarti, n.4, p. 46.

rather than political return to their aid investment.⁵⁰

The share of USA in the total external assistance which stood at 58 per cent between 1950-51 and 65-66 came down to 49 per cent during the Annual Plans and further fell to 27 per cent during the Fourth Plan. In fact, all aid was largely in the form of loans or PL-480 food aid. The share of US aid declined in view of India becoming self sufficient in food and India's disgust at the frequent suspension of American aid at the most crucial times. On account of strained political relations, aid from USA was drastically reduced during the Fifth Plan period and it touched a very low level of 5 per cent during 74-78. It further declined to an insignificant level 3 per cent during the Sixth and Seventh Plans⁵¹.

It is worth mentioning here that approximately half of US assistance to India upto the Third Plan was under PL-480. The payment was made in rupees, about 87.5 per cent of which was utilised to finance development projects in India. After the Fourth Plan, US assistance has been mainly in the form of loans repayable in dollars. US aid to India has been extended mainly through US Agency for International Development and the Exim Bank of Washington. US aid has

50. Ibid, p. 47.

51. Datt and Sundharam, n 8, p. 283.

covered almost all sectors of the Indian economy⁵². As mentioned earlier, the US now routes most of its aid to India through multilateral institutions and whether India gets soft loans through them or has to resort to commercial borrowings depends to a large extent on how much the US intends to give and to whom.

Therefore, to get a fair picture of India's aid dependence on the US, bilateral aid as well as aid directed through multilateral lending agencies should be seen side by side. It can be seen that American influence on foreign aid received by India is undeniable.

While the 1966 devaluation and the 1971 stoppage of aid demonstrate American high handedness, its decision not to honour its agreement to supply nuclear fuel to the Tarapur Atomic Power Plant in 1978 and its backing out of the Bokaro Venture (steel plant) in 1963-64 demonstrate its unpredictability and unreliability. These served as a reminder to India of the extent to which donor pressures may be carried to influence the very course of her economic development.

Dependence and Interdependence in Relation to the Soviet Union

The Indo-Soviet Treaty of Peace and Friendship signed in 1971, facilitated a smooth flow of assistance from the -----

52. B.K. Nigam, "Changing Pattern of Foreign Aid" in G.R. Madan, ed., *Economic Problems of Modern India: Problems of Development* (New Delhi: Allied Publishers, 1989) p. 283.

USSR and other East European countries to India.

Through their percentage share in total aid is not very high, aid has been forthcoming from this source at vital points like in 1974-75 when their share was 12 per cent of total assistance.⁵³

The USSR emerged as the biggest donor in bilateral assistance after the Sixth Plan. Its share in total aid authorizations after falling from 8.5 per cent in the first three plans to 2.5 per cent in the Fifth Plan, has increased to 37.6 percent in 1986-87. The Soviet aid has been mainly in the form of loans provided to basic and heavy industries and development projects in the public sector. The Soviet loans normally carried an interest rate of 2.5 per cent and was generally repayable in 12 years after the first year of completion of delivery of equipment. An important feature of the credits from the USSR was that the repayments of principal and payments of interest were made in the non-convertible Indian rupees for utilization by Soviet authorities for purchase of Indian goods for export to the USSR in accordance with the Indo-Soviet Trade Agreement in force at that time.⁵⁴

Much of the Soviet aid went to the development of the steel industry and for defence equipment. All Soviet loans

53. Datt and Sundharam, n. 8, p. 283

54. Nigam, n. 52, p. 369.

are project tied.

Soviet aid and technology transfer involved the following benefits for India. The burden of servicing Soviet loans through bilateral exports was lower than that of loans to be repaid in hard currency. Soviet offers of aid enabled the Indian government in many cases to break the monopoly of transnational companies in India and strengthened the government's bargaining position vis-a-vis the transnationals; the combined result was considerable foreign exchange savings for India. The planned nature of the Soviet and Indian economies enabled the USSR to commit project aid for the duration of a whole five-year plan period, and extend project aid for investments of an inter-locking character. Thus, Soviet assistance has led to the creation of several vertically integrated industrial complexes. These enterprises were created as part of an overall strategy of import substituting industrialization with the aim of giving the Indian economy an independent technological capability in basic and capital goods industries.⁵⁵

The costs of Soviet technology transfer must also be noted. Several Soviet aided enterprises were set up to manufacture products with specifications for which there was no demand in India, In addition, they were equipped to manufacture an overly specialized product range, as a result

55. Mehrotra, n. 34, p. 209.

they were unable to meet a very large part of the overall demand for the products of that industry. Soviet aided enterprises in India exhibited a tendency towards excess built-in capacity. The developed world, in general (Developed Market Economies or the USSR) has done very little to adopt and restructure technologies under technical collaboration agreements⁵⁶. In this context, the growing technological capability of Indian Industry is a positive development. Indo-Soviet relations were based on mutual benefits. For example, India has consistently been able to generate trade surpluses with the USSR during the seventies and eighties, primarily in order to repay developmental and military credits.⁵⁷

It must be noted that Gorbachev pledged 7.5 billion roubles as loan to India between 1985 and 1988 (1 billion roubles in 1985-86, 1.5 billion roubles in November 1988). The economic rationale behind these loans is the need to give a fillip to Indo-Soviet trade.

The Military Dimension

The USSR has been India's most important supplier of defence equipment since the mid-sixties. More importantly, that it has been prepared to transfer defence technology is largely a reflection of the over-riding strong mutuality of

56. Ibid, p. 211.

57. Ibid, p. 68.

geo-political interests between the two. On the other hand, the difference between American and Indian perceptions of global issues have correspondingly been reflected in the very unstable and from India's point of view, unreliable military relationship with the USA.

While the US stopped all military and economic assistance to India after the '71 War, (it had imposed an embargo on arms exports to India after the '65 war), the USSR was replenishing Indian stocks during and after the '71 war. India is one of the few countries outside the Warsaw Pact, allowed to purchase Soviet military know-how as opposed to weapons. The USSR, in addition to licensing production of defence equipment in India, has been prepared to set up facilities in India to meet the overhaul and servicing needs of the Soviet air and naval equipment purchased by India.⁵⁸

Besides, the unpredictability factor, another reason why India would prefer not to rely on the U.S. is that the USA is normally keen to establish an infrastructure - for instance, military supply missions, training teams and maintenance teams - in the recipient LDC. Unlike Pakistan, India has not been keen on such a broad based military relationship.⁵⁹

In the last decade, India has been fairly successful in

58. Ibid, p. 22.

59. Ibid, p. 23.

diversifying its sources of weapon systems. India has had a fair amount of bargaining power in her economic relations with the Soviet Union because of the mutuality of interests and this helped reduce the degree of asymmetry. Trade and aid are inextricably linked in the case of the Soviet Union and in a way, it has helped reduce India's economic dependence on other countries, especially the U.S.

The 80's witnessed a significant growth of economic ties between India and the U.S. Though in the early 80's Reagan's attitude towards multilateral aid put India through a lot of trouble, the relations between the two countries improved since 1983 and the mid 80's witnessed significant changes like growing defence ties between the two countries.

Two US Defence Secretaries, Casper Weinberger and Frank Carlucci, visited India in two successive years, 1986 and 1987. The former's was the first ever visit by a US Defence Secretary to India. The US objections to the transfer of advanced dual purpose technology did not dissolve easily or entirely. A Memorandum of Understanding was signed between the two Governments and India bought a Cray-XMP Super Computer in 1988, and negotiated a deal for the transfer of high military technology for the production in India of a Light Combat Aircraft (LCA).⁶⁰

60. Bhabani Sengupta, "At Ease with the World" in Verinder Grover, ed., **International Relations and Foreign Policy of India**, Vol. 1 (New Delhi, Deep and Deep Publications, 1992), p. 425.

Such growing defence ties with the US were viewed with skepticism in some quarters in India.

It must be noted that although the share of other countries like UK, France, Germany, Japan and the OPEC countries has been important, they are not considered in detail because aid from them did not assume overwhelming proportions. A noteworthy feature of assistance from the UK is that Rs.1549 crores of foreign aid received during 80-81 to 88-89 was in the form of grants entirely.⁶¹

Multilateral Aid

Besides bilateral assistance from both the West and the East, India also received multilateral aid from institutions like the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA). The share of multilateral aid in total aid has shot up in recent years. Before the Fourth plan, multilateral aid was about 12 per cent of total aid commitments. Thereafter, it increased rapidly due to increase in soft credits from IDA and a steep decline in US aid. The share of multilateral aid in total aid authorizations went up to 65.4 per cent in the Sixth Plan but reduced to 40.2 per cent in 86-87. The main reason for this decline was a rapid fall in IDA credits

61. Datt and Sundharam, n. 8, p. 283. Also see Nigam, n. 52, p. 369.

to India and an increase in Soviet aid.⁶²

Aid India Consortium played an important role as a coordinating agency for aid commitments by the World Bank group and several Western Countries.⁶³ The World Bank group provided more than half of total aid authorisations to India after the Fifth Plan. The International Bank for Reconstruction and Development (IBRD) has been providing India with long term capital loans for various development projects in public and private sectors. The share of IBRD aid authorisations to India also increased from 3.8 per cent in the Fourth Plan to 27.7 per cent in the Sixth Plan and 35.1 per cent in 1985-86. The IBRD has extended loans for projects in sectors like agriculture, transport and communications, steel plants and other industries mainly through Industrial Credit and Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI). In recent years, more IBRD loans have gone to the power sector. The interest rate varied from 3.5 to 9.25 per cent upto 1980. Thereafter more than 10 per cent interest has been charged on IBRD loans, which is subject to revision every six months. The repayment period varies from 10 to 25 years, with a grace period ranging from 3 to 10 years.⁶⁴

62. Aid India Consortium has recently been renamed as India Development Forum.

63. Aid India Consortium has recently been renamed as India Development Forum.

64. Nigam, n. 52, pp. 367-8.

International Development Association (IDA), an affiliate of the World Bank, has been the most important source of concessional aid to India. Assistance from IDA is long term (50 years with 10 years grace) interest free and attracts only a service charge of 0.75 per cent. The share of IDA credits in total aid authorisations increased from a mere 4.8 per cent in the first three plans to 35.9 per cent in the Fifth and 34.2 per cent in the Sixth Plan. However, the share of IDA in multilateral aid as well as total aid to India has been declining steeply in recent years. It was only 6.3 per cent in 1986-87. This is owing to three reasons (i) the share of IDA in global World Bank Group aid has come down from 75.1 per cent in 1975 to 19.7 in 1987 due to the reluctance of some western countries like the US in providing resources to the multilateral aid institutions; (ii) there has been greater demand for aid from new entrants like China; (iii) preference is given to the least developed countries. Consequently, the share of IDA aid to India in global IDA aid decreased from 40 per cent in 1975 to 19.9 per cent in 1986.⁶⁵

Oil Shocks, BOP and the IMF

The International Monetary Fund is a multilateral lending agency that provides loans to member nations to overcome their balance of payments difficulties. As it

65. Report on Currency and Finance, 1986-87, Reserve Bank of India, p. 410.

requires that structural adjustments be made in the economy if drawals are made at a particular level, loans from the IMF always raise a furore, especially in India. It is interesting to see how India overcame the balance of payments difficulties following the two oil shocks of the 70's as she contracted a huge loan from the IMF in '81. The IMF loan contracted in 1991 is outside the purview of this study.

India's balance of payments came under severe strain in the 70's as a result of the two oil shocks in 1973-74 and 1979-80.

After the first oil shock, India's import bill rose rather sharply and she also suffered a deterioration in terms of trade like many non-oil developing countries. Besides, she had just had a war with Pakistan and had to cope with an influx of refugees from Bangladesh. India was able to cope with the resultant balance of payments problems by drawing on various IMF facilities including oil facilities to the tune of Rs.750 crores during the years 1973-74 to 75-76. Owing to a combination of factors including a strong growth in exports, it could repurchase the fund drawings within the next three years by the time of the second oil shock.⁶⁶

66. C. Rangarajan, "India's Foreign Borrowing" in Robert E. Lucas and Gustav F. Papnek, eds., **The Indian Economy: Recent Development and Future Prospects** (Delhi: Oxford University Press, 1988), pp. 256-7.

India found it more difficult to cope with the second oil shock. Imports rose massively, exports growth was subdued as this was the leanest period for world trade in terms of volume growth. Thus the magnitude of financing required was of a much larger order than the first time and given the poor response of concessional assistance, India first drew down its foreign exchange reserves and later tried to fund resources as well as borrowings on commercial terms.⁶⁷

In 1981, the government entered into a loan arrangement of SDR 5 billion with the IMF, the largest loan extended by the IMF to any member nation till then. However, India's balance of payments improved to the extent that it did not fully utilize the drawings contracted under the Extended Fund Facility and terminated it in 1984-85.

Other international institutions providing aid to India are the United Nations, European Economic Community, OPEC and International Sugar Organisation.

Till the end of 1980, India had not made any substantial borrowings on commercial terms. During the next three years, India entered the International Capital market and contracted commercial borrowings.⁶⁸

67. Ibid, p. 257.

68. India has been tapping Export Credit Agencies like the US Exim Bank, the Japanese Exim Bank, ECGC of the UK, etc., to obtain a major portion of commercial borrowing from the capital market.

India's policy towards commercial borrowings has been one of caution. The overall level of commercial borrowings is guided by the total picture in relation to the balance of payments.⁶⁹ India has avoided going into a debt trap like Argentina and Mexico where it has to borrow to pay off the interests and amortisation charges on past loans. But the external debt situation of India has been alarming as, owing to the severe balance of payments problems in the mid 80's, commercial borrowings were increasingly resorted to. The shrinking amounts of concessional aid and increasing costs of aid led Rajiv Gandhi to express his preference for investment over aid which added another dimension to dependence.

Investment Dependence

The impact of the multinationals on the Indian economy is a subject of sharp controversy. Supporters saw in it a mechanism for the transfer of technology to India's developing economy. The critics saw in it a clever move by the advanced nations to penetrate in a variety of ways into the economies of developing nations with a view to gaining control over important areas of organised production.⁷⁰ The multinationals acted with the sole objective of profit maximisation and were thus instrumental in draining away

69. Rangarajan, n.66, p.259.

70. Datt and Sundharam, n. 22, p. 289.

resources in the form of profits, loyalty payments, commissions and technical consultancy fees. The development of multinationals was viewed as a form of neo-imperialism.⁷¹

The Indian government's policy towards foreign investment was articulated in the Industrial Policy Resolution (IPR) 1948. The IPR 1948 states that the "participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country but it is necessary that the conditions under which they may participate should be carefully regulated in the national interest."⁷²

The Indian government, in the 80's followed an approach of "selectivity" in its policy towards foreign collaboration, with a particular emphasis on importation of technology.⁷³

A new impetus was given to direct foreign investment as part of the policy of liberalisation of the economy in the 80's. As a result, the flow of foreign capital and the number of collaboration agreements increased at a fast pace especially after 1985. The number of foreign collaborations

71. See C.P. Bhambri, "International Capitalism and India: Erosion of National Independence", *Asian Affairs* (Bangladesh), vol. 5, no. 1, January-March 1983, pp. 1-26.

72. Mark J. William, "Foreign Investment in India", *Columbia Journal of Transnational Law* (New York), vol.28, no.3, 1988, p.615.

73. *Ibid*, p. 617.

approved between 1980 and 89 is 7,295 out of which 1,718 are financial participation cases. Total foreign investments approved for this period amounted to Rs.1145.697 crores.⁷⁴

Rajiv Gandhi's declared preference for direct foreign investment over foreign loans marked a major policy shift and has important consequences for dependence. This is because, with liberalisation emphasis has shifted from investment in the public sector to the private sector. Earlier preference was given for government to government credits and international financing of infrastructural projects. But with the flow of foreign concessional credits shrinking and financial surpluses for investment becoming difficult to mobilise from domestic sources, the role of foreign private capital has tended to become more prominent in the eighties. With liberalisation of economic policies and reliance on market forces and free enterprise, foreign private capital was considered not only essential for augmenting total resources for economic growth but also desirable. This is a major policy break from the aim of independent economic development and has important implications for economic dependence.⁷⁵

74. See Table 11.

75. "Foreign Investment: The New Panacea". Report, *Economic and Political Weekly*, vol. 23, no. 26, June 25, 1988, p. 1309.

Foreign Debt

India's mounting foreign debt has been a major cause of concern, more so after the New Economic Policy was introduced in 1985.

As seen before, imports shot up and the persistent trade deficit caused severe balance of payments problems which forced external borrowings on a large scale. It can be seen that the share of commercial borrowings in external assistance is increasing and there is a simultaneous decline in the grant element as also concessional lending, thereby increasing the debt service charges. The staggering amount of external debt is the cumulative effect of these factors. The total external debt in 1988 was 57,513 million dollars. The debt service ratio as a percentage of current receipts (exports and invisibles) has gone up, according to the World Bank from 18.2 per cent in 1984-85 to 29.8 per cent in 1988-89.⁷⁶

One view has it that India has entered or is nearing the danger zone which critics refer to as the "Debt Trap".

Dr Arjun Sen Gupta, IMF Executive and Formerly Economic Adviser to India's Prime Minister addressing a meeting of eminent economists on May 24, 1988 categorically stated:
"The threat of an external debt trap facing India is real if

76. Datt and Sundharam, n.22, p. 306, Table 13.

the country continues to resort to international borrowings. The danger becomes even more imminent when the distinction between borrowing for production and borrowing for consumption ceases to exist. India must stop borrowing for consumption."⁷⁷

The 85-89 period: Some Elaborations

The key words signifying economic activity during this period were privatisation and liberalisation, which were the main thrusts of the New Economic Policy introduced in 1985.

Supporters of the policy hailed it as a panacea to the nation's economic ailments. Some economists considered it a clear break from past policies and economists of the leftist school considered it an abject surrender to the private sector under the pressure of powerful MNC lobbies backed by the IMF and the World Bank.⁷⁸

An attempt shall be made to see objectively what the New Economic Policy spelt for dependence on the economic front.

The New Economic Policy (of 1985) marks a discernible shift towards the private sector, hi-tech industries and direct foreign private investment.

There was an emphasis on industries at the expense of

77. Ibid, p. 307.

78. Datt and Sundharam, n. 4, pp. 188-9.

agriculture and the adverse effects of such negligence manifested themselves following the severe drought of 1987.

Privatisation resulted in the throwing open of many areas hitherto reserved for the public sector to the private sector. The underlying assumption was that competition was a great incentive for betterment in terms of both quantity and quality. Consequently, emphasis shifted from investment in the public sector to private foreign capital and foreign collaboration, financial and technical.

The New Economic Policy of 1985 emphasised the application of hi-tech to give an impetus to modernisation. The policy intended to promote sunrise industries like computers and electronics which occupy a central role in the phase of the second industrial revolution. The NEP of '85 was committed to promoting their growth and proliferation in as many industries as possible.⁷⁹

The electronics policy announced by the government welcomed the entry of FERA companies into the industry. The policy also explicitly stated that import of technology would be permitted freely for the purpose. This is a major departure from the policy followed in the past.⁸⁰

The New Import Export Policy, a part of the economic

79. Ibid, p. 188, Also see India Investment Centre, New Delhi, **Monthly News Letter**, April 25, 1985, p. 27.

80. Ibid.

policy package of 1985 aimed at export led growth to meet the balance of payments problem (instead of avoidance of non-essential imports and import substitution). Hence export oriented enterprises were allowed to import freely.

This heavy dose of liberalisation served to reduce many enterprises in the capital goods industry, electronics and automatic industry into units for assembling imported parts together. It did serve as a damper on the indigenous production and industry, especially in some sectors.

The opening up of the economy to foreign competition as part of the drive to increase domestic production and upgrade technology, increased the dependence of Indian industry on liberalized package technology imports and the country moved further away from self-reliance.

Having analyzed the variations within the different types of dependence, an analysis of the interrelations between them would help capture the changing patterns of dependence over the years. The interrelations are analyzed from the point of view of Indo-US and Indo-Soviet relations only.

As noted earlier, rigid compartmentalization of the different types of dependence is not possible and would be a distortion of reality.

There was a strong interrelation between the variables used in considering India's economic relations with the US

and the Soviet Union.

The United States

The most striking feature of India's economic dependence on the US upto the early 70's is that the asymmetry in the relationship was underlined time and again by the US by predicating the continuation of trade and aid flows upon its own judgement and by taking unilateral decisions with very little concern for the repercussions in India. For instance, its withdrawal from the Bokaro venture, stopping supply of funds to Tarapur Atomic Power Station, stoppage of 'food-aid' during the two Indo-Pak Wars, the short-tether policy of Johnson, all point to high-handedness.

This was the period when there was a strong inter-relation between trade and aid dependence on the US because food imports were made under PL480 aid from the US. There can be said to have been an intensification of India's economic dependence on the US during this period.

Nevertheless, the unreliability of the US and American high-handedness resulted in a reaction which produced a strong will to fight dependence on the US.

During the Seventies, bilateral trade with, and aid from the US declined substantially. India was indirectly dependent on the US owing to the influence of the US in the multilateral lending agencies. This period witnessed the two oil price hikes (73-74 and 79-80) making India dependent

to a large extent on multilateral aid.

In Jan. 1972, the US had voted against the granting of an IDA loan to India for the purchase of oil tankers.⁸¹ Again the US demonstrated its influence by opposing the IMF loan for India in 1981 when India sought a loan of SDR 5 billion. The US abstained from voting on the loan, though the loan was eventually approved in November '81. The US also wanted to drastically reduce concessional aid to India through multilateral lending agencies, especially the IDA and also opposed its borrowing from the Asian Development Bank (ADB) arguing that India had the economic strength to mature from concessional aid to loans on harder terms, including commercial borrowings from international capital markets.⁸²

After 1983, relations between the two countries improved. India embarked on the path of liberalisation and privatisation leading to the opening up of the economy and facilitating direct foreign investment, thereby bringing economic policy preferences of India's governing elite closer to that of the US. Growing defence ties pointed to

81. Surjit Mansingh, *India's Search for Power: Indira Gandhi's Foreign Policy 1966-1982* (New Delhi: Sage Publications, 1984), p. 91.

82. Sarbjit Johal, "India's Search for Capital Abroad: The US Relationship", *Asian Survey*, vol. 29, no. 10, October 1989, pp. 971-82. Also see Lloyd I. and Susanne Hoerber Rudolph, "The United States, India and South Asia" in John P. Lewis and Valerina Kallab eds., *US Foreign Policy and the Third World: Agenda 1983* (New York: Praeger, 1983), pp.86- 113.

an attitudinal change of the US with regard to India but again the basic contradictions that have plagued Indo-US relations manifested themselves, this time in the garb of Section 'Super 301' provisions of the US Trade Act (1988). The Act was invoked to identify India as an unfair trading partner in May 1989. The US sought further relaxation in FERA clauses to open the nationalised Indian insurance market to American companies, to change investment laws and abolish export obligations on foreign investors. India was served with an ultimatum to either go in for corrective measures within 12 to 18 months or face punitive, very high tariffs on its selected exports to the US. Not unexpectedly India protested vehemently over the groundless and prejudiced nature of the directive. The Application of the Act was revoked by the US in mid-1990 after having gained a few concessions from India on investment laws.⁸³

It can be inferred that India's economic dependence on the US had enough potential to have foreign policy consequences.

The USSR

Indo-Soviet economic relations have been marked by a certain mutuality of interests, more so after the formal Indo-Soviet friendship Treaty of 1971.

The most striking feature of Indo-Soviet economic

83. Sharma, n.30, p.833.

relations has been the reliability of the Soviets in times of need. Soviet aid has been available for crucial sectors like Industry (especially steel industry) and defence and has been forthcoming at the most crucial moments. Besides, Soviet aided projects have aimed at giving the Indian economy an independent technological capability in basic and capital goods industries.

The combined effect of the composition of India's trade with the USSR, its investments in important public sector units and its defence aid could have resulted in India's economic dependence on the Soviet Union, more so at points of time when India was vulnerable, like during the Indo-Pak War when the US stopped all aid. It can be said that India always went first to the US and on being rejected came to the USSR.

The asymmetry in Indo-Soviet relations is not so pronounced as in Indo-US relations.

It can be inferred that there was both dependence and interdependence in Indo-Soviet relations and overt application of economic pressure is hardly discernible.

Having discussed India's economic dependence at some length, the study now turns to the foreign policy consequences of such dependence. Before that an understanding of the continuity and change in India's Foreign Policy is essential.

Table 1
EXPORTS, IMPORTS AND TRADE BALANCE

(Rs. Crore)

Year	Exports (incl.re- exports)	Imports	Trade Balance	Rate of Change	
				Export	Imports
(per cent)					
1	2	3	4	5	6
1949-50	485	617	-132		
1950-51	606	608	-2	24.9	-1.5
1951-52	716	890	-174	18.2	46.4
1952-53	578	702	-124	-19.3	-21.1
1953-54	531	610	-79	-8.1	-13.1
1954-55	593	700	-107	11.7	14.8
1955-56	609	774	-165	2.7	10.6
1956-57	605	841	-236	-0.7	8.7
1957-58	561	1035	-474	-7.3	23.1
1958-59	581	906	-325	3.6	-12.5
1959-60	640	961	-321	10.2	6.1
1960-61	642	1122	-480	0.3	16.8
1961-62	660	1090	-430	2.8	-2.9
1962-63	685	1131	-446	3.8	3.8
1963-64	793	1223	-430	15.8	8.1
1964-65	816	1349	-533	2.9	10.3
1965-66	810	1409	-599	-0.7	4.4
1966-67	1157	2078	-921	42.9	47.5
1967-68	1199	2008	-809	3.6	-3.4
1968-69	1358	1909	-551	13.3	-4.9
1969-70	1413	1582	-169	4.1	-17.1
1970-71	1535	1634	-99	8.6	3.3
1971-72	1608	1825	-217	4.8	11.7
1972-73	1971	1867	104	22.6	2.3
1973-74	2523	2955	-432	28.0	58.3
1974-75	3329	4519	-1190	31.9	52.9
1975-76	4036	5265	-1229	21.2	16.5
1976-77	5142	5074	68	27.4	-3.6
1977-78	5408	6020	-612	5.2	18.6
1978-79	5726	6811	-1085	5.9	13.1
1979-80	6418	9143	-2725	12.1	34.2
1980-81	6711	12549	-5838	4.6	37.3
1981-82	7806	13608	-5802	16.3	8.4
1982-83	8803	14293	-5490	12.8	5.0
1983-84	9771	15831	-6060	11.0	10.8
1984-85	11744	17134	-5390	20.2	8.2
1985-86	10895	19658	-8763	-7.2	14.7
1986-87	12452	20096	-7644	14.3	2.2
1987-88	15674	22244	-6570	25.9	10.7
1988-89	20232	28235	-8003	29.1	26.9
1989-90(P)	27681	35416	-7735	36.8	25.4
1990-91	32553	43193	-10640	17.6	22.0
1991-92	44042	47851	-3809	35.3	10.8

Source : Economic Survey, 1992-93, Government of India.

P Provisional.

Table 2
INDEX NUMBERS OF FOREIGN TRADE
(Base:1978-79=100)

(Rs. Crore)

Year	Unit Value Index		Volume Index		Terms of Trade		
	Exports	Imports	Exports	Imports	Gross	Net	Income
1	2	3	4	5	6	7	8
1969-70	44.0	35.2	55.7	64.9	116.5	125.0	69.6
1970-71*	45.0	35.3	59.0	67.2	113.9	127.4	75.2
1971-72*	46.0	32.8	59.2	80.6	136.1	140.2	83.0
1972-73*	51.2	34.2	66.5	76.7	115.3	149.7	99.6
1973-74*	62.2	48.9	69.5	87.2	125.4	127.2	88.4
1974-75*	78.0	84.5	73.7	77.2	104.7	92.3	68.4
1975-76*	83.9	99.1	81.7	76.0	93.0	84.7	69.2
1976-77*	89.4	96.3	96.8	76.1	78.6	92.9	89.9
1977-78*	100.3	88.0	93.2	100.0	107.3	114.0	106.2
1978-79	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979-80	105.4	114.1	106.2	116.4	109.7	92.4	98.1
1980-81	108.5	134.2	108.1	137.9	127.6	80.8	87.3
1981-82	124.1	133.1	110.1	150.6	136.8	93.2	102.6
1982-83	132.0	136.3	116.7	154.6	132.4	96.8	113.0
1983-84	151.0	125.8	113.0	185.4	164.1	120.0	135.6
1984-85	169.8	161.7	120.8	156.1	129.2	105.0	126.8
1985-86	170.8	158.8	111.3	182.3	163.8	107.6	119.8
1986-87	179.4	139.4	121.3	212.3	175.0	128.6	156.0
1987-88	195.4	160.0	140.0	204.8	146.3	122.1	170.9
1988-89	232.2	185.5	152.1	224.2	147.4	125.2	190.4
1989-90	NA	NA	NA	NA	NA	NA	NA
1990-91	292.5	267.7	194.1	237.7	122.5	109.3	212.2

Source : Economic Survey, 1992-93, Government of India.

* Converted from the original base with the help of linking factors

N.A. Not Available

1. Gross Terms of Trade implies Volume Index of Imports expressed as a percentage of Volume Index of Exports.

2. Net Terms of Trade implies Unit Value Index of Exports expressed as a percentage of Unit Value Index of Imports

3. Income Terms of Trade implies product of Net Terms of Trade and Volume index of Exports expressed as a percentage.

Table 3
AVERAGE ANNUAL IMPORTS OF PRINCIPAL COMMODITIES IN
PLAN PERIODS

(Rs. Crores)

Items	1951-52 to 1955-56	1956-61 to 1960-61	1961-62 to 1965-66	1966-67 to 1968-69	1969-70 to 1973-74	1974-75 to 1979-80	1980-81 to 1984-85	1985-86 to 1989-90
1. Food grains	120	161	241	400	196	548	374	516
2. Machinery	116	265	472	518	484	1078	2515	6415
3. Mineral Oils	73	80	85	90	226	2063	5264	4498
4. Metals	54	131	172	185	309	647	1448	2450
5. Chemicals- drugs+medicines	34	53	55	126	113	254	660	1868
6. Fertilizers	-	-	28	121	96	439	698	1114
7. Pearls and Precious stones	-	-	-	-	-	244	730	2405

Source : Dutt R.C. and Sundaram, K.P.M., Indian Economy, (New Delhi: S. Chand and Company, 1991). Twenty-Ninth revd.edn., p.624.

Table 4

PRINCIPAL EXPORTS

(Rs. Crore)

Commodity	Year						
	1960-61	1970-71	1980-81	1985-86	1987-88	1988-89	1989-90*
1. Coffee	7	25	214	265	262	244	347
2. Tea & mate	124	148	426	626	601	609	917
3. Tobacco	16	55	141	170	135	126	175
4. Cashew Kernels	19	57	140	225	315	276	368
5. Spices	17	39	11	278	337	275	277
6. Fish & Fish Pre- parations	5	31	217	409	533	630	687
7. Meat & Meat Preparations	1	3	56	74	88	94	114
8. Iron Ore	17	117	303	579	554	673	928
9. Cotton Yarn	65	142	408	574	1145	1155	1507
10. Readymade garments	1	29	550	1067	1820	2102	3226
11. Jute	135	190	330	262	241	233	296
12. Leather	28	80	390	770	1250	1522	1950
13. Handicrafts	11	73	952	1881	3167	5103	6168
14. Machinery engineering	22	198	827	954	1480	2256	2143
15. Mineral fuels	7	13	28	655	657	518	740

* Figures for 1989-90 are provisional
Compiled from Economic Survey, 1992-93, Government of India.

TABLE 5
DIRECTION OF TRADE: SOURCE OF IMPORTS

		(Rs crore)										(Percentage share)									
		1960-61	1970-71	1980-81	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92	1960-61	1970-71	1981	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	OECD	87.5	104.2	57.40	105.17	123.80	100.59	202.24	233.10	259.39	78.0	63.8	45.7	53.6	55.7	56.9	57.1	54.0	54.2		
	of which																				
I	(a) EEC	41.7	32.0	26.19	52.34	74.00	90.05	117.36	126.80	129.66	37.1	19.6	21.0	26.6	33.3	31.9	31.1	27.4	29.2		
	of which																				
1.1	(i) Belgium	15	12	2.96	9.51	13.71	20.55	26.96	27.18	34.22	1.4	0.7	2.4	4.8	6.2	7.3	7.6	6.3	7.2		
1.1.1	(ii) France	21	21	2.80	5.83	7.98	8.06	16.12	13.04	15.16	1.9	1.3	2.2	3.0	3.6	2.9	4.6	3.0	3.2		
1.1.2	(iii) FRG	12.3	10.8	6.94	15.44	21.59	24.58	27.50	34.73	38.44	10.9	6.6	5.5	7.9	9.7	8.7	7.8	8.0	8.0		
1.1.4	(iv) Netherlands	11	19	2.15	2.96	4.43	5.36	5.49	7.91	6.89	0.9	1.2	1.7	1.5	2.0	1.9	1.6	1.8	1.4		
1.1.5	(v) UK	21.7	12.7	7.31	12.51	16.29	23.98	29.74	28.94	29.63	19.4	7.8	5.8	6.4	8.2	8.5	8.4	6.7	6.2		
1.2	(b) North America	34.7	57.0	18.51	25.15	23.00	36.68	47.13	58.04	56.78	31.0	34.9	14.7	12.8	10.3	13.0	13.1	13.4	11.7		
1.2.1	(i) Canada	20	11.7	3.32	4.51	2.99	4.28	4.54	5.59	6.90	1.8	7.2	2.6	2.3	1.3	1.5	1.1	1.1	1.4		
1.2.2	(ii) U.S.A	12.8	45.3	16.19	20.64	20.02	32.39	42.60	52.45	49.88	29.2	27.7	12.9	10.5	9.0	11.5	12.0	12.3	10.3		
1.3	(c) Asia and Oceania	8.0	12.7	9.32	22.57	26.80	13.87	37.75	48.26	49.88	7.1	7.4	7.4	11.5	12.0	12.0	10.7	11.1	10.4		
	of which																				
1.3.1	(i) Australia	1.8	3.7	1.70	4.42	5.03	7.07	8.87	14.64	14.45	1.6	2.2	1.4	2.2	2.3	2.5	2.5	3.4	3.0		
1.3.2	(ii) Japan	6.1	8.3	7.49	17.74	21.26	26.31	28.20	32.45	33.76	5.4	5.1	6.0	9.0	9.6	9.3	8.0	7.7	7.1		
II	OPEC	5.2	1.26	3.488	3.420	2.953	2.779	5.974	7.841	9.412	4.6	7.7	27.8	17.4	13.3	13.4	14.3	16.1	19.7		
	of which																				
II.1	(i) Iran	0	9.2	13.39	8.85	1.44	1.29	3.90	10.18	14.35	2.6	5.6	10.7	4.5	0.6	0.5	1.1	2.1	3.0		
II.2	(ii) Iraq	2	3	7.53	5.47	6.11	1.94	4.61	4.96	6	0.2	0.2	6.0	2.8	2.7	0.7	1.3	1.1	0.0		
II.3	(iii) Kuwait	0	0	3.38	3.40	4.72	5.21	11.60	1.53	7.51	0.0	0.3	2.7	1.7	2.1	1.8	3.3	0.6	1.6		
II.4	(iv) Saudi Arabia	1.4	2.4	5.40	7.94	7.65	18.93	14.48	1.77	15.56	1.3	1.5	4.3	4.0	3.4	6.7	4.1	6.7	7.4		
III	Eastern Europe	3.8	2.20	12.96	21.69	21.24	19.47	19.90	33.77	24.44	3.4	13.5	10.3	11.0	9.6	6.9	8.4	7.8	5.1		
	of which																				
III.1	(i) GDR	3	1.9	4.4	8.5	9.3	13.3	1.97	**	**	0.3	1.1	0.4	0.4	0.4	0.5	0.6	**	**		
III.2	(ii) Romania	5	1.7	9.7	14.4	5.8	7.7	10.6	5.0	6.2	0.4	1.0	0.8	0.7	0.3	0.3	0.3	0.1	0.1		
III.3	(iii) U.S.S.R	1.6	10.6	10.14	16.78	16.08	12.58	20.38	25.48	17.96	1.4	6.5	8.1	8.5	7.2	4.5	5.8	5.9	3.8		
IV	Developing Countries*	1.32	2.39	1.966	3.466	3.800	5.260	6.031	7.968	7.427	11.8	14.6	15.7	17.6	17.1	18.6	17.0	18.4	15.5		
	of which																				
IV.1	(i) Africa	0.3	1.69	2.05	5.93	6.26	9.39	8.57	9.90	1.961	5.6	10.4	1.6	3.0	2.8	3.3	2.4	2.2	4.1		
IV.2	(ii) Asia	0.4	0.4	1.431	2.344	2.680	3.737	4.452	6.033	4.595	5.7	3.3	11.4	11.9	12.0	13.2	12.6	14.0	9.6		
IV.3	(iii) Latin America and Caribbean	0.5	1.6	3.13	5.29	4.94	5.84	7.23	9.74	8.72	0.4	1.0	2.5	2.7	2.2	2.1	2.0	2.3	1.8		
V	Others	2.5	8	6.0	7.5	9.85	11.90	10.97	15.00	24.20	2.2	0.5	0.5	0.4	4.4	4.2	3.1	3.5	5.5		
VI	TOTAL	112.2	163.4	125.40	196.88	221.44	202.35	384.16	431.93	478.81	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

SOURCE : Economic Survey, 1992-93, Government of India

* Including members of OPEC

@ Figures for unified Germany

** Included under FRG with the unification of Germany

TABLE 6
DIRECTION OF TRADE : EXPORTS

		(Rs. crore)										Percentage share							
		1960-61	1970-71	1980-81	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92	1960-61	1970-71	1980-81	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	OECD of which	425	769	3126	5532	8839	11381	14743	17428	28482	66.1	50.1	46.6	50.8	56.4	55.9	53.3	51.5	57.9
I.1	(a) EEC of which	232	282	1447	1929	3934	4926	8906	8951	11899	36.2	18.4	21.6	17.7	25.1	24.3	24.9	5	27.0
I.1.1	(i) Belgium	5	20	145	225	485	885	1209	1259	1644	0.8	1.3	2.2	2.1	3.1	4.4	4.4	3.9	3.2
I.1.2	(ii) France	9	18	147	203	379	427	638	766	1049	1.4	1.2	2.2	1.9	2.4	2.1	2.3	2.4	2.4
I.1.3	(iii) F.R.G.	20	32	385	513	1059	1236	1778	2549	3131	3.1	2.1	5.7	4.7	6.8	6.1	6.4	7.8	7.1
I.1.4	(iv) Netherlands	9	14	152	158	279	402	530	644	919	1.3	0.9	2.3	1.5	1.8	2.0	1.9	1.0	2.1
I.1.5	(v) U.K.	173	170	395	524	1015	1153	1602	2128	2806	26.9	11.1	5.9	4.8	6.5	5.7	5.8	6.5	6.4
I.2	(b) North America	120	235	806	2106	3086	3925	4739	5077	7666	18.7	15.3	12.0	19.3	19.7	19.4	17.1	15.6	17.4
I.2.1	(i) Canada	18	28	62	132	166	197	254	281	465	2.7	1.8	0.9	1.2	1.1	1.0	1.0	0.9	1.1
I.2.2	(ii) U.S.A.	103	207	743	1974	2920	3728	4474	4797	7201	16.0	13.5	11.1	18.1	18.6	18.4	16.2	14.7	16.4
I.3	(c) Asia and Oceania of which	65	234	708	1304	1819	2450	3099	3401	4630	10.1	15.2	10.6	12.0	11.6	12.1	11.2	10.4	10.5
I.3.1	(i) Australia	22	25	92	123	180	265	335	321	499	3.5	1.6	1.4	1.1	1.1	1.3	1.2	1.0	1.1
I.3.2	(ii) Japan	35	204	598	1164	1614	2154	2727	3079	4071	2.5	13.3	8.9	10.7	10.3	10.7	9.9	9.3	9.2
II.	OPEC of which	26	99	748	838	962	1193	1841	1838	3850	4.1	6.4	11.1	7.7	6.1	5.9	6.6	5.6	8.7
II.1	(i) Iran	5	27	123	95	139	89	132	180	302	0.8	1.7	1.8	0.9	0.9	0.4	0.5	0.4	0.7
II.2	(ii) Iraq	3	10	52	34	18	53	126	44	0	0.5	0.6	0.8	0.3	0.1	0.1	0.5	0.1	0.0
II.3	(iii) Kuwait	3	16	97	121	106	144	198	74	129	0.5	1.0	1.4	1.1	0.7	0.7	0.7	0.2	0.3
II.4	(iv) Saudi Arabia	3	15	165	221	278	324	429	419	866	0.5	0.9	2.5	2.0	1.8	1.6	1.5	1.3	2.0
III.	Eastern Europe of which:	48	323	1486	2294	2594	3356	5336	5819	4814	7.0	21.0	22.1	21.1	16.6	16.6	19.3	17.9	10.9
III.1	(i) G.D.R.	3	25	49	95	112	183	216	**	**	0.5	1.6	0.7	0.9	0.7	0.9	0.8	**	**
III.2	(ii) Romania	1	14	58	98	61	38	123	96	31	0.2	0.9	0.9	0.9	0.4	0.2	0.4	0.3	0.1
III.3	(iii) U.S.S.R.	29	210	1226	2006	1963	2609	4463	5255	4043	4.5	13.7	18.3	18.4	12.5	12.9	16.1	16.1	9.2
IV.	Developing Countries* of which:	98	308	1286	1463	2284	3318	4246	5468	7101	14.8	19.8	19.2	13.4	14.1	16.4	15.3	16.8	16.1
IV.1	(i) Africa	40	129	350	289	304	384	521	668	958	6.3	8.4	5.2	2.7	1.9	1.9	1.9	2.1	1.2
IV.2	(ii) Asia	45	166	900	1156	1866	2821	3634	4663	5872	6.9	10.2	13.4	10.6	11.9	13.9	13.1	14.3	13.4
IV.3	(iii) Latin America and Caribbean	10	10	36	18	33	110	93	132	251	1.6	0.7	0.5	0.2	0.2	0.5	0.3	0.4	0.6
V.	Others	51	40	68	771	1076	1068	1515	2010	2795	8.0	2.6	1.0	7.1	6.9	5.3	5.5	6.2	6.3
VI.	TOTAL	642	1538	6711	10898	15674	20232	27681	32553	44042	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Economic Survey, 1992-93, Government of India

* Excluding members of OPEC

⊙ Figures for united Germany

** Included under FRG with the unification of Germany

Table 7

COUNTRYWISE TRADE (IMPORTS + EXPORTS)

(Rs. Crore)

	US Trade	USSR	Germany	Japan	UK	OPEC	Total Trade	GNP ²	percent of Trade to GNP
1960-61	431(24.4)	45(2.25)	143(8.11)	96(5.44)	390(22.11)	78(4.42)	1764	15182	11.62
1970-71	660(20.83)	316(9.97)	140(4.42)	287(9.06)	297(9.37)	225(7.1)	3169	39424	8.09
1980-81	2362(12.26)	2240(11.63)	1079(5.6)	1347(9.62)	1775(5.81)	4255(13.93)	19260	122772	15.69
1985-86	4038(13.22)	3684(12.06)	2057(6.73)	2938(9.62)	1775(5.81)	4255(13.93)	30553	232370	13.15
1987-88	4922(12.98)	3571(9.42)	3218(8.49)	3740(9.86)	2844(7.5)	3913(10.33)	37918	292232	12.98
1988-89	6927(14.29)	3867(7.98)	3894(7.62)	4785(9.87)	3551(7.33)	4972(10.26)	48467	349021	13.89
1989-90	8734(13.84)	6501(10.30)	4528(7.18)	5540(8.79)	4576(7.25)	6915(10.96)	63097	400096	15.77

Compiled and calculated from Economic Survey, 1992-93, Government of India.

1. Figures in brackets are percentages of total trade.

2. At current prices.

Table 8
AID AUTHORISATION AND UTILISATION

(Rs. Crore)

	Aid Authorised	Aid Utilised	Percentage Utilisation
Upto the end of Fourth Plan	13,056	11,922	91.3
1974-75 to 1979-80	11,703	8,613	73.6
Sixth Plan (1980-85)	16,407	10,903	66.5
Seventh Plan (1985-86 to 1989-90)	44,971	22,700	50.5
1990-91 to 1991-92	20,831	18,319	87.9
Total	1,06,968	72,457	67.7

Source : Compiled from Economic Survey (1992-93)

Table 9

PURPOSE WISE UTILISATION OF LOANS DURING
THE SIXTH AND THE SEVENTH PLAN

Purpose	Sixth Plan		Seventh Plan	
	1980-85 Rs. Crores	%	(1985-86 to 1989-90) Rs. Crores	%
1. Transport & Communications	702	8.2	2,442	12.0
2. Power Projects	1,684	19.7	4,781	23.5
3. Steel & Steel projects	192	2.2	168	0.8
4. Industrial Development	2,312	27.0	4,871	23.9
5. Agricultural Development	3,110	36.3	4,195	20.6
6. Oil & Petroleum products	18	0.2	807	4.0
7. Miscellaneous	546	6.4	3,083	15.2
Total.	8,564	100.0	20,347	100.0

Source : Datt, R.C. and Sundaram, K.P.M, Indian Economy, (New Delhi: S. Chand & Company, 1994) Thirty-First revd. edn., p. 282.

Table 10

UTILISATION OF EXTERNAL ASSISTANCE (1951-52 TO 1990-91)

(Rs. Crores)

	Up the end of the 4th Plan	Fifth Plan (1974-78)	1978-79 and 1979-80	Sixth Plan (1980-81 to 1984-85)	Seventh Plan (1985-86 to 1989-90)	1990-91 and 1991-92
1. Consortium Members	10,918 (92)	4,469 (74)	2,281 (89)	9,893 (91)	20,352 (90)	15,698 (86)
2. USSR and East European Countries	869 (7)	349 (6)	57 (2)	278 (2)	1,018 (4)	450 (2)
3. Others	135 (1)	1,226 (20)	231 (9)	732 (7)	1,330 (6)	2,171 (12)
4. Grand Total	11,922 (100)	6,044 (100)	2,569 (100)	10,903 (100)	22,700 (100)	18,319 (100)
PRINCIPAL AID GIVERS						
U.S.A	5,321 (45)	292 (5)	64 (3)	309 (3)	423 (2)	155 (1)
U.K.	1,034 (9)	568 (9)	422 (16)	869 (8)	806 (4)	579 (3)
W. GERMANY	909 (8)	470 (8)	251 (10)	650 (6)	1226 (5)	1264 (7)
USSR	703 (6)	228 (4)	56 (2)	278 (3)	984 (4)	432 (2)
JAPAN	539 (5)	391 (7)	162 (6)	462 (4)	2,069 (9)	2864 (16)
IBRD	1,786 (15)	1,786 (30)	270 (11)	1,632 (15)	7,758 (34)	5,479 (30)
IDA		1,786 (30)	716 (28)	4,180 (38)	5,444 (24)	3,936 (21)
ADR				538 (5)	234 (1.0)	1,733 (10)

Source : Datt, R.C. and Sundharam, K.P.M., Indian Economy.
(New Delhi: S.Chand and Company, 1994), Third-First
revd. edn., p. 298.

Note: Figures in brackets are percentages of total.

1. Consortium members include Austria, Belgium, Canada, Denmark, France, West Germany Italy, Japan, Netherlands, Sweden, U.K., USA, IBRD, and IDA.
2. USSR and East European countries include Bulgaria, Czechoslovakia, Hungary, Poland, USSR and Yugoslavia.

3. Others include Australia, New Zealand, Spain, Switzerland, Iraq, European Economic Community, OPEC Fund, Asian Development Bank, etc.

Table 11
FOREIGN INVESTMENT IN INDIA - APPROVALS (1981-89)
(MAJOR COUNTRY INVESTMENT)

(Rs. Million)

No. of Collaboration proposals approved, (Figures in Brackets are Financial Participation Cases).											
	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total	Total Colla- boration
1. United Kingdom	7.12	16.54	98.02	18.13	37.06	77.15	84.51	139.08	334.61	812.22	1029 (196)
2. United States	22.48	50.33	138.92	89.50	399.25	293.70	295.15	971.37	621.55	2882.25	1377 (406)
3. Federal Republic of Germany	54.17	35.35	48.42	28.45	118.08	201.57	98.69	309.99	1203.29	2098.01	1250 (274)
4. Japan	6.45	251.12	160.77	61.52	156.76	56.16	69.06	174.26	87.80	1023.90	662 (93)
5. France	6.20	25.80	7.95	12.18	23.55	20.48	53.54	117.80	84.57	352.07	338 (61)
6. Italy	0.40	25.80	7.95	7.70	69.48	23.30	29.71	278.67	67.04	529.69	376 (73)
7. Canada	0.60	0.00	3.56	3.50	24.70	13.80	6.70	2.60	11.70	67.16	72 (27)
8. Netherlands	0.84	0.00	26.86	0.00	4.00	72.66	10.6	10.53	23.05	148.00	142 (31)
9. Sweden	0.00	15.31	8.00	14.22	8.07	47.51	10.92	8.40	41.69	154.12	161 (35)
10. Switzerland	6.48	11.81	11.29	4.40	8.44	32.53	88.53	27.37	77.42	268.27	311 (65)
11. USSR	0.00	0.00	0.00	0.00	0.00	0.00	2.96	4.40	95.80	103.16	40 (8)
12. NRI	1.35	111.41	65.10	146.40	194.4	79.04	207.74	167.99	211.78	1181.21	224 (171)
Total (Plus other countries)	108.71	628.06	618.73	1130.00	1260.66	1069.52	1077.05	2397.57	3166.65	11456.21	6769(1645)

ABSTRACT

(Rs. Crores)

Total Foreign Investment Approved	
1981 to 1989	1145.679
of which	
USA	288.225
FRG	209.801
Japan	102.390
UK	81.222
NRI	118.121

Source: IIC, New Delhi.

Reproduced from UNI Backgrounder (New Delhi), May 3, 1990, p.7.

Table 12

MAIN AREAS OF FOREIGN COLLABORATION APPROVALS
DURING THE PERIOD 1985 TO 1990.

(Nos.)

Industry	1985	1986	1987	1988	1989	1990
1. Electrical Equipment	205	175	183	183	99	88
2. Industrial Machinery	152	108	132	141	59	75
3. Chemicals (other than fertilizers)	69	107	84	96	66	66
4. Ceramics	27	20	18	20	18	88
5. Industrial Investments	52	20	47	43	33	38
6. Machine Tools	32	13	10	21	9	24
7. Metallurgical Industries	53	45	29	21	30	26
8. Telecommunication	36	37	16	*	37	69
Total of 1 to 8	626	525	519	531	353	474
9. Other Industries	398	432	334	395	252	192
Grand Total	1024	957	853	926	605	666
% of Industries 1-8 in Total Collaboration	61.1	54.9	60.8	57.3	58.3	71.2

Source : India Investment Centre, New Delhi.

* Included in other industries.

Table 13

EXTERNAL DEBT PROFILE OF INDIA

(Rs. Crore)

Year	Total External Debt (\$ million)	Debt/GNP ratio	Debt Service*
1984	33,857	17.5	18.2
1985	40,886	19.2	22.4
1986	48,351	21.2	30.0
1987	55,325	21.6	30.3
1988	57,513	22.3	29.2

Source: World Bank, World Debt Tables, 1989-90.

* Debt service ratio as a percentage of current receipts (exports+invisibles)

Table 14

EXTERNAL DEBT SERVICING

(Rs. Crores)

	Amortisation		Interest Payments		Total Debt Servicing	
	Amount	%	Amount	%	Amount	%
First Three Plans	371	54	315	46	686	100
Annual Plans	607	62	376	38	983	100
Fourth Plan	1,584	65	861	35	2,445	100
Fifth Plan 1974-75 to 1977-78	1,943	67	946	33	2,889	100
1978-79 to 1984-85	3,834	58	2,472	39	6,406	100
1985-86 to 1989-90	17,089	58	12,099	42	29,188	100

Source : Datt, R.C. and Sundharam, K.P.M. *Indian Economy* (New Delhi: S. Chand and Company, 1994), Thirty-First revd. edn., p.302.

1. Data upto 1974-75 include debt-servicing payments on account of Government loans, non-government loans and suppliers' credit. 1975-1976 onwards the same is exclusive of suppliers' credit.

Table 15

CURRENT ACCOUNT DEFICIT IN BOP AS PERCENTAGE OF GDP

	(1) Current account deficit in BoP (net Rs.Cr)	(2) GDP factor Cost At Current Prices (Rs.Cr)	(1) as % of (2)
1985-86	5,927	2,33,799	2.54
1986-87	5,830	2,60,030	2.24
1987-88	6,293	2,94,851	2.13
1988-89	11,580	3,53,517	3.28
1989-90	11,382	4,05,827	2.8

Source: Economic Survey, 1992-93, Government of India.

Table 18

EXTERNAL ASSISTANCE

(Rs. Hundred Crore)

	1985- 1986	1986- 1988	1987- 1988	1988- 1989	1989- 1990	1990- 1991	1991- 1992
1	2	3	4	5	6	7	8
1 Authorisations	56.50	61.60	92.65	130.70	108.26	82.23	127.07
2 Gross disburse- ments	29.36	36.05	50.52	53.04	58.02	67.04	116.15
3 Debt service payment s	13.67	20.29	26.24	29.46	36.86	42.82	66.56
(a) Amortisation	7.76	11.76	15.81	16.46	19.87	23.29	36.50
(b) Interest payments	5.91	8.53	10.43	13.00	16.99	19.53	30.06
4 Net capital inflow (2-3a)	21.60	24.29	34.71	36.58	38.15	43.75	79.65
5 Net capital transfer (2-3)	15.69	15.76	24.28	23.58	21.16	24.22	49.49

Source : Economic Survey, 1992-93, Government of India

1. The Data include Government and non-Government loans and grants (including food assistance but excluding other commodity grant assistance). These figures do not include suppliers' credits, commercial borrowings and IMF credits other than Trust Fund Loan.

Table 17

EXTERNAL COMMERCIAL BORROWINGS*

(Rs. hundred crore)

	1985- 1986	1986- 1987	1987- 1988	1988- 1989	1989- 1990	1990- 1991	1991- 1992
1	2	3	4	5	6	7	8
1 Authorisations	17.00	13.96	26.54	43.14	54.79	34.14	52.76
2 Gross disbursements	17.99	24.74	22.52	40.69	41.96	30.50	27.14
3 Debt service payments	11.75	15.65	17.36	22.24	30.41	40.06	53.93
(a) Amortisation	5.65	7.96	8.71	11.03	14.55	21.37	28.98
(b) Interest payments	6.10	7.69	8.65	11.21	15.86	18.69	24.95
4 Net capital inflow (2-3a)	12.34	16.78	13.81	29.66	27.41	9.13	-1.84
5 Net transfer(2-3)	6.25	9.09	5.16	18.45	11.55	-9.56	-26.79

Source : Economic Survey, 1992-93, Government of India.

* Excludes borrowings upto 1 year maturity. External commercial borrowings includes loans from commercial banks and other financial institutions, bonds and FRNs, suppliers' credit, buyer credits and credits from export credit agencies of concerned governments, IFC (W), private sector borrowings from ADB, etc.

CHAPTER III

FOREIGN POLICY OF INDIA : CONTINUITY AND CHANGE

Any country's foreign policy represents a continuous dialogue between the forces of continuity and change. As Atal Behari Vajpayee remarked in 1977, "There is continuity also and there is change also. Continuity is more pronounced; the change is more subtle."¹

However, there are exceptions to the rule. When change is prompted by obvious national interests, backed by public opinion and desired by the governing elite, it can be pronounced, even publicized.

The study attempts to analyze the continuity and change in the foreign policy of India in the context of objectives of India's foreign policy, the forces that determine the relative weights of these objectives and India's pursuit of these objectives. India has had two sets of policy objectives to work for in world affairs, from the very beginning.

One set has an international orientation and addresses itself to the common concerns of the world from a third world perspective. It is here that the Non Aligned Movement provided India with a useful external base from which to operate in world affairs.

1. M.G. Gupta, *Rajiv Gandhi's Foreign Policy: A Study in Continuity and Change* (Agra: MG Publishers, 1987), p.1.

India's nationally accepted objectives thus included disarmament, world peace, creation of more peace zones, elimination of racism, colonialism, imperialism and adventurism; ensuring peaceful settlement of international disputes, strengthening the Non-aligned Movement, reinforcing Commonwealth ties, support to United Nations and achieving a New International Economic Order based on balanced development of world economy, through North-South dialogue and South-South cooperation.²

The pursuit of these objectives required the attainment of sufficient international status which alone could give India necessary leverage and credibility with others.³ For this, India had to pursue another set of objectives.

This set of objectives, the more important one that directly concerns India, is guided by immediate national interest and is determined by the exigencies of the time. By and large, Economic Development and Defence have been the two pivotal areas around which these objectives have revolved.

It must be noted here that India's foreign policy was constantly reacting to and was influenced by the changing

2. Ibid, pp.2-3.

3. Radharaman Chakrabarti, *The Political Economy of India's Foreign Policy* (New Delhi : K.P. Bagchi and Company, 1982), p.14.

configuration of powers in the region. The course of Indian foreign policy was constantly reacting to and was influenced by the changing configuration of powers in the region. The course of Indian foreign policy was chiefly determined by the convergence and divergence of interests between the five states, namely, The United States, the Soviet Union, China, Pakistan and India.

Therefore, the relative weight to be assigned to each set and component thereof is determined by both internal and external factors.

The internal factors include the country's political economic and security situation, the availability of resources at India's disposal to translate foreign policy concerns into action and the governing elite perception of the urgency of each objective in relation to others. The external factors could include the nature of the international system, changing world scenario and changing regional balances.

It must be noted that foreign policy has been one area on which there has been a large measure of consensus among India's governing elite. They do however differ in regard to the relevant operational accents and nuances of Indian foreign policy with reference to specific issue-areas. The point is that despite their differences in emphasis, they have not rejected the basic assumptions behind the policy of non-alignment, which is seen as the extension of national

independence onto the international sphere.⁴

Therefore, the concept of nonalignment is entrenched in Indian foreign policy. Foreign policy shifts do not involve deviation from nonalignment per se. The shifts take place within the framework of nonalignment, as interpreted by the government of the time. If the Janata government wanted it to represent equidistance (from the superpowers), Indira Gandhi interpreted it as 'freedom to choose our friends in the national interest'. Foreign policy shifts are seen by opponents as attempts to compromise nonalignment. India's time tested basis of foreign policy. Particular interpretations of nonalignment were dictated by national interests more than anything else.

Another point worthy of note is that public interest in Indian foreign policy is significant, to say the least, because of fear of, and potential threats from, two hostile neighbours, Pakistan and China, and Nehru's policy of taking major foreign policy issues to the public. Hence public opinion is a force to reckon with in determining the course of Indian foreign policy.

The Early years of the Nehru Era

Until the Chinese aggression of 1962, security concerns did not predominate Indian foreign policy. Developmental

4. Shivaji Ganguly, "Continuity and Change in India's Foreign Policy", *India Quarterly* (New Delhi), vol.34, no.1, January-March 1978, p.72.

aspirations were given impetus and the principal focus was on retaining independence as regards the conduct of foreign policy while at the same time getting as much economic help from as many sources as possible. Nehru's policy of non-alignment, which actually meant, a policy of being aligned to every nation of the world in friendship on a basis of equality and for mutual benefits,⁵ brought this goal within the realm of the possible.

Nehru was internationally oriented in his political vision. He wanted India to matter in world affairs and took pride in the belief that India did matter. He pointed out that 'we might be poor, weak, good or bad but India counts'. Our size, situation, status, plus the circumstances of the world we lived in, as well as our own fitful efforts, have all enabled India to count in the international world.⁶ India had to take part in international politics with its own policy and not merely as a satellite of another nation.⁷

India's international standing was highest in the 1950s because of her strong adherence to the principles of non-alignment, She fearlessly followed non-aligned principles in -----

5. K.B. Lall, "Nehru and International Economic Cooperation" in B.R. Nanda, ed., **Indian Foreign Policy, Nehru Years** (New Delhi: Vikas, 1976), p.187.

6. K. Shankar Bajpai, "We and the World" in Verinder Grover ed., **International Relations and Foreign Policy of India**, vol.1, (New Delhi: Deep and Deep Publications, 1992), p.509.

7. Quoted in Chakrabarti, n.3, p.16.

urging recognition of China (1950), played a sagacious role during and after the Korean war (1951-53) at the Indo-China Geneva conference (1954), during the Suez crisis (1956) and in Lebanon (1958). India was looked upon as a leader of the developing countries in Bandung (1955) and Belgrade (1961) and was the obvious choice for the biggest UN Peace keeping Force in Congo (1960).⁸

The context of the cold war permitted India, due to its non-aligned stance, to play a disproportionately larger role than its actual capabilities. Moreover, India's non-alignment, simultaneously handled critics from both blocks. On the one hand, non-alignment was a logical extension of India's nationalism on to the international sphere and, on the other, it was an effective weapon to exercise freedom of action in international politics.⁹

The Chinese aggression and after

The Chinese Aggression of 1962 took India unawares, thoroughly exposed her vulnerabilities and shattered her illusions about her power status. Defence was top priority since then and security concerns influenced her international economic relations as well. The US provided prompt

8. Jagat S. Mehta, "Forty Years of Foreign Policy" in Grover ed., n.6, p. 515.

9. Rajen Harshe, "India's Non-Alignment: An Attempt at a Conceptual Reconstruction", *Economic and Political Weekly* (New Delhi), vol.25, no.7, February 17-24, 1990, p.400.

military assistance to India in 1962 and India was ready to receive Western military aid. This did not require a formal renunciation by India of her policy of non-alignment though great tempo was noticed in public debates concerning the pros and cons of such a policy. All that it entailed was the acceptance of a more forward looking perspective for the future application of non-alignment.¹⁰

The years following the Chinese aggression upto 1971, witnessed important changes in the configuration of powers in the region owing to a widening of the Sino-Soviet rift and a steady growth in Sino-Pakistan friendship. India's disillusionment with the US due to its unreliability and unpredictability added another dimension to the changing configuration.

During the 60's India was perturbed by the Soviet Union's overtures to Pakistan (as also the neutrality of the Soviets during the Indo-Pakistan War of 1965 and at the Tashkent Summit of '66 which restored peace) but curbed extravagant reactions to the disturbing Soviet moves. By 1969, as the Soviet Union had gained very little leverage in Pakistan against China, it decided to safeguard its position

10. Chakrabarti, n.3, p.39.

in India.¹¹

The equations between the five powers stabilized by the end of the 60's and culminated in the signing of a twenty-year Treaty of Friendship and Cooperation between India and the Soviet Union in 1971, to counterbalance the US-China-Pakistan nexus brought about by the dramatic Sino-US rapprochement.

The Indo-Soviet Friendship Treaty of 1971

The treaty had two noteworthy features. First, it could not be described as a military alliance, since there were no provisions which explicitly provided for automatic assistance by one party to another in case of aggression by a third country. Second, the USSR upheld India's policy of nonalignment and reaffirmed that such a policy constituted an important factor in maintaining universal peace and international security.¹²

To a considerable extent, the treaty proved to be a sufficient guarantee to ward off threats to India's security emanating from the US military presence in the Indian ocean. It thus pitted India in a straight contest against Pakistan.

Though the treaty was signed between two unequal part-

11. Surjit Mansingh, *India's Search for Power: Indira Gandhi's Foreign Policy, 1966-1982* (New Delhi: Sage Publications, 1984), pp.138-39.

12. Harshe, n.9, p.402.

ners, the inequality in power relations did not pave the way towards the conventional 'dominant-dependent' syndrome that is common in the relationship between advanced industrial countries and developing countries of the Third World. India due to her large size, unlike most small Afro-Asian states, always had the potential to exercise a measure of autonomy in foreign affairs.¹³

For instance, prior to the Indo-Soviet Treaty, India had refrained from signing the Brezhnev Doctrine of collective security for Asia which was primarily aimed at minimizing the Chinese presence in the region. The Indian stand was reiterated by Indira Gandhi during Brezhnev's visit to India in 1973.¹⁴

Indira Gandhi's First Term ; Concentration on the Region

The dependence on food aid (PL-480), the humiliation of the short-tether policy of Johnson, the devaluation of the rupee in 1966 due to external pressure etc., created a longing in the Indian mind for independence and power and the age of realpolitik in India had arrived emphatically.

Indira Gandhi's recognition of power as a crucial determinant in international relations was her main contri-

13. Ibid.

14. Mansingh, n.11, pp.149-50.

bution to India's foreign policy.¹⁵ Her government acquired the military and economic sinews of modernization often equated with power. The attempt to strengthen India's sinews was a response to popular demand. There was public pressure within India to demonstrate potency and this influenced Indira Gandhi. Two outstanding examples of public pressure are her policies on Bangladesh (the creation of Bangladesh) and the implosion of a nuclear device at Pokhran, for peaceful purposes.¹⁶

The fall-out of the 1971 Indo-Pak War

The Indo-Soviet Treaty of Friendship of 1971 stood India in good stead during the 1971 Indo-Pak War. Firstly, it served an important purpose when the Soviets vetoed all the resolutions which called for immediate cease-fire at the Security Council of the United Nations.¹⁷ Secondly, it established India's status in the region emphatically and following the war, even the US recognized India's regional power status (and South Asian neighbours condemned India's hegemony in the region) but the US had no place for India in its global scheme. There was external opposition, or at least, lack of external encouragement to the idea of a powerful

15. Nehru had earlier made it a point to preach to the world the wisdom of eschewing power politics.

16. Mansingh, n.11, pp.32-35.

17. Harshe, n.9, p.402.

India.¹⁸

The mutuality of interests between India and the Soviet Union resulted in the highlighting of convergences between the two countries as regards foreign policy and the glossing over of divergences.

Already, during the 60's the Soviet Union had gained the reputation of being a rescuer and friend in need, because of the discomfiture caused by America's hesitation to aid Indian heavy industry and defence production. The 1971 War only reinforced the image of the Soviet Union as a reliable friend and ally in the Indian mind. Therefore, no major damage was done to the government's domestic standing when India was soft in its criticism of some Soviet policies on which the two countries disagreed.

Friendship with the Soviet Union, suspicion of the US and commitment to non-alignment evolved as the basis of Indian foreign policy. These perspectives have a strong resonance in the popular Indian mind.¹⁹

Differences with the US on the Nuclear Issue

India openly challenged the US prescriptions for the world order by refusing to sign the Nuclear Non-Prolifera-

18. Mansingh, n.11, p.33.

19. K.N.Harikumar, "Trading Non-Alignment for High-Tech?:Rajiv's Second US visit", *Economic and Political Weekly*, vol.23, no.17, 23 April 1988, p.853.

tion Treaty of '68 on the grounds that it was discriminatory and by successfully conducting a nuclear implosion (for peaceful purposes) at Pokharan in 1974. America exerted pressure on India after 1975 by delaying, restricting and denying consignments of fuel for the Tarapur Atomic Power Station (TAPS). The US exacted a high economic cost from India for these delays, because TAPS ran below capacity and the Power Reactor Fuel Reprocessing Plant at Tarapur was forced to lie idle. But India did not amend its stand on the Tarapur Agreement (of 1968). A mutually acceptable solution was eventually worked out in 1982.²⁰

The Soviet Union did not condemn the explosion at Pokharan despite its earlier pressures on India to sign the NPT. As Bhabani Sengupta pointed out, both preferred not to rupture their overall relationship over any one issue.²¹

Indira Gandhi's first term as Prime Minister was marked by turbulence in Indo-US relations. Relations between India and the United States plummeted after the 1971 war and differences were manifested in umpteen ways. For instance, the US opposition to the IDA loan to India in 1972 for the purchase of oil tankers, was the first time the US had voted against a loan to India which was supported by every other member of the IBRD.²²

20. Mansingh, n.11, p.103.

21. Quoted in Ibid., p.138.

22. Ibid., p.91.

Again, India vehemently protested against the Diego Garcia base in the Indian ocean, even more so with the participation of the Pakistan Navy in American sponsored naval exercises in the Indian Ocean during 1974.²³

The US was critical of the declaration of internal emergency in 1975. The Soviet Union was supportive throughout Indira Gandhi's tenure, ignored her when she was out of power and befriended her again when she returned to power in 1980.

It must be noted here that tangible power alone is not an adequate basis for interstate relations. The challenges faced by India demand a fusion of clear moral purpose with the physical dimensions of power.

The fundamental dilemma of power facing India has been: how to be strong enough to prevent encroachment on national interests by outside powers and yet avoid intimidating small neighbouring states.²⁴ Each government has tried in its own way to resolve this dilemma, but none has been fully successful.

The remarkable thing about Indira Gandhi's foreign policy was that it enjoyed a strong national consensus although in the early 80's a growing number of intellectuals

23. Ibid., p.93.

24. Ibid., p.33.

pushed an alternative neighbourhood policy based on equality and cooperation of regional partners.²⁵

The Janata period: Some observations

The election to power of new governments in the US (headed by Carter) and in India (headed by Morarji Desai) and the Janata Government's campaign promise of 'genuine non-alignment' (and also the promotion of a good neighbourly policy) raised hopes but there were no major changes in foreign policy for, as one analyst put it, "feasibility of changes in external relations - say, in the context of normal political change - is not only dependent on the continuing saliency of the basic determinants of a country's foreign policy but also on the organisational process that operationalizes the same. These remarks tend to highlight the limits within which the Janata Government has been conducting India's foreign policy. To the extent there are new players and newly emergent issue-areas, much may happen in India's foreign policy, but little is likely to change."²⁶

The early 1980's

'Foreign Economic Policy' became extremely important in the early 80's. India relied on multilateral assistance

25. Bhabani Sengupta, "At Ease with the World" in Grover ed., n.6, p.530.

26. Ganguly, n.4, p.73.

rather than bilateral ties with the US to overcome balance of payments difficulties since the mid 1970's.

Throughout the 80s, the governments of India and the US have disagreed about India's need for balance of payments financing and multilateral aid.²⁷ The assumption of power by Ronald Reagan as President of the United States in January, 1981 led to a new gulf in economic theory between the two countries.

The Reagan administration was skeptical of multilateral aid and preferred bilateral aid because it appeared to give the US more flexibility and control in channeling aid to particular countries. The free market was stressed as the best cure for the poverty of developing nations. Consequently, the US reduced funding for the Seventh IDA replenishment and India, as the largest recipient of IDA credits had to bear the brunt of the policy changes.²⁸

As one analyst observed, the administration's preference for bilateral security aid over multilateral development aid automatically favoured some countries such as Pakistan, Israel and El Salvador which are allies of the US

27. Sarbjit Johal, "India's Search for Capital Abroad: The US Relationship", *Asian Survey* (Berkeley, CA.,) vol.29, no.10. October 1989, p.971.

28. *Ibid.*, p.273.

to the disadvantage of other countries such as India.²⁹

India's preferred sources of funding were, in order, grants concessional aid, soft 'blends', of concessional aid and near-market World Bank loans, hard 'blends', World Bank loans and commercial borrowing. However, reduced concessional aid and a hardening of multilateral aid terms, prompted the government to develop a new policy. In keeping with this policy, first, the government strongly pressed for continued concessional aid in multilateral and bilateral forums and second, it increased World Bank borrowing for specific sectors - for example, energy, where foreign exchange could be saved. Finally, it decided to tap new sources of development funds such as the ADB.³⁰

India reversed its earlier decision, taken in 66 not to tap small ADB funds in 1981 when it announced its intention to borrow from the ADB. Despite US opposition, India won agreement in principle to borrow from the ADB. India received its first loan in 1986, the year in which China became a member of ADB.³¹

Liberalisation of the Economy and betterment of Indo-US Relations

29. Gary Wasserman, "The Foreign Aid Dilemma", *Washington Quarterly*, vol.6, no.1, Winter 1983, p.214.

30. Johal, n.27, p.978.

31. *Ibid.*, pp.980-81.

Notwithstanding the conflict of theory and ensuing disputes in multilateral lending agencies, the year 1982 witnessed the beginning of a reversal in India's image in the US as well as growing American participation in India's foreign trade and domestic industry.³²

Care was taken to emphasize that liberalization was not the result of external pressure but was a conscious decision of the government taken in the national interest. For instance, when the government was accused of surrendering India's sovereignty following the huge IMF loan of SDR 5 billion contracted in 1981, it quickly assured that the government had already decided that economic liberalisation and adjustment were needed to increase production and efficiency and that the IMF loan merely added an additional measure of discipline.³³

Therefore, the 80's witnessed growing encouragement to foreign trade and private foreign investment.

Indo-US relations began to improve around 1983. The Reagan administration let go of its image of India as a pro-Soviet power and the two governments agreed to separate the relatively easeful bilateral relations from the many global multilateral issues and concerns on which they could hardly

32. Mansingh, n.11, p.117.

33. Johal, n.27, p.977.

agree.³⁴

The Collective Pursuit of Common Interests by the Third World

As regards the collective objectives pursued by the Third World through the Non Aligned Movement (NAM) there was a discernible continuity.

Peace, freedom, development and international justice formed the themes from which these objectives were drawn. More specifically two issues on which NAM has consistently applied its collective pressure on the developed world were the reconstitution of the international economic system by correcting imbalances and ensurance of the safety of human-kind by banishing nuclear weapons from the face of the earth.

It must be noted that the ability of the Third World, to gain through collective action has been dependent, to a large extent, on the strength of the Non Aligned Movement.

M.S. Rajan has drawn attention to the paradoxical situation with respect to the Non Aligned Movement where the increase in membership from 25 at Belgrade in 1961 to 93 plus at Havana in 1979 was accompanied by an erosion of its credibility. The increasing number of conflicts between and among non-aligned states is one of the factors responsible

34. Sengupta, n.25, p.525.

for the weakening of the movement.³⁵

In the early years of nonalignment, there were very few intra-nonaligned conflicts, but with the easing of cold-war tensions and increasing numerical strength, a number of disputes arose, especially in the 70's.

M.S. Rajan attributes this to the widening gap between the theory and practice of nonalignment by the nonaligned countries, which began to practise the traditional power model in international relations contradictory to the theory of nonalignment and took recourse to arms in order to settle their disputes.³⁶

What was even more deplorable was the use of the forum of nonaligned conferences to ventilate bilateral differences. India was opposed to this practice and expressed the view that bilateral differences should be resolved by direct negotiations. It stressed the unity of the nonaligned nations for achieving common objectives such as the goal of a better economic order.³⁷

35. M.S.Rajan, "Non Alignment : Dichotomy Between Theory and Practice in Perspective", *India Quarterly*, Vol.36, no.1, January-March 1980, p.44.

36. *Ibid.*, p.59.

37. Kapileshwar Labh, "Intra Aligned Discords and India", *India Quarterly*, Vol.38, no.1, January-March 1982, p.71.

Foreign Policy of India under Rajiv Gandhi

Rajiv Gandhi piloted India's foreign policy through a rapidly changing global environment. Foreign policy was very important to him and whether or not he formally made himself the foreign minister, he kept control of the formulation, projection and implementation of India's foreign policy and diplomacy.

Rajiv Gandhi tried to integrate Jawaharlal Nehru's orientation to world politics with Indira Gandhi's focus on regional pre-eminence.

In the first major policy statement to the nation on All India Radio and Television, Rajiv Gandhi said that, as for defence and foreign policy, "the first prerequisite is peace-peace with our neighbours and peace with the world". Promising continuity, he said, "Jawaharlal Nehru bequeathed to us a foreign policy, which Indira Gandhi so creatively enriched. I shall carry it forward. I reaffirm our adherence to the United Nations, to the Non Aligned Movement and to our opposition to colonialism, old or new. We are determined to work for narrowing international economic disparities."³⁸

Rajiv Gandhi through his frequent visits abroad was able to project to the world an India embarked on the path of modernization, an India which was less doctrinaire and more pragmatic than before and an India whose concerns

38. Gupta, n.1, pp.10-11.

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overlapped with the fundamental problems facing humanity.³⁹

There was a continuity in the orientations of India's foreign policy as regards issues of global concern. Peace, Freedom and Equality still formed the central themes. However, it must be added that although there were no fundamental changes, there were changes brought about by the rise to pre-eminence of many new issues in the global agenda.

This can be seen from the fact that saving the world from ecological disaster was just as important as saving it from nuclear annihilation. Rajiv Gandhi emphasized with equal fervour the importance of a new international information and communication order 'which effectively reposes in countries their right to know and their right to inform', a new international economic order that 'presses into service of all peoples the resources of finance and science and technology', and a new international political order based on the principles of peaceful coexistence and a UN system which is effectively able to verify and monitor the maintenance of peace through peaceful coexistence.⁴⁰

Rajiv Gandhi conducted his country's foreign policy at a time when the integrative thrusts of science and technology compelled united efforts to tackle global problems.

The Group of Six, six nations from five continents,

39. Sengupta, n.25, p.528.

40. Ibid., pp.526-7.

namely, Mexico, Greece, Sweden, India, Tanzania and Argentina, which represented the developed and the developing, nonaligned and the aligned, in their New Delhi Declaration of 1985, called for an immediate halt to the testing, development and production of nuclear weapons and their delivery systems. This was to be followed by substantial reductions in nuclear stocks, leading eventually to the elimination of these fearsome weapons of mass destruction.⁴¹

The Group of Six raised their collective voice against nuclear superkill and ecological disaster.

Abroad everywhere, whether it was racism or apartheid, terrorism or peril of nuclear war, North-South dialogue or South-South cooperation, Rajiv Gandhi cast his weight on the side of moderation.⁴²

One issue on which he battled hard was apartheid in South Africa. He rallied at the Commonwealth Heads of Governments' meetings in Nassau and London for economic sanctions against South Africa but was effectively blockaded by the Prime Minister of the United Kingdom, Margaret Thatcher. He, however, scored two small successes, the creation of the Fund for Action for Resisting Invasion, Colonialism and Apartheid (the AFRICA Fund) to help front-

41. Rajiv Gandhi, **Statements on Foreign Policy, September-December 1985** (New Delhi: Ministry of External Affairs of the Government of India), p.90.

42. Gupta, n.1, p.18.

line states of Southern Africa, which did not collect much money, and the appointment of a team of Eminent Persons to report on the brutal rigours of apartheid. He was an ardent champion of Namibian independence and offered India's friendship and cooperation to the Government that was to take over there in April, 1990.⁴³

Rajiv Gandhi's crusade for peace, freedom and equality in the world would have had a greater impact had he concretised his concepts in South Asia.

Indo-US relations under Rajiv Gandhi

During the 1985-89 period, once again rapid transformation in world scenario guided the course of India's foreign policy, more so, vis a vis the United States and the Soviet Union. With the advent of Gorbachev, there was an easing of tensions, and a new detente between the superpowers ensued. Rajiv Gandhi made good use of the new detente to build bridges to the United States, as, given the situation then, it did not endanger friendly relations with the Soviet Union in any way.

As regards India's relationship with the US under Rajiv Gandhi, the key word was 'technology'. Rajiv Gandhi was keen on modernising both the industrial and defence sectors. His cherished dream of taking India into the twenty-first

43. Sengupta, n.25, pp.525-6.

century through hi-tech was a major influence on the course of Indo-US relations under Rajiv Gandhi.

Growing defence ties with the US was viewed with skepticism in some quarters. One reason for this was the United States' reputation for being unreliable and unpredictable on this front. The lessons from Tarapur were not forgotten.

Another reason, pointed out by a section of articulate opinion is that the price that India was paying for its growing defence ties with the US was a gradual dilution or minimisation of criticism on US policies and actions around the world, thereby making a difference to the quality of its non-alignment. It must be added that India's urge to avail of American investment and technology, setting aside differences in politico-strategic perceptions was welcomed by the mainstream press of the country.⁴⁴

It has also been pointed out that the spurt in technology transfers to India from the US in the late 80's did have political connotations. As one analyst observes, obvious differences between India and the US over many foreign policy issues, brought about by India's policy of nonalignment and refusal to oppose communism were definitely a cause for very little technology transfer of significance to India's aspirations from the US upto the mid 80's. After wielding the stick for so long, the US finally offered the

44. See, for instance, Hari Kumar, n.19, pp.848-53.

carrot of technology to India, thereby, also furthering its own interests in the South Asian region.⁴⁵

Another aspect of Rajiv Gandhi's relentless pursuit of technology is that he vigorously sought direct private foreign investment, especially from the US, in terms of capital and technology. This had to be accompanied by the creation of a conducive atmosphere for foreign investment flows and hence suitable changes in investment laws and opening up of the economy were inevitable.

Besides bringing Indian governing elite economic perceptions closer to that of the US, Rajiv Gandhi went to some lengths to please the US administration, Congress and the US private sector to have high technology for India. This he did despite his shift towards an anti-US anti-Pakistan stance, which had become louder and more strident with the deepening political crisis caused by electoral setbacks, political and organisational mismanagement.⁴⁶

A change was discernible in India's foreign policy vis a vis the US on the following counts.

Firstly, Rajiv Gandhi kept direct attacks on the US on global issues to a minimum. For instance, he expressed deep concern for the planet's downtrodden; emphasized the impor-

45. Gursharan Singh Dhanjal, "America's Technology Trap", *Mainstream* (New Delhi), vol.27, no.18, January 28, 1989, p.57.

46. Hari Kumar, n.19, p.848.

tance of South-South cooperation for a better bargaining position in its parleys with the North but did not direct his anger at the powers that have been responsible for the Third World's misery and degradation. He condemned imperialism, but did not mention the US by name.⁴⁷

Secondly, the US was not directly implicated as far as possible in issues concerning the US and third countries. For instance, he expressed anguish at 'foreign intervention' in Nicaragua without pointing an accusing finger at the US. He paid tributes to Vietnam's struggle to gain independence and his government extended more economic aid to Vietnam than any other country. But he stopped short of recalling the American role in Vietnam.⁴⁸

Thirdly, his silence on the Libyan issue in his address to the NAM summit meeting at Harare in 1986 and the softening of India's stand towards Israel, manifest in India's decision to play the Davis Cup match with Israel, as also in the granting of visas to Israeli citizens, especially academicians, a few months after the American Congress had been critical of India's negative stand on Israel were seen as departures from non-alignment. In the UN debate on the issue of Israel's action against Palestinians in the Gaza strip and elsewhere in December 1987, the Indian Ambassador to the

47. Sengupta, n.25, pp.525, 526.

48. Ibid., p.525.

UN protested vehemently only when Israel compared its occupation of Arab territory and actions therein to the role played by the IPKF in Sri Lanka.⁴⁹

Fourthly, the toning down of India's criticism of US arms sales to Pakistan and instead focusing on seeking compensation in the form of technology has been viewed as a significant shift in India's foreign policy.⁵⁰

His overtures to the US, however, stopped short of signing the NPT or working out a regional or bilateral version of it. Rajiv Gandhi's obsession with high technology could have been seen by the US as a point of vulnerability on which they could exert pressure and exact compliance from India on the NPT.

The United States' anxiety to prevent nuclear proliferation and a subsequent nuclear arms race that could result in instability in the South-Asian region must be placed in perspective.

The US had drawn Pakistan into a strategic consensus for it wanted a stronghold in Asia, more so after the fall of the Shah of Iran. Hence, it stepped up military and economic aid to Pakistan despite suspicions of its nuclear programme. Nevertheless it was anxious and under pressure to prevent nuclear proliferation in the region. Hence it

49. Ibid.

50. Hari Kumar., n.19, pp.848-9.

tried the carrot and stick approach, using 'hi-tech' with India and 'aid' with Pakistan. This can be seen from the fact that a US Senate Sub Committee resolution proposed cuts in military aid to Pakistan and hi-tech to India if either does not accept the non-proliferation regime. The Indian response was so ferocious that the US rapidly withdrew the resolution not wanting to damage improving relations too greatly.⁵¹

Rajiv Gandhi's stand on the NPT, which he described as 'an unequal treaty, a euphemism for a nuclear weapons oligopoly',⁵² has been remarkably clear. His stand of opposing the treaty on the grounds that it was discriminatory and failed to prevent vertical proliferation, is in keeping with India's consistent policy on this issue, perhaps also because any deviation from past position on this would have had severe domestic repercussions. He was also opposed to the idea of either bilateralising or regionalising the NPT, which is an international treaty with universal application.

It can be inferred that the combined effect of a relentless pursuit by Rajiv Gandhi and US national interests brought about some technology transfer to India, though the prudence of the policy itself has been questioned in some

51. Ibid., p.853.

52. Rajiv Gandhi, *Statements on Foreign Policy, September-December, 1986* (New Delhi: Ministry of External Affairs of the Government of India), p.71.

quarters. Nevertheless, there was a general improvement of Indo-US relations.

But the invocation of Section 'Super 301' provisions of the US Trade Act (1988) in May 1989 to identify India as an unfair trading partner once again highlighted the large areas of divergence of interests in Indo-US relations.

Strengthening of India's bond with the Soviet Union

The period 1985-89 saw a boost in Indo-Soviet relations as well. Rajiv Gandhi took over as Prime Minister of India about the same time as Gorbachev took over as General Secretary of the Communist Party of the Soviet Union (CPSU). Besides this welcome coincidence, the personal rapport achieved between the two leaders during Rajiv Gandhi's three visits to Moscow and the two visits of Gorbachev to New Delhi in the 85-88 period, buttressed Indo-Soviet relations in a big way. Friendly cooperation between the two countries was extended by agreement to the end of the century.⁵³

The thinking of the two leaders on domestic and international affairs was similar and both had their sight fixed on the future rather than in the past as emphasised by the Delhi Declaration issued by the two in New Delhi on November

53. Sengupta, n.25, p.524.

27, 1986.⁵⁴

Rajiv Gandhi became the world's most vocal, most consistent and most genuine admirer of Gorbachev's innovative bold New Thinking. He fervently supported Gorbachev's peace initiatives, his 'perestroika' and 'glasnost' in international relations.

During the 1985-89 period, India's political, military and economic ties with the Soviet Union were expanded.

Gorbachev authorized a total of 7.5 billion roubles credit to India in the 1985-88 period. It has been observed that the 1 billion rouble credit extended to India in May 1985 was given to a new government headed by a young Prime Minister keen on improving ties with the US and hence could have had political connotations.⁵⁵

Rajiv Gandhi supported all peace initiatives of Gorbachev and stood firmly by the Soviet Union on Afghanistan and by Vietnam on Kampuchea. After the announcement of Gorbachev's decision to withdraw all Soviet troops from Afghanistan by March 15, 1988, he deployed India's diplomacy to help Moscow and Kabul get a comprehensive political

54. Ibid., Also see Maharaja Krishna Rasgotra ed., *Rajiv Gandhi's World View* (New Delhi: Vikas, 1991), pp.231-241. The Delhi Declaration is reproduced in Annexure I of the book.

55. Santosh Mehrotra, *India and the Soviet Union: Trade and Technology Transfer* (Delhi: Oxford University Press, 1991), p.68.

settlement in Afghanistan.⁵⁶

India's defence imports from the Soviet Union also remained substantially high during the 85-89 period.

On the whole, improvement of ties with the US did not in any way hamper the strengthening of ties with the USSR.

India and the South Asian region : 1985-89

The greater part of Rajiv Gandhi's first term as Prime Minister, 1986 to most of 1988, witnessed an assertion of India's strategic power in South Asia and the Indian Ocean.

This power was used in 1987 in Sri Lanka to keep peace between Tamil militants and the Sri Lankan armed forces under the Indo-Sri Lanka accord when India sent the Indian Peace Keeping Force (IPKF) to Sri Lanka.

The Sri Lankan government turned to India as no major power was willing to offer assistance at the risk of offending India. The IPKF role in Sri Lanka was publicly and officially praised by the US, USSR, UK and even the Chinese did not criticise it.⁵⁷

Nevertheless, the IPKF operations cost India dearly as they were a major strain on the exchequer and besides, India had been drawn into a major battle with the Liberation

56. Sengupta, n.25, p.528.

57. Ibid., p.531.

Tigers of Tamil Eelam (LTTE), instead of keeping peace and heavy casualties resulted. The Indian government felt insulted when suddenly on 1 July, 1989, Sri Lanka wanted the IPKF withdrawn by 29 July, 89. So, eventually India's good offices backfired and India's image and pride suffered a setback.⁵⁸

India was called upon to protect the regime in Maldives in 1988 from an attempted coup by a group of Sri Lankan mercenaries hired by a disgruntled Maldivian. India promptly responded and organised a quick and successful rescue operation.⁵⁹

Both the interventions received loud or tacit support from the major powers and were denounced or criticized in the South Asian neighbourhood by Pakistan, Bangladesh and Nepal.⁶⁰

Relations did show signs of improvement with both Pakistan and China but concrete solutions to outstanding problems were not arrived at. With China, one noteworthy improvement was that the border issue was separated from other bilateral issues, the relationship was no longer hostage to the territorial dispute.

58. See Satish Kumar ed., *Year Book on India's Foreign Policy, 1990-1991* (New Delhi:Tata McGraw Hill, 1991), pp.173-179 for a detailed account of the withdrawal of the IPKF.

59. Sengupta, n.25, pp.535-6.

60. Ibid., p.531.

The foreign policy issues that created animated discussion in India chiefly related to the neighbourhood - Pakistan, Sri Lanka, China; to a lesser extent, Nepal and Bangladesh.⁶¹

It can be inferred that Rajiv Gandhi's ideas of peace and non-violence had not been concretised in South Asia and that his attempts at integrating Nehru's international orientation with Indira Gandhi's focus on regional pre-eminence were, to say the least, unsuccessful.

To conclude, India's striving for a place in the international sum of wealth and power can be seen from the above analysis. Whether it remained a dream or became a realistic pursuit was determined by the need of the hour, force of circumstances and the perceptions and capabilities of the leadership. Throughout its post independence history, India has had some say in international affairs, either as an individual actor or as an important member of the Non-Aligned Movement. After 1971, India's status in the South Asian region has been recognized and respected.

Any deviation on India's part from its declared stance of 'independent conduct of its foreign policy' was likely to face severe criticism both within the country and outside owing to India's relatively high profile in comparison to -----

61. Ibid., p.541.

many under developed countries.

Having analyzed some aspects of the economic dependence of India and the foreign policy of India separately, the study proceeds to analyze the linkage between the two in the 85-89 period and place it in perspective to get a clearer picture.

CHAPTER IV

ECONOMIC DEPENDENCE AND FOREIGN POLICY OF INDIA: 1985-89

"Ultimately foreign policy is the outcome of economic policy..."

Jawaharlal Nehru¹

It is precisely this inevitable link between the two that led to the expression of fears of India's sovereignty being at bay during this period (1985-89). The government's policy of liberalisation and privatisation of the economy brought India's governing elite economic perception closer to that of the developed market economies of the west. The improvement of India's ties with the countries of the west, the US in particular was seen as a natural corollary which could have far reaching implications for the future course of India's foreign policy.

The Indian mind had been tuned to a set pattern of friendship with the Soviet Union and suspicion of the US, partly owing to their response to the Indo-Pak conflict. Differences in the perceptions of India and the US on a majority of issues and agreements with the Soviet Union on a vast number of them had received enough attention. There-

1. Quoted in Radharaman Chakrabarti, *The Political Economy of India's Foreign Policy* (New Delhi: K.P. Bagchi & Company, 1982).

-fore, understandably, growing Indo-US ties under Rajiv Gandhi were viewed with a mixture of apprehension, caution and hope.

It must be noted here that, when economic dependence is liberally defined to include any distinct and continuous asymmetrical economic relationship, some countries of west Europe and OPEC countries, for instance, will qualify but they are not considered in the study. Only the US and the USSR, two countries which have such substantial interests in world affairs that they would link economic benefits accruing from relations with them to foreign policy changes favourable to them are considered.

The study approaches the question of linkage between economic dependence and foreign policy from the point of view of the weaker state in the relationship. Before proceeding to analyse the linkage between economic dependence and foreign policy, some aspects of the convergence and divergence of interests between India and the US and India and the USSR must be noted.

The large areas of divergence of interests between India and the US covering a whole range of issue areas from strategic perceptions in the South Asian region to perceptions on global issues like disarmament, led analysts to express reservations about a qualitative change in Indo-US relations. Despite the growing amicability in Indo-US exchanges during this period, a fundamental change in their

policies towards each other was not anticipated.²

By implication, no change in the US record of using economic benefits to exact foreign policy changes favourable to it was expected and hence, the government had to proceed with some amount of caution.

The convergence of interests between India and the Soviet Union, India's time-tested and reliable friend was only too well known. The mutuality of interests between the two countries ensured that there was respect for India's stance as also an attempt to accommodate each other's point of view.

The study attempts to analyze the effects of economic dependence on foreign policy by considering the foreign policy positions taken by India on some important issue areas with respect to the US and the USSR. This necessitates, as an initial step, a broad categorization of foreign policy positions and a classification of issue areas to be considered.

Any two countries can reasonably be expected to have

2. See for instance, Maya Chadda, "India and the United States : Why detente won't happen" in Verinder Grover, ed., **International Relations and Foreign Policy of India**, vol.6. (New Delhi: Deep and Deep Publications, 1992), pp.133-152.

Also see Shankar Bajpai, "India's Relations with the United States" in Satish Kumar ed., **Year Book on India's Foreign Policy, 1989** (New Delhi: Sage, 1990), p.175.

areas of convergence and divergence of interests and perceptions which lead to agreements or disagreements on specific foreign policy issues. The foreign policy positions taken are influenced, besides this factor, by the interplay of various forces in the external and domestic environment.

Foreign Policy Positions : A Categorization

The study does not attempt to provide an exhaustive list of foreign policy positions. Instead, the attempt is to identify categories of foreign policy positions taking into account the Indian context.

The starting point in the categorization of foreign policy positions is the one made by Richardson. He identified four positions, namely, compliance, consensus, dissensus and defiance as noted earlier in Chapter I.

He pointed out that, we may regard as **compliance** only those agreements wherein one of the two countries succeeds in convincing the other to adopt a policy position contrary to its original intent. Compliance implies influence and **consensus** refers to policy agreement that may not include prior consultation and does not denote one party's capitulation. Similarly **dissensus** refers to policy disagreements in which neither country attempts to persuade the other. **Defiance**, is a country's refusal in the face of efforts by a second country to influence the first to compromise its

original policy intent.³

It is, however, extremely difficult to draw a line between consensus and compliance. For the purposes of this analysis, only those agreements in which (i) the application of considerable pressure by one country on the other is explicit and (ii) the original intention of the latter was discernible and its stand had been reversed subsequent to the application of pressure constitute compliance. Similar conditions apply for the distinction between dissensus and defiance.

That leaves consensus and dissensus to include a wide range of agreements and disagreements respectively. Therefore, a further division of these categories becomes essential. Keeping in view the particular Indian conditions, consensus has been subdivided into commonality consensus and accommodative consensus.

Commonality consensus represents agreements on the basis of commonality of interests and perceptions and hence, there is no need for either influence or prior consultation.

Accommodative consensus represents agreements where one state accommodates to a certain extent the interests or perceptions of the other prompted by its own national inter-

3. Neil Richardson, "Economic Dependence and Foreign Policy Compliance: Bringing Measurement Closer to Conception" in C.W. Kegley Jr., and P.J. McGowan, eds., **The Political Economy of Foreign Policy Behavior** (Beverly Hills: Sage, 1981), pp.89-90.

ests. Here there is implicit pressure or subtle attempts by the latter to influence the former.

Dissensus has been subdivided into simple dissensus and critical dissensus.

Simple dissensus represents disagreements based on differences of perception and interests where there is no attempt by either country to persuade the other to alter its position and there is no vehement criticism of each other's policies.

Critical dissensus represents disagreements where the two countries not only disagree but one country also strongly criticises the stand or policy of the other. Normally, in such cases, there is mutual criticism of policies. Nevertheless, here explicit pressure is not used to exact a policy shift.

As regards defiance, when explicit pressure is used time and again by one country to alter the other's stance on any particular issue and the second country has effectively resisted such pressure long enough for such defiance to be dubbed routine, such defiance qualifies as **habitual defiance**.

Classification of Issue Areas

The classification of issue areas is as follows

(i) Visible issues which are those issues which have gained

prominence and on which there is a general consensus and a strong stance taken. As these issues normally have symbolic value added to them, compliance on these issues is seen domestically as abject surrender and defiance as a show of strength.

(ii) Issues that directly impinge on the national interests of the country, especially national security and economy. In this case, this category also includes issues concerning the South Asian region, China and the Indian Ocean.

(iii) Issues pertaining to the common concerns of third world countries. (usually issues taken up by the Non-Aligned Movement).

(iv) Issues of global concern

(v) Other issues

Having categorized foreign policy positions and having classified issue areas, the study proceeds to make some observations on economic dependence of India and its components during this period.

During the 1985-89 period, the 'technology' components of trade, aid and investment (technology imports, technological assistance, technological collaboration) are to be given relatively more weightage than others, as, owing to the importance attached to it by the leadership in India, 'technology' provided the maximum leverage for attempts to influence India's foreign policy.

This does not imply that other components like investment of capital, other forms of aid, other items of trade or the external debt situation did not contribute significantly to India's economic dependence. Nevertheless, although economic dependence is the cumulative effect of dependence resulting from all its components, some of them are more likely to be seen as points of vulnerability on which pressure can be applied.

Economic Dependence and Foreign Policy of India with respect to the Soviet Union

Considering the link between economic dependence and Foreign Policy with respect to the USSR, the striking feature was the mutuality of interests as far as economic ties go and a commonality of interests as regards foreign policy. Notwithstanding the large amounts of loans authorized by the Soviet Union to bolster Indo-Soviet trade and the large imports of Soviet weapons by India during this period, trade or aid flows were not used to exact policy shifts from India.

There have been instances of Soviet pressure on India to alter her foreign policy stance in the past. For example, India effectively defied Soviet pressure when it refused to sign the NPT as also when it did not accept Brezhnev's plan for Collective Security in Asia.

Nevertheless, during the period under consideration, no such instances were discernible. India and the Soviet Union seemed to agree on almost all issues. There was the occasional disagreement but a communality consensus-simple dissensus pattern prevailed.

The effects of economic dependence on the US on India's Foreign Policy

Before going into the foreign policy consequences of India's economic dependence on the US, the following facts pertaining to India's economic dependence on the US during the 85-89 period must be noted.

The United States on an average, accounted for around 10 per cent of India's imports and 18 per cent of India's exports during this period (85-86 to 88-89).⁴

Fresh investment approvals (amount) from the US formed 28.77 per cent of total fresh investment approvals during this period (85-89). The US accounted for around one-fifths of the total number of collaborations approved between 1981 and 1989.⁵

As regards aid, both bilateral aid and multilateral aid from the IBRD, IDA are considered owing to US influence in

4. See Tables 5,6. All tables are at the end of Chapter II.

5. See Table 11.

multilateral lending agencies, as has been observed earlier.

US bilateral aid accounted for a meagre 2.17 per cent of total aid utilized during this period. IBRD accounted for 30.86 per cent of total aid utilised and IDA accounted for 26.6 per cent. Together, the IBRD and IDA accounted for 57.46 per cent of total aid utilized. One point worthy of note is that from 1987-88, IBRD contributed more than IDA to aid utilized by India.⁶ The decreasing share of IDA in total aid is in no small measure owing to US policy on multilateral lending.

Shrinking amounts of concessional aid forced India to resort to commercial borrowings increasingly during this period. About Rs.10,064 crores worth of commercial borrowings were approved during this period as against Rs. 34,175 crores worth of total aid authorizations (nearly thirty percent).⁷

India's external debt in 1988 stood at 57,513 million dollars and the ratio of debt to the Gross National Product expressed as a percentage was 22.3.⁸

The study now proceeds to analyze the foreign policy consequences of India's economic dependence on the US. The effect of economic dependence on some important issue areas

6. Calculated from Economic Survey, 92-93, pp.5-104, 105.

7. See Tables 16,17.

8. See Table 13.

is analyzed by considering the foreign policy positions taken.

Nuclear Non Proliferation Treaty

Considering visible issues, the issue of nuclear non-proliferation, especially India's refusal to sign the Nuclear Non-Proliferation Treaty of 1968 was the most significant during this period.

India's policy position on this issue has been one of habitual defiance. There have been repeated attempts by the US to use economic benefits or their denial (the carrot and stick approach) to exact policy compliance from India on this issue. In the 1970's pressure was applied in the form of delay and later denial of fuel for the Tarapur Atomic Power Station. Between 1974 and 1977, multilateral aid was also used when the US voted against the IDA credits to India in conformity with the long amendment to IDA authorizations requiring automatic opposition to IDA credits for a country which had exploded a nuclear device but not signed the NPT.⁹

During the period under consideration, high technology was used to pressurize India to sign the NPT as can be seen from the US Senate Sub-committee Resolution proposing cuts in military aid to Pakistan and high technology to India if

9. Jonathan E. Sanford, **US Foreign Policy and Multilateral Development Banks** (Boulder : Westview Press, 1982), p.204.

either does not accept the non-proliferation regime, which was withdrawn subsequently.¹⁰

India stood its ground and refused to sign the NPT. It also turned down suggestions to sign a bilateral or regional version of the NPT and instead called for total elimination of all nuclear weapons from the face of the earth.

India's position of habitual defiance on this visible issue was unlikely to be changed as in the Indian context, habitual defiance on visible issues can be altered only if (i) the external scenario has so altered that it is imperative in the national interest to do so in the perception of the leadership and it has the ability to carry the public along with it or (ii) the country is hopelessly dependent on the dominant country for its very survival or the survival of its economy.

Besides, accusations of surrender of national sovereignty by succumbing to US pressure were bound to fill the air if the stand on this issue was reversed. Rajiv Gandhi was not prepared to face such censure because his domestic standing was already plummeting owing to political and organizational mis-management.

So India's position of habitual defiance on this issue remained unaltered.

10. K.N. Harikumar, "Trading Non-Alignment for High-Tech? Rajiv's Second US Visit", *Economic and Political Weekly* (New Delhi), vol.23, no.17, 23 April 1988, p.853.

Considering issues that directly impinge on India's national interest, three of them need to be analyzed :

- (a) Economic dependence and Pakistan in Indo-US relations;
- (b) US naval bases in the Indian Ocean and
- (c) Economic dependence on the US and India's foreign economic policy

Economic Dependence and Pakistan in Indo-US relations

India has always taken strong exception to US military sales credits and economic assistance to Pakistan at highly concessional rates, arguing that such assistance forced India to divert equal amounts or more from her development funds to defence in order to neutralize the effect,¹¹ owing to the well known hostility between the two South-Asian countries.

India has not been able to do anything much about these aid flows as it involved US strategic interests in the region. The Soviet occupation of Afghanistan only increased such aid flows to Pakistan. India was understandably apprehensive that these arms could be used against it. Nevertheless, under Rajiv Gandhi, India took a more pragmatic approach to these aid flows. Instead of focusing on criticising US arms sales to Pakistan, which would not get India

11. Rajiv Gandhi, **Statements on Foreign Policy, September-December 1985**. (New Delhi : Ministry of External Affairs of the Government of India), p.111.

anywhere, India chose to seek compensation for its unequal treatment by the US vis-a-vis Pakistan in the form of technology.¹²

The spurt in collaboration agreements and technology transfers during the period under consideration could also be partly attributed to US national interests. The US may have wanted to build bridges across to India owing to Pakistan's soft corner for Iran and concern about Pakistan's nuclear programme.¹³

The US was anxious to prevent nuclear proliferation in the South-Asian region. However, apprehensions about Pakistan's nuclear program did not prevent it from carrying out arms sales or giving economic assistance to Pakistan as it did not want to risk Pakistan's withdrawal from the western alliance if it predicated aid flows on Pakistan's closing the nuclear option, although the US did try occasionally.¹⁴

Therefore, the US urged both India and Pakistan to work out a bilateral version of the NPT. The agreement between the two countries to refrain from attacking each other's nuclear installations in December 1985 was seen as a good

12. Gursharan Singh Dhanjal, "America's Technology Trap", **Mainstream** (New Delhi), vol.27, no.18, January 28, 1989, p.57.

13. Ibid.

14. Chadda, n.2, pp.135-6.

beginning.¹⁵ But then, soon after, Indo-Pak relations ran into rough weather as their deep seated differences surfaced yet again.

The US did not succeed in ensuring nuclear nonproliferation in South Asia by getting India and Pakistan to sign the NPT or a regional or bilateral version of it. India also consistently voted against the UN resolution for a nuclear free zone in South-Asia which was supported both by the US and Pakistan.¹⁶

India's stand on US policy on Pakistan has been one of critical dissensus. There was a toning down of criticism in order to encourage technology flows to India. Here, growing defence collaboration between India and the US during this period must be taken note of.

US Naval Presence in the Indian Ocean

India has consistently pleaded and fought for demilitarisation of the Indian Ocean. India was against all great power military presence in the Indian ocean. India strongly protested against the Diego Garcia base in the Indian Ocean. It repeatedly called for implementation of the 1971 UN Declaration of Indian Ocean as a zone of peace.

15. Ibid., p.137.

16. Only Bhutan, India & Maldives generally voted against the resolution.

Considering the strong stand taken by India on this issue, India's decision to allow port calls to Indian ports like Bombay and Cochin by US naval ships since 1984-85 was seen as a departure from India's long-standing policy on the Indian Ocean.¹⁷

India was as vociferous as ever in calling for an end to all military presence in the Indian Ocean and by implication, there was no change in the policy position of critical dissensus as such with the US, but, allowing port calls by US naval ships can be read as a move towards limited accommodative consensus on some aspects of the issue, which pushes the policy position on the issue closer to that of simple dissensus.

Economic Dependence on the US and India's Foreign Economic Policy

Foreign economic policy has been one area where India was most vulnerable to US pressure, especially when the Indian economy was in dire straits. The best illustration of India's succumbing to such pressure is provided by the devaluation of 1966. It is important to elaborate on this issue.

In the early 60's the World Bank commissioned David E. Bell of US Agency for International Development to prepare a

17. Prakash Karat, "Refuelling US planes : Deeper Issues", **Mainstream**, Vol.29, no.19, 2 March 1991, p.24.

report on the Indian economy. The recommendations made in the Bell Report, completed in 1964, included a reorientation of public investment away from industry to agriculture, manufacture of chemical fertilizers in the private sector with foreign collaboration, liberalisation of imports, reduction of administrative controls, amendment of patent acts and other legislation affecting foreign capital and devaluation of rupee.¹⁸

In 1966, the Johnson administration insisted on the adoption of Bell's recommendations by India. India's desperate need for food grains in the wake of two droughts resulted in India's announcement of the devaluation of the rupee in 1966.

Further humiliation followed in the form of the short tether policy followed by Johnson just to make sure 'India changed its farm policy'.

It must be noted here that there is a relationship between availability of alternate sources from which the country could get essential capital, equipment, technology, commodities for consumption, and foreign policy positions.

Nonavailability of alternate sources increases the probability of accommodative consensus and even compliance

18. Surjit Mansingh, *India's Search for Power: Indira Gandhi's Foreign Policy, 1966-1982* (New Delhi: Sage Publications, 1984), p.328.

in times of need.

However, when there is forced compliance in foreign policy due to dire economic need, there is an urgency to look for alternate sources, work towards self reliance and demonstrate sovereignty by defiance. When stability is achieved, things return to the more acceptable consensus-dissensus pattern.

Turning to the 1985-89 period, the changes effected in India's economic policy under Rajiv Gandhi were most certainly in the direction advocated by the US and the multi-lateral lending agencies. However, notwithstanding accusations of surrender to the World Bank and the US in some quarters, these changes are not seen as compliance, taking into consideration the fact that the leadership saw these changes as not only necessary but desirable and in keeping with India's national interests.

After taking into account India's precarious balance of payments position, expanding external borrowings, shrinking concessional aid, increasing debt servicing charges (Debt service ratio as a percentage of current foreign exchange receipts was around thirty percent between '86 and '88), and the fact that commercial borrowings had become more difficult and less attractive, the government decided to increase the proportion of direct foreign investment in the inflow of foreign capital to India.

There was a move to accommodate US interests by effecting favourable changes in the Monopolies and Restrictive Trade Practices Act and Foreign Exchange Regulation Act and Creating an atmosphere conducive to foreign investment flows and technological collaboration. The focus shifted from investment in the public sector to private sector tie ups.¹⁹ There was also a shift away from import substitution towards export-led growth via import-led exports and both these shifts tallied with US preferences.

Therefore, India's foreign economic policy changes during this period can be seen as a move towards accommodative consensus in this issue area vis-a-vis the US.

New International Economic Order

Rajiv Gandhi did not miss any opportunity to call for a restructuring of the international economic order so that it will knit together stability for the prosperous and growth for the less prosperous. Speaking for the less prosperous, Rajiv Gandhi said, "we seek a principled dialogue, flexible on approaches but firm on the objective of giving all countries a fair opportunity in the common interests of all".²⁰

19. "Foreign Investment : The New Panacea". Report, **Economic and Political Weekly** vol.23, no.26, June 25, 1988, pp.1309-10.

20. Rajiv Gandhi, **Statements on Foreign Policy, May - August 1986** (New Delhi: Ministry of External Affairs of the Government of India), pp.26-27.

or third world countries.

Differences between India and the US were a reflection of the North-south divide even on issues like ecology, disarmament etc., which were truly global concerns by everyone's admission. The issues to be considered here are disarmament and UN voting.

Disarmament

On the issue of disarmament, especially nuclear disarmament, India advocated nuclear disarmament leading to peaceful coexistence as against the strategy of nuclear deterrence practised by the United States.²²

Rajiv Gandhi was highly critical of the theory of deterrence because, the doctrine of mutually assured destruction created a dangerous illusion of little winnable nuclear wars.²³

India welcomed the Intermediate Range Nuclear Forces Treaty (INF treaty) signed by the US and the USSR and has been critical of the 'starwars' program (strategic Defence Initiative) of the United States.

It must be mentioned once again that India refused US prescriptions for the prevention of nuclear proliferation by -----

22. Ibid.

23. Rajiv Gandhi, *Statements on Foreign Policy, September-December, 1985* (New Delhi: Ministry of External Affairs of the Government of India), pp.85-86.

In other words, during this period India continued to champion the cause of a New International Economic Order (NIEO), seeing it as essential to Third World development and a reduction in global socio-economic inequalities. The United States, has, expectedly rejected most of the NIEO proposals viewing them as inimical to its economic interests, as largely irrelevant to the developmental process, and as violations of certain free market principles.²¹

The US could hardly be expected to appreciate moves towards the restructuring of a system that benefits it substantially. On this issue, the two countries can be said to have 'agreed to disagree' on a one to one basis and the US has remained defiant in the face of whatever collective pressure the Third World countries exert.

In any case, such disagreements did not affect growing Indo-US ties because, in the early 80's, the two governments decided to separate the relatively easeful bilateral relations from the multilateral issues on which they could almost never see eye to eye.

On issues of global concern, India and the US had differences of perception and interests on most issues, especially those concerning poverty and inequality in the world, imperialism and racism which are also common concerns

21. Thom A. Travis, "United States-India Relations: Obstacles and Opportunities" in Grover, ed., n.2., p.239.

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refusing to sign the NPT, which it felt would only serve to perpetuate the unequal power structure in the world.

On the whole it can be inferred that there was critical dissensus on the United States' preference for nuclear deterrence but there was commonality consensus regarding any genuine move towards nuclear disarmament.

UN Voting

On the issue of UN voting, it must be mentioned that an increasing number of issues taken up during this period by the General assembly were North-South issues (or intra-nonaligned issues) and hence it was not surprising that India's voting pattern in the UN had not changed. On North-South issues as well as on regional issues like a nuclear free zone in South-Asia, US and India took opposite stances. The policy positions covered simple dissensus, critical dissensus and defiance depending on the amount of pressure exerted on India by the US to change its stance.

Other Issues

India and the US had divergent views on other issue areas as well, including national liberation movements and revolutionary governments, during this period.

The US tended to be suspicious of national liberation movements like the African National Congress (ANC), South west Africa Peoples organization (SWAPO) and the Palestine

Liberation Organization (PLO), while India strongly supported them. The US generally opposed and tried to overthrow revolutionary governments such as those in Nicaragua, Cuba and Angola, while India tended to sympathize with such regimes.²⁴

Such large areas of divergence of interests leading to disagreements bordering on defiance on almost all issues could hardly be expected to coexist with growing defence collaboration. Besides, the governments were working towards the establishment of a 'confidence level' because India wanted to ensure that Tarapur was not repeated.

So efforts were on to alter the American image of India as an ungrateful nation and India expected the US to respond positively to its overtures.

These overtures were seen in the toning down of India's pointed criticism on some issues which were of obvious interest to the US but were not directly linked to India.

However, even on these issues, owing to its position as a leader of the Non Aligned Movement the changes were slight and subtle and did not involve obvious or major changes in foreign policy positions.

For example, the toning down of pointed criticism of US policies in the Persian Gulf and US covert acts of destabil-

24. Travis n.21, p. 239.

isation in Central America during this period, as also India's decision to play the Davis Cup match with Israel despite its strong support to the PLO could be seen as India's overtures to the US.²⁵

India did not seem to gain much from this limited accommodation of US interests on some issues because the fundamental difference on foreign policy matters between the two countries remained. There was, however, an overall improvement in Indo-US relations. There was US recognition of and support for India's role in the South-Asian region which was reflected in its support for India's role in attempting to keep peace in Sri Lanka and its role in saving the regime in Maldives from an attempted coup, as noted earlier.

To conclude, during the 85-89 period India's economic dependence on the US cannot be said to have resulted in foreign policy compliance. There was a move towards limited accommodative consensus on certain issues and this seems to have been prompted by India's economic dependence on the US. The foreign policy position of critical dissensus adopted during this period, was apparently closer to simple dissensus than to defiance, as was the case earlier.

The link between economic dependence and foreign policy in India during the 85-89 period must be seen in perspec-

25. Hari Kumar, n.10, p.849.

tive. It must be admitted that in a rapidly changing world environment, India's foreign policy could not have remained static. If dynamism was the order of the day India had to adapt and respond to it.

Considering the world scenario then, India's anxiety to improve economic and political relations with the United States without jeopardising its long-standing friendship with soviet Union is understandable. Despite this anxiety, compliance in foreign policy was still considered a very high price to pay for economic benefits in India and therefore, such a policy made economic costs and hence indirect political costs inevitable for benefits always came with costs.

CONCLUSION

The study is only a preliminary inquiry into the linkage between economic dependence and foreign policy of India. A more thorough investigation requires the development of rigorous measurement procedures which will also take into account the specific requirements of the country under study. However, the inquiry does offer some useful insights into the linkage during the period considered.

Only two countries, the US and the USSR, that had such substantial interests in world affairs that they would link economic benefits accruing from relations with them to foreign policy changes favourable to them were considered in the study.

On the basis of the examination of economic dependence resulting from four variables, namely, trade, aid, investment and external debt, it was inferred that India's 'economic' dependence on the US had the potential to be used to exact foreign policy shifts. The asymmetry in Indo-US economic relations was felt even more owing to the dominant position of the US in the International Political Economy and its super-power status. Besides, the differences in strategic perceptions was an important intervening factor because India was inevitably affected by US policies on South Asia as also its attitudes towards multilateral

More importantly, the US has demonstrated its readiness in the past, to use this asymmetry in economic relations to exact policy shifts from India.

It must be noted here that strategic importance can be a two way weapon for the weak state. It can increase its bargaining power vis-a-vis the dominant partner and give it power to resist attempts to influence its foreign policy stances. On the other hand, its strategic importance to the dominant partner can lead to penetration of its national economy by the latter. The resultant state of dependence makes it truly vulnerable to the manipulations of the dominant state. So, it can be stated that India did well not to enter into formal alignments with the US or for that matter, with the USSR.

An analysis of foreign policy reveals that India was keen to ensure that its views mattered in world affairs and the Non-aligned Movement provided India with the external base from which it could operate. As a result, at least an equal importance was attached to autonomy of decision making in foreign affairs and international economic relations.

Consequently, shifts in India's foreign policy were more likely to be subtle changes instead of major shifts in policy positions.

Therefore, while studying the linkage between economic dependence and foreign policy, the foreign policy position

of compliance alone cannot capture the effects of economic dependence on foreign policy. Hence, depending on the nature and degree of influence used by the US on India, agreements and disagreements between them resulted in the foreign policy positions of compliance, accommodative consensus, commonality consensus, simple dissensus, critical dissensus and defiance including habitual defiance.

During the 1985-89 period, economic dependence on the US can be said to have led to a move towards limited accommodative consensus on some aspects of certain issues on which there was critical dissensus earlier, thus bringing the overall position on the issue closer to simple dissensus than defiance, though the position itself remained the same.

There was no change in the position of habitual defiance on visible issues especially the NPT. Fears in India about a probable compromise by India on this issue, owing to the growing defence and economic ties between the two countries, were thus allayed.

The subtle, but definite shifts in India's Foreign Policy stances observed during this period must also be seen in the context of the rapidly changing world scenario at that time. Nevertheless, since India has had a reputation of standing firmly on its ground, refusing to fall in line with the major powers even as a newly independent country, the implications of the shifts cannot be missed.

In the case of India's relations with the Soviet Union,

owing to mutuality of interests, common strategic perceptions and a common outlook towards the world during the 85-89 period, the asymmetry in Indo-Soviet relations was not so felt as in the case of Indo-US relations and it was not used to exact foreign policy shifts. In fact, it was not even necessary as, on most issues, there was commonality consensus between the two countries. The occasional disagreements were glossed over.

Based on observations made in the course of the study, an attempt is made to examine:

- a) The domestic reactions to asymmetrical ties leading to India's economic dependence.
- b) The balance between economic needs and independent foreign policy.
- c) The extent of compromise.

Asymmetrical economic ties per se do not raise a furore in India. They are accepted as inevitable for economic development but no one wants development at the cost of self-respect. When there is any reason to believe that India's national sovereignty has been compromised in any way, a furore is raised. IMF loans cause a lot of anxiety because of the conditionalities attached.

India's economic dependence on the Soviet Union is not viewed with such scepticism as its economic dependence on the US for a variety of reasons, both economic and politico-strategic. Besides, the lessons learnt from American high-

the US for a variety of reasons, both economic and politico-strategic. Besides, the lessons learnt from American high-handedness in the past were not forgotten.

It must be noted that forced compliance generates a strong will to bounce back and demonstrate sovereignty by defiance. Defiance in the face of US pressures can also offer domestic political leverage when anti-American feelings are running high.

India's leadership has been prudent enough to realize that foreign policy is guided by economic policy, and hence has tended to keep confrontations with major powers on this count to a minimum. It has attempted to diversify trade routes and preferred multilateral aid to bilateral aid. The fact remains, however, that the amount and terms of multilateral aid could depend on political decisions taken by the major contributors.

Earlier, India had accommodated the interests of the Soviet Union to some extent to avoid jeopardising friendly relations on any one issue. During the 85-89 period, a limited accommodation of US interests was observed.

These compromises did not affect India's stand on issues that were important to it and hence did not amount to capitulation. It must be noted that India made these accommodations of its own accord after weighing economic and political costs. When India was pressurised, it normally rebelled, sooner or later.

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