

INDO-US ECONOMIC RELATIONS

**Dr. C. Dayakar Reddy, Asst. Professor, Department of Political Science, Osmania University,
Hyderabad, India. cdayakarreddy@gmail.com**

Abstract - The present essay deals with Indo-US economic relations during the period 1971-85 within the context of political relations. Aid and trade relations are analysed. The impact of such relationships on India's economic development is studied. The economic relations which were well established by the end of 1950's survived the strains on the political relations though the relative importance of each country to other's economy was highly unequal. To the US trade with India was almost insignificant for action of compared to its total foreign trade. Similarly the total US private investment in India is only a small fraction of its total foreign private investment. On matters of North South relations India represented the poor South and the US sided with the rich North. United States is interested in rebuilding the international economy in a way that guarantees its continued economic and political influence whereas India advocates fundamental changes to create equitable international economic order.

The two countries have differed on the strategies of economic development. India is committed to the policy of planned economic development with public sector at the commanding heights of the economy. Socialism was the guiding principle in bringing about economic development. Whereas, the US advocates free market enterprise. On private foreign investments India had insisted on setting terms limiting the equity participation. Whereas USA wanted India to liberalise the terms of foreign investments so that multinationals companies could gain any easy access into the Indian economy. Apart from these fundamentally divergent, approaches to economic development, Indo-US economic relations were further complicated by the influence USA has over the multilateral financial institutions, as it was the single largest country providing funds to these institutions.

Keywords – US, Economic, India.

I. BACKGROUND

India's aid relationship with USA was started in 1950 with the signing of an agreement worth \$4.5 million for the purchase of American foodgrains¹. The agreement was symbolic importance because it was the beginning of huge US assistance programme to India. In response to India's request for food assistance, because of failure of monsoon, the US provided \$189.7 million under the India Emergency Food Aid Act in 1951² and Point four Programme was extended to India. This assistance was provided only after a lengthy debate in US Congress over India's foreign policy stances, which in turn evoke criticism of US actions and motivations in India. In the following five years US aid to India averaged \$68 million per year³.

In the second half of the fifties the assistance offered by Soviet Union influenced USA to be more responsive to India's needs. It was feared that if US failed to counter Soviet aid efforts, the communist influence would expand rapidly in the sub-continent. At the same time India was very keen to get foreign aid as it was plagued by severe foreign exchange and food crises. Consequently USA provided aid under PL 480 agreement signed in 1956 and also through Development loan fund which was set up in

1957⁴. Between 1956-57 and 1960-61 the annual average of the US aid to India was \$128 million⁵.

The first half of the sixties witnessed a sharp increase in US aid to India. This was partly due to John F Kennedy's election to the Presidency in 1961, who was sympathetic to India's economic problems. But US Congress regarded India's economic development from rigid ideological angle. India's request for financial assistance for the fourth public sector steel plant was rejected by the US Congress. The Clay committee of the US Congress, which was largely responsible for the rejection, reported that, "The US should not aid a foreign government in projects establishing government owned Industrial and Commercial Enterprises which compete with existing private endeavours"⁶. As the sixties progressed divergent opinions regarding appropriate economic policies for India emerged. The US criticized the large deficits in the balance of payments and the poor agricultural performance due to the faulty economic policies of the government of India⁷. Moreover US suspended aid in 1965 because of war between India and Pakistan. However, it resumed aid programmes after few month⁸.

Due to bad harvests in 1965-66 and 1966-67 there was severe shortage of food supplies. India was unable to tide over the crisis through commercial imports and requested US for food aid under the PL 480. The US used this opportunity to influence the Indian economic policies. Consequently rupee was devalued to encourage exports import structure was liberalized and agricultural sector was given greater attention⁹. Despite these changes, USA tightened the 'Short Tether' policy. However, it is important to note that the PL 480 programme was originally designed to relieve US of accumulating surpluses and not to help the developing countries. By accepting 3 million tonnes of wheat in 1967 India helped US control the falling domestic prices¹⁰. With the advent of Green Revolution in post 1966 period India became virtually self-sufficient in foodgrains and India's dependence on US for food aid virtually ceased. Throughout the year 1966-67 USA maintained pressure on India despite criticism from administrative circles which made India to move away from dependence on USA. It started buying grains from international market.

The upward surge in US assistance would be seen only up to 1966-67. Thereafter, the quantum of aid started declining. The decline in dollar terms was even greater because of the devaluation of the rupee in 1966.

II. INDO-US AID RELATIONSHIP SINCE 1971

USA's tilt towards Pakistan during the Indo-Pak War of 1971 had considerably deteriorated Indo-US relations in general and economic relations in particular. All the differences, that were there before the war were reinforced and legitimised. There was strong opposition to governmental aid to India. Accordingly US administration suspended on December 6, 1971 a little over one third of US economic aid programme to India¹¹. However, in 1971-72 India received Rs. 121.50 crores as aid. The suspension of aid had no great adverse effect on the Indian economy. Despite considerable imbalance between aggregate demand and supply, there was no serious effect on either the price level or the balance of payments in 1971-72¹². Moreover, India was convinced that the country's self-respect would be hurt if assistance has sought from USA because of its biased policy and suspension of aid to New Delhi¹³. India wanted the US to be convinced that economic aid was helpful but India could do without it, if necessary.

The process of normalization of relations began in early 1972, despite the January, 1972, US vote against the granting of an IDA loan to India for the purchase of oil tankers¹⁴. On 9th February President Nixon submitted his annual foreign policy report to Congress in which he said that there had been sharp differences with India during the Indo-Pak War of 1971, which he felt could have been avoided. President Nixon observed that "the US was prepared now for a serious dialogue with India on the further of Indo-US relations. Such a dialogue depended on

not on identity of policies but on respect for each other's views and concerns"¹⁵. Also on 10th February, President Nixon said in a press conference, that 'we may have made mistakes' but the overall US Policy had the purpose of avoiding war¹⁶. The conciliatory tone in President Nixon's remarks, particularly his reference to 'some mistakes' that US had made had furthered the cause of normalization of relations.

On 6th June President Nixon deputed John B Connally for a 15 nation tour, to discuss economic and foreign policy matters and also to explain the significance of President Nixon's visit to Soviet Union and the treaties signed there¹⁷. India was one of the 15 countries visited by John B Connally. However, it is important to note here that India was excluded from the list of countries selected for a special briefing after Nixon's visit to China. John B Connally was the first prominent US representative to India in 1972. During his talks with Indian Prime Minister the question of resumption of aid was not even mentioned. It is reported that Mrs. Gandhi had told him that her main concern was not the resumption of American aid but the termination of hostile American Policies towards India¹⁸. It indicates the Indian Government's intention, not to depend on American Aid and to become more Self-Reliant economically. Accordingly Indian government decided not to avail of concessional food aid under PL 480. India made cash payment for substantial quantities of food grains purchased in US¹⁹. However, it is important to note that though aid was suspended it was continuing on a limited base, in the shape of technical assistance, projects, and food aid through voluntary agencies under PL 480 title II²⁰. Also in November 1972 US participated in Multilateral Debt Relief under the aegis of the World Bank. The US share was 29 million²¹. Thus we see, by the end of 1972, India and US had expressed interest in normalizing their relations. This positive approach was further strengthened by the appointment of Prof. Moynihan who was US Ambassador to India.

However, India's economic dependence on the US and the massive debt burden could hardly contribute to the development of relations between the two countries on the basis of equality. The growing disillusionment with foreign aid, in India prompted reaction against US approaches to aid. Reflecting the Indian approach to foreign aid, the then Finance Minister speaking at National Press Club in Washington had said India needed international cooperation and assistance in the areas of technology and trade²², which were more suitable to India's needs and were less likely to involve undesirable foreign influence.

On 14th March, 1973 the US Government announced the lifting of embargo on the supply of arms to Pakistan²³. The next day US announced the release of \$87.6 million development loan committed earlier and suspended during the war, for priority imports. US intention was clear. It tried

to pacify the Indian reaction to the arms aid to Pakistan by the unilateral decision to release the suspended aid. However, the apparent reason given by the US to such a decision was that, the American assistance could be used quickly and effectively to import fertilizers and electric power generators which were in short supply in India and the demand was greater than the total production. It was true that these requirements, as noted in the economic survey for 1973-74 were in short supply and the balance of payments had shown a considerable deterioration due to steep increase in the price of crude oil. Faced with these problems Indian government has to accept the suspended aid, which only re-established the US Past policy of treating India and Pakistan on equal terms. Apart from this loan, USA also provided \$29.34 million towards debt relief in the form of refinancing credits. However, because of the implications of the American aid as stated above, relations between India and the US remained far from cordial.

The major irritant in Indo-US relations was the US owned rupee fund in India, arising out of the PL 480 food sales to India. As per the agreement, payments for the PL 480 were to be made in rupees, which could not be converted into dollars and were held in the name of the US in Reserve Bank of India. The American use of these funds was fixed by an agreement in the following way: 20 per cent US embassy expenditures, in India and Nepal; 11 per cent for loans to US Business firms under Cooley Loan Programme; and 69 per cent for loans at 5 per cent interest to the Indian government for developmental purposes²⁴. By 1973 the rupee account in the RBI had grown to approximately 30 billion rupees which was roughly equal to one third of India's total money supply. It was argued that if this account continued to grow, it would give US a strangle hold on the Indian economy. The requirement of paying food imports in non-convertible currency came under sharp criticism. It made India a perpetual debtor country, because there was no feasible method to repay the loans and interest in non-convertible rupees. The problem was regarded as a major hindrance to the cordial relations by both the governments. The final agreement on the PL 480 funds was signed in New Delhi in December, 1973 by India's Secretary of Finance M.G. Kaul and US Ambassador Daniel P. Moynihan²⁵. It was ratified by both the countries in 1974. The agreement was a compromise between a total grant and never ending schedule of payments. Out of the total counterpart funds US made a grant of Rs. 1664 crores to Indian for developmental projects in India in the 5th plan. The amount was to be spent on agriculture, housing, power generation, rural health and family planning, in consonance with the general US aid programmes in India. USA retained Rs.750 crores to meet its Embassy expenditure in India and Nepal and the financing of specific education, cultural and scientific programmes for a period of 10 to 15 years²⁶.

However, the agreement had mixed reception in India. B.R.Shenoy an eminent economist criticized the settlement

saying that it would cause inflation in the Indian economy. Though interest payment on the rupee assets was about Rs. 60 Crores a year it was reduced to zero by the agreement, US Embassy expenditures from the counterpart funds amounting 33 crores a year would cause inflation as the Indian budget was already in deficit. To be precise, whatever would be spent by the US embassy would represent inflationary money, which exists till the rupee balance of the US was over²⁷. The government of India had assured its critics that the government was aware of this danger and it had taken all necessary measures to ensure that such a situation did not arise.

In the 1974 year's budget a provision of 75 million dollars as aid to India was made by USA. However, it was reported that US administration had suggested to the Indian Prime Minister to make a request so that the amount would be released²⁸. Mrs. Gandhi refused to make any such request. Though India was facing severe food crisis, it became India's 'VAUNT' that it was economically self-reliant and received almost zero net aid²⁹. India relied on IMF's borrowings to import food grains, fertilizers and crude oil, as foreign exchange reserves dwindled due to the steep increase in the prices of these goods³⁰. Thus we find a shift in the policy of the external borrowings by India, from bilateral aid to multilateral institutions.

India's Nuclear underground explosion on May 18, 1974, caused unpleasant reactions in USA. The US congress as an expression of its disapproval of the test, voted to cancel the \$75 million development loan (which India refused to accept) to India proposed by the US Government³¹. Secondly US Congress voted to require US representative to the World Bank and IDA to vote against concessional loans to India³². However, in spite of the US vote, India continued to receive the IDA loans. But the US action was deeply resented by India. Replying to a question, in an interview with ABC correspondent on 16th June Mrs. Gandhi said that (Indo-US) relationship should not depend on aid but naturally it is welcome if India gets help from wherever and whenever India needs it. She added friendships will not depend on whether we get help or not.

Dr. Henry Kissinger, Secretary of State visited India in October, 1974. His visit helped to remove some past misunderstandings and contributed to a mature and constructive understanding between the two countries on the basis of equality and mutual benefit³³. In the Joint Communiqué issued on 29 October it was noted that, both sides agreed that it was in the interest of all the countries of the region to live in peace... without intervention by outside powers or attempts by such powers to gain positions of special privilege in the region³⁴. The communiqué explicitly said that the 'cordial and frank nature of the discussions during the Secretary's visit reflected the desire and interest of both countries in broadening the basis for

their relationship and in strengthening the many contacts and ties between the Indian and American people³⁵.

These pronouncements apart, the concrete result of the Kissinger's visit was that an Indo-US Joint Commission was set up to promote and observe mutual interests in some key areas of Indo-US relations³⁶. It consisted of three sub-committees to deal with economic and commercial matters, science and technology and education and cultural activities. Each sub-commission was equally represented by both the countries and the meetings were held alternatively in each country³⁷.

Kissinger's visit raised a new hope in India. It was hoped that the Donor-Recipient relationship was abandoned once for all in favour of mutual respect and interdependence. The Joint commission would be the major link for discussing and expanding bilateral contacts including food assistance, economic aid and technological exchange. All this good will led to the extension of bilateral aid of Rs. 121.69 crores by USA to India in 1974-75.

The hopeful trends in Indo-US relations in 1974 were reversed by the US decision to supply arms to Pakistan by USA in 1975 and differences on setting up of a naval base at Diego Garcia and on supply of enriched uranium to Tarapur persisted. The declaration of national emergency in 1975 was not well received by Americans, Kissinger in his ABC Television interview, remarked that it was not the fixed policy of the Department of State to comment on the internal developments in other countries³⁸. Mrs. Gandhi had made it clear that emergency should make no difference to inter-governmental relations. However, emergency had no impact on Indo-US economic relations. In fact Indo-US trade increased noticeably in 1975-76. And India received aid to the tune of Rs. 17.20 crores from USA.

The Indo-US Joint Commission meeting was held in Washington DC on 6 October, 1975. Speaking on the occasion Foreign Minister Chavan said that "the Joint Commission will be an important and effective instrument for the realization of our (India and USA) common objective of building up a mature, mutually beneficial and cooperative relationship between the two countries"³⁹. The communiqué issued on the meeting, announced a number of agreements in the field of trade and investment, science and technology and Education and culture. Some of the other decisions taken at the meeting were (a) to increase trade between US and India, with increased Indian exports, (b) to establish a joint business council to bring together businessmen of both the countries, (c) to continue mutually beneficial consultations on agricultural inputs, (d) to encourage joint ventures between Indian and US firms in third countries. In sum the Indo-US Joint Commission marked the beginning of the mutual beneficial economic relations independent from the political difference between the two countries.

The expansion of exports, the decline in the import of food grains, and the increase in the invisibles in the balance of payments contributed to accumulation of substantial foreign exchange reserves in the years 1975-76 and 1976-77. At the same time, increase in the food grains production created an agricultural surplus by the year 1977. Therefore, the importance of foreign aid to meet country's food deficit and for other imports had largely diminished. The function of the aid had changed. Aid was now required to make up the shortfall in the domestic savings and to provide budgetary support to the Government. In this sense i.e., to pursue the developmental activities without increase in the taxation, aid became all the more important to Indian economy. As increase in aid inflow from sources other than USA and multilateral institutions was unlikely, it was in the interest of India to have good relations with USA.

With the change of administration in India as well as USA in early 1977, Indo-American relations improved markedly. On March 31st, 1977 it was reported that 'State department and aid officials were drawing up new proposals for bilateral aid to India without even waiting for India to make requests and without even knowing whether India would want aid'⁴⁰. However, India received aid worth Rs. 74.21 crores in 1976-77. Also on 30th march, US Senate Foreign Relations Sub-committee voted to repeal an anti-Indian amendment adopted by US Congress in 1974, in reaction to India's nuclear explosion which sought the US representative to World Bank to vote against concessional loans to India⁴¹. Though the USA Anti-India vote in World Bank never actually blocked loans, as US Vote was insufficient for the purpose, the repealing of such an act was a positive indicator to India.

President Carter visited New Delhi in January, 1978. In the Joint declaration issued on 3rd January it was noted that the disparities in economic strength that existed among nations must be bridged and a more equitable international economic order should be fashioned⁴². The constructive achievement of the Carter's visit was that several important features in Indo-US relations were realized by both sides. Firstly, both India and US acknowledged that aid was no more vital factor as it used to be earlier. Secondly, Indian economy had attained a degree of diversity with considerable self-sufficiency. President Carter did not make any direct reference to American aid to India but he talked of cooperation in the economic activities like Agriculture, Irrigation, and Renewable energy etc⁴³. Similarly the Joint Commission, which met on 3rd January decided to expand cooperative research in the new fields of wild life, small industrial technology solar activity related to weather, oceanography etc⁴⁴. Also it was agreed upon during Carter's visit that US will programme its Lands at Earth Satellite to transmit data to a ground receiving station in India. This satellite service provided India with very useful data on topography and minerals and also weather though the USA officially did not resume foreign aid to India.

However India received Rs. 19.80 crores in 1977-78. Prime Minister Morarji Desai visited the US in June 1978. High hopes of improved relations were maintained. But the difference on issues like supply of Nuclear fuel to Tarapur Atomic Power Station were not solved. However, an interim supply of 7.6 metric tonnes of enriched uranium was made⁴⁵.

On economic issues, high hopes on each side surpassed the other's ability or intension to meet them whether in the amount of aid from USA or liberalization of FERA regulations by India. In this connection it is to be noted that two US Firms Coco-cola and IBM have closed down their operations in India during Janata Rule. However, USA resumed 'development assistance' to India with a commitment of \$60 million covered by three separate agreements signed in New Delhi on August 26, 1978. Apart from this India received Rs. 45 crores as aid in 1978-79. The agreements cover \$30 million loan for developing medium sized irrigation system in Gujarat and \$28 million for the import of anti-malarial insecticides and a grant of \$2 million dollars. The expenditure on the Gujarat project could be incurred in rupees and this was the first time the US loan was made available for financing local costs⁴⁶.

However, differences on nuclear issues continued to stain Indo-US relations. Prime Minister Desai persistently rebuffed the US efforts to persuade India to accept the full scope safeguards. But this no way affected the economic relationship of the two countries. At the fourth meeting of the Indo-US Joint Commission (Washington 24 April, 1979) it was decided to establish one more Sub-Commission to deal with cooperation in the field of agriculture between India and US. Several projects like satellite communication systems to monitor climatic conditions, development of audio-visual techniques for economic and industrial purposes, utilization of modern techniques in Geology and Mineralogy etc⁴⁷.

But the Soviet intervention in Afghanistan in December 1979, to a limited extent soured the Indo-US relations. From the US view point Indian reaction to the Soviet intervention, revealed 'at best a deplorable and alarming ambivalence and at worst a decided pro-Soviet basis. From the Indian perspective, the US reactions added unnecessarily to India's security problems'⁴⁸. It is to be noted here that India abstained from the vote in UN General Assembly on a resolution calling for immediate unconditional and total withdrawal of the foreign troops from Afghanistan⁴⁹. However, India continued to receive aid from USA. In 1979-80 India received Rs. 105 crores as aid.

The Nuclear issue continued to be an irritant in the Indo-US relation as also Afghanistan problem troubled Indo-US relations. But economic cooperation between the two countries continued to grow. India received Rs. 162.86 crores as aid in the fiscal year 1980-81 from USA. At the

meeting, in March, 1980 of the Indo-US sub-commission the US side indicated it's willingness to finance a house building programme for the poor people in India⁵⁰.

However, the election of Ronald Reagan to the Presidency and Worldwide economic recession brought a change in the relations between India and USA. President Reagan advocated 'free market' economics to restore equilibrium in the world economy. Soon after his election, a high level Indian delegation headed by Eric Gonsalves visited USA. During the discussions special attention was given to two issues, namely Nuclear fuel supply and arms aid to Pakistan. However no progress was made in reaching an agreement on these issues.

The meeting between Mrs. Gandhi and US President at the Concun Summit on the North-South dialogue in October, 1981 was a major event in Indo-US relations during the year 1981-82. USA's decision to supply modern weapons including 40 F-16s to Pakistan and consequences thereof was the major issue in the discussion. However, differences persisted. On the North-South dialogue too the two leaders took different positions. While US preached free market economics i.e., trade liberalization, liberalizing controls on foreign investment etc. India on its part took the side of developing nations and asked for enlarging the General scheme of preferences and opposed protectionism on the part of developed countries⁵¹. Throughout the year 1981-82, Indo-US relations were strained mainly because of the, as stated above, military aid to Pakistan and the supply of nuclear fuel. USA, also, opposed the IMF loan to India in November, 1981. To meet the balance of payments problem (largely due to hike in the prices of imported crude oil) India decided to borrow an IMF loan of 5 billion special drawing rights units over a period of 3 years. Explaining the necessity of the loan to India, M. Narasimham, India's executive director on the IMF Board, said, "The choice was between a very severe curtailment of all our imports, or keeping our investment going and making use of the fund"⁵². Though India agreed to the loan terms of the IMF like import liberalization, reducing subsidies, curtailing domestic government credit and conserving oil by increase in the prices. But President Reagan's government suspected that India was exploiting emergency IMF balance of payments assistance to allow the government to invest more money in public sector industries like oil and steel which the Reagan government believed should be left to the private sector⁵³.

After the IMF episode Mrs. Gandhi in an interview to Inderjit Badhwar in April, 1982, said that the 'misunderstandings arose not out of bilateral differences but from America's global strategies and she conceded that such a big military and economic power sometimes found it difficult to appreciate the problems of poor countries⁵⁴. Earlier, in a press conference on March, 1980, Mrs. Gandhi charged US of trying to get a foothold in the subcontinent

by fuelling an arms race between India and Pakistan by arming Pakistan⁵⁵.

Mrs. Indira Gandhi visited USA on July 28, 1982. Here talks with President Reagan covered a wide range of international and bilateral subjects. An agreement was reached on the supply of enriched uranium to TAPS. As per the agreement France will supply the Nuclear fuel instead of USA. During the talk Mrs. Gandhi emphasized the need for concessional external assistance to keep India's development programme going⁵⁶. Reductions in the aid would only mean that India was being punished for doing well on economic front.

The role of international financial institutions in promoting economic development by extending concessional loans to areas of social development also figured in the discussions. Reduction in contributions to these institutions by USA, Mrs. Gandhi pointed out, would upset India's planned economic development⁵⁷. While acknowledging the needs of the Indian economy, President Reagan said that due to the budget constraints, US has to reduce its contributions to the multilateral institutions.

Other measures that were agreed to by USA and India to strengthen bilateral measures were: (1) establishment of high level joint committee to expand cooperation in Science and Technology, (2) to intensify cultural exchanges; and (3) Institution of a Nehru studies programme⁵⁸.

However, inspite of the warmth and mutual understanding between India and USA, India received only Rs. 90 crores, as aid in 1982-83.

Relations in the years 1983-84 and 1984-85 were marked by differences in view points on arms aid to Pakistan, militarization of Indian Ocean and spare parts to TAPS. On the issue of Arms to Pakistan, despite American assurances India satisfied because of her past experiences with that country. Since the U.S. premise for aid was that it did pose any threat to India's security. The Indian Ocean region was another major irritant between India and US. While India was more concerned about the super power rivalry in the ocean, Reagan administration considered US presence in the Indian Ocean region as essential and unavoidable so long as Soviet threat persisted⁵⁹.

In June, 1983 US Secretary of State, Shultz, visited India. The result of his visit was an agreement on the supply of spare parts to TAPS⁶⁰. India and US made progress in developing programmes of cooperation in a wide range of fields. However, in the World Bank, USA had used its power to block the financing of development efforts in India⁶¹. USA wanted India to go to the private commercial banks. Despite India's good record of debt servicing and utilization of the funds, India's IDA credits were dwindling largely due to decreased contributions made by USA.

Thus, we find that India's aid relationship by itself during the period under review had not affected, much the Indo-US relations. The American aid had little impact on the India's foreign policy in general and its policy postures towards USA.

CONTRIBUTION OF US AID TO INDIAN ECONOMY

Economy assistance from USA came through different aid giving agencies like EXIM-Bank, US agency for international development, US Banks, PL 480 convertible currency credits (TITLE I) etc. In this section the contribution of American aid to the India's economic development programmes is studied in quantitative and qualitative perspectives. For this purpose total US assistance, amortization and interest payments, the share of project and non-project aid debt relief assistance grants and the purpose-wise utilization of the aid are studied.

III. QUANTUM OF AID

The total aid authorized by the USA during 1971-85 amounted to Rs. 930.65 crores excluding debt relief, while utilized amount during the same period was Rs. 1032.79 crores (Table-3.1). The total utilized amount was more than the authorized amount because of utilization of the credits sanctioned before 1971-72. In sheer volume American aid

Table-3.1 US Aid to India

Year	Authorisation			Utilisation		
	Loans	Grants	Total (2+3)	Loans	Grants	Total (5+6)
1	2	3	4	5	6	7
1971-72	121.50 ⁺	-	121.50	304.93	12.50	317.4
1972-73	38.31	-	38.31	68.69	0.5	68.7
1973-74	4.14 ⁺	-	4.14	57.81	-	57.8
1974-75	121.69	-	121.69	65.22	-	65.2
1975-76	17.20 ⁺	-	17.20	105.00	-	105.0
1976-77	74.21 ⁺	-	74.21	56.46	-	56.4
1977-78	19.80	-	19.80	18.52	-	18.52
1978-79	43.50	1.5	45.00	19.84	-	19.84
1979-80	105.00	-	105.00	39.32	-	39.3

1980-81	135.00	27.86	162.86	82.00	-	82.00
1981-82	12.00	1.58	13.58	70.00	-	70.00
1982-83	67.00	23.00	90.00	29.00	0.24	29.24
1983-84	77.00	39.00	116.00	74.00	1.42	75.42
1984-85	94.00	24.00	118.00	42.00	11.00	53.00

+ Includes P.L. 480 convertible currency credits of 81.46.

* Includes Boeing aircraft company's loans to Air India and Indian Airlines.

Source: a) GOI; Ministry of Finance; Economic Survey, (annual) Various Issues.

b) R.B.I, Report on Currency and Finance, Vol.II (annual), Various Issues.

c) GOI; Ministry of Finance External Assistance, (annual), Various Issues.

during this period was considerable. But during the same period, total repayments (Amortisation and Interest payments) amounted to Rs. 1715.98 crores (Table-3.2), which was more than the total utilized amount of the US aid. Thus there was a reverse flow or resources to the tune of Rs. 683.19 crores from India to USA. In this sense US economic assistance to India during 1971-85 was in no way an addition in India's total investment programmes for development.

However, repayments being what they are US assistance during this period was helpful in meeting its short term needs of foreign exchange. Absence of such an assistance would have caused further strain on India's limited foreign exchange resources.

Type of Aid:

The real contribution of the aid besides quantity, also depends on the type of aid that flows from a Donor to the recipient. The contribution of outright grants to the economic development of the Recipient will be larger than that of loans. Similarly, a balanced mix of project and non-project loans is more conducive to the economic growth.

Economic assistance from USA constituted both outright

Table-3.2 Net flow of resources from USA

Year	Utilisation of Aid	Debt repayment Amortization + Interest (Total (3+4))	Net Aid (2-3)
1	2	3	4
1971-72	317.43	60.59	+256.84

1972-73	68.74	122.35	-53.61
1973-74	57.81	226.33	-168.52
1974-75	65.22	102.59	-37.37
1975-76	105.00	116.41	-11.41
1976-77	56.46	122.72	-66.26
1977-78	18.52	123.93	-105.41
1978-79	19.84	128.39	-108.55
1979-80	39.32	126.51	-87.19
1980-81	82.00	132.99	-50.99
1981-82	70.00	150.68	-80.68
1982-83	29.24	152.50	-123.26
1983-84	75.42	149.99	-74.57
1984-85	53.00	125.14	-72.14
Total	1058.00	1841.12	-783.12

Source: a) GOI, Ministry of Finance; Economic Survey (annual), Various issues.

b) Reserve Bank of India, Report on currency and finance, Vol.II (annual) various issues.

c) GOI, Ministry of Finance; External Assistance, (annual), Various issues.

grants and loans. But the share of grants in the total aid provided by USA was much smaller than that of loans. Grants accounted for only 11.16 per cent of the total aid authorized during 1971-85. Utilisation per cent of the grants is even smaller, accounting to only 2.38 per cent of the total aid utilized, out of the total grant amount of Rs. 116.94 crores authorized during the whole period. The 70's accounted for only Rs. 1.5 crore whereas during the period 1980-85 India received Rs. 115.44 crore as grants from USA. Anyway the total grant amount was meager as India's debt servicing during 1971-85 was more than Rs. 1715 crores. In this context US aid was not of any use of India. In other words, the real contribution of US aid during the period under review was meager.

Project and Non-Project Aid:

Economic assistance can be classified as Project aid and Non-Project aid. Project aid is given for setting up of a specific project, while Non-Project aid is given for non-specified purposes, which could be used by the government in accordance with the plan priorities. Table-3.3 gives the details of authorization and utilization of project and non-project assistance provided by USA during the period 1971-85. As the Table 3.3 shows, out of the total US aid, project loan accounted for 568 crores constituting 55.25 per cent of the total aid

Table-3.3 Project and Non-Project aid from USA

Year	Authorisation			Utilisation		
	Project	Non Project	Total	Project	Non Project	Total
1	2	3	4	5	6	7
1971-72	16	106	122	65	241	306
1972-73	17	22	39	36	33	69
1973-74	-	22	22	2	57	59
1974-75	6	125	131	10	55	65
1975-76	17	-	17	19	86	105
1976-77	-	74	74	1	56	57
1977-78	-	20	20	-	19	19
1978-79	44	-	44	-	20	20
1979-80	105	-	105	39	-	39
1980-81	134	-	134	81	-	81
1981-82	12	-	12	71	-	71
1982-83	66	-	66	24	-	24
1983-84	72	77	149	66	-	66
1984-85	79	14	93	33	2	35

Total	568	460	1028	447	569	1016
-------	-----	-----	------	-----	-----	------

Source: Government of India, Ministry of Finance, Economic Survey, (annual), Various issues.

while non-project aid amounted to Rs. 460 crores, which was 44.75 per cent of the total aid authorized. However, out of the total aid utilized during 1971-85, project aid was only Rs. 447 crores whereas non-project aid amounted to Rs. 569 crores. Their respective shares in the total aid utilized were 43.99 per cent and 56.01 per cent. Utilisation of a larger proportion of non-project aid was very much helpful to India. It must be noted here that as Indian strategy of economic growth shifted to export led growth since mid-seventies, there was a growing need for intermediate goods. To meet the growing needs US Non-Project assistance was very much helpful to India. As most of this aid has been utilized for importing such goods.

Purpose-wise Distribution of Aid:

Benefits from aid depend on its contribution in the development of various sectors of the economy. Contribution of the aid will be larger if the aid is given to develop the priority sectors of the economy. US aid to India was utilized in the development of different sectors like transport and communication, power, agricultural development, industrial development of the Indian economy. US aid has also been utilized to import food grains. Table 3.4 and 3.5 shows the purpose wise authorization and utilization of US aid in different years.

The largest share of American aid was utilized for the development of industrial sector. It amounted to Rs. 523.68 crores accounting for about 40.35 per cent of the total aid utilized during the period 1971-85. However, it is to be noted here that the total authorization during this period was only Rs. 347.16 crores. The excess amount in the utilized aid was authorized before 1970-71. Most of the aid was utilized for industrial imports and to increase/utilize the existing capacities. In the private sector US aided industries were Hindustan Motors, Shree Synthetic Limited, Jammu and Kashmir Industries Limited, and Indian Fertilizer Company. In the Public Sector, Trombay Fertilizers received US aid. Non-project and production loans were given both for public and private sectors. However, as detailed information on these loans was not available, the amounts utilized for the public and private sectors could not be estimated.

Table 3.4: Purpose-wise Authorisation of US Aid

Purpose	1971-72	72-73	73- 74	74-75	75-76	76-77	77- 78	78- 79	79- 80	80 - 81	81-82	82-83	83-84	84- 85
Transports & Communication	-	16.46	-	6.48	15.75	-	-	-	-	-	-	-	-	-
Power Projects	-	-	-	-	-	-	-	-	43.50	-	-	-	-	-
Industrial Development	26.25	-	-	-	1.45	-	-	-	37.50	-	-	-	33.00	-
Agricultural Development	15.75	-	-	-	-	-	-	22.50	16.50	107.20	-	-	-	115.31
Food Aid	79.50	-	-	81.46	-	74.21	19.80	-	-	-	-	-	-	-
Debt Relief	-	21.85	22.04	33.75	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	21.00	7.50	-	9.75	-	18.75	14.27
Total	121.5	38.31	22.01	121.69	17.2	74.21	19.80	43.50	105.00	107.20	9.75	-	51.75	129.58

Source: Reserve Bank of India: Report on Currency and Finance Vol.II, (annual), Various issues.

Table 3.5: Purpose-wise Utilisation of US Aid

Purpose	1971-72	72-73	73- 74	74-75	75-76	76-77	77- 78	78- 79	79- 80	80 - 81	81-82	82-83	83-84	84- 85
Transports & Communication	33.69	25.11	-	6.16	15.49	0.58	-	-	-	-	-	-	-	-
Power Projects	-	-	.54	-	-	-	-	-	-	0.13	10.34	8.66	5.57	10.13
Industrial Development	217.26	13.86	35.36	24.06	7.04	0.29	-	0.04	25.81	11.69	-	-	1.41	-
Agricultural Development	4.15	7.25	1.07	1.25	1.01	-	-	-	1.48	52.31	45.36	9.45	34.45	17.45
Food Aid	103.09	0.29	-	-	81.46	55.69	18.52	19.80	-	-	-	-	-	-
Debt Relief	-	21.85	22.01	33.75	-	-	-	-	-	-	-	-	-	-
Miscellaneous	.27	1.14	.03	-	-	-	-	-	12.03	12.76	3.59	.65	6.35	6.78
Total	358.47	69.5	59.01	65.22	105	56.56	18.52	1984	39.22	76.89	59.29	18.76	47.78	34.36

Source: Reserve Bank of India: Report on Currency and Finance Vol.II, (annual), Various issues.

Power:

Power is one of the basic industries. Its development is essential for the development of other industries and sectors of the economy. But this sector received only small amounts of US aid. Its share in the total aid utilized was only 2.72 (35.37 crores). It was utilized for rural electrification projects i.e., distribution of the already existing power generating capacity. However, some amounts of aid authorized for Tarapur nuclear power project and Ramagundem Thermal Power Project before 1970 was utilized during the period 1971-85.

Transport and Communication:

Transport absorbed 8.78 or total US aid utilized i.e., Rs. 114.02 crores during the period 1971-85. US aid has played an important role in the improvement of civil aviation. Infact Air-India and the Indian airlines accounted for the total aid utilized.

Agricultural Development:

US assistance has contributed to the productive capacity of the agriculture sector by enlarging the irrigation facilities of the country and also by financing the fertilizer industry. US aid was utilized for Gujarat medium irrigation project, Rajasthan medium irrigation project and irrigation development projects in Maharashtra. Apart from these US aid was also utilized for hill area and land development, management and training in minor irrigation and irrigation technology. During the period under study total aid utilized for agricultural development was Rs. 175.68 crores constituting 13.54 percent of the total aid utilized.

Food Aid:

Out of the total aid utilized a significant proportion i.e. 24.91 represents food aid from USA channeled through PL 480 convertible currency credits. Total food aid utilized amounts to Rs. 323.25 crores from 1970-71 to 1978-79. However, no food aid was authorized or utilized during 1979-80 to 1984-85. However, the contribution of food aid to India was controversial. It is argued that 'without the cushions in the form of food supplies and credits which net a good part of the country's import needs, the government could not have invested large sums of projects which by their very nature takes many years to go into production'⁶². Also it is said that importing foreign food gains discouraged Indian farmer from increasing their production to levels where imports could be forgone'⁶³.

Debt Relief:

Debt relief assistance ease the debt servicing burden i.e., repayment of principal and interest. The extent of relief from debt relief assistance depends upon the type of debt relief assistance. Different types of such assistance are debt refinancing credits, postponement of repayments and debt relief grants. Debt relief assistance in the form of grant is permanent debt relief. Whereas the first two types

of debt relief are temporary in nature which means that through such assistance debt servicing burden of the country is shifted to a later date. In the case of American aid, debt relief assistance in the form of grants was not available. However, aid in the form of other two types of debt relief was provided. Such aid amounts to Rs. 77.61 crores during 1970-71 to 1984-85 of the total aid utilized in the period. Thus American debt relief assistance was only a stop-gap arrangement.

IV. MISCELLANEOUS:

Apart from these US has also contributed to Indian economy by providing aid to social welfare programmes undertaken by the government. Programmes like family planning, higher education, social forestry projects, child development schemes, Malaria control, etc., were financed to some extent, by US aid. 3.72 per cent of the total aid utilized was spent on such programmes.

FOOT NOTES

1. Shekar, Chandra, S., 'American Aid and India's Economic Development', New York, Frederic A.Praeger, 1965, p.72.
2. Ibid.
3. Palmer, Norman, D., 'The US and India the Dimensions of influence', New York: Praeger, 1984, p.160.
4. Roy, D.C., 'Indo-US Economic Relations', Deep & deep Publications, New Delhi, 1986, p.78.
5. Ibid.
6. Aggarwal, Sushila, 'Super Powers and the Third World', p.76.
7. Agarwal, Manmohan, 'India's Economic Diplomacy' in Satish Kumar (ed), Indian Foreign Policy Year Book, 1984-85, p.185.
8. Palmer, Norman, D., Op.Cit., p.161.
9. Agrwal, Manmoham, Op.Cit., p.185.
10. Mansingh, Surjit, 'India's Search for Power Indira Gandhi's Foreign Policy 1966-82', Sage Publications, New Delhi, 1984, p.111.
11. Asian Recorder, 29 January to 4 February, 1972, p.10599.
12. Government of India: Economic Survey, 1972-73, p.1
13. Editorial, 'Foreign Aid in Perspective', 8 December, 1972.
14. Moulton, Anthony, 'The US the International Development Association and South Asia', in Rudolf and Rudolf (ed) The Regional Imperative, Concept Publishing Company, New Delhi, 1980,p.331-32.
15. Jain, K.K. (ed), US-South Asian Relations 1947-1982, Vol.I, Radiant Publishers, New Delhi, p.353.

16. Statesman, 12th February, 1972.
17. Times of India, 20 April, 1972.
18. Indian Express, 6 July 1972.
19. Annual Report of the 1973-74, Ministry of External Affairs, p.17.
20. Jain, R.K. Op.Cit., p.379.
21. Ibid.
22. Asian Recorder, 5 March-14 March, p.11049-50.
23. M.E.A. Annual Report 1972-73, p.375.
24. Cited in Surjit Mansingh, Op.Cit., p.116.
25. Mansingh, Surjit, Op.Cit., p.114.
26. Ibid.
27. Shenoy, B.R., 'Impact of PL 480 Agreement', Tribune, Dec.28, 1973.
28. Indian Express, 17th July 1974.
29. Surjit Mansingh, Op.Cit., p.115.
30. Economic Survey 1974-75, p.4.
31. Hindustan Times, 12 July 1974.
32. Norman D.Palmer, Op.Cit., p.166.
33. M.E.A. Annual Report 1974-75, p.410.
34. 'Indo-US Joint Communique', 29 Oct 1974 in R.K.Jain, Op.Cit., p.403.
35. Ibid.
36. Editorial, 'New Dimensions', Indian Express, 30 Oct. 1974.
37. Surjit Mansingh, Op.Cit., p.115.
38. 'Kissinger's Remarks on the declaration of Emergency in India in His BC Television Interview', 5 July 1975, R.K.Jain, Op.Cit., p.411.
39. 'Y.B.Chavan's Speech at the National Press Club, Washington D.C, 6 Oct. 1975' in R.K.Jain, Op.Cit., p.412.
40. Cited in Norman D.Palmer, Op.Cit., p.167.
41. Asian Recorder May 14-20, 1977, p.13788.
42. Das Sitanushu, 'President Carter's visit in Retrospect', India & Foreign Review, Vol.15, 1977-78, p.13.
43. Asian Recorder, Jan 22-28, 1978, p.14130.
44. Ibid.
45. 'Morarji Desai Statement in Parliament, 20 July 1981, in R.K.Jain, Op.Cit., p.495.
46. Asian Recorder Oct 22-28, 1978, p.14564.
47. 'Vijpayee's Statement on his visit to USA 30 April 1979' in R.K.Jain, Op.Cit., p.506.
48. Norman D.Palmer, Op.Cit., p.86.
49. Ibid., p.87.
50. Asian Recorder, May 6-12, 1980, p.15441.
51. Asian Recorder, Nov 12-18, 1981, pp.16314-16318.
52. Asian Recorder, Nov 26-Dec 2, 1981, p.16332.
53. Ibid.
54. 'Indira Gandhi's Interview with Inderjit Badhwar April 1982' in R.K. Jain, Op.Cit., p.564.
55. The Hindu, 4 March 1980.
56. Asian Recorder, Aug 27-Sept 2, 1982 p.16760.
57. The Hindu, 14 Aug. 1982.
58. Ibid.
59. Bose, T.C., 'Reagan Administration Foreign Policy: The Indian Dimension' in Satish Kumar (ed), year Book on Indian Foreign Policy 1983-84, p.175.
60. Ibid., p.176.
61. Council on Foreign Relations: 'India and the United States'
62. Jain, Girilal, 'Politics of US Aid', Times of India, 24 April 1974.