

*Abstract of Doctoral Dissertation*

**India's Economic Relations with USA 1961-1985\***

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**A Statement of The Problem Studied**

THE STUDY OF economic relationship between a developing and a developed country has always been a matter of interest to all economic researchers. In the present thesis, India and USA have been considered as a representative of developing and developed countries respectively.

Till the end of World War II, India had been treated as a peripheral country of British colony and its trade pattern used to get determine to suit the needs of English economy. The whole colonial period is the history of huge economic exploitation of India by British Rulers and thus British Century(i.e. 19th) proved disastrous to India.

Since the inception of American century (i.e. 20th), USA emerged as an industrial power and its economic achievements made many developing countries like India to forge economic ties with it. The triumph of Swami Vivekananda in All World Religion Conference in 1891 (in Chicago-USA) brought these two countries culturally together. Many such events created background for economic cooperation between these two countries particularly after India's independence and especially since sixties.

In the present study the problem analyzed is :-

1. Should trade be regarded as an engine of growth for India particularly when it transacts with a developed nation like USA?
2. Does India's exports commensurate with the needs of USA? Will the traditional export commodities hold demand in future in US market?
3. How is the pattern of India's imports from USA? Does it import more labour intensive than capital intensive goods from USA?
4. How are the terms of trade between India and USA? What influences terms of trade?
5. What is the role of US economic assistance in Indian economy? Is the loan element more prominent than grant element? Is this assistance independent of political strings?

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6. Is US trade policy helpful to India? How US tariff and non-tariff barriers affect India's trade?

In the first introductory chapter the scholar has overviewed various international economic development theories propounded by classical and neo-classical economists. Moreover, overall survey of world economic situation was made to trace out the significance of India and USA in global context. It has been observed that a set model event of one developing country cannot be made applicable to another developing country due to wide range of differences exist in basic parameters. India will have to search out its own path of development based on indigenous resources. Foreign trade can become engine of growth for India provided it creates environment conducive to translate experience of developed country like USA into domestic economy.

In the second chapter of India's exports to USA, the scholar has analyzed export pattern with stress on some prominent commodities like tea, coffee, jute manufactures, leather manufactures, etc. It has been observed that although export percentage of manufactured and semi-manufactured commodities have increased but still traditional items holds sway in India's export basket. Among the commodities mentioned above only leather manufactures command good demand in US market and the remaining items are speedily losing ground because of either lack of competitiveness or change in consumers' habits.

While analyzing India's imports from USA in third chapter, it was found that items like machineries, transport equipments, non-ferrous metals, etc. topped the overall import list. The import of intermediate goods had outsmart the capital as well as consumer goods. The devaluation of rupee in 1966 had largely affected India's balance of trade making imports costlier.

The fourth chapter is dedicated to search out how India's terms of trade fared with USA. To ascertain terms of trade, fourteen and nine top ranking India's export and import commodities respectively, were chosen and after finding out their indices the net barter terms of trade were calculated. It was found that for 17 years out of total 24 years, the terms of trade were favourable to India. It was principally owing to higher export unit value index and wider gap between export unit value index and import unit value index. The favourable terms of trade augers well for enhancing India's exports to USA.

The fifth chapter is designed to assess the role of US economic assistance to India. The basic motive behind US economic assistance to India was to arrest the spread of communism in Asia region. India's proximity to USSR after independence was worrisome to USA and hence America assisted the former to pursue its geopolitical policies. For India, assistance was essential to finance growing imports and meet deepening trade gap; however US help could meet only 4 and 12 percent of above requirements, respectively.

In the last Chapter the scholar has analyzed the US trade policies. It was unfortunate that even though US talk of liberalization through multilateralism but in reality its twisting arm policies towards developing countries like

India through introducing various non-tariff measures is injurious to trade growth. While tariffs are getting reduced through GATT's efforts but non-tariff measures are going up. Despite these obstacles USA has remained India's largest trading partner.

#### The Methodology Adopted for Investigation

Throughout the study simple mathematics has been applied. For calculating terms of trade the following formula was applied :-

$$\text{Net Barter Terms of Trade} = \frac{\text{Export Unit Value Index}}{\text{Import Unit Value Index}} \times 100$$

For calculating unit value indices of exports and imports — Paasche's

$$\text{formula was applied} = \frac{EP_1q_1}{EP_0q_1} \times 100$$

For calculating average interest rate the method of moving average of the Time Series was Applied.

For observing India's gains and losses resulting from changes in US import policy and incomes F.V. Meyer's methodology was applied. ("Book — UK Trade with Europe" by F.V. Meyer — Published by Bowes and Bowes - London 1957).

#### The Major Findings of the Research

- i. Despite various non-tariff barriers, India's exports to USA over the 24 years period have increased by 15 times. In 1961-62 India's export to USA was Rs. 115,74 crs. which went up to Rs. 1768 crs. in 1984-85.
- ii. Although US was the single largest contributor (17 per cent of the total) of external assistance, however more than 60 per cent loan was to be repaid in dollar currency which was unusual burden on India's forex kitty.
- iii. Eventhough PL480 was the most massive aid programme to India but after looking at its various characteristics we could say that it had aid as well as trade elements and therefore, had both positive and negative long-term effects on Indian economy.
- iv. EXIM Bank loan was to be repaid only in dollar currency which put burden on India's forex reserves.
- v. The element of loan was most prominent (around 99 per cent) and grant element was almost silent in the whole of US assistance.
- vi. Loan repayment in dollar currency was 64 per cent and the remaining 36 per cent in rupee currency which had caused problem in the forex reserves of India.

- vii. Major part of US aid was tied under which India was forced to import goods from USA at inflated prices.
- viii. Only on two counts US assistance was reasonable. First, 71 per cent of total aid was non-project loan which was relatively flexible. Secondly, loan was considerably soft because conditions like interest rate, maturity and grace period were within India's limit.
- ix. US national income and overall general economic situation was receptive of India's exports but trade policies erected blockades in stimulating higher export.
- x. India's non-innovative and orthodox market strategy had worked as stumbling block in expanding export in US market.