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End of Aid:
External Assistance and Development Strategy in India 1950-65

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In the second half of the twentieth century, India was possibly the world's largest recipient of foreign aid. India was also often seen as a test case in the large literature on the efficacy of aid in promoting economic growth. But India was a rather distinctive case in the history of aid. South Asia's dependence on aid has always been moderate, aid receipts as a ratio of national income rarely exceeding 2 per cent. In comparison, the average ratio for Africa varied between 5-15 per cent. In short, foreign aid in South Asia was rarely a symptom of serious levels of 'dependence'. Further, the significance of aid has been more or less continuously in decline in the region since the early 1970s. Three indices – aid-GDP ratio, the ratio of aid to net capital receipts, and aid-investment ratio - all show this pattern (Table 1). By contrast, for Africa, the aid-GNP ratio increased substantially during the same period.

These patterns raise interesting questions in the role that aid played in the recent economic history in India. Why was aid utilized to a relatively small extent? Why did aid decline in importance? In principle, two types of answer are possible to these questions. First, perhaps the need for aid was underestimated. This hypothesis prompts us to look at what needs aid served. Second, perhaps aid was seen to be too costly a financing strategy. This hypothesis prompts us to look at the costs, especially political and societal costs, of foreign aid.

In early development literature, the need for aid was mainly conceived with reference to industrialization, specifically, with reference to the shortage of domestic savings and foreign exchange to finance industrialization. Two 'gaps' were seen to be critical: that between domestic savings and 'absorptive capacity' or potential investment without hitting diminishing returns; and that between export earnings and the foreign exchange needed for productive capital expenditure.[1] If the former gap was wide enough, raising resources would become a priority. If the latter gap was wide enough, there was a point

[1] For general statements on the 'theory of aid', see Chenery and Strout (1966), Little and Clifford (1965) and Joshi (1970).

in looking for aid, grant, or private capital from the rest of the world. It is necessary to add that even if the former gap was small, there could be a point in raising resources from abroad, for foreign exchange, by providing access to machinery and intermediates not available at home, had usually higher productivity than domestic resources, especially in a labour surplus society with zero marginal productivity of labour. In other words, the two gaps gave quite distinct rationales for raising resources. In practice, the two rationales merged in a single set of policy whereby foreign resources met both the savings gap and the exchange gap.

The two-gap thesis does not sufficiently address the question why aid was necessary in preference to other types of capital flow. One feature of aid was that it came to the governments. To some extent, aid was incorporated into public goods generation programmes that could not possibly attract a lot of private capital or high-cost loans. However, in India, a lot of aid went into *private goods created in the public sector*. This was a significant fact, as I argue further on.

Little and Clifford (1965: 226-8) applied the 'structuralist' perspective to explain why India remained, despite strong institutions and a strong policy-making framework, 'the Cinderella of world aid'. Their thesis was that 'India herself has consistently underestimated the amount of aid needed for her plans .. [and] consistently overestimated the amount of industrial and infrastructural investment which she could undertake with the foreign exchange .. available'. In short, India underestimated the size of both these gaps, and asked for too little aid. Now, this hypothesis, while it explains why aid was small in extent, does not explain why aid declined in importance. True, Indian plans were from the beginning concerned about reducing aid-dependence as quickly as possible, less from macroeconomic fears and more from nationalistic sentiments. Still, the hypothesis that India underestimated the gaps should predict *rise* and not fall in aid-dependence once the mistake was acknowledged.

Already in the 1960s, critical voices on aid were heard from both the right and the left. Bauer (1971) and Friedman (1958) made the influential case that aid would create dependence and delay institutional maturity in recipient countries. Frank (1966) argued that aid had been an instrument for enrichment of the elite in recipient countries. Both views found limited support in subsequent experience. Maoist critics of globalization later in the 1970s took up Frank's point while also arguing that aid enriched foreign capital and perpetuated neo-imperialism. Seemingly confirming the skeptical standpoint, it has been argued in popular texts that India exemplified the failure of foreign aid to achieve economic growth. At 1990, it had received nearly $50 billion in total foreign assistance, and remained among the poorest regions in the world.

How sound is the view that foreign aid was costly, inequality-inducing, or simply ineffectual? Was aid given up for these reasons? Now, first of all, this gamut of hypotheses can explain why the importance of aid was reduced, but not why its extent was small to begin with, especially since critics of aid began to be active long after aid was an established form of relationship between the North and the South. These views (except Friedman's perhaps) were reacting to an accomplished fact. Furthermore, broad associations between aid and growth can be misleading both as an assessment of aid and as a reading of history. A simple time break-up of aid and growth data suggest a more complex story. Between 1955 and 1965, foreign aid peaked in India in relative terms, and economic growth rates were well above the long-term average in these years. Thereafter, both relative volumes of aid and economic growth rates faltered. After the economic reforms began in the 1990s, aid continued to dwindle and growth rates picked up. It is hardly possible to say from this scenario that aid had any empirical relationship at all with economic growth. The analytical relationship remains equally obscure. What might be the precise link between foreign aid and the failure of growth? None familiar with the 1960s or 1970s India would suggest that institutional atrophy or serious misuse of funds occurred. The Maoist critique remains an offbeat political position. There is little evidence, then, that the costs of aid can explain why the importance of aid dwindled since the 1970s.

My argument in this paper is that the need for foreign aid in India cannot be understood wholly in terms of the extent of resource gaps or the cost of funds. A second, and rather distinctive, motivation behind seeking aid was the choice of the particular industrialization strategy pursued in India. This strategy explains why aid was needed, why its extent was small, and why aid declined, better than the scale of resource-gap or the costs that aid imposed.

Aid was needed for import-substitution. Its extent was small because aid was integrated not with investment as such, but with the particular accent on capital goods production in the public sector. And the end of aid came when this accent began to weaken. There is one other important feature of foreign aid in India that my hypothesis can explain better than the resource gap theories, namely, the shift in the composition of sources from industrial economies to the Soviet bloc in the 1960s. This shift was only partly driven by geopolitical factors, though these factors were important no doubt. More significantly, it was driven by the west's uneasiness about India's choice of strategy and the macroeconomic instability generated by the strategy. Rather than aid being a result of a foreign exchange crisis, India's foreign exchange crisis of the mid-1960s and beyond was a result of industrialization that aid had made possible. Empirically, rather than the total scale of investment, it was the composition of investment between capital and consumer goods, and in turn between public and private sectors, that seems to correlate better with the relative importance of aid in postwar India (Table 1). The final moment in this story came in 2004, about 12 years into the economic reforms, when India declared a desire to formally end receiving aid from all except eight countries. Already by then, the so-called Nehruvian model having lost popularity, the end of aid was an accomplished fact.

If this interpretation is accepted, there would be little point asking whether aid was good for India. Aid was good if we believe import-substituting industrialization was a good choice of strategy at 1950. India cannot be a test case for aid as such, since aid had potentially other uses than industrialization (and indeed infrastructure and food aid were more efficient by the narrower benchmarks that apply to these), and industrialization could potentially derive foreign funds from other sources, private capital, remittances, export earnings, or commercial borrowings. India exercised a choice among alternative industrialization strategies, and chose a particular path that needed to be aid-dependent. The end of aid signified a shift away from that path.

In this paper, I discuss the first half of the transition. Indian industrialization began with aid-dependence and a diversified portfolio of donors. However, the portfolio became narrower, even as aid-dependence first increased and then fell. The transition was complete when aid-dependence became negligible, from the 1990s on. But the paper will not discuss the second half of the transition in detail.

Table 1. Net aid inflow as a proportion of macroeconomic aggregates 1950-2003 (percentages)

	Aid-GDP	Aid-investment (%)	Aid as ratio of capital account balance	Investment-GDP ratio	Public sector's share in gross investment
1950	- 0.2	- 2.2	55	9.1	N.A.
1960	2.3	14.4	64	15.9	44.2
1970	1.1	6.1	116	17.4	37.8
1980	1.3	5.5	85	24.2	44.3
1990	0.8	2.9	31	26.5	38.4
2000	0.1	0.4	5	24.4	28.3
2003			- 14		

Notes: Figures of gross outflow do not include rupee debt service.

I. Aid in the service of industrialization: 1950-65

What is 'aid'? Aid is definable only in terms of its difference from foreign commercial loan on the one hand and grant on the other. The difference consists in interest rate and term of maturity. A simple way to express the difference would be to use the following generalized formula for annual repayment burden of any loan receipt:

$L (1 + r)^T/T$

where L is the amount of receipt, r the interest rate and T the term of repayment. Aid can be defined as a form of receipt that satisfies one or both of the following characteristics:

$r < r^*$

$T > T^*$

where r^* and T^* stand for interest rate and maturity with respect to commercial loans. In one extreme case, where r = 0, and T is infinite, the repayment becomes zero for any L. This is the case of pure ‘grant’. In general pure grant is more an exception than the norm. As the above definition suggests, it is not always possible to strictly differentiate between ‘concessional’ loan and commercial loans, for the former had many shades depending on interest and maturity period. By and large, any flow on the government account has tended to be called ‘aid’, though such a practice should not always be the preferred one.

Why was aid demanded? Aid has been used to meet three broad needs: consumption support especially in times of famine or natural disasters, finance for public goods creation, and finance for industrialization. In developing countries, the major part of aid has flowed into the latter two heads. The second of these heads normally involves the public sector for obvious reasons, and indeed a lot of aid has flowed into public goods in developing countries. But there are also exceptions in which aid has been received by the public sector and used to create private goods, whether in the public sector or in the private. This is the case with the use of aid for industrialization. India primarily belongs in a class of countries that used aid mainly for the third purpose.

Despite what has been said previously about the importance of aid in GDP, foreign aid was an important component of India’s development strategy and growth experience between 1950 and 1965. According to one estimate, in the decade 1951-61, 12 per cent of incremental saving, 21 per cent of incremental investment, and 13 per cent of the increase in national income was aid-generated (Katz, 1968: 47). Real national income, saving and investment increased by significant, if not impressive, magnitudes in this decade. In the second and third five-year plans (1956-60, 1961-5), external assistance supplied about a quarter of actual plan expenditure in the public and private sectors (Datar, 1972: 17). The importance of aid was reflected in the considerable evaluative scholarship on foreign aid that emerged from the late-1960s to the mid-1970s (see, for example, Little and Clifford, 1965; Katz, 1968; Eldridge, 1969; Datar, 1972; Chandra, 1973). Thereafter, the aid issue became marginal in the applied or analytical development discourse from India. Bilateral aid declined in volume and significance at the same time.

Soon after independence from British colonial rule at 1947, Indian leaders began on a development strategy that depended heavily on foreign assistance for its success. This strategy had two distinct goals, which merged into one single instrument. The two goals were, building up capability in the production of capital goods, and import-substitution. The common instrument was state investment in industrial development. The accent on capital goods derived formally from the Mahalanobis-Feldman growth model, an adaptation of the Harrod-Domar model. The former inserted a distinction in the Harrod-Domar model between capital goods and consumer goods and showed that the rate of economic growth depended on the composition of output between these two sectors.

The higher the share of the former the higher would be the rate of growth. The second aspect, import-substitution, derived from the nationalist political tradition, which had fought hard for tariff protection in the interwar period and was clearly poised for a more aggressive form of import-substituting industrialization. Generally negative sentiment about foreign private investment and 'free' trade, both elements having formed in reaction to British colonial policies, had made the ideology of 'self-reliance' an unchallenged orthodoxy at 1950. The first Prime Minister Jawaharlal Nehru was the bridge between these two priorities: capital goods and self-reliance. He shared with P.C. Mahalanobis the latter's enthusiasm for Soviet-style industrialization models, and himself emerged from the political tradition that had fought for protection in the late-interwar period. The Mahalanobis model was silent on two points, it assumed without sufficient reason that the economy was a closed one, and it did not deal in detail with resources for investment, leaving it implicit that state investments would be necessary to carry it through. However, as it turned out, even state resources fell short.

Having adopted self-reliance as a goal, the strategy could not succeed without heavy dependence on foreign resources. Capital and intermediate goods, if these were to be imported, had to be financed. If domestically produced, these needed foreign know-how and equipment, which had to be purchased from abroad. India, on the other hand, 'suffers from a structural balance of payments problem. Its current export earnings are not adequate to meet its requirements for maintenance of imports' (M. Balasubramanian in Indian Council of Current Affairs, 1968: 373). Further, the accent on industrialization and capital goods involved a certain neglect of wage goods, and the avoidance of major food crises became an important priority, again needing foreign, especially US, assistance. Prompted by the new ideology, the center of international economic relations shifted from private capital to government capital and from trade to aid.

Another significant effect of this twin strategy was that it created a bridge between India and the USSR. Far more than USA, UK or West Germany, the USSR was comfortable with both public sector dominance and self reliance. And yet, this factor became important only gradually. Despite its sympathies for Soviet industrialization, the Nehru regime did not begin with a marked political tilt towards East Europe. The first major negotiations regarding external assistance were the PL480 package of food and commodity assistance from the USA, and the Colombo Plan, a Commonwealth initiative led by Canada, Britain, Australia and New Zealand. However, the very logic of industrialization ensured that western participation to industrial development remained an uneasy commitment.

Soviet participation in aided projects began on a low key in the 1950s. But in the 1960s, the situation changed radically. On the political front, consistent Soviet support to India on the Kashmir issue won hearts in Delhi. On the economic front, with American withdrawal from the Bokaro steel project and Soviet entry, Indo-Soviet collaboration became established on a firm foundation. Soviet help was also critical in these years to the government in dealing with the oligopoly in oil and pharmaceuticals. In both these industries, American firms initially reigned, so that in effect Soviet assistance to the government to set up public sector firms could be seen as actions designed to reduce the market power of American private capital in India. At the same time, the Bokaro fiasco showed the US Congress' reluctance to tie American aid to India's industrialization strategy any longer. Among these factors favoring a pro-Soviet tilt in India, another was added. Credits from USSR could be paid in kind. This 'rupee trade' arrangement was of minor importance in the 1950s, but as balance of payments problems worsened in the 1960s and the 1970s, it assumed importance.

Taken together, the 15 years under consideration saw aid flowing mainly into industrial development. Individual country commitments varied. Of total US aid, approximately half consisted of food and commodity assistance under US P.L. 480 and 665 schemes. These came in the form of wheat in the 1950s. Being among the earliest assistance package, these loans made debt-service to US rather large in the 1960s. Of the remaining amount, industrial development including oil, gas, steel and heavy machinery, all in the public sector, accounted for a little over half, and the rest went mainly to railways, power, and irrigation development under the government. West German, Soviet and British aid went mainly into industrial development. Canadian and IBRD aid went mainly to infrastructure. A significant contrast existed in the distribution of aid into public and private sectors. At March 1965, of the aid received in public sector industrial projects from US and USSR, the latter had a share of 75%. Of total aid committed by US to industrial development, 70% went to the private sector. The choice between public and private sector mattered in the case of industrial development alone, for all other uses were dominated by the public sector. Thus, the bulk of World Bank money as well as that from non-US western block went to the public sector.

Table 2. Uses of foreign aid, cumulative 1950-65 (%)

1. Railway, power, port, irrigation, transport and communication	22.7
2. Industrial development of which	63.2
(Steel and iron ore)	(15.0)
3. Others	14.1

Eldridge (1968), p. 191.

Table 3. Official development assistance tied and untied, 1951-65 (Rs. b)

	Tied	Untied
Authorized	34.3	8.5
Utilized	24.3	6.9

Source: Datar (1972), p. 57.

Table 4. Development credit utilized and repayment as percentage of credit utilized, 1951-65

	Credit (Rupees billion)	Repayment as % of credit
USA	9.5	47.1
UK	2.9	25.8
West Germany	3.5	47.5
IBRD	3.8	33.6
Japan	1.0	17.2
USSR	2.8	24.9

Source: Datar (1972).

The two principal industries receiving foreign aid were oil and steel. In oil, the contrast between western and Soviet aid was particularly stark. Apart from some Italian assistance to building pipelines, western aid did not enter the public sector oil refinery and explorations project at all. In the first half of the 1950s, the Indian government found it tough to negotiate with the foreign-owned private sector oil producers on either profit margins or explorations. The goal of self-reliance and the means of economic nationalism were shaped partly by this unsavory experience with global monopolies. In 1955, with the appointment of K.D. Malaviya as the Minister of Natural Resources, these goals received a thrust. Already by then, the government had signed agreements with Burmah-Shell, Esso and Caltex for refinery expansion. The Assam Oil Company was an existing firm for crude oil production and refining. In the next few years, the government painstakingly acquired a partnership in explorations projects in Assam through a new joint venture called Oil India Ltd., and began to establish itself as the main agency for explorations in Gujarat through a department called Oil and Natural Gas Commission (ONGC). On the refining side, a number of new refineries were set up, some with joint ownership, and some of them wholly owned by the government.

The major new factor in world oil industry in the 1950s was the emergence of USSR as a source of supply. India welcomed this development warmly. Soviet aid began to enter from the late-1950s into refinery projects. India by then was dependent on Russian oil, and on the rupee trade arrangement, which made it possible to import oil without serious balance of payments strains. At the same time, restrictions on refinery expansion were imposed on the private companies. In the early-1960s, apprehensions about strained US-India relations over the decisive shift towards government control appeared side by side with increasing Soviet participation and Ministerial pronouncements welcoming this participation.

At 1947, there were two large private sector integrated steel producers in India, the Tata Iron and Steel Company or TISCO, and the Indian Iron and Steel Company or IISCO.

From early in the 1950s, the government decided to set up public sector units, while not curbing expansion in the private sector. The policy succeeded to the extent that by 1964, half of domestic production was already coming from the new public sector units, and this proportion was projected to be 75 per cent by the early-1970s. All of the new capacity was heavily dependent on foreign aid, and not surprisingly, 84% of foreign aid into steel went into public sector capacity expansion. Of the first generation of public sector mills set up almost simultaneously, Bhilai was established with Soviet assistance, Durgapur with British assistance, and Rourkela with German assistance. A fourth project in Bokaro was conceived in the 1960s, and negotiations began first with the US government for official assistance. The process that led to the final refusal of American aid to this project was significant not only as a turning point in India's political economy, but also as a sign of divisions within American foreign policy vis-à-vis India. Accumulated uneasiness at home over being an indirect aid to India's socialistic policies was at sharp contrast with the opinion held at US diplomatic circles in Delhi which favored Indo-US partnership on Indian terms. The second view was expressed most forcefully by the then Ambassador J.K. Galbraith, and received support from President Kennedy, but failed to convince the US Congress. The Soviets filled in the gap quickly.

II Costs

The costs of aid depended on four variables: (a) composition of grants and loans, (b) interest cost and repayment terms, (c) costs of tied aid, and (d) efficiency measures. The importance of the first factor was small. Overall in the 15 years, grants accounted for less than 10 per cent of total assistance, and the percentage was falling throughout. On interest cost, the rate obtained from US and the western block became progressively lower and the repayment period extended, but the rate and repayment period obtained from USSR did not change, though the rate was lower initially.

The major part of aid was tied to specific projects, which meant that these involved payment for technical services and capital goods imported from donor countries. There is some speculation on the cost of tied aid. The costs of tied aid are hidden in over-payment for imports of goods and services, where alternatives do not exist. These costs also appear in the form of transactions costs such as delay in disbursement, inappropriate technology, lack of flexibility in choice of technology, etc. It is generally believed that the cost of tied aid from East Europe was on the high side, primarily because of the second factor (Datar, 1972: 58-9). Bhagwati and Chakravarty (1969) estimated the costs to be as high as one fifth of the total aid volume. On the other hand the interest cost of aid from East European has generally been slightly lower than western aid.

By 1965, it was possible to compare the three pioneer projects in steel on the efficacy of assistance. It is generally held that Rourkela was the costliest project not only on account of high interest rates and short repayment time but also on account of inefficient operations. The source of this inefficiency has been a matter of controversy. Indian official view blamed the German technicians, and the German view of Rourkela blamed subsequent Indian mismanagement. Durgapur received the most favorable terms, but Bhilai was the best in terms of plant operational efficiency. While this early experience of Soviet aid was a positive one, questions of the costs and quality of Soviet aid began to grow subsequently. In the Bokaro project, also set up with Soviet assistance, cost of steel was much higher than the cost projected by the Americans. Unit costs in the Soviet-assisted and Romania-assisted oil refineries were also high. There was another factor that mattered less in the short run, but more in the long run, and this was India's growing dependence on Soviet technology. Most projects financed by Soviet assistance were implemented on a large scale at one go. While that saved on interest costs, it increased the risks of obsolescence. Given that in terms of aid-tying and efficiency, Soviet aid became controversial, a great deal of research on foreign aid in the 1970s focused on these issues (Datar, 1972; Stanislaus, 1975). The controversy was not settled, for clearly Soviet aid gave India significant advantages too, directly in terms of cost and indirectly by helping balance of payments stability.

The comparison of Bhilai, Durgapur and Rourkela reveals an important aspect of technical aid, namely capability building. This depended to a large extent on the quality of interaction between foreign and domestic engineers and opportunities for learning and 'Indianization'. Indians found it the easiest to interact with their Russian counterparts, whereas interaction with German and British engineers occurred on a more formal level, and was restricted at the social level. It is not clear whether this was due to the aloofness of the foreigners, or due to the fact that the Indians felt themselves economically and culturally more equal with East Europeans than with West Europeans.

Aid can also impose macroeconomic costs through aid-tying. Potentially, this cost was positive in an aid-dependent import-substitution regime such as India's. In the short-to-medium run, the external account will balance as net inflow of aid is set off against import of plant and equipment. Datar (1969) shows that the two items were indeed of roughly equal magnitude in the early 1960s in the case of USSR, for which alone this accounting is possible. In the long run, however, aid needs to be repaid. Given that neither Mahalanobis nor Indian politicians worried about exports in a serious way, this industrialization strategy had weak export-potentials. In 1966-7, balance of payments was sharply in deficit, and the major part of new aid contracted went into debt-service. Total repayments of debt as a percentage of export earnings began to rise from 1964, and India was inevitably driven toward dependence on trade with the Soviet bloc. India's trade and exchange policy by then had grown more insular. Labor-intensive and consumer goods, including such heavily globalized industries as cotton textiles, could not grow sufficiently as exportable, adding to the problems. In Africa and Latin America, macroeconomic instability and debt trap reinforced one another. In India, however, another outlet was available in the 'rupee trade' with the Socialist bloc.

After the 1965 war with Pakistan, America insisted on tying aid with some sort of diplomatic commitment or initiative on Kashmir. India's stand on the Kashmir issue, however, did not change. In effect, USSR gained the most from following an unconditional pro-India stance on Kashmir and giving aid to India only. A turning point in Indo-US relations had been reached, which showed up in increasing dependence of India on Soviet arms from the late-1960s. The precarious balance that India had maintained till then between 'non-alignment' and military aid, inevitably began to crumble. After the 1971 Bangladesh war, it broke down and India moved firmly closer to the Soviet bloc in terms of trade, aid, and arms sourcing.

III Criticisms

In the short period in which it played a central role, foreign aid became controversial and a topic for intense debate. There were two main spheres of debate. One sphere occupied the donor country economists and policy analysts rather more. This was the predictable issue of 'strings'. Within India questions of conditionality, tied aid, overt or implicit pressure to adopt a certain foreign policy course or a certain economic policy framework, were not unimportant. These questions formed the center of the ultra-left critique of aid as an instrument of imperialism in the mid-1970s (see Chandra, 1973). However, scholars also agreed that by and large tying of aid and pressures on foreign or economic policy were not so important factors in India's case. India succeeded, possibly to a greater extent than other major contemporary recipients, in steering aid to serve its national development policy, while refusing to give in to donor countries' reservations about that framework of policy itself. Indians became known for 'the marked lack of enthusiasm with which vast sums are received' (Eldridge, 1969: 65). This was partly an effect of the uncompromising stance of the Indian negotiators, and partly the 'colonial hangover' that made any form of western money suspect. In the aid discourse inside India, it was a matter of national pride that 'non-alignment' succeeded in aid negotiations. But in the aid discourse outside India, there was growing impatience with the lack of strings. Aid, the concern was, could become ineffective or inefficient.

The second sphere of debate was the question of who development aid really served. At one level, this question stemmed from skepticism about import-substituting industrialization inside India. In the words of one such critic, aid could have been better utilized in agriculture and to build infrastructure 'instead of being used for steel plants and forced industrialization which have been a failure, which have created inflation and .. brought India to bankruptcy' (Minoo Masani in Indian Council of Current Affairs, 1968: 40).

There was sustained and strong resistance to foreign capital, whether as a 'handmaiden' to foreign aid, or as an alternative to it. To the extent aid was a route through which foreign capital entered India, and aid represented a dependence on foreign know-how and money, it was never totally acceptable to the Indian politicians. Despite outward concessions to foreign private capital, the general stance of the Indian Parliament towards foreign investment was hostile throughout this period, and hardened further in the 1970s. The clearly contradictory attitude to foreign direct investment was a result of the post-colonial mindset and best exemplified in the words of one commentator in the late-1960s. Foreign private capital 'in the [colonial] past' represented 'the shadow of serfdom.' But, whereas 'the doses of vitamins might have been bad for a sick and diseased India in the past, .. the same vitamins now possess vitality' (Indian Council for Current Affairs, 1968: 351). Not many were convinced by such curious logic.

This theme later connected with the ultra-left concern about neo-imperialism. Hidden strings, it was believed, made aid an instrument in the service of foreign capital. Maoist critiques of Indian policy placed the USA, USSR, private capital and military aid all in one basket that defined aid as an instrument of imperialism, though Japan was always an odd-man-out in this package. Some of this sentiment, fed by tilt to the East by choice or by compulsion, survived in the intense anti-IBRD campaign in the 1980s.

Finally, from the Gandhian circles, the industrialization that aid served was at best accepted as a bitter pill, and at worst rejected. Perhaps the most spectacular uses of foreign money were the integrated steel mills set up under the government sector in the 1950s, Bokaro and Bhilai with Soviet aid and technical assistance and Rourkela with German aid and assistance. Many in India did not subscribe to Jawaharlal Nehru's vision of India, self-reliant in machinery and intermediates or 'mother' industries as he called them, of which these mills were the symbol. They did not believe that this strategy could produce significant positive impact on the traditional economy consisting of farmers, artisans and a whole range of semi-skilled services. Aid, in other words, was probably irrelevant.

Conclusion

I have argued in this paper that India's dependence on aid derived from her choice of the particular brand of import-substituting industrialization that linked foreign aid to public investment in capital goods industries. This link was not sustainable for two principal reasons. First, the neglect of labor-intensive and consumer goods compromised export prospects and could lead to balance of payments crises. And second, the west's acceptance of statist industrialization was never complete. These circumstances, together with geopolitical factors, created conditions for the decline of aid and India's progressive isolation from the western bloc from the end of the 1960s.

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