

# **Development by Consortia: International Donors and the Development of India, Pakistan, Indonesia and Turkey in the 1960s**

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## **RESÜMEE**

In den sechziger und frühen siebziger Jahren bildeten Geberländer und ausgewählte Nehmerländer so genannte entwicklungspolitische Konsortien. Diese ermöglichten eine Multilateralisierung von Entwicklungskooperation und eine längerfristige Planung von Transferleistungen. Der Beitrag zeigt, dass diese Konsortien entwicklungspolitisch sinnvoll waren, aus politischen Gründen jedoch keinen Bestand hatten. Untersucht wird diese Form multilateraler, langfristiger Entwicklungskooperation an den Beispielen Indien, Pakistan, Türkei und Indonesien.

## **Introduction**

The period when consortia played a major role in development policy was rather short. After the establishment of those for India, Pakistan and Turkey in 1958, 1960 and 1962 respectively, and the Inter-Governmental Group on Indonesia (IGGI) in 1966/67, donors were little interested in forming new ones. Additionally the existing consortia were somewhat losing their importance. Either they were no more meeting on an annual base or even terminated for an uncertain period of time, like the Turkey Consortium did in 1975 as a result of the Turkish military involvement on Cyprus. Or donors – particularly the US – were leaving consortia and returning to bilateral aid. Nevertheless, on the financial and economic field, all consortia were successes altogether. Pakistan turned into a show-case of successful close cooperation of donors and receivers in the first half of the 1960s. The turning point came not for economic, but political reasons: In 1965 Islam-

abad started and lost the gamble of the second Kashmir War. Thereby, the government of Mohammed Ayub Khan had wasted resources urgently needed in agriculture and industries, but above all lost the credibility needed to improve the living standards of its own people, instead pursuing the obsession of victory over India. Whilst Pakistan disappointed by not following the line of the donors, India did so. The Aid India Consortium performed well until the mid-1960s. Its failure was proof of the inflexibility of the forum. The most striking reason for the hesitance of industrialised countries to form new consortia was the successful performance of the existing ones. Joining them was a question of prestige and the promotion of exports. Once a donor had become a permanent member, however, he could hardly reduce his loans significantly any more, let alone leave the solidarity of the industrialised countries completely, as the co-donors were not willing to shoulder the burden alone once again. Therefore participation became an expensive annual obligation. With decreasing growth rates of the world economy in the second half of the 1960s, and decreasing support for development policy at home, donors wanted more freedom of decision in aid relationships with other developing countries.

There is hardly any literature about the consortia. The only comparative study concerning the India, Pakistan and Turkey consortia by John White<sup>1</sup> dates back to 1967 and therefore covers the early years only. G. A. Posthumus has provided a short study about the Inter Governmental Group on Indonesia in 1971.<sup>2</sup> Publications about the foreign policy of donors hardly mention the consortia. An exception is the diplomatic history of India by Charles H. Heimsath and Surjit Mansingh.<sup>3</sup> From the early 1970s on, scholars seem to have lost interest in consortia altogether. More recently, Marcel Bearth<sup>4</sup> and Petra Glietsch<sup>5</sup> have published studies on the US-Indian relationship, with a strong focus on aid and the role of the World Bank in India's development respectively. This article is therefore mainly based on the author's research around the South Asia policy of the Federal Republic of Germany (FRG)<sup>6</sup>, and it focuses mostly on the early years of the two South Asian consortia. This makes sense as they set the tone for others. They stand at the beginning of development aid on a large scale. Never before had so much money been raised for that purpose and for a single receiving country. Therefore they were not only show-cases, but also laboratories for all sorts of concepts of development policies and theories, then a new field for political actors and experts. In the same way that the Pakistan Consortium profited from experiences with India, the economic relations between industrialised and developing countries as a whole were influenced by the experiences of the consortia. They were laboratories from another perspective as well: No doubt the

1 John White, *Pledged to Development. A Study of international Consortia and the Strategy of Aid*, London 1967.

2 G. A. Posthumus, *The Inter Governmental Group on Indonesia (I.G.G.I.)*, Rotterdam 1971.

3 Charles Heimsath / Surjit Mansingh, *A diplomatic history of modern India*, Bombay 1971.

4 Marcel Bearth, *Weizen, Waffen und Kredite für den Indischen Subkontinent. Die amerikanische Südasienpolitik im Dilemma zwischen Indien und Pakistan*, Stuttgart 1999.

5 Petra Glietsch, *Der Einfluß der Weltbank auf die wirtschaftliche Entwicklung Indiens*, Frankfurt a. M. 1993.

6 Amit Das Gupta, *Handel, Hilfe, Hallstein-Doktrin. Die bundesdeutsche Südasienpolitik unter Adenauer und Erhard, 1949–1966*, Husum 2004.

US initially took the lead in all of them and in the case of the Pakistan Consortium kept it. In the Aid India Consortium, however, the limits of American influence became visible soon. The United Kingdom, too, as the former colonial power in South Asia, with the best individual contacts and the deepest knowledge, was not able to play the role it had designed for itself. No doubt the status of British companies in India and Pakistan could not be matched by any of the donors. Nevertheless the shape of British economy throughout the 1960s did not allow London to play the desired role of the junior partner of the US in the consortia. Instead, the Federal Republic of Germany (FRG) took over: Profiting most from the trade with South Asia, West German interest in stabilising those markets was high, and the economic boom took care of the availability of funds. Therefore the FRG played the UK's projected role as the runner-up, which was taken over much later by Japan with a similar combination of economic interests and financial power. Although political power mattered in the hierarchies within the consortia, which themselves exercised political influence quite a bit in a narrower sense, what counted most was the amount and quality of aid. Therefore, like the G7 later, they helped improve the international standing of the losers of the Second World War via economic strength.

### **Creation, structure and character of the consortia**

The circumstances, under which the individual consortia came into being, differed in each case, and that again took care that no two consortia were alike. The Aid India Consortium (AIC) was a platform to keep the development process in the world's most populous democracy on track, but at least the same importance was given to the need to save an important market for the exports of the Western industrialised countries. The motivation thus was mainly economic – for both the donors and for India. Political considerations, such as keeping non-aligned India democratic and pro-Western as well as balancing the Western against the Eastern bloc where present, but in fact by 1958 there was not much doubt anymore about India's domestic stability and its position in international affairs. Two and half years before India gained independence in 1947, leading industrialists like Jehangir Ratanji Dadabhoy Tata, Ghanshyam Das Birla and John Mathai had agreed in the Bombay Plan (December 1944<sup>7</sup>) that practically every aspect of economic life would have to be rigorously controlled by the Government, especially where development was concerned. Prime Minister Jawaharlal Nehru, an admirer of the rapid Soviet industrialisation under Stalin, thought in similar terms: he favoured a mixed economy, i.e. mostly a planned economy with certain free market elements.<sup>8</sup> From 1951 onwards the planning commission under professor Prasanta Chandra Mahalanobis for-

7 Purshotamdas Thakurdas, et. al., A Brief Memorandum outlining a Plan of Economic Development of India. Bombay 1944.

8 Sarvepalli Gopal, Nehru. A Biography, Vol. III, New Delhi 1989, pp. 286-296.

ulated five-year-plans. Following then common economic theories<sup>9</sup> the Government of India invested into heavy industries and infrastructure. The savings from war production were spent quickly without much financial returns, as both sectors have prospects of long-term profits only. Whilst the first five-year-plan was rather moderate, the second was over-ambitious and soon ran into troubles.<sup>10</sup> It became known in Western capitals that Nehru was in need of loans urgently. Surprisingly during his trip through Europe in 1956 the Prime Minister shied away from raising the question. Obviously asking for money was too humiliating for Nehru, still.<sup>11</sup> His aides and foremost among them the Finance Minister Tiruvellore Thattai Krishnamachari were much less scrupulous. Supported by the US, which gave food aid from the early 1950s already<sup>12</sup>, and the UK they were focussed on the FRG. West Germany's exporters made the highest profits on the Indian market against the background of an extremely one-sided balance of trade. Initially, India paid the full sum at the moment deliveries left German ports. Soon, however, India sought more generous financial terms. The Federal Government then prolonged payments for the Rourkela steel plant for three years for altogether US-\$ 160 million. Thereafter Bonn looked for assistance elsewhere; as it was clear that the task of keeping India liquid could not be shouldered by one country alone.<sup>13</sup>

The German quest met with initiatives from Washington and the World Bank in 1957. For the sake of the free world and a stable world economy US President Eisenhower declared his readiness to assist. He left it to World Bank President Eugene Black to organise a meeting of India's major Western economic trade partners in Washington from August 25 to 27 1958. The meeting took place without an Indian delegation, a feature of the AIC for the years to come. It was designed to raise US \$ 930 million to cover the foreign currency gap for the second five-year-plan as a whole, ending in 1960. The donors, however, were not ready to give pledges for more than the next nine months to come, in total US \$375 million. Compared to later meetings of the AIC and India's needs this was a moderate sum. Large scale development aid, however, until then had not been known. Though Western governments became aware that there was no alternative to stabilising the economy of the South Asian giant it took some time to find ways to get money free in their national budgets. Due to the rapid deterioration of New Delhi's financial situation, which was paralleled by the slowness of Western donation, the 2<sup>nd</sup> five-year-plan fell short of the expectations of its authors.<sup>14</sup>

From the donor side there was nothing like a master-plan for India. None of the participants at first thought about the creation of a consortium. Therefore the meeting of the AIC in 1959 was reserved for monitoring India's performance exclusively. No further

9 John P. Lewis, *Quiet crisis in India*, Washington 1962. See also Gopal, Nehru. Vol. III, p. 293.

10 *Ibid.*, pp. 292-293.

11 Amit Das Gupta, *Handel* (note 6), pp. 132-135.

12 Dennis Kux, *Estranged Democracies. India and the United States 1941-1991*. New Delhi 1994, pp. 78-82 and 124-128. For food aid see also Bearth, *Weizen, Waffen und Kredite* (note 4), pp. 217-218.

13 Das Gupta (note 6), *Handel*, pp. 158-166.

14 *Ibid.*, pp. 171-172.

pledges were given, although the situation had not improved much. After the August 1958 meeting every donor had entered into individual bilateral negotiations with India about development assistance. Canada, for instance, had pledged US \$17 million only, but as grant. The Germans, offering US \$40 million on rather hard terms, drafted a cheque and handed it over to the Indian Ministry of Finances. Therefore the money went directly and immediately into the Indian budget. The US gave US \$ 100 million under soft terms in form of project aid. Thereby a pipeline was created: India would receive the loans gradually until the projects were completed, which usually took years. According to the 'buy-American-policy' the money was given for purchases in the US exclusively. Altogether India received a mix of cheap or cost-free money, immediately available expensive money, and large amounts of money for the future.

The next step towards extending aid towards South Asia was the Indus Water Treaty. The British had established the world's largest connected irrigation system in Punjab, but this province had been split up between India and Pakistan with the partition in 1947. Since then, 1947 India and Pakistan had struggled for water for their parts of the irrigation system, provided by the Indus River and its five tributaries running through Indian controlled Jammu and Kashmir. New Delhi was literally in a position to drain Pakistan's agriculture. Unable to find a compromise themselves, the opponents turned to the Commonwealth, which in view of the sums needed for new dams and canals transferred the task to the World Bank. The Bank prepared a scheme giving each state access to the water of three of the six rivers. It foresaw costs of US \$ 1.033 billion in total, including US \$ 635 million in foreign exchange. The foreign exchange part was meant to be shouldered by the World Bank, the US, the UK, Canada, Australia and New Zealand. The Indus Water Treaty was signed in September 1960<sup>15</sup> with the FRG as an additional signatory. Bonn saw a number of advantages: The treaty seemed to be fulfilled with a one-time payment, and its purpose was to ease the tensions in South Asia for the short and the long term. Since most of the construction work was to be done in Pakistan, the latter would profit most from the heavy influx of money, much to the liking of FRG, which favoured Pakistan over India during those years.<sup>16</sup> On the other hand notwithstanding Pakistani claims of Kashmir or at least major parts of the former princely state, the treaty implicitly made the actual line of control a permanent border. Any major territorial change in Kashmir would most probably have made necessary another round of expensive construction works. Western governments would not have been willing to pay the bill once again: When Pakistan and the World Bank asked for another US \$315 million in 1963 due to massive miscalculations in the original scheme, the donors openly voiced their dissatisfaction.<sup>17</sup> The Indus Water Treaty therefore had much stronger political connotations than the AIC.

15 Heimsath/Mansingh, *A diplomatic history* (note 3), pp. 133-138.

16 Das Gupta, *Handel* (note 6), pp. 264-266.

17 *Ibid.*, pp. 318-320.

For Pakistan this was the first step towards initiating a proper Aid Pakistan Consortium (APC). Whereas India was in the midst of an initially self-managed industrialisation process in the late 1950s, Pakistan with a dominantly agrarian economy had not spent much thought on development. Thanks to the exports of jute and rice from the Eastern Wing and the high prices for raw materials during the Korean War, Pakistan's trade balance looked favourable in the decade after independence. As an ally of the US both in the Baghdad Pact and SEATO, it received substantial US military aid in the period from 1954 to 1965 (about US \$1,5 billion).<sup>18</sup> With a temporarily prospering economy and a powerful ally easing fears of being dominated by a superior India, the major concern became the instable domestic political situation. In October 1958, however, a coup d'état brought General Mohammed Ayub Khan to power, a calculable, pro-Western moderate dictator expected to rule for a longer period. From his point of view, it was only just to give Pakistan money, after archrival India had received so much. The US took a similar stand. During the negotiations around the Indus Water Treaty the World Bank, based on a report about shape and perspectives of Pakistan's economy, had been considering the creation of an APC already. Encouraged by the US<sup>19</sup>, in August 1960 the Government of Pakistan asked for the establishment of a consortium.

The donors were the same – Canada, France, FRG, Japan, UK, USA and the World Bank, together with France, which joined both consortia in 1960 and 1961. Notwithstanding political sympathies for western-oriented Pakistan, the first meeting in October 1960 saw teething troubles. Pakistan had presented a revised version of its second five-year-plan, which foresaw an increase of expenditures of 65 % compared to the original version. And its delegation declared openly they had no idea how to pay back the loans considering the low export rate. Therefore, though all donors apart from FRG had promised certain sums, the final round was postponed until June 1961 when pledges were given for the second year of the second plan only.<sup>20</sup>

Like in the AIC, from then on two meetings per year took place: In the first one the donors discussed Pakistani requests and gave preliminary pledges, which usually did not cover the foreign currency gap. The months before the second round, where the binding pledges were to be given, were characterised by diplomatic wrestling among the donors behind closed doors and press campaigns against those who were not willing to pay their share. Of course India and Pakistan themselves participated in the game as well (see below). The meetings of the AIC took place earlier in the year than those of the APC – a disadvantage for Pakistan. India by sheer size, population and need received more aid than any other developing country. The total annual pledges in the AIC summed up to around one billion US-\$ until the mid 1960s, whereas for smaller and lesser developed Pakistan they ranged between 320 and 625 million US-\$ in the same period. This disad-

18 Golam Wahed Choudhury, *India, Pakistan, Bangladesh and the major powers. Politics of a divided subcontinent*, New York 1975, p. 122.

19 Robert J. McMahon, *Cold War on the Periphery. The United States, India and Pakistan*, New York 1994, p. 277.

20 Das Gupta, Handel (note 6), pp. 240-241.

vantage, however, was compensated by the much higher efficiency of the APC. There was hardly a clash of interests among the donors or between donors and Pakistan.

The situation of both the receivers of Western aid was much different: India not only had pursued its own development policy without external help, but its planning commission under Mahalanobis had won some international reputation.<sup>21</sup> Since Nehru and his successors were believed to have sufficient indigenous expertise, the willingness to accept foreign concepts was limited throughout the history of the AIC. This attitude was enforced by the Indian claim for a leading role among Third World countries and a say in global affairs. New Delhi demanded a status equal to the donors on principle and aid without political strings attached. Any sign of renewed Western domination would have hurt India's own image painfully. New Delhi could pursue such a policy thanks to its non-aligned foreign policy, which made it a subject of desire for both the competing blocks.

Pakistan in 1954 had signed a Mutual Defence Agreement with the USA and until the mid 1960s remained firmly in the Western camp. Political and economical interaction therefore took place with Western and mostly poor developing countries exclusively – the partnership with the PRC was not yet established and anyway never had a strong economic part. India, on the other hand, had trade relations with the Soviet Union and its satellites since the mid 1950s. The volume was rather small<sup>22</sup> and there were discussions of their value. Indian exported raw materials and products of lower quality which it could not sell on the world market. Soviet promises of loans more than once either never materialized or were provided many years later only.<sup>23</sup> Nevertheless these trade relations and loans left a strong impact on Indian and Western minds. Both felt that unlike Pakistan, India was not dependent on Western aid only. Another factor, of course, was the sheer size of the task to develop a country with a population of around 400 million. US-President Eisenhower, highly sceptical about the military partnership with Pakistan in the late 1950s, once said he was pleased that India had turned down the offer for an alliance itself. Had India been an ally this would have obliged the US to pay sums much beyond the level of acceptance of the public at home, which was still much more sympathetic towards aid programs than in the years to come.<sup>24</sup> Pakistan had not had a development policy worth the name until 1960 when Ayub Khan toured Western capitals to create good-will. Islamabad was simply happy to receive that much money and did not make the aid relationship a question of national pride. Even more, Pakistan's Finance Minister Mohammed Shoaib had been an Executive Director of the World Bank in the 1950s and therefore was familiar with its proceedings.

21 For a critical review of Indian planning and Mahalanobis' concept see Sukhamoy Chakravarty, *Development Planning. The Indian Experience*. Oxford 1987, pp. 12-18.

22 For the volume of Indo-Soviet trade see Peter J. S. Duncan, *The Soviet Union and India*. New York 1989, pp. 69-77.

23 *Ibid.*, p. 72.

24 Kux, *Estranged Democracies* (note 12), p. 154.

Turkey, again, was another case.<sup>25</sup> There was no country worldwide with a longer lasting experience with development politics. Whereas India and Pakistan as independent states were newcomers in international affairs, the Ottoman Empire had played a role in European politics over centuries. With its decline the proverbial “sick man from the Bosphorus” had come up in the 19<sup>th</sup> century. Urgently needed as a buffer against Russian ambitions towards the Mediterranean, Moscow’s European rivals had started to ‘develop’ the Ottoman Empire, which itself tried to modernise in order to keep up its claim of being a great power.<sup>26</sup> The focus was on both the army and the economy. Since then there was a continuous line of European experts working as advisors for their own or the Turkish government. With the Cold War starting, the US entered the stage. Turkey had been admitted to the Organisation for European Economic Cooperation (OEEC) in 1948 and therefore had become eligible for Marshall Aid. From then on the US, via bilateral agreements, gave loans, from 1951 mostly grants. Joining NATO in 1952 Turkey was given an extraordinary role in military terms as the South-Eastern bastion of the alliance. At the same it had the weakest economy among the members. The effects of aid were mostly disappointing due to the inflationary politics of the Turkish government under Prime Minister Adnan Menderes. As the Korea-boom lessened the situation worsened. Following an agreement in 1954 the World Bank decided not to give any more loans and kept that stand for a decade. Therefore when the Turkey Consortium was formed in 1962 it was lead, unlike the AIC and the APC, by the OEEC and not the World Bank. At the end of the decade Turkey ran into a severe economic crisis. External debt repayments in 1958 were higher than the total export earnings, and the external indebtedness had risen to more than US-\$ one billion. OEEC came up with a stabilisation programme which among other measures demanded a 70 % devaluation of the Turkish lira. This was a rescue operation only, no long-term solution, and effects were rather limited in the face of at best limited cooperation of the Menderes administration. As with Pakistan earlier, a radical change came only when the military took over in May 1960. The new government under General Cemal Gürsel quickly established a State Planning Organisation, which came up with a five-year-plan in 1962.

There were more parallels with the creation of the APC. In both cases the US looked for partners to share the financial burden until then shouldered alone mostly. Turkey, like Pakistan, hoped to stimulate the influx of loans with the establishment of a consortium. And the other Western donors were not only obliged towards the US, but ready for a gesture of good will towards a reform-willing Ankara. Like in the AIC there were American, British and German business interests. Their combined exports towards Turkey made out 70 % of the total exports of all donors in 1962, and in 1964 the three held 90 % of the Turkish obligations to foreign governments. The attitude of the Turks towards the cooperation in the consortium was comparable to that of the Indians. Both developed

25 For the following see White, *Pledged to Development* (note 1), pp. 90-163.

26 *Ibid.*, p. 93; see also Friedrich Scherer, *Adler und Halbmond. Bismarck und der Orient 1878–1890*. Paderborn 2001, pp. 4-9.



five-year-plans on their own and saw it as a question of national pride and sovereignty that the donors did not interfere either in the formulation of goals and projects or in the performance. From the point of view of Ankara and New Delhi the proper procedure in the consortia was to give information about how much foreign exchange was needed. Turkey was as keen as India to keep up the impression to be a partner among equals. Therefore the request to form a consortium formally was made towards NATO, which transferred the request to the OECD.

Whereas the Worldbank in the AIC and the APC played a constructive role in providing both countries assistance in the form of expertise, evaluating the five-year-plans, promoting country studies and moderating the discussions among the donors, OECD was no institution to play a similar role. To make things worse, within the OECD the Trade and Payments Department was responsible for the consortium. This body was mainly concerned with short-term balance and payments fluctuations only. What the OECD did was not more than to collect data provided by Ankara. There was no man-power or expertise for studies or evaluations. Unlike the established consortia the new one met more than twice a year. In the years from 1962 to 1964 there were altogether nine rounds taking place in Paris, most of them highly inefficient. Discussions centred around minor questions based on informations which just had swept in from Ankara via the OECD, and there seemed to have been no urgency to take final decisions. Nevertheless the pledges in 1963 summed up to US-\$ 187 million and another US-\$258 million in 1964.

Indonesia was a latecomer. As in the cases of Pakistan and Turkey a coup d'état paved the way for the Inter-Governmental Group on Indonesia (IGGI). President Sukarno, the founding father of Indonesia, had established authoritarian rule in 1959. His government, however, proved to be unable to develop the economy. In international affairs Indonesia tended towards the communist block isolating itself more and more, finally even the Soviet Union was dropped and only the PRC and North Korea were left as partners.<sup>27</sup> In 1965, it even left the United Nations. In March 1966, General Suharto took over power and opened the country towards the West. With the reforms of October 3, 1966 the former rigid system of import-licences was abolished, policy guidelines were changed to allow credit extension and those credits were to be used to extend exports. There was an urgent need for foreign currency in the face of inflation, a balance of payment crisis and foreign debt repayment obligations.

With its leftist orientation and its claim for a leading role among the developing countries the Sukarno government had refused to accept any Western aid. Loans from the Eastern block had mostly been meant for military sales. The Suharto government almost immediately turned towards the West and found a favourable reaction much faster than had Pakistan and Turkey. First of all the economic and financial crisis was severe and demanded immediate action – like India in late 1957. Secondly, the change in government and politics opened a chance to make Indonesia follow a pro-Western course in the

27 Ragna Boden, *Die Grenzen der Weltmacht. Sowjetische Indonesienpolitik von Stalin bis Brežnev*. Stuttgart 2006, pp. 119-121.

longer run. The more pressing issue from the creditors' point of view were the arrears in debt repayments. A majority asked to solve this question before foreign aid should be discussed. The terms of the debt rearrangement were negotiated in Tokyo in September and in Paris in December 1966.

The Netherlands as the former colonial power organised a conference with 14 Western countries and five international organisations, held in Amsterdam in February 1967. An Indonesian delegation requested US-\$ 200 million for a stabilisation programme as direct balance of payments aid to be made available in the same year. Like India and Turkey, Indonesia successfully pushed through the acceptance of its own development concept. As a number of the donors hesitated to form another consortium, the Dutch chairman suggested calling the conference the Inter-Governmental Group on Indonesia. The IGGI functioned much like the other consortia, with the exception that the World Bank, as with Turkey, remained in the background. The group monitoring Indonesian performance and providing data for the meetings was the IMF, which had been active in Indonesia from the summer of 1966 on in order to help with the debt repayments. Another new feature was the parallel existence of a Paris club concerned with debt questions, while the IGGI focused on overall development policy. Naturally both should have cooperated closely as both questions were intertwined. Not to the benefit of Indonesia the flow of information between the two clubs was late and often insufficient.

### **Laboratories for development policy**

Although the backgrounds of the consortia were all different, the changes in the philosophy of development politics affected all of them similarly. There was nothing like systematic research or analysis to make the use of external funds more efficient. The recipient countries – with the exception of Pakistan – followed their own concepts and reacted allergic to any attempt from the donor side to exercise influence. Changes occurred from learning by doing or from changes in domestic affairs with one of the major donors. The very laboratory was the AIC, not only because India ran into troubles first, but because its problems were so pressing, and solving them meant solving those of a large portion of the developing world as a whole. As mentioned above, before the first meeting of the AIC some donors already had attempted to help in the Indian foreign exchange crisis. The founding meeting of the AIC in August 1958 was meant to finance the financial year four and five of the second plan, and the delegations came with individual concepts. Those of Canada (like the Netherlands and the Scandinavians in the years to come) were based on a strong humanitarian approach. Though the sum Ottawa gave in total was moderate, it was given as a grant. Others were less charitable. The terms of their loans were shaped by business interests with India and the (limited) possibilities to raise funds at home. The hardest terms were offered by FRG and UK, who had arranged things with each other in advance<sup>28</sup>, i.e. commercial loans with a credit period of five years, no

period of grace and interest rates of 6.3 %. Besides the lack of experience with aid, FRG in those years suffered from a lack of capital and had no means to create loans initially. Bonn spent the little savings from the Marshall aid. The traditional instrument of export promotion, Hermes guarantees, were not accepted as equivalent to development loans either by India or the other donors. Therefore the money had to come from the capital market and was given under commercial terms.

Nevertheless, German aid was most popular with New Delhi as it was not linked with projects like parts of American or British aid. Bonn in 1958 and again in 1960 could do so because it knew for sure New Delhi would use the money to pay German contractors anyway. Nehru had a preference for German companies in the early 1950s, as “Made in Germany” stood for quality and the FRG had a standing in international affairs too weak to attach political strings. Furthermore the balance of bilateral trade was much in favour of the FRG for years. Project aid, however, became common in 1960/61, with the exception of the FRG. Bonn on the contrary made it a point in the AIC meeting in 1961 to give the bigger share of its loans not linked to projects. With the APC, however, project aid dominated from its beginnings. Pakistan did not suffer under a comparable foreign exchange crisis and since industrialisation was to start with the establishment of the consortium it made sense to finance projects. Project aid became dominant in the AIC, too, because it had a number of advantages for the donors: First of all it postponed the transfer of money, which was given gradually only with the progress of the individual project. In the longer run this was a zero-sum-game of course, in the short run, however, it eased the problem of raising funds for aid in the budgets. Secondly, project aid opened the chance to influence the planning of the recipient country and to monitor its performance. India, for instance, accepted the World Bank’s advice by working out the third five-year-plan, but later on rejected all criticism of aid-giving national governments in the AIC. It has to be added that donors themselves showed no interest in participating in the formulation of the plan, as this had made them responsible for its performance much more.<sup>29</sup> The easier, smoother and less binding way of limiting the effects of over-ambitious planning, however, was to reject certain projects through feasibility studies. In some cases this proved to be mere theory – there were always “white elephants” among the projects: Tata and Daimler-Benz e.g. in 1953 had formed a successful joint venture, TELCO, producing a truck for the Indian market. Indian Defence Minister Krishna Menon, however, dreamed of a completely self-sufficient arms industry. Therefore in 1959 he asked for German loans for producing another truck called Shaktiman. The Federal Government for obvious reasons turned down the request.<sup>30</sup> The list of approved projects in 1963, however, included the Shaktiman. India had to recover from the humiliating military defeat against the PRC in late 1962. Objections that German law would not allow financing military projects through development aid were evaded by the

29 For the German case see *ibid.*, pp. 232.

30 *Ibid.*, pp. 171-172.

statement that it was possible that the truck could be used for civilian purposes as well.<sup>31</sup> Recipient countries could profit from the introduction of project aid as well, as can be seen with Pakistan. Islamabad had good reasons to believe that the APC was created less out of necessity but as gesture of good will. Against the background of this knowledge plus the lack of experience with development planning Pakistani delegations initially believed that it would be sufficient to name a number of hardly worked out drafts of projects more or less as a cover to receive loans used later on when Islamabad believed them to be necessary. Notwithstanding political sympathies for Pakistan donors did not accept this practice and virtually forced Pakistan to initiate proper long-term planning, definitely to the advantage of the recipient country.

Parallel to the establishment of project aid the terms of loans became much softer in general in all consortia. Interest rates fell to 3 % and less, periods of grace were extended up to ten years and credit periods even beyond that. The donors came to understand that otherwise the sums necessary for repayments of existing debts would exceed the influx of new loans. With India that point was reached in 1965.<sup>32</sup> The debates about the softening of terms at first centred on FRG, later on the World Bank got criticised heavily. National government slowly got used to the idea that complete repayments would be made in the distant future at best. Therefore the sums were partly given as grants. These were political decisions. The World Bank, however, is a bank dependent on repayments. That is why this institution was not able to soften terms as far as national donors, and therefore its loans became less and less attractive. The International Development Association (IDA), founded in 1960 and managed by the personal of the World Bank, did provide soft loans.<sup>33</sup> This was true for the AIC and the APC, but not for the Turkey Consortium, as the sums absorbed by India and Pakistan left little from IDA's budget for other developing countries.

In 1964 in the AIC, however, it became apparent that project aid alone could not solve all problems. Until the end of the third plan in 1965 there would be an established pipeline of 2.3 billion US-\$ for projects, giving New Delhi security for further planning. The existing industrial plants, however, were not used to full capacity, because quite often there was no foreign exchange available for the imports necessary for production in India. Project aid therefore was supplemented by commodity aid, i.e. New Delhi was given cash to finance those imports. At the same time a general diversification of aid was taking place for other reasons. Whereas politicians and experts in the 1950s and the early 1960s had believed in development through huge industrial projects and trickle down effects, the performance of India following that path proved that industrialisation of that kind was no panacea. The country was still not able to feed its own people, so food aid and the green revolution became a topic in the debates of the consortium. Especially US-President Lyndon B. Johnson forced India to focus on the development of its agriculture.

31 Ibid., pp. 308-309.

32 Glietsch, *Der Einfluß der Weltbank* (note 5), pp. 83-84.

33 Manfred Ferber, *Internationaler Währungsfonds, Weltbank, IFC, IDA*. Frankfurt a. M 1985 (3<sup>rd</sup> edition), pp. 71-72.

In fact this was a policy for the poor within the developing societies. Interest in them came from another corner, too. When industrial plants had been constructed in India earlier, it was left to the managements that they took care for a proper social environment there. Some companies built schools and hospitals around the new plants. The enormous gap between highly qualified and well-paid Western and local experts on one hand and the average people on the other was hardly bridged and there was a growing awareness of that phenomenon in the press of Western countries. With the growing volume of aid, new departments or even ministries came up. Typically these had to delimit from existing ministries and therefore were hunting for new topics – social politics in the Third World was one of them.

## Power struggles

The consortia were forums for regular power struggles. Even moderate criticism about the five-year-plans got harsh replies. After the pledging round of the AIC in 1958 in September Indo-German negotiations about the loans took place. When the head of the German delegation declared it was expected that the third plan should be much less in volume than its predecessor, the Indian Ambassador Badruddin Faiz Husain Badruddin Tyabji replied that the shape of the third plan was a question not concerning the FRG.<sup>34</sup> In the following summer, Indian Finance Minister Morarji Ranchhodji Desai visited Bonn and asked for additional loans for the second plan. The West German Minister of Economic Affairs, Ludwig Erhard, replied money wouldn't grow on trees in the FRG. Desai's emotional response left no doubt about the deep conviction of a moral obligation of industrialised countries to give aid:

*I was led to believe that Germany was willing to help us, I would not have come otherwise. [...] I do not wish my hand in your pocket. [...] I grew up a poor man, I have remained a poor man to this day, but I have always made it a point never to beg money from anybody.*<sup>35</sup>

India knew it was needed: The donors could neither afford to lose a promising market of that size nor a leading Third World country, which otherwise might have leant stronger towards the communist block. Right from the start the donors had in mind a reduction of India's defence budget or discussed if New Delhi should not take a loan on its enormous gold reserves. However, they never dared to raise those topics officially. Asking for moderate planning became even more difficult after the defeat against the PRC in 1962, as not only in India it was felt that the Chinese challenge could be met by massive industrialisation and rearmament only.

34 Strictly confidential note, Eberl, October 2 1958; Political Archives of the German Foreign Office (PA/AA), B61, Vol. 108.

35 Note, Eberl, June 29 1960; PA/AA, B 12, Vol. 1292.

Another permanent demand of the donors was to open the Indian market via import liberalisation and a devaluation of the Rupee. Nehru's successor Lal Bahadur Shastri, being more pro-Western in general, responded positively, but during his one and a half years in office no radical change took place. In 1966, though, there came a unique opportunity, when Indira Gandhi became Prime Minister. Nehru's daughter urgently needed to get a profile of her own, and she tried the economic programme the donors had been asking for. Besides the hope for a major economic breakthrough this move was motivated by foreign relations at large. 1965 had seen the second Kashmir War. Although it had been started by Pakistan, India experienced much silent and not so silent support for Islamabad. Only the Soviet Union came to help India diplomatically and with arm supplies. After the declaration of Tashkent from January 1966 restoring the status quo ante in South Asia, New Delhi felt it was high time for a gesture towards the West. What looked like a turnaround in India's economic policy enforced by Western powers, however, proved to show the weakness of Western development concepts. India needed US-\$ 2.9 billion for food imports and raw materials, but exported items with a value of US-\$ 1.7 billion only. The reform programme aimed at an increase in exports, but this would take time. In the meantime a massive influx of commodity aid would be necessary. The World Bank, for the AIC meeting in 1966, asked for 900 Million US-\$ commodity aid alone, which was to be supplemented by the usual project aid. Most of the donors were not ready to support such a programme and the reform programme became a blunder.<sup>36</sup>

There was another paradoxical aspect of the consortia, which were created by capitalist countries to promote free trade and open market economies. Long-term development needed long-term planning and this was needed, too, in the face of the large sums given. Hence, planning and, to some degree, a planned economy, was a factor in the debates of the consortia right from the beginning. Consequently all the recipient countries, if they had not introduced planning commissions and five year plans before like India, did so as soon as the consortia were established. De facto, donors considered economic planning a precondition of any financial engagement. Predictability was a main feature of the consortia, flexibility definitely not. Lessons from such insights could be seen after the Indo-Pakistani wars in 1965 and 1972. After minor Indo-Pakistani military clashes around the Run of Kutch, President Lyndon B. Johnson ordered a partial stop of loans for the AIC pledging session. More important for that decision, however, were critical Indian statements about the American military engagement in Vietnam and particularly Prime Minister Lal Bahadur Shastri's hesitation to push forward economic reforms.<sup>37</sup> A little later, Pakistan seemed to have to pay an even higher price for the military adventure following soon after. President Ayub Khan initiated a war for Kashmir in summer. A full-fledged war between the – as far as aid was concerned – then two most important recipients of the West was understood as a slap in the face of the donors. The US and the UK cancelled the APC meeting scheduled for fall 1965 and considered stopping all food

36 Glietsch *Der Einfluß der Weltbank* (note 5), p. 93; Bearth, *Weizen, Waffen und Kredite* (note 4), pp. 179-185.

37 Ibid., pp. 166-170.

deliveries to India as well. All others, however, gave Pakistan the amount of aid bilaterally they had intended for the consortium anyway, like they had done in the framework of the AIC for India in April. American diplomats in South Asia let their Western colleagues know that Washington would welcome such steps in order to keep Islamabad in the Western camp.<sup>38</sup> In December 1966 another pledging round of the APC took place, again with the US participating. Washington could not afford to side with India and drop Pakistan. The overall logic of the highly unrealistic political strategy of the US in South Asia was to make the opponents form a united front against the communist powers. Nevertheless the American part of the US-\$ 525.8 million in total in the APC was reduced remarkably to 42 % instead of the formerly usual 49 %. The crisis around the creation of Bangladesh in 1971 was treated in a similar way. The donors came together on June 21 1971 in Paris to discuss if it made sense to organise a proper meeting.<sup>39</sup> The latter took place in 1972 only when the Indo-Pakistani war was over and Bangladesh had been established as an internationally recognised state. Turkey experienced similar treatment after it had sent armed forces to secure the claims of the Turkish population in Cyprus in 1974, after the Greeks on that island had staged a coup d'état and had declared their willingness to join Greece. The Turkey consortium was postponed for an indefinite period. Discussions around resumption began in 1977 only, but in the face of Turkey's economical problems aid on a bilateral base flowed without much interruption. More in a state of flux was the constellation among the donors themselves. The US exercised the strongest influence in the South Asian consortia. Notwithstanding the support by others, the APC in fact was mostly their creation. The general line there given by the US was never seriously questioned by the other donors. The story in the AIC and later in the Turkey consortium was different. The interests of other donors were similarly strong, so Washington here was the first among equals only. A case in point to illustrate this is the position of Great Britain. As the former colonial power the UK had hoped to have a say in South Asian affairs after independence in 1947. India and Pakistan both remained in the Commonwealth, but otherwise turned down any attempt of tutelage. After a short transition period with British officers in both armies, the UK soon stopped playing a role in security questions, most visible with the US-Pakistani military alliance and the establishment of the Baghdad Pact and SEATO. What was left was economic influence. The UK-sponsored Colombo-Plan from 1950 foresaw an improvement of living standards in Ceylon, India, Pakistan, Malaysia and Singapore through financial and technical from Australia, Canada, New Zealand, Japan, the UK and the US. With the establishment of the AIC it became obvious that London did not have the financial means to play a dominant role in development politics of its former colonies. During the first meeting of the AIC the UK tried to play the leading role, though the initiative for the meeting had come from Washington and Bonn. Eventually, London gave the largest

38 Telegramme No. 485, German Ambassador Koehler, Islamabad, October 27 1965; BAK, B 106 (Ministry of Financial Affairs), Vol. 23961.

39 Note, Schmidt, June 24 1971; PA/AA, B 61-III B7, Vol. 562.

contribution – US-\$ 108 million – but showed signs of political weakness nevertheless. The UK introduced matching, though the term itself was used a few years later only as a US strategy in the consortia. It meant that London or Washington proposed the sum they were ready to pledge, if other donors would match it. In case the latter failed, the UK or the US would reduce their own pledges and put the blame on others. The US, moreover, usually wanted to see their contribution matched by all other governments in the consortia. The UK in 1958 tried to pressurize FRG and Japan to match the British loans of US-\$ 100 million. The attempt failed, because a self-confident German delegation could point to the prolongation for the repayments for the Rourkela steel plant summing up to 160 Million US-\$. German loans in the AIC and the APC regularly almost doubled those pledged by the British. The FRG became the junior partner of the US, not of the UK.

## Conclusion

The consortia were forums for major macro-economic decisions and power politics. They shaped the economic, financial and political relationships between Western industrialized countries and important countries in the developing world in the formative years of development policy. Multilateral attempts to raise funds of hundreds of millions of Dollars, multilateral discussions about the use of those sums and about development planning in general were unknown prior to the founding of the consortia. Like huge tank ships they tended to loose flexibility after they had been established. This was one of the major reasons for the decline of interest in consortia on the part of donor countries. For other donors and naturally the recipient countries the consortia were of great value. Surprisingly there is still much to investigate about the consortia in the 1960s, not to mention the 1970s, which seem to have escaped the attention of scholars completely until today.