

Imperial Preference

VIS-A-VIS

World-Economy

Imperial Preference

vis-a-vis

World-Economy

in relation to the International Trade and
National Economy of India

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PREFACE

In the tariff morphology of nations the Ottawa Agreement of 1932 is as great a landmark as the Cobden-Chevalier Treaty of 1860 and the *Deutscher Zollverein* of 1833. The present study seeks to examine the nature of Imperial Preference as thus consummated in its bearings on Economic India, the Empire-Economy, and the world-economy, thereby throwing some light on the theory of international trade as distinguished from what is known from the well-established viewpoints of free trade and protection.

I am happy to express my appreciation of the fact that the book was kindly piloted through the press by my friend and colleague, Dr. Narendra Nath Law.

BENOY KUMAR SARKAR

Calcutta University,
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Imperial Preference vis-à-vis World-Economy

The economics of Imperial Preference touches, on the one hand, the tariff policies of nations. We are interested here in the directions of foreign trade, the movements of exports and imports. On the other hand, the economics of Imperial Preference is an aspect of the problems bearing on the economic unification, concentration, consolidation or federation of regions. The topic of interest here is the territorial division of production and labour in the international sphere.

From the first standpoint we have to encounter questions relating to the terms of commercial treaties, agreements or conventions. And in this regard Imperial Preference introduces us to the very antithesis of the "most-favoured nation" treatment.

The second viewpoint is mainly geographical and brings us into contact with the boundaries of *Zollvereins* (customs unions), their racial make-up and their political affiliations. Imperial Preference takes us beyond the national plane and poses before us the problem as to whether and to what extent the economic unification realized by it, namely, Empire-Economy, is prejudicial to world-economy or the economy of the constituent units.

Both these questions, namely, commercial policy and economic centralization, consolidation or federation are essentially political, in so far they are but phases of international group-making or alliance. Imperial Preference as an item in Empire-economy is naturally political in its foundations. But the policies can be examined in the light of their purely economic values also. And to this we shall address ourselves.

Chapter I

TENDENCIES IN TARIFF POLICY

Imperial Preference, as enforced by the United Kingdom on the basis of the Ottawa Agreement in October 1932 is, first, reciprocal, secondly, of course differential, in the third place, mainly *ad valorem* (although with certain specific items), and finally, non-protective in regard to India but protective in regard to the United Kingdom and the Dominions.

Now, there are four different sets of categories associated with the tariff complex. The tariff may be (1) unilateral or reciprocal, (2) most-favoured nation or differential (preferential), (3) *ad valorem* or specific, and (4) protective or non-protective. These terms, apparently very simple, are complicated in their use and have often been interpreted by nations according to the exigencies of their policies. Besides, although presented in the form of antitheses or opposites, they have in general been employed together in the actual tariff mechanism of almost every people.

We shall here refer to some of the tendencies in modern and contemporary tariff policy in order to understand Imperial Preference in the proper perspective. The complicated relations between the tariff categories will become somewhat precise from an analysis of certain concrete cases.

1 Most-favoured Nation

The "most-favoured nation" clause of commercial treaties presents a simple and rational basis of trade relations between nations.¹ It enables every nation to determine its tariff according to its own convenience and requirements. No nation demands special favours of others or grants special favours to others. Under the provisions of this system neither war-tariffs nor tariffs of reprisal are conceivable.

A good example of the "most-favoured nation clause" on reciprocal basis is to be found in the so-called Indo-Japanese trade convention signed and ratified at Tokyo during 1904-05 between the United Kingdom and Japan. The most important articles of this convention are as follows:²

¹ *Journal des Economistes* (Paris), January 1928, p. 87. Brandt: *Die Durchbrechung der Meistbegünstigung* (Berlin 1933).

² *Indo-Japanese Trade Bulletin* (Calcutta) June 1932.

"1. Any article, the produce or manufacture of dominions and possessions of His Majesty the Emperor of Japan shall enjoy upon importation into India the lowest customs duties applicable to similar products of any other foreign origin.

"2. Reciprocally, any article, the produce or manufacture of India, shall enjoy upon importation into the dominions and possessions of His Majesty the Emperor of Japan the lowest customs duties applicable to similar products of any other foreign origin."

Sometimes reciprocity is spoken of as being, like differential treatment, an antithesis to the most-favoured nation treatment. The U.S.A. used to follow reciprocity in regard to certain articles but has gradually come to consider the "most-favoured nation clause" as the better regime.

On the contrary, in France the most-favoured nation treatment had been the rule in pre-war times. The Peace Treaty of 1871 with the German Empire contained this clause and it remained popular down to the end of the Great War (1918). According to the French thesis of to-day³ the equality of treatment as involved in the most-favoured nation clause can be tantamount to profound inequality, because the circumstances of the two parties may be materially very different and unequal. The French viewpoint prevented the opposite thesis advocated by Germany and others from being carried at the Conference of Genoa (April 1922). Post-War France has established, as we shall see later in detail, the tariff of reciprocity with Poland, Czechoslovakia, Italy, Belgium and Austria.

The Treaty of Versailles imposed upon Germany the obligation to establish her tariff on the most-favoured nation treatment basis down to 1925. At that date Germany was free to choose her system. She did not, however, go in for reciprocity, understood as antithetic to the most-favoured nation treatment, but introduced the latter. It will be found, however, on analysis that factually the German system of to-day is identical with that of France in many items, both being based on reciprocity as ordinarily understood (see *infra*, p. 5).

In the tariff policies of nations Imperial Preference is then a special case of reciprocity as contrasted with the "most-favoured nation" treatment.

2 Preference

Neither from the standpoint of preference nor from that of reciprocity does Imperial Preference represent a new tactic in tariff or an

³ Gignoux: *L'Après-guerre et la Politique Commerciale* (Paris 1924), pp. 64-66, 177-78; Plaut: *Deutsche Handelspolitik* (Berlin 1924), pp. 149-152.

exclusively British measure. The post-war tariffs of Europe have all been conceived in this mould which may be described as more or less a universal one. Preferential relations have been established by France with Rumania, Jugoslavia, Poland⁴ and other countries, as observed above. Czechoslovakia's relations with Rumania and Hungary were preferential in 1931. Jugoslavia has accorded duty concessions to Czechoslovakia. In 1931 Germany entered into preferential tariff relations with Rumania. Likewise did Austria with Rumania and Jugoslavia. The reinterpretation of the "most-favoured nation clause" in such a manner as to admit regional federations with reciprocal preference has become the tariff credo of the Middle-European Economic Conference.⁵ Exceptions to the most-favoured nation treatment were likewise the objectives of the Balkan Conference held at Athens in 1930.⁶

3 Reciprocity

Reciprocity is at least as old as the navigation treaty of 1815 between the United Kingdom and the U.S.A. and that of 1824 between the United Kingdom and Prussia.⁷ Reciprocal reduction of import duties was arranged after the McKinley Tariff Act of 1890 between the U.S.A. and several countries of Latin America, e.g. Brazil, San Domingo, Costa Rica etc. In the U.S.A., indeed, the tendency has been to interpret the "most-favoured nation treatment" as an item dependent on reciprocal concessions.

Reciprocity was the principle admitted by the post-war French Tariff Act of 1919. On this basis commercial treaty was concluded with Czechoslovakia between 1920 and 1923, Esthonia Poland, Italy, and Canada in 1922, Belgium-Luxemburg Economic Union and Austria in 1923, Portugal in 1925, Spain in 1926, and Germany in 1926-27. While concluding these treaties France has not followed any uniform system. With each country the rates have been different, and in regard to the goods imported also the rates have been varied. The "minimum tariff" has been conceded to countries or goods at discretion as also the "maximum," depending on the value of concessions received from the other side. Then, again, "rebates" of the difference between the

4 Ischboldin: "Das Problem des wirtschaftlichen regionalen Zusammenschlusses der innereuropäischen Staatenwelt" in *Weltwirtschaftliches Archiv* (abbreviated later as *W.A.*) for April 1932, pp. 522-531.

5 See the report of the Sixth Conference held at Geneva in March 1931 in *W.A.* April 1932 pp. 613-616.

6 *The Near East Year-Book 1931-32* (London), p. 1038.

7 Palgrave: *Dictionary of Political Economy* (London 1913) Vol. III, pp. 267-269; *Handwörterbuch der Staatswissenschaften* Vol. V, (Jena) (1923), p. 115.

maximum and minimum tariffs have been granted very often, but not according to any general or universal plan. These concessions have been as varied as the grants of maximum and minimum tariffs. Altogether, then, one can find in the French system of to-day not only reciprocity but traces, nay, big doses of preference.

Reciprocity in regard to the most-favoured nation treatment was Italy's principle in the establishment of treaties with Czechoslovakia in 1921, Poland and France in 1922, Spain and Austria in 1923, Soviet Russia in 1924, Germany in 1925, and Greece in 1926. It is interesting to observe that in most cases Italy granted reductions, so far as particular goods are concerned, of the "general tariff" as established in 1921. These duty reductions may be compared to the French "rebates" of the difference between the maximum and the minimum, and like them embody the principle of preference in commercial relations.

As soon as Germany was emancipated from the conditions of the Treaty of Versailles in 1924, she commenced commercial treaties with different nations beginning with Austria and Belgium-Luxemburg Economic Union. Reciprocity in regard to the most-favoured nation treatment was the basis of these agreements as well as of those contracted, later, with Greece, Turkey and Soviet Russia in 1924, the Netherlands and Italy in 1925, Spain, Denmark, Switzerland etc. in 1926, and France in 1926-27. An additional feature of these post-war German treaties of commerce is duty reductions from the tariff established in 1925, which, like those in Italy and France must be regarded as embodying preference whether in regard to goods or regions.⁸

Down to 1914 the European tariffs were as a rule dualistic like the French system of 1892. In regard to the states with which no commercial conventions, agreements or treaties were concluded the tariff was known as "general," corresponding to the "maximum" of the French Acts. Contrasted with this was the "conventional" tariff applied to the treaty-states.⁹ The conventional might be compared to the minimum tariff of France. Great Britain, however, lay outside this commercial policy, for she observed free trade without reciprocity, i.e., admitted almost all foreign goods duty-free, no matter how the British goods were admitted into foreign states.

The maximum tariff in the French system of 1892 was intended to

⁸ Delle-Donne: *European Tariff Policies Since the World-War* (New York 1928), pp. 174-185, 218-222, 243-250; Gignoux: *L'Après-guerre* (1924), pp. 73-98; Poese: "Handelsverträge" in *Handwörterbuch der Staatswissenschaften*, Ergänzungsband (Jena 1929), pp. 479-486.

⁹ *Handwörterbuch der Staatswissenschaften* Vol. V (1923), p. 118.

be used for retaliatory purposes.¹⁰ It was usually 41 per cent higher than the minimum. Likewise did the German government after 1879 possess power to raise the tariff by 50 per cent and in 1895 by 100 per cent. In the last decade of the nineteenth century regular "tariff wars" were going on between Russia and Germany, France and Switzerland, Italy and France, as well as Spain and Germany. Retaliation was also proposed by Joseph Chamberlain as a part of his "Tariff Reform Scheme."

4 Ad Valorem

Objections to *ad valorem* duties are serious.¹¹ Foreign exporters are alleged not to tell the truth. It is generally believed that they prepare false invoices and in any case the exact values are not patent on the surface.

The other system is known as "specific" and is based on weight. In French theory and practice this is considered to be the more reasonable.

The *ad valorem* tariff is preferred as a rule by the English people but is detested by the French. It was suppressed by the Act of 1881 in France, and although she offered the "most-favoured nation" treatment to Great Britain, the latter declined to enter into a commercial treaty.¹²

5 Protection

"World-economy" does not necessarily imply or even lead to free trade. The great champion of Cobdenism, Lord Farrer,¹³ like many others committed a grave fallacy in so far as they believed that free trade had been tending to become an international tariff reality simply because steam and telegraph were bringing the nations together. Instead of promoting free trade world-economy,—the technical unification of the world,—has, on the contrary, furnished the inspiration for protectionist tariff.

¹⁰ Palgrave: *Dictionary of Political Economy* Vol. III (London 1913), pp. 299-300, 791.

¹¹ Girault: *The Colonial Tariff Policy of France* (Oxford, 1916), p. 150. It is to be observed that the "specific" duties play the chief role in the Indian Tariff Amendment Bill of 1933, for which see Sarkar: "Indian Export, Price and Exchange Movements on the Eve of Recovery" in the *Financial Times* (Calcutta) for January-March 1934.

¹² Augier and Marvaud: *La Politique douanière de la France* (Paris 1911), pp. 11-13.

¹³ Farrer: *Free Trade Versus Fair Trade* (London 1904), p. 364.

Germany is the classic example of this aspect of world-economy. The free trade policy of 1862-77, fostered so carefully by Bismarck previous to and after the establishment of the Empire, was abandoned by him in favour of protection during 1879-87. And this simply because cheap transport enabled America, on the one hand, and Russia as well as Hungary, on the other, to place their wheat not only in the foreign markets up till then enjoyed by Germany but even to invade Germany herself with their exports.

The protection of agriculture in France also was demanded and granted because, as it was argued, the facilities of communication and conveyance brought the different countries nearer to one another. France was invaded by the cereals of the New World, the wines of Spain and Italy, the sugar of Germany, and the animals of other countries. The Act of 1881 had paid no heed to these considerations, but by the end of the decade they were too powerful to be ignored. And so agriculture was effectively protected against world-economy by the Act of 1892.¹⁴

Protectionism has grown by leaps and bounds since the Great War (1914-18), as testified to by the International Economic Conference of 1927. Protection was normal in pre-war years but not so excessive as during the last half a generation. Nay, since the pious wish for "tariff truce" expressed by the I.E.C. the import duties have gone on expanding.¹⁵ Germany, Spain and Poland have raised their duties on agricultural products. The duties on manufactures have been increased in Canada, the U.S.A., France (in regard to sugar, farina, automobile etc.), Italy (in regard to gloves, automobiles, jute yarn and cloth ec.) and Australia.

"Autarchy" or self-sufficiency is the creed of economic nationalism in the post-war world. Even each one of the petty states created by the War is inspired by this feeling to establish for itself an economic complex as powerful and varied as possible, capable at any rate of satisfying the most pressing requirements of its people. For larger and adult states the motive for enhanced protection is not only economic autarchy but the anxiety to maintain the "high standard of living" of the working classes. In 1929, for instance, the American House of Representatives while renewing and revising the Fordney Act of 1922 declared that this tariff had enabled the U.S.A. to enjoy for millions of individuals the highest earning recorded in history. There

14 Augier p. 15; Plaut: *Deutsche Handelspolitik* (Berlin 1924), pp. 57-70

15 *Problèmes du chômage en 1931* (Genève) pp. 149-153.

is nothing strange, therefore, that Joseph Chamberlain's "tariff reform scheme" should have gained ascendancy in the United Kingdom and embodied itself in the "Empire Crusaders" of to-day with their slogan of Empire-autarchy.

The agricultural interests of Sweden and Switzerland are protected by import duties.¹⁶ In Spain the import duties on agricultural produce are almost prohibitive. On wheat, rye and barley the tariff is 48 gold pesetas per 100 kilograms. Importation of wheat and wheat flour is actually prohibited. (One kilo=2 1/5 lbs; one peseta=nearly Rs. 2-0-0).

In July 1929 France raised the duty on wheat from 35 to 50 francs. Towards the end of the year an Act was passed by which manufacturers were compelled to use 97 per cent of home-grown wheats in flour manufacture. A virtual suspension of importation has therefore been enforced in France. French importers are, besides, compelled to export within three months an amount of flour corresponding to the wheat imported, should there be any import. Sugar-beet growers have likewise been protected in 1929 by the enhancement of duty on sugar by 40 francs.

Germany ordained in 1930 that flour manufacturers must use native and foreign wheats in equal proportion. The import duties have been raised substantially on a large number of articles.

In Czechoslovakia the "general" (maximum) tariff on rye is 60 crowns per quintal, the "reduced" tariff 30 crowns and the "minimum" 30, the general tariff on cattle is 480 cr. per head, the reduced and the minimum 300 cr, the general tariff on fresh butter is 64 cr. and the reduced 40 cr. per kilograms, and so on. These protective duties were imposed in 1926. (One quintal=nearly 2 cwts.).

In Finland the Act of 1930 raised the duties on rye and barley from 50 to 125 Finnish marks per 100 kilograms, those on oats from 15 to 40 marks, on fresh meat from 60 to 180 marks.

Italy introduced in 1932 a decree by which flour mills were compelled to use 40 per cent of home wheats. The provision held good for Northern and Central Italy.¹⁷ For Southern Italy and the Islands the proportion was 15 per cent. "Contingents" have been provided for in regard to the import of fresh fruits, cotton yarn, woollens, common

¹⁶ *Les Conditions de l'Agriculture en 1929-30* (Rome 1930), pp. 29, 35, 47, 62, 63; Pavia: "La Crise agricole et mondiale," and Allix: "Le Régime du Contingentement" in *Bulletin de la Société d'Economie Politique de Paris* (January and February 1933).

¹⁷ *Rassegna Economica* (Naples) April 1932, pp. 252-253.

soaps etc. from France. The agricultural policy of Fascism¹⁸ consists indeed in preventing Italy from degenerating into the land of gardens and orchards etc. for Europe as was conceived by the "liberal" economists, and developing her into the country which produces its bread, milk, meat and allied foodstuffs such as serve the primary needs of life.

¹⁸ Serpieri: Protezione doganale ed agricoltura in *Popolo d'Italia*, 4 March 1932 (Milan).

For the import duties on wheat in diverse countries from 1913 to 1931 see Table V. in *The Course and Phases of the World Economic Depression* (Geneva 1931), pp. 322-323.

Chapter II

WORLD-ECONOMY AS EMBODIMENT OF TECHNOCRACY AND INTERNATIONAL LAW

At this stage it is desirable to throw light on the ambiguous and elastic category, world-economy. We have noticed that world-economy does not necessarily imply free trade and has indeed witnessed the development of protectionism on an unprecedented scale. To begin with, it is proper to be oriented to the objective facts bearing on the commercial structure of the world, as it obtained, say, for several decades previous to the outbreak of the Great War.

1 The Technique and Law of Communication

The international law,¹ both "private" and "public," of those decades served cumulatively to establish the bonds of a "world-economy" in every possible manner. The technical inventions and industrial progress of the epoch were in this manner exploited by the legal sense of mankind in order to knit the different races into a unified complex.

The World-Postal Union (Berne), established in 1878, can be rightly described as the pioneer in this economic internationalization. But perhaps in this line, historically speaking, the very first item is represented by the General Telegraph Union (Paris) of 1865, which in 1906 was extended to wireless telegraphy. The convention of 1884 in regard to the protection of submarine cables and the numerous agreements or treaties regulating, as they do, telephonic communications belong also to the same sets of forces.

The doctrine of "freedom of the sea" is an old and important fundamental of "public" international law. But its significance in "private" international law is no less profound and comprehensive. Much of the world's foreign trade is overseas commerce, and naturally the contractual relations positively entered into by the different states in regard to ocean transportation are enormous in bulk. It is not only the exigencies of naval war but those of maritime commerce as well that necessitated a host of treaties bearing on bays, gulfs, straits, sea-coasts, ports, command of the flag, piracy etc.

Purely commercial considerations likewise furnished the inspiration

¹ Friedrich: *Grundzüge des Völkerrechts* (Leipzig, 1915); Strupp: *Grundzüge des positiven Völkerrechts* (Bonn, 1922); Harms: "Weltwirtschaftsrecht" in *Weltwirtschaftliches Archiv* (Jena, Oct. 1924).

for international agreements in regard to navigation, the nationality of ships, passengers and crew, official documents relating to the boats, cargo, etc., methods of registration and so forth. The name of mutual understandings on the question of lighthouses, buoys, and beacons between different trading parties is legion. And finally, the more universal regulations relating to the sea-routes, maritime signal-codes, mutual help in cases of accident or other dangers, and protection of life and property on the high seas constituted some of the basic foundations of pre-war world-commerce.

The "international rivers" also were brought under the sway of "positive" law such as binds the interested nations in their dealings with one another. The principle of the freedom of international river-navigation was recognized even in the Peace of Westphalia (1648). It acquired prominence after the "opening" of the Rhine (1815). The Danube was opened in 1856, the Amazon in 1867 and the Congo in 1885. In 1888 the Suez Canal was admitted into the same system. About 1914 each one of the mighty rivers was subject to the "combined sovereignty", if one may say so, of all the states whose territorial (and commercial) jurisdiction was traversed by it.

In regard to railway transportation, the number of treaties between interested nations down to 1914 was extraordinarily large. These treaties established the rights and duties concerning the roads on the boundaries of states or within the national limits, the connection between the inland railway system and the systems of the neighbouring countries, the trains and carriages, post, goods and passenger traffic, safety and sanitary police, customs offices, payment in foreign currencies, the construction of international stations and godowns, bridges, tunnels, etc. The building of railway lines connecting two neighbouring states, whether they be government or private property, the administration of state or private railway line situated in another nation's territory in such a manner as not to interfere with the sovereign jurisdiction of the latter, and the financing of a railway such as can hardly be dispensed with in the interest of international intercourse,—these and other topics were regulated by precise and definite rules based on the deliberations of the contracting parties.

The International Freight Conferences held at Berne in 1874, 1881, 1886 and 1890 served to establish a real international law on the question of railway rates so far as they have bearing on the transshipment of goods. Fifteen states took part in those deliberations and considered themselves bound by the results of the convention, which is perhaps of as deep importance in modern international law and international trade as the World-Postal Union of 1878.

The Wireless Agreement was entered into at Berlin in 1906.

The Automobile Convention of Paris (1909) established the lines on which international intercourse with motor cars and lorries is being carried on. It was ratified by fourteen states.

The Convention relating to airships was ratified in 1913.

2 Commercial Treaties

While the legal measures adopted to unify the achievements of technocracy in communication and transportation or at any rate place them on a uniform and systematic basis assured the physical foundations of world-economy, another characteristic feature of those times was the growth in the number of "positive" contractual understandings between nations in regard to the exchange of goods and services. The impact of these understandings on the promotion of the world-view in the commercial and moral fields was not inconsiderable.

The Cobden Treaty of 1860 may be said to be the beginning of a new epoch in world-commerce. With it commences the era of commercial treaties² the like of which hardly existed in previous centuries. The measure was from the British side but a means to the expansion of free-trade ideas and from the French side a camouflage which Napoleon III. wanted to exploit in the interest of his political ambitions. Whatever the motives behind it, the commercial complex of a unified "Western Europe" began to grow up as a consequence of the arrangement. A world-economy in the sense of an "international division of labour" seemed almost to be approaching consummation.

But by the 70's the continental states of Europe as well as the United States of America took a definite stand against the new idea of universalism and went back to the "national" ideal, the system of self-determined and autonomous regulation of trade-relations. The series of tariff treaties with different nations was initiated by France. Germany followed suit (1890). A new commercial policy, quite in opposition to the spirit of the Cobden Treaty of 1860, was inaugurated for the world. For, the protection of the *Swadeshi* (home) industry was the first postulate of this new epoch, and as a consequence, the establishment of tariffs, the mainstay of the commercial systems of the world. The rates of customs duties were definitely laid down in the treaties between the nations, and the exchange of goods took place according to this international economic legislation.

² Augier and Marvaud: *La Politique douanière de la France* (Paris 1911), pp. 5, 8, 29, 63-65; Dunham: *The Anglo-French Treaty of Commerce of 1860* (Ann Arbor, 1930), pp. 64, 294, 320-23, 364-65; Flaut: *Deutsche Handelspolitik* (Berlin 1924), pp. 43-46.

Under this nationalistic regime the tariff policies of the states were oriented chiefly to the promotion of exports. The statesmen of every nation sought as far as possible "open markets" in foreign lands but at the same time wanted to have "closed doors," if that were practicable, in regard to the imports from abroad.

This tariff system could not last long. The question of imports had to be attended to by each and every nation in spite of its *Swadeshi* (home) industry fervour. The problem of international trade became complicated and along with it the commercial treaties between states.

Whereas in the 60's of the last century a few "diplomatists" sat together and talked it over the arrangements in general terms regarding the exports and imports, the early twentieth century's deliberations used to take place in the conferences of chemical, engineering, financial and other technical experts. The export and import business of 1900-14 as well as treaties relating thereto required a knowledge of the minutest details concerning the boundaries of states, markets, customs, evidences of origin, description of goods, godowns, transshipment, commercial agents, travelling salesmen, specimen-boxes, packing, forwarding, labels and what not. The question of commercial arbitration courts is also one of the items with which the treaty-makers of those days had to deal.

One result of all these mutual concessions and give-and-take arrangements consisted in the abandonment, factual if not formal, of the unadulterated protective system. And although each nation treated the others in the most jealous manner conceivable, the world trade did not fail to get a tremendous fillip on account of all these self-conscious patriotic energizings in favour of national prosperity. The tariffs indeed went higher and higher, but this was accomplished in almost every instance as the result of deliberations in which the interested parties had full and free interchange of views. And this was certainly preferable to the system of 1870-1890 with its self-determined and autonomous, in other words, arbitrary regulation of international trade.

These commercial treaties, falling as they do within three epochs (1860, 1870-90, 1900-14), were as a rule affairs between two interested parties. But real "international" institutions, i.e., those of a "general" or universal character did not fail to make their appearance in the meanwhile. We may mention the "International Union for the publication of customs tariffs" established at Brussels in 1890. Then there are the international agreements regarding trade in specified commodities, the Congo Acts (1885), the Anti-slavery Acts (1890), the conventions for

the protection of working men (Berne) etc. The list should include likewise the sugar convention (Brussels) of 1902, the convention for the protection of property in literature and art (Berne), and the agreements bearing on invention, marks, patent, copyright, etc. Add to this all the other items of "private" international law, viz., those bearing on aliens and their domiciles, capital investments in foreign countries,³ sanitary and moral measures and so forth, and we get an idea of the complex machinery of internationalism such as had been "positively" governing the commercial and other economic functions of the different nations of the world about the time of the Great War.

All the pre-war Conferences held between the different members of the British Empire belong likewise to the category of economic internationalism. The First Colonial Conference was convened at London in 1887, the second at Ottawa in 1894. Between 1897 and 1907 London was the venue for three more Colonial Conferences. Later, the name was changed and the First "Imperial" Conference sat in London in 1911.

Equally important as socio-economic measures were the International Health Acts relating to cholera (Paris 1853), plague (Vienna 1897), yellow fever (Paris 1905) and sleeping sickness (1908). The health activities of the League of Nations of today are really but a continuation of these pre-war international measures.

Among the other pre-war Internationals in the economic domain are to be enumerated the Latin Union (1865) for establishing bimetallism and the four Monetary Conferences, all held at Paris (1867, 1878, 1881, 1892), each of which was trying to place the currencies of the nations on a world-basis. In these attempts are indeed to be seen the first stages of the movement for the international control of currency, credit, gold, and public finance, such as since the Brussels Conference of 1920 has acquired a prominence in post-war years and engaged likewise the attention of the World-Economic Conference of 1933.

The two Labour Internationals (London, 1864-72; Paris and Berne 1889) are likewise to be mentioned in this connection. These were of course only propaganda organizations. But the convention relating to the protection of labour (Berne, 1906) was an institution of "positive" law.

The foreign public debts of Egypt were internationalized in 1875. The movement spread to Turkey in 1878 and Greece in 1897. The

³ See the chapter on "Kapitalinvestitionen im Auslande" in Schilder: *Entwicklungstendenzen der Weltwirtschaft*, Vol. 1 (Berlin, 1912); Preuss: *Die Kapitalanlage im Auslande* (Berlin 1923).

internationalism that is in evidence in the post-war epoch in the financial reconstruction of Austria, Hungary and the Saar under the auspices of the League of Nations was anticipated in the activities of the three or four pre-war decades bearing on Egypt, Turkey and Greece.

3 Internationalism vs. Autarchy

The principle of international economic legislation and commercial treaties was not destroyed by the War (1914-18). Rather, it got accentuated on both sides on account of the war emergencies. Even India had to play a part in this war-time internationalism. India's relations with the British Colonies (and Dominions) and her place in the Empire-economy came home perhaps for the first time to the people at large. And as for other countries, belligerents or neutrals, the epoch of world-citizenship, although within limited areas seemed for the first time to dawn as a reality. Agreements between nations regarding exports and imports constituted, so to say, the very basis of daily bread and butter in every corner of the world.

In post-war commercial relations the spirit of world-economy as founded on international treaties or conventions and understandings has embodied itself in no equivocal manner. Air-navigation, freedom of transit, patent, trade marks, labour conditions, sanitary measures, oil concessions and many other items have each been internationalized afresh or for the first time. One cannot say that today or previous to 1914 the nations have been guided by an extra dose of the altruistic and philanthropic motives of universalism or world-citizenship. The fundamental urge behind all these internationalizings in commerce lies, apart from the advantages to each nation, in the attempt to bring order out of chaos,—a "rationalization", so to say,—in the exchange of goods, and services between the different parts of the globe. But all the same, one must admit that the solidarity and unification of the world has been actually established by the formal instruments of positive law.

On the face of it, however, nationalism should seem to have gained the upper hand in the commercial policies of nations as an aftermath of the War. The attempts at economic "autarchy" or self-sufficiency with a view to preparedness against the next war belong to the A.B.C. of post-war statesmanship in every country down to the Disarmament Conference of 1933. The discussions about the "relative" disarmament of nations point to nothing but the "rationalization" of war measures on the part of each single unit. The transformation of agriculture and manufacture brought about by the Great War is telling on the entire outlook of the nations. Protective tariffs appear to

be the chief, if not the only, effective props to the new industries as well as old farms in the different parts of the world.

The War has heightened in every nation likewise the desire to see its men, women and children enjoy as much of material and moral welfare as possible. The result has been an enormous increase in state expenses on "social" items accompanied by corresponding increases in taxation. This has led every nation back to the problem of increasing the national dividend, and this in its turn to the attempt at excluding foreigners from the country's markets. Altogether, nationalism is the order of the day here and there and everywhere.

But this wave of nationalism is conditioned by certain natural limitations.⁴ And the situation today is to a certain extent almost parallel to that prevailing towards the end of the last century. The most nationalistic of peoples have no choice but enter into relations of commercial intercourse with other peoples no less nationalistic than they themselves are. And in the tug of war between nationalisms, the compromises that ensue are so many different bonds of internationalism. The Imperial Preferences as established at Ottawa (1932) and as conceived for France (1933) are the resultants of such nationalisms coming to a compromise.

At the present moment it is in the field of investment⁵ that nationalism has to meet with its most pronounced antidotes. The internationalization of finance has taken rapid strides since the war. The world is today more and more getting to be a single economic complex owing to the capitalistic "community of interests" existing between

4 According to Gregory, autarchy is impossible even for a vast territory like the British Empire ("Self sufficiency as an Economic Ideal" in the *Manchester Guardian Commercial*, 21 July 1930. For the U.S.A. autarchy is championed by Donham in *Business Adrift* (London 1931) and Dennis in *Is Capitalism Doomed?* (New York 1932) but opposed by Moulton in *War Debts and World Prosperity* (Washington 1932), and Gay and Roorbach in *Foreign Affairs* (New York, Vol. X, 1931-32, XI, 1932-33).

Autarchy is an important element in the recent economic thinking of Germany, especially of the founders of national-socialism under Hitler, e.g. Moeller Van den Bruck: *Das dritte Reich* (Berlin 1926), Fried: *Der Uebergang zur Autarkie* (Jena 1931), Strasser: *Aufbau des deutschen Sozialismus* (Leipzig 1932). See Hoffmann: "Der Ruf nach Autarkie in der deutschen politischen Gegenwartsideologie" (*Weltwirtschaftliches Archiv*, October 1932).

5 On long-term and short-term capital movements and payments on account of interest and dividends with reference to nearly three dozen countries (including India) see *Balances of Payments 1930* (Geneva 1932), pp. 10-15. See also the chapter entitled "A World in Debt" in *World-Economic Survey 1932-33* (Geneva 1933) for an analysis of international indebtedness, especially pp. 264-269. From 1928 to 1932 the figures for creditor countries are shown separately from those for debtor countries in the table at p. 291.

the financial magnates of different nations. Internationalized capital is not very keen on the sentiments of nationalism or national economy. It is just from the side of capitalists that autarchy and nationalistic propaganda in its economic aspects tend to encounter their most serious rebuff. And for the same reason the protective system has been acquiring an altogether novel significance in post-war economics. Capital being international, a protective legislation fosters today not simply the so-called national interests but external finance as well. This is how Imperial Preferences are compelled as a matter of course to look for some understanding with the non-Empire regions.

4 The World Conferences of Today

The spirit of co-operation between nations, or, at any rate, interchange of views is today a marked characteristic of the commercial policy of mankind. International economic congresses of one denomination or another are holding their sessions in regular seasonal succession. Some two hundred such conferences are reported to have met in different parts of the world during 1931.⁶

The recent phases of the history of this movement are all well-known. The various Treaties of Peace (1919) settled the terms of commercial intercourse between the victors and the enemies. But the terms of commercial co-operation between the allies themselves were left unsettled. The inter-allied economic co-operation had, however, been an accomplished fact of the war period, commencing as it did with 1916. The Supreme Economic Council was inaugurated at the armistice, although it came to an abrupt end in August 1919 with the retirement of the U.S.A. from European complications.

Since then it has been left chiefly to the League of Nations by virtue of Article 23 to organize schemes of "equitable" commercial intercourse for its members. And this the League has not failed to attempt by instituting international conferences for financial, tariff and other purposes and for discussing such problems as reciprocity *versus* the "most-favoured nation" treatment in international trade (1921, 1923, etc.). The financial congress at Brussels (1920) is one of its important landmarks, as well as the conference at Barcelona (1921), which was attended by fortyfour states and regulated the conditions of transit and communication, and international roads, waterways and ports. Further, the regular and systematic work of the International Labour Office

⁶ Lotzsch : "Internationale Kongresse und Konferenzen im Jahre 1931" in *W.A.* for April 1932, pp. 617-652; Sarkar : "The Geneva Complex in World-Economy" (*Journal of the Bengal National Chamber of Commerce*, 1931).

is not the least momentous function discharged by the League in the world's economic system.

Two important problems of contemporary economic life which have been attacked by the League's conferences, although without success, may be mentioned in this connection.⁷ One relates to the international distribution of raw materials in such a manner as to prevent the producing nations from charging an extra price for export. And the other, known as the Ter Meulen project after the propounder who broached the idea at Brussels, had in view the object of placing international credit at the service of needy nations on condition that they get the loan through the League on mortgage of the properties suggested by the latter. Propositions like these indicate, at any rate, which way the commercial wind is blowing. It is not necessary here to enumerate all the different activities and achievements of the "Geneva Complex".

The League of Nations, however, is not the sole instrument in contemporary internationalism. The world-view has been promoted in no ordinary measure by the Washington Conference of November 1919 and especially the labour regulations. The Genoa Conference of April 1922 has tried independently of the League to place the world's economic and financial system on a unified cooperative basis.

And finally, the International Chamber of Commerce is an institution that since 1920 has been holding every year non-governmental but highly influential congresses of business men and technical experts representing most of the leading commercial nations. The delegates to these annual congresses discuss such topics as reparations, inter-allied debts, international credit, tariff regulations, customs formalities, commercial arbitration, protection of inventions, transportation, passports, unification of commercial terminology etc.

These are facts of our own times. It is necessary to recognize that this internationalism has acquired a momentum on account of the cumulative technical and legal advance of the last three quarters of a century. The League of Nations is indeed not the first of its kind but rather the last term in a series of positive institutions that have helped forward the unification of the world in technique, economics and law.

5 Competition No Less Real Than Co-operation

We have nothing to do here with idealistic schemes of world federation, universal brotherhood or millennial peace. In all the econ-

⁷ Cignoux : *L'Après-guerre et la Politique Commerciale* (Paris, 1924), pp. 174-188; Saksar : *The Political Philosophies Since 1905* (Madras, 1928), pp. 252-263.

omic movements and institutions described above we have the objective register of self-conscious will and creative intelligence trying by methods of exact experimentation to find out the "least expensive" and therefore the "most rational" means of promoting the greatest amount of human welfare and apply them to the different members of the commercial world.

World-economy, growing as it has been techno-legally for, say, two generations, is, then, nothing but a system of economic life in which the forces of competition as well as of co-operation are perhaps equally and at the same time in operation over the entire world or rather over a considerable part of the world. In stead of being confined to the village or the city or the country the businessmen's field of activities as buyers and sellers has spread, because of the fiat of technocracy, to every nook and corner of the two Hemispheres.

The markets for almost every class of goods have become world-wide, the sources of supply for every class of goods have likewise become world-wide. The cultivators raise their corn for the world-market, the factory hands finish their goods for the world market too. Production, distribution, exchange, financing as well as consumption are not limited by the boundaries of castes, guilds, races or nations. Every economic function of men and women has grown international.

But this internationalism is not necessarily less competitive or more co-operative than the nationalism, urbanism, or ruralism of other epochs. The only positive fact about the present state of things is that it is possible for economic man to function on a much wider platform than ever before.⁸

⁸ In Chatin-Ollier's estimation economic internationalism as embodied in free trade implies *ententes industrielles* and "rationalization" of the costs of industry in Europe and is more important than the League formula of "arbitration, security and disarmament" ("*L'Europe et le Protectionnisme*" in *Journal des Economistes*, Paris, October 1928). The free trade aspirations of the *Ligue du Libre-Echange* may be followed regularly in the pages of this *Journal*; cf. for example, Delaisi: "*C'est le technicien qui supprimera le douanier.*"

CHAPTER III

THE BOUNDARIES OF CUSTOMS-UNIONS

The socio-economic morphology of mankind as embodied in world-economy may be said to have been initiated in the earlier stages of the First Industrial Revolution, say, with the establishment of the British Chambers of Commerce in India. But the phase in which we find it to-day should perhaps be described as the consequence of the broad changes that came upon the two Hemispheres during the period from the opening of the Suez Canal in 1869 to that of the Panama Canal in 1915.

While world-solidarity has been going on steadily in the domain of technique and law social organization has advanced haltingly,—and this not on lines of the world-state or hemispheroidal customs-union but on those of racial affinity, political interest or geographical propinquity. Between the positive institution of national economy and the technico-legal achievement of world-economy mankind has up till now succeeded in evolving only plans or projects, and very seldom realities of super-national customs-unions. Should world-economy ever grow into a profound political reality and the economic relations of nations pass beyond the technocratically international stage of to-day, these super-national customs-unions may perhaps some day have to be described as “intermediate” developments *en route* to the ultimate consummation. But, for the present, these customs-unions are to be regarded as the final products of human endeavour in the economic concentration or unification of regions. It is still the veritable “national” economy, albeit expanded, that has to attitudinize itself in regard to the technico-legal internationalism in the economic and political affairs of mankind.

1 Zollvereins: Past and Present

The “Continental System” (1806-07) established by Napoleon may be regarded as the first customs-union of modern times. The German *Zollverein*, established in 1833, is, however, to be appraised as the inspirer of later attempts at the theory and practice of economic unification, consolidation or federalization.

De Molinari's scheme of *Union douanière de l'Europe Centrale* was published in the *Journal des Economistes* (Paris) of February 1879. His Middle-European Tariff Union would have comprised France,

Belgium, Holland, Denmark, Germany, Austria-Hungary and Switzerland.¹

In *Schmollers Jahrbuch* for 1885 Brentano adumbrated the project of a Tariff Union of Germany with Austria-Hungary and the Balkan states. He believed that the twentieth century would know only four or five world-powers,—the U.S.A., Great Britain, Russia and perhaps China and France (should her colonial policy prove to be a success). Germany's only salvation, if she were to remain a "great power," would be in the Union suggested above.² Wermert's³ plan of a Middle-European Tariff-Union, published in 1888, comprised Germany, Austria-Hungary, Switzerland, Denmark, Italy, Holland and the Balkans, but excluded France. The Union would be necessary, so argued he, to counteract the growing competition of America, England and Russia.

In 1888⁴ an American Customs-Union was proposed by the president of the U.S. It was to have comprised all the states of the two Americas. The plan succeeded only in bringing about some reciprocal duty-reductions between the U.S.A., Brazil, San Domingo, Costa Rica etc.

An economic union between Germany and France, to which eventually Belgium, Switzerland, Holland, Austria-Hungary and possibly Italy and Spain might be attracted, was planned by De Leusse in his *Union douanière agricole du centre de l'Europe* (Paris 1890). It was the scheme of an agricultural tariff-union for Central Europe.

A "System of Central-European Commercial Treaties" (*System der mittel-europäischen Handels-verträgen*) came into force in 1891⁵ under the leadership of Germany. It comprised not only the Triple Alliance (Germany, Austria-Hungary and Italy), but Switzerland, Belgium, Serbia, Rumania and Russia as well. It was established for twelve years but was renewed and was functioning at the time of the outbreak of the Great War in 1914.

Leroy-Beaulieu's scheme of a European Federation published in the *Economiste Français* (September 1898) was to be based on the nucleus of an alliance between France and Germany with the special object of fighting American economic and political expansion in Europe by proclaiming a "Monroe Doctrine" for Europe.

1 Fisk: *Continental Opinion regarding a proposed Middle-European Tariff Union* (Baltimore 1902), p. 6.

2 Fisk, p. 19.

3 Published in *Hirths Annalen des Deutschen Reiches*.

4 Palgrave: *Dictionary of Political Economy* Vol. III (London 1913), p. 268.

5 *Handwörterbuch*, Vol. V (1923), p. 119.

The name of plans like these was legion in pre-war years. The post-war world knows likewise many such. The plan of a "Middle-European Federation" seeks to bind South-Eastern Europe with Germany on the basis of an exchange of raw materials, foodstuffs and fodder with industrial finished goods under state control.⁶ A *Zollverein* established between three industry-states, namely, Germany, Austria and Czechoslovakia, would seek co-operation with the agricultural countries of South-Eastern Europe on the basis of preferential tariff in regard to specified quotas. South-Eastern Europe would imply for this plan the entire "agricultural block" from Hungary to Bulgaria, comprising, of course, Yugoslavia and Rumania.

A modification, with enlargement, of this plan would include Poland as well as the Baltic states in the scheme of preference to be granted to the "agricultural block" by the *Zollverein* of the industry-states. The "Danubian Federation" would be a *Zollverein* of the smaller states of the Danube Valley. There is the project of a Neopanslavonic federation. It is to be a *Zollverein* with Czechoslovakia at the head. This customs-union would come into preferential relations with the German-Austrian Union.

The transformation of the political Little Entente (Czechoslovakia, Rumania and Yugoslavia) into an economic *Zollverein* is being attempted by local statesmen, especially under French inspiration. The "Balkan Federation" would comprise six states, Albania, Bulgaria, Greece, Yugoslavia, Rumania and Turkey. A system of reciprocal preference between this Federation and the German-Austrian Union might be established to bring about an expanded economic unit.

The problem of the enlargement of the economic region constituted the first item among the discussions of the first Balkan Conference⁷ held at Athens in 1930. According to the committee on economic questions the Balkan states constituted a geographic unity but had up to the present neglected to derive profit from this big advantage. A rational organization of their production, consumption and exports was considered to be a possibility. They discussed likewise the plan of a partial customs-union or economic solidarity with a common external trade policy.

For the purposes of *Realpolitik* the plans discussed up till now may be ignored. But three schemes have matured since 1930 and are likely to prove substantial in the near future. In the first place, Austria's *Anschluss* (union) with Germany became a reality in the

6 Ischboldin: Das Problem des wirtschaftlichen regionalen Zusammenschlusses der innereuropäischen Staatenwelt in *Weltwirtschaftliches Archiv* for April 1932.

7 *The Near East Year Book* 1931-32 (London), p. 1037.

economic sphere in 1931 although in the political field it is still but an ideal. In 1933, the anti-Hitler activities of the Austrian Government, under Dollfuss, however, created a new situation. Secondly, the economic pact between Holland and Belgium with Luxemburg entered into in July 1932 is one of the most recent unions of our times. And finally, the triangular economic pact (1932) between Austria, Hungary and Italy has led to the establishment of an expanded unit in Southern Europe.

In the background of all these unionizing attempts, projects or theories bearing on diverse regions of Europe have to be seen the plans or ideals embracing the entire European continent (Pan-Europa) such as became popular during the last years of Briand's public life (1929-32). More radical and comprehensive in economic-political idealism than Briand's project is that associated with the name of Coudenove Kalergi who conceives the world-morphology as an organization of five limbs: (1) Paneuropa, (2) Panamerica, (3) Eastern Asia, (4) Russia, (5) British Empire. This Paneuropa excludes Russia and the British Empire, on the one hand, but includes the African and other possessions of the non-British European (French, Dutch etc.) colonial powers. Coudenove Kalergi's Eastern Asia, be it observed *en passant*, is the Chinese-Japanese complex.⁸

The idea of the United States of Europe, of a Federalized Europe with national independence for all her peoples can be traced back to the pamphlet of St. Simon published in 1814.

2 Imperial Preference: French

Beyond the realm of schemes, dreams and researches have passed the activities of France in regard to her colonies. There is the solid reality of a customs-union on inter-continental dimensions embodied in the French Empire.

The Act of April 1928 conferred special privileges on French products in regard to their import into Indo-China. On the other hand, it is a traditional fact in the tariff policy of France that Indo-China and other colonies enjoy on the French market all the benefits of protection enjoyed by French goods. This reciprocity⁹ of preference or mutuality of concessions has led to such rigid solidarity between France and Indo-China that until recently no commercial agreements or treaties were concluded in regard to Indo-China between France,

⁸ Woytinsky: *Tatsachen und Zahlen Europas* (Paneuropa Verlag, Vienna—Leipzig—Paris, 1930), pp. 7-21; and *Die Vereinigten Staaten von Europa* (Berlin 1926).

⁹ De La Brosse: "Indo-Chine" in *Journal du Commerce* (Paris), 30 March, 1933.

on the one hand, and China or Japan, on the other. And because of this absence of commercial treaties with her neighbours Indo-China was not in a position to import some of the daily requirements of life not produced at home from China or Japan on favourable terms,—even in regard to those goods which could not be supplied by France herself.

It is interesting to observe that while France, as a rule, applies the "minimum tariff" in regard to imports, leaving the "general" or maximum tariff to be used in emergency for purposes of reprisal against unfriendly nations, Indo-China's normal tariff *vis-à-vis* China and Japan is the maximum one. Indo-China's exports of rice to China and Japan have therefore diminished in large proportions on account of retaliation.

The situation is being remedied to a certain extent. By the Franco-Japanese convention of August 1932 the minerals and metals of Indo-China have obtained some duty reductions for import into Japan, while Japanese goods can enter Indo-China's markets at lower than the maximum rates. Later in the year a scheme of a general character more or less on these lines was approved by the French Government with the object of facilitating the entry of some Asian commodities into Indo-China. But Imperial preference on reciprocal basis continues to be the foundation of French world-economy, in spite of this recent tendency to enable Indo-China to trade with her neighbours somewhat more freely.

Likewise with Tunis¹⁰ was established in 1928 an *union douanière* (a customs-union) on the basis of mutual concessions. In 1931 out of a total import valued at 1,800,000,000 francs Tunis obtained from France and Algeria goods worth 1,500,000,000 francs. Her exports to "Metropolis" (France) and Algeria constituted 75 per cent of her total exports. Preference was accorded to the products of French colonies in 1930.¹¹ Foreign goods of the same categories were subjected to a slight tax in order to assure this privilege.

In 1932 Algeria bought of French goods twice as much as Germany. As markets for France the United States are not more important than Morocco or Indo-China. The "Imperial Economic Conference" projected by the French Premier M. Daladier is to regulate some of the acute problems of long standing that have marked the trade relations between France and her colonies or between the French colonies themselves.¹² For instance, there is the conflict of interest between the

10 Barrioulet: "Tunisie" in *Journal du Commerce*, 30 March, 1933.

11 Reynaud: "Au Sein de l'Empire français il faut que les échanges se traduisent par des bénéfices réciproques" in *Journal du Commerce* (Paris) 30 March, 1933.

12 Roux-Freissineng: "Les échanges avec les colonies doivent compenser les effets du protectionnisme général" in *Journal du Commerce*, 30 March 1933.

wine growers of Central France and those of Algeria. It should be observed incidentally that the wine-growers of Algeria are not Algerians but men and women of French nationality and embody French capital investments of half a century. Then there is the contest over tobacco. Indo-China and Madagascar are here ranged against Algeria. On the other hand, the inconveniences created by the tariff walls of nations in regard to the foreign trade of France are likely to be remedied or counteracted by the intensification of commerce between the "Metropole" (France) and the Colonies. The "reciprocal favourisation of production and industries" is a great object in view. The establishment of "complementary" industries in the colonies and their technical development as regards ports, roads, railways, etc. can come also into consideration as a matter of course.

Is the "harmony of national economies" likely to result from the World-Economic Conference? asks ex-premier M. Steeg in the *Journal du Commerce* (Paris) for 30 March 1933. "While waiting for the result," says he, "let us try to organize for ourselves as best as we can the equilibrium of our production and our requirements." According to Steeg, the French colonies have faithfully associated themselves with the economic policy of France. They are claiming to-day that the "Metropolis" should accord to them the security for tomorrow and that the regime of contingents or quotas be organized on a more extensive and stable foundation. The more concessions the colonies enjoy in the metropolitan market, the more spontaneously will the colonial markets open their doors to the products of French industry. The "almost closed economy" engendered by the growing protectionism of other nations can be combated by such inter-imperial reciprocal treatment.

The total foreign trade of the French colonies, protectorates and mandated territories was valued at 24,000,000,000 francs in 1931 (29,000,000,000 francs in 1930).¹³ The share of the Metropolis was some 14 milliards in 1931 as follows: imports from France, 8½ milliards, and exports to France, nearly 6 milliards. There was a margin of some 6 milliards imported by the French Colonial Empire from foreign countries. Without pretending to reserve to the Metropolis the whole of this margin French statesmen believe that it should be possible by adequate tariff changes to expand the Metropolitan markets in the colonies.

¹³ Steeg: *Essays d'organiser chez nous-mêmes l'équilibre de nos produits et de nos besoins* in *Journal du Commerce*, 30 March 1933.

3 Imperial Preference: British

It is only when one orients oneself to the ideologies and realities of tariff in the world's economic milieu that one can properly understand the changes in and the phases of British tariff policy as well as of the transformation going on in India's tariff structure. An important landmark in the tariff thought and practice of the British people is furnished by the establishment of the Royal Colonial Institute in 1868 as an embodiment of economic imperialism. By 1880 the "fair trade" (protectionist) movement declared itself formally in a League as a force militating against the free trade policy triumphant since 1842.

In Lord Farrer's *Free Trade versus Fair Trade*,¹⁴ first published by the Cobden Club in 1881, and described later by Vince in his pamphlet advocating Chamberlain's proposals for protection as "the most elaborate statistical defence of free imports," we have the following emphatic pronouncement: "There is little to be done by legislation or treaty to bring us into closer commercial relations with the colonies". It was categorically declared that the British Government could do little or nothing to extend colonial trade. "Nay, all that 'fair traders' or protectionists urged as to the duty of Governments in providing markets for their people really implied, according to Farrer and his school, that Governments were to check and prevent trade under pretence of guiding it. Such a course, they believed, was more likely to weaken than to strengthen the political connections of the different parts of the Empire."

But preferential tariff was a popular topic in the inter-colonial conferences of 1887, 1894 and 1897. The first Act to grant preference to British manufactures was passed in Canada in 1897. The idea was taken up in a resolution by the Conference of colonial premiers held in London in July 1902 and became the central theme of Joseph Chamberlain's speech at Birmingham on May 15, 1903. His theory of *Imperial Union and Tariff Reform* failed to win national approval in the general parliamentary election of 1906. But Acts more or less on the Canadian model were passed in New Zealand, South Africa and Australia. At the Colonial Conference of 1907 the resolution of 1902 was repeated by the representatives of the Colonies but failed to secure the support of the British Government.¹⁵

The idea of protection began to become popular in administrative circles during the period of the Brussels Conference (1897-98) when the U.K. felt the necessity of protecting West Indies cane-sugar against

¹⁴ Edition of 1904, pp. 131-132.

¹⁵ Palgrave: *Dictionary of Political Economy* Vol. III (London 1913), p. 792.

bounty-fed beet-sugar. The duty of 1902 imposed on imported corn during the South African War was still but a war-measure not yet assimilated to the tariff mentality of the British people. Chamberlain's campaign for protection (1903-06) against Continental dumping failed, as we have seen, during the general election.

The first big dose of protection was administered by the McKenna duties on clocks, watches and motor cars during 1914-18. It was preferential also. Preference and protection were born together in the milieu of the Great War. Down to 1919 the U.K. had a forbidden list of 170 articles.¹⁶

Prohibition was in that year replaced by a regime of license and special permission but continued in regard to 17 goods comprising all chemicals, glass and optical instruments, scientific apparatus etc. A Dyestuffs Advisory Licensing Committee was established in 1920 to supervise and sanction the import of synthetic dyes, colours and intermediates. The Safeguarding of Industries Act (1921), directed against depreciated currencies, dumping etc., was likewise protective-cum-preferential in the interest of "key industries." The McKenna duties were renewed in 1925 when by the Finance Act preference was also enacted on an enlarged scale.

In November 1931 preferential-protective duties were imposed for six months on "abnormal" imports. The next month agricultural articles of luxury (fruits etc.), were brought under the same regime for twelve months. Finally came the all-embracing Import Duties Act of 1932 which imposed 10 per cent on all articles that had escaped the earlier tariffs.

The difference between Joseph Chamberlain's schemes at the beginning of the century and those of the "Empire Crusaders" of today is profound.¹⁷ Chamberlain wanted a tax on all imported food with rebates to the Dominions in return for preferences to British manufactures. But the present arrangement has rendered the import of food from the Empire absolutely free, and at the same time placed a duty on non-Empire wheat and meat in return for the free entry of British goods into the Empire countries.

The British Empire, as commercially reconstructed by the Ottawa Agreement and the Imperial Preference Acts, has become almost a *Deutscher Zollverein* (1834-71)¹⁸ of hemispheroidal dimensions. To use the language of Lord Beaverbrook as employed while describing in 1929

16 *Problèmes du Chômage en 1931* (Genève) p. 144.

17 Beaverbrook: *Empire Free Trade* (London 1929), pp. 6, 16.

18 Plaut: *Deutscher Handelspolitik* (Berlin 1923), pp. 36-38.

the policy of Empire Crusaders, the Empire is now functioning as a single economic group and trade between the various parts is to suffer no restrictions. The interests of this group are being conserved by a tariff wall against the rest of the world. Within this group the economic interests of the parts are tending to be strengthened by a policy of agreements, quotas and compensations.

Chapter IV

THE TARIFF STRUCTURE OF INDIA

The beginnings of a fundamental revolution in the commercial policy in India are to be noted in the tariff legislation of the war period (1914-18). During the nineteenth century and the first decade and half of the twentieth the only customs on imported goods that were levied by the Government of India were exclusively for revenue purposes, and their rates were very low, generally 5 per cent (1858, 1875, 1894) and temporarily 10 per cent (1859) or $7\frac{1}{2}$ per cent (1864).¹ This sort of free trade was the exact opposite of the tariff trend in Great Britain previous to 1842 and on the European continent, where excluding the brief "free trade" epoch of 1860-1870 (Napoleon III., Cobden-Chevalier Treaty), the commercial policies were almost universally "protective", as we have seen above.

As a rule, foreign goods entered India free of any customs duty whatsoever. The Act of 1882 which swept off virtually all the duties that existed, although quite modest, and categorically imposed "free trade" on the country is the most conspicuous example of traditional customs legislation enacted in India. And India adopted free trade law almost at the time when free trade was definitely abolished in Germany by Bismarck (1880), and the protectionist "fair trade" movement was becoming vocal in the United Kingdom.

The tariff structure of India in those days was characterised by export duties levied virtually on all articles at a low rate, namely, 3 per cent *ad valorem*. The trend in this line has consisted in the gradual reduction of the list of dutiable goods. By 1875 only indigo, lac and rice were left to be taxed. The Free Trade Act of 1882 removed the first two leaving rice as the only commodity to be taxed for export about 1914.

It was in 1917 that for the first time in India the principle of "protection" was embodied in the law which raised the duty on imported cotton goods from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent, the general rate, but

¹ *Report of the Indian Fiscal Commission 1921-22* (Simla), pp. 10-15; *Review of the Trade of India 1931-32* (Calcutta), p. 254; 1932-33, pp. 20-23, 246-269 (Part I Articles free of duty, Part VII. Articles liable to protective duty, Parts VIII and IX. Articles liable to preferential duty). See also *Tariff Preferences applicable to Indian goods on Importation into the Non-Self-governing Colonies and Protectorates* (Supplement to the *Indian Trade Journal* (Calcutta November 23, 1933).

kept the "countervailing excise duty" on Indian manufactures at the old rate, namely, $3\frac{1}{2}$ per cent. The excise remained the same even when the general import duty was further raised to 11 per cent in 1921. This policy of favouring the *Swadeshi*, i.e., homemade goods was observed in another region too, although in a round-about manner. In order to foster and protect the tanning industry of India an "export" duty of 10 per cent on hides and skins was imposed in 1919. It need be remarked that "Imperial Preference" consisting in a "rebate" of $\frac{2}{3}$ rds. was attached to this protection exactly at the time when it became positive law in Great Britain.

These laws of 1917-21 were but symptoms of a radical transformation in Great Britain's attitude in regard to the industries of India engendered as a result of the war experience. In 1921 "fiscal autonomy," whatever it might factually imply, was conceded by the British Secretary of State for India. The Indian Fiscal Commission (1921-22) recommended a system of "discriminating protection", and the Indian Tariff Board was appointed (1922) to give effect to the proposals for protective duties.

Since then the protective system has been being developed along two main lines. In the first place, the Steel Industry Protection Act of 1924 levied duties amounting to nearly $33\frac{1}{3}\%$ on imports and conferred bounties on the Tata Co. The Act was renewed in 1927 and 1928 for a period of seven years. The bounties were abolished (1927), but in addition to the "basic duties" which were considered to be minimum and which were levied on British as well on non-British goods (American, German, Belgian alike), the latter were burdened with some extra-duties. This is the second instance of "Imperial Preference" during the first years of protective tariff in India. The system was to remain in force until 1934. It is being reconsidered at the present moment.

Laws "protecting" several other Indian industries have likewise been passed since the establishment of the Tariff Board in the form of duties on imported manufactures. We have to mention the protection of bamboo paper industry (1925, 1927), the duties on camel hair, cotton and canvas beltings for machinery (1928), the protection of tea chest industry (1928), the Match Industry Protection Act (1928), and the duties on rubber-insulated copper wires and cables (1929), on printing types (1929), and on sugar (1932).

Last but not least has to be mentioned the abolition of the "countervailing cotton excise duty" (1926), which had been a burden on the Indian mills since 1894.

Finally, there is the big dose of protection to the cotton textile industry accorded by the Act of 1930, which, besides, embodies

"Imperial Preference" as against Japanese competition. Protection in India happened for the third time to be associated with preference previous to the Ottawa Agreement of 1932. In India as in the United Kingdom protection and preference have been known to be twins.

The duty on the export of rice is still on the tariff. Among the post-war additions to the export tariff are raw hides and skins, raw jute and jute manufactures.

The second main feature of the protective system is to be seen in the reduction or removal of the import duties on raw materials such as are needed by the industries of India. In 1924 the duty on sulphur was abolished and in 1927 that on unwrought zinc.

This principle of the removal or reduction of duties on certain foreign imports is almost universal in regard to machineries and mill-works. The free-list includes not only agricultural machinery and implements but printing machines as well (1927). Altogether, the goal of industrialization as well as technical and engineering equipment of the country has been steadily kept before the mind's eye of customs politicians. India finds herself to-day in the protectionist currents such as have been swaying the entire post-war world including Great Britain, efforts of the League of Nations for "tariff truce" notwithstanding. Be it noted, further, that early in 1932 even the rates of non-protective duties in certain instances rose as high as 20% and 30%. During the course of the year a surcharge of 25 per cent was imposed on all customs duties exceeding $2\frac{1}{2}$ per cent *ad valorem*. The situation on the eve of the passing of the Act supporting the Ottawa Agreement is described later.

The profoundly radical commercial policy of post-war India has not failed to revolutionize the public finance of the country.² In 1921-22 the net-revenue from customs both on imports and exports amounted to Rs. 344,098,381 in a total Imperial revenue of Rs. 1,152,150,317. In 1929-30 the contributions of customs to the revenues of the state amounted to Rs. 512,766,229 (total Imperial revenue Rs. 1,326,855,102), a sum which just came up to 75 per cent of the German revenue from customs in 1929. From 14.7 per cent of Imperial revenue in 1913-14 the Indian customs rose to 29.8 per cent in 1921-22 and to 38.7 per cent in 1929-30.

And it is interesting to observe that during the fiscal year (1924-25), the first year of formal protection, the "protective" duties

² *Statistical Abstract for British India 1920-21 to 1929-30* (Calcutta 1932) pp. 122, 212-213, 214-215; *Finanzen und Steuern im In und Ausland* (Berlin 1930), p. 453.

amounted to Rs. 22,577,194. This made up 4.9 per cent only of the total import duties, Rs. 457,531,516, most of which were thus duties for "revenue." The proportion was 5.1 per cent in 1929-30 when the import duties, both for revenue and protection, amounted to Rs. 512,766,229 while the protective duties alone accounted for Rs. 26,488,348. From the standpoint of public finance protection is but a second fiddle in the revenue from import duties of India. But as a force in the economic life and commercial system of the people it is tending to reproduce in India, although perhaps on a relatively small scale, the conditions of industrial revolution in England previous to 1842 and in France, Germany and Italy during the second half of the nineteenth century.

In other words, at a time when the world is witnessing what may be called a "second industrial revolution" in some of the advanced countries of Europe and America, India is passing through the earlier or perhaps intermediate and to a certain extent final phases of the "first industrial revolution." In commercial policy as in other items of economic structure the Indian people finds itself to-day about a generation and a half or two generations behind the industrial "great powers."

The United Kingdom was opposed to preference in 1907 but in 1919 went over to the system granting preferential rates to the entire Empire. It was thus that Indian tea, tobacco and coffee, for instance, came to enjoy British preference. The British Finance Act of 1925 placed the preferential system on a wider basis. By 1931 India was enjoying preference on coffee, fruits (dried or otherwise preserved), silk and tobacco. The preference on tea had been dropped in 1929 but was restored in April, 1932. India likewise used to enjoy preference in Canada and New Zealand previous to the Ottawa Conference. The preferences enjoyed by India in parts of Northern Rhodesia and Fiji are also mentionable.³

By the Ottawa agreement (1932) India not only accepted all the preferences but also undertook to reciprocate. Reciprocal preference is a radically new feature in the Indian tariff structure. For Great Britain the tariff revolution has brought in preference *in addition to* protection.

In India, on the other hand, the Ottawa tariff embodies only preference but no protection.⁴ We have thus a revival of the old

³ *Gazette of India Extraordinary*, Oct. 13, 1932, pp. 339, 357.

⁴ For the latest tariff amendments see Sarkar: "Indian Export, Price and Exchange Movements on the Eve of Recovery (with reference to Economic Structure and Economic Planning)" in the *Financial Times* (Calcutta), January-April 1934.

system of preference which prevailed in India from 1835 to 1859. During this period the duty on non-British goods was 100 per cent more than that on British goods, the latter as a rule not exceeding 5 per cent, as we have seen above. At that time, be it observed further, there was preference but no protection in the Indian tariff.

Chapter V

THE EMPIRE-ECONOMY OF THE BRITISH COMMONWEALTH

1 India vis-à-vis U. K., Dominions and Colonies

The British Import Duties Act of February, 1932 throws into bold relief the peculiar constitutional position of India in the four-limbed British Empire. It became perfectly clear that, economically speaking, the orientations of Indian commerce to the Empire were threefold. First and foremost came naturally the relations of India vis-à-vis the United Kingdom. The general protective and fiscal tariff of 10 per cent imposed by the United Kingdom affected India as much as the Dominions and the foreign countries but not the "non-self-governing Colonies". Down to November 15, 1932 the pre-tariff i.e. free trade regime would have prevailed but after that India was to be discriminated against unless she cared to grant preference to the United Kingdom, i.e., discriminate against the non-Empire countries.

The second complex had bearing on India vis-à-vis the Dominions. From November 15 on the Dominions were to be as much discriminated against as India by the United Kingdom. The relations between India and the Dominions were not regulated by the Import Duties Act and were indeed left to be decided by themselves. Should one or other of the Dominions or all of them combined have decided to grant preference to the United Kingdom in regard to imports they would have begun to enjoy the preference in the United Kingdom. In that eventuality, after November 1932 India would have had perpetually to compete on unfavourable terms not only with the non-self-governing Colonies but also with the Dominions, for instance, in the export of wheat, barley, tobacco, hardwoods, lead, zinc etc. This isolation of commercial India on the British market would have placed her on the same footing vis-à-vis the United Kingdom as any foreign country.

Thirdly, came the non-self-governing Colonies. These were granted preference by the very Act not only for the few months down to November but unconditionally for the entire regime. They were therefore enabled automatically to compete, first, with the Dominions, and, secondly, with India on easier terms. Both India and the Dominions were presented with a *fait accompli* in tariff-strategy. Those parts of the British Empire including India that delivered goods to the United Kingdom more or less identical with or similar to those supplied by the Colonies, for instance, tea, oil seeds, spices, coir, raw goat skins,

etc. were forced therefore to think thrice before venturing to ignore or remain indifferent to the facilities of preference on the British market such as might be enjoyed by themselves also, provided they were prepared to grant preference to the United Kingdom.

It might be reasonably suspected that these Colonies would expand their exports to the United Kingdom at the cost of India and the Dominions. And since they enjoyed the financial backing of the United Kingdom Treasury they might steal a march on India and the Dominions not only in regard to the export of agricultural produce but to that of half-finished or semi-manufactured goods also. The chances of the Colonies getting industrialized with British capital were not too slight to be left out of consideration either by the Dominions or by India.

At this stage it is worth while to get an idea of the Colonies and appreciate their difference from the Dominions in political status. For a long time in British constitutional theory or practice and in common parlance the distinction was unknown. From 1854 to 1925 the British constitutional law knew only the Secretary of State for the Colonies. The "self-governing Dominions" were separated from the Colonies in the latter year and placed under a separate Secretary, that for the Dominions. It is since 1925 that the importance of the Colonies as an independent category in political, economic and financial matters has been growing in British and world thought.

2 The Dominions under the Ottawa Agreement

The Dominions, as is well-known, are Canada, Australia, New Zealand, South Africa and Newfoundland. Southern Rhodesia is a "self-governing Colony" with government "responsible to the people," subject to certain reservations in regard to "natives." Like the Dominions and the Irish Free State it is administered by the Secretary of State for the Dominions and not by the Colonial Secretary.

In 1932 India's exports enjoyed preference in Canada, New Zealand, Irish Free State and Southern Rhodesia. But the imports from these Dominions did not enjoy any preference in India.¹ The tariff policy of India in regard to the Dominions had not yet been established on the basis of reciprocity.

The Ottawa Agreement affected 215 out of some 800 items on the Canadian Tariff² In 79 cases British goods were declared duty-

¹ *Gazette*, p. 370.

² *The Economist*, London, Oct. 15, 1932; Borck: "Die Industrialisierung der Britischen Dominions und die Rückwirkung auf ihre weltwirtschaftliche Stellung" in *W.A.* (Jena) for April 1932.

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free, and in 53 cases the duty on British goods was lowered, while in 83 cases the duties on non-British goods were raised while those on British remained unchanged.

Some of the new rates may be exhibited below :—

| Goods | General | On British Goods |
|---|------------------------------------|-----------------------------------|
| 1. Woven fabrics of cotton yarns of counts 100 or more | 32½ per cent plus 4 cents per lb. | free |
| 2. Woven cotton fabrics with cut pile | 32½ per cent plus 4 cents per lb. | 15 per cent |
| 3. Woollen yarns and warps imported for further manufacture | 20 per cent plus 17½ cents per lb. | 10 per cent plus 7½ cents per lb. |
| 4. Blankets | 25 per cent | free |
| 5. Linen thread | 25-35 per cent | free |
| 6. Coal | 50 cents per ton | free |
| 7. Table knives and forks | 35 per cent | 15 per cent |
| 8. Pen-knives | 30 per cent | free |
| 9. Steel ingots, blooms etc. not made in Canada and imported solely for further manufacture | \$ 3 per ton | free |
| 10. Belting leather | 27½ per cent | 12½ per cent |
| 11. Coconut butter | 3 cents per lb. | free |
| 12. Tableware of China | 35 per cent | free |
| 13. Printing ink | 25 per cent | 12½ per cent |
| 14. Laundry Soap | \$1.50 per cental | 0.60 cents per cental |

The rearrangement of tariff in Australia was to take place, generally speaking, in accordance with a formula bearing on the range of preference. The following table indicates the differential treatment proposed to be accorded to British goods :

| Duty on British goods | General Duty |
|------------------------|------------------------------------|
| 1. free to 19 per cent | 15 to 34 per cent |
| 2. 19 to 29 per cent | 36½ to 46½ per cent |
| 3. Over 29 per cent | Over 49 per cent up to 75 per cent |

In regard to certain goods, e.g., plate glass, velvets, etc. the existing preference rate was to be retained. For certain other goods the margin of preference was fixed as follows:—

| | |
|-------------------------------------|--------------|
| 1. Iron and Steel tubes or pipes : | 12½ per cent |
| 2. Linotype and printing machines : | 20 per cent |
| 3. Traction Engines : | 12½ per cent |
| 4. Vacuum cleaners : | 20 per cent |

The margin of preference for British goods might be reduced in the case of the following articles to the extent indicated:—

| | |
|----------------------------|-------------|
| 1. Silk piecegoods : | 2½ per cent |
| 2. Lace, embroidery etc. : | 5 .. |
| 3. Clothes : | 5 .. |
| 4. Cutlery : | 5 .. |
| 5. Glassware and Lamps : | 5 .. |
| 6. Fancy goods : | 5 .. |

New Zealand abolished the existing surtax of some 5 per cent on British goods. No reduction was made in the existing margin of preference except in the case of those goods on which the margin is higher than 20 per cent. This is the maximum margin allowed under the new regulations.

In South Africa new or increased preferences were to be given to British locomotives, tractors, typewriters, machinery, electrical batteries, soap, radio apparatus and vacuum cleaners. New duties were to be imposed on certain foreign textiles. The existing margin of preference in favour of British manufactures was not to be lowered.

The margin of preference for British goods in Southern Rhodesia was to be as follows:—

| | |
|--|-------------|
| 1. Electrical material | 10 per cent |
| 2. Batteries, typewriters, radios and glassware | 15 .. |
| 3. Cutlery | 20 .. |

The existing rates on British imports were not to be reduced.

In Newfoundland the general margin of preference was to be 10 per cent. But should this involve loss of revenue the margin might be lowered.

3 Reciprocity Between India and The Colonies

The "non-self-governing Colonies" are administered by the Colonial Secretary. Together with protectorates they are 39 in number and may be distributed in five groups from the standpoint of the degree

of self-government.³ At the top, constitutionally considered, are three Colonies,—Bahamas, Barbados and Bermuda,—in which the Assembly is "elected" but the Legislative Council nominated. To the second group belong British Guiana, Ceylon and Cyprus,—three Colonies in which the Legislative Council is partly nominated and partly elected but in which the officials are not in the majority.

Then come Fiji, Jamaica, Kenya, Trinidad, etc., a group of twelve, in which the Legislative Council is likewise elected in part but in which, as contrasted with the previous group, the officials constitute the majority. Nine Colonies like Hongkong, Uganda Protectorate, Northern Rhodesia etc. have no election for the Legislative Councils which are entirely nominated. Finally, there is a group of ten without any Legislative Council. Some of these are Wei-hei-wei, Basutaland, Bechuanaland, Swaziland etc.

For the first time, in 1928 the Colonial Conference met in London as an institution distinct from the Imperial Conference. As Mr. L. S. Amery, Secretary for the Colonies observed, "the conception of the Colonial Empire as an entity of its own⁴—an important constituted element in a wider framework of the British Empire with characteristics and problems differentiating it, on the one hand, from the commonwealth of equal, selfgoverning nations and, on the other hand, from the great Empire of India—was one which was only gradually dawning upon the mind of the general public."

The Colonies cover 2,000,000 square miles and are inhabited by nearly 50,000,000 people. The combined annual trade is valued at £500,000,000 with a tendency to double itself every few years.

The amount was hardly less than the entire sea-borne trade of India during 1928-29, namely, Rs. 6,461,900,000. In other words, the Colonies, although rarely talked of in India, are as valuable in world-commerce and therefore in the estimation of the U.K. as India herself.

Of the East African territories,⁵ Kenya and Nyasaland are the

³ *The Dominions Office and Colonial Office List*, London 1928. See also Tariff Preference applicable to Indian Goods on Importation into the Non-Self-Governing Colonies and Protectorates (Supplement to the *Indian Trade Journal* (Calcutta, Nov. 23, 1933).

⁴ "The Economics of the New Colonialism" in the *Journal of the Bengal National Chamber of Commerce* for June 1928.

⁵ *The African Comrade* on "Empire Cotton Possibilities" in the *Journal of the Bengal National Chamber of Commerce*, December 1927. For the commercial and general economic conditions of Kenya and Uganda, Zanzibar, and Tanganyika see *Trade Mission to the Near East and Africa* (Calcutta 1928), pp. 137-191.

most favoured agriculturally. The greatest mineral prospects are held out by Tanganyika and Northern Rhodesia. Cotton growing and production of cloves constitute the *forte* of Uganda and Zanzibar. According to the *African Comrade* (Dar-es Salaam, Tanganyika) the "progress made in British East Africa during the past few years is astonishing. British administration and enterprise are at the beginning of a work, which, when completed, may well prove to have been no less ably carried out than in other Dominions in the past." Experiments in Sudan have indicated that cotton can be grown here in perfection.

The following exports to India from the Colonial Empire are to enjoy, according to the Agreement, a preference of 10 per cent *ad valorem*: asphalt, beeswax, soda ash, gum arabic, cutch, cinnamon oil, coconuts, copra, coir yarn, coir mats, dry fish, vegetables, unmanufactured ivory, vanilla beans etc. Certain goods are to enjoy 7½ per cent per *ad valorem*, namely, betelnuts and unground spices. Then, there are preferences at specific rates, e.g. Rs. 3-12-0 per gallon on bitters, one anna per lb. on coffee, Rs. 3-12-0 per proof gallon, two annas per lb. on tea, and rates to be subsequently determined on unmanufactured tobacco.

While exporting to Ceylon India will enjoy preference of not less than 10 per cent *ad valorem* on the following goods: Cotton piece goods, cotton yarn, fresh fruits and vegetables, dried, salted and preserved fruits and and vegetables, big lead (but not lead sheets, tea lead or foil), iron and steel, teak and other hardwoods, perfumery, coriander seed, beans, apparel, boots and shoes, woollen carpets and rugs. There are certain specific rates also, for instance, tea at the rate of 12½ cents per lb, coffee, raw, roasted or ground, at the rate of 6 cents per lb, and tobacco manufactures at rates to be subsequently determined.

India's exports to some of the states of Malaya are to enjoy preference at the rate of 2 cents per lb in regard to groundnut oil and gingelly oil. The *ad valorem* duty of 10 per cent is to be enjoyed by the following articles: tanned hides and skins, brass, bronze, brassware and bronzeware, copper and copper ware, paraffin wax, perfumery, groundnuts, cotton piecegoods, and fishmaws and sharkfins.

Certain Colonies are by treaties or conventions prevented from granting preference to the U. K., for instance, the Gold Coast and Nigeria by the Anglo-French convention of 1898, and Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland and part of Northern Rhodesia by the Convention of St. Germain 1919.

In certain Colonies preference has for some time been enjoyed by India as by the U.K. and other parts of the British Empire. These

are the West Indies, Fiji, Gibraltar, Cyprus, as well as parts of Africa, for instance, Gambia, the Somaliland Protectorate and that part of Northern Rhodesia to which the Convention of St. Germain is not applicable.

All this preference, whatever be the worth, might have dropped had India chosen to decline granting preference from her side. But India's decision to reciprocate has left with her the secure enjoyment of the previous privileges.

So far as the Colonies are concerned, there are virtually only two regions in regard to which an agreement had to be made afresh from the Indian side. These are Ceylon and the Malaya States. As for the others there were, first, those states that are bound by international treaty. *Vis-à-vis* these regions India could only offer preference in regard to imports therefrom but not enjoy any in regard to exports thereto. Then there were the others in regard to which India had only to reciprocate in order to keep in tact the preferences of long standing extended to her by them.

In regard to those goods in which the U.K. is to receive preferences from India, viz. the manufactured articles, the Colonial Empire also is to get them.⁶ But the Colonial Empire is mainly agricultural and does not possess as yet much that is comparable to the manufactures expected by the U.K.

On the other hand, India is to enjoy preference in the Colonial Empire in regard to all those goods for which the U.K. is to enjoy it, i.e. in regard to manufactures and semi-manufactures. The export of India's manufactured articles to the Colonies gets therefore a fillip. The reciprocal preference bids thus to promote the industrialization of India by furnishing larger and expanding extra-Indian markets. Naturally, the present-day depression also is likely to be counteracted to a certain extent.

4 Empire-Economy in World-Economy and Indian Economy.

The value of the British Empire-economy in the world-economy can be seen in a nutshell in the following table giving the imports and exports of the total British Empire from 1927 to 1929⁷ (in million dollars):

| Year | Imports | Exports | Total |
|------|---------|---------|--------|
| 1927 | 10,228 | 8,780 | 19,008 |
| 1928 | 10,132 | 8,954 | 19,086 |
| 1929 | 10,646 | 8,775 | 19,239 |

⁶ *Gazette* pp. 358, 395, 396, 405.

⁷ *Memorandum on International Trade* Vol. I. (Geneva 1930), pp. 20, 22; *World Economic Survey 1932-33* (Geneva 1933), pp. 286-288.

The Empire "proper" (i.e. the complex of Dominions, Colonies, and India, lying as they do outside the U.K.,) was responsible for the following figures (in million dollars) which should be read in the above perspective :—

| Year | Imports | Exports | Total |
|------|---------|---------|--------|
| 1927 | 4,897 | 5,329 | 10,226 |
| 1928 | 4,899 | 5,433 | 10,332 |
| 1929 | 5,053 | 5,225 | 10,278 |

The exports and imports of India alone are being placed here for proper orientation (in million dollars) :

| Year | Imports | Exports | Total |
|------|---------|---------|-------|
| 1927 | 906 | 1,162 | 2,068 |
| 1928 | 912 | 1,207 | 2,119 |
| 1929 | 914 | 1,177 | 2,091 |

The entire French Empire (France with colonies, protectorates, mandated territories) is responsible for the following figures (in million dollars) :

| Year | Imports | Exports | Total |
|------|---------|---------|-------|
| 1927 | 2,708 | 2,655 | 5,363 |
| 1928 | 2,765 | 2,566 | 5,331 |
| 1929 | 3,026 | 2,511 | 5,537 |

In 1929 the total trade of the entire French Empire was 51·9 per cent of that of the British Dominions, Colonies and India, and 27·7 per cent of that of the British Empire. The total statistically recorded exports and imports of the entire world from 1927 to 1929 are given below (in million dollars) :

| Year | Imports | Exports | Total |
|------|---------|---------|--------|
| 1927 | 33,764 | 31,378 | 65,142 |
| 1928 | 34,639 | 32,499 | 67,138 |
| 1929 | 35,343 | 32,742 | 68,085 |

It is evident that the British "Empire proper" is slightly higher in value than the U.K. itself. Its command over the world-trade exhibits likewise a higher coefficient than that of the U.S.A. Nay, the total exports and imports of Germany and France combined just came up to those of the Dominions, Colonies and India put together, while Japan, the Netherlands and Italy combined did not constitute in 1929 more than 56 per cent of the British "Empire proper."

The percentage share of the total British Empire in the world's trade

(imports and exports combined) can be seen in the perspective exhibited below⁸:

| Regions | 1927 % | 1928 % | 1929 % |
|-----------------------------|-----------|-----------|-----------|
| Total British Empire ... | 29.2 | 28.5 | 28.2 |
| British "Empire Proper" ... | 15.7 | 15.4 | 15.04 |
| U.S.A. ... | 13.70 | 13.57 | 13.93 |
| U.K. ... | 13.48 | 13.04 | 13.16 |
| Germany ... | 8.94 | 9.09 | 9.13 |
| France with Colonies ... | 8.2 | 7.9 | 8.1 |
| France ... | 6.51 | 6.12 | 6.24 |
| Canada ... | 3.64 | 3.97 | 3.48 |
| India ... | 3.17 | 3.16 | 3.07 |
| Japan ... | 2.92 | 2.79 | 2.89 |
| Netherlands ... | 2.75 | 2.80 | 2.80 |
| Italy ... | 2.85 | 2.86 | 2.79 |

Having examined the economic worth of the British Empire in the world-economy we shall now place it in the perspective of Indian economy.

The total values of India's international trade (exports and imports combined) were distributed as follows between the U.K., the Dominion-Colony complex and the non-Empire countries:⁹

| Period | U.K. Rs. | Dom.-Col. Rs. | Non-Empire Rs. |
|----------------------|---------------|------------------|-------------------|
| Pre-War Average ... | 1,478,800,000 | 457,200,000 | 1,763,700,000 |
| Post-War Average ... | 2,194,700,000 | 711,900,000 | 2,653,700,000 |
| 1930-31 ... | 1,151,600,000 | 499,600,000 | 2,253,100,000 |
| 1931-32 ... | 901,400,000 | 380,300,000 | 1,587,500,000 |
| 1932-33 ... | 872,600,000 | 342,000,000 | 1,467,500,000 |

The above figures yield the following percentual relations:

| Period | U.K. | Dom.-Col. | Total Empire | Non- Empire | Total |
|------------------|------|-----------|-----------------|----------------|-------|
| Pre-War Average | 40.0 | 12.3 | 52.3 | 47.7 | 100.0 |
| Post-War Average | 39.5 | 12.8 | 52.3 | 47.7 | 100.0 |
| 1930-31 | 29.6 | 12.8 | 42.4 | 57.6 | 100.0 |
| 1931-32 | 31.4 | 13.3 | 44.7 | 55.3 | 100.0 |
| 1932-33 | 32.2 | 13.1 | 45.3 | 54.7 | 100.0 |

⁸ Adapted from *Memorandum on International Trade* Vol. I (Geneva 1930) pp. 21, 23; *Review of the World Trade 1932* (Geneva 1933), pp. 25, 42.

⁹ *Review of the Trade of India in 1931-32, 1932-33*, pp. 189-191; 181-183.

Certain features cannot be overlooked. First, the Empire trade which was 52.3 per cent in pre-war years has come down to 44.7 per cent in 1931-32. Secondly, as between the different parts of the Empire, again, the U.K.'s share has declined from 40 to 31.4 per cent while that of the Dominion-Colony complex has risen from 12.3 to 13.3 per cent. The Dominions and the Colonies are to-day more important in economic India, although rather slightly, than previous to the War.

Incidentally it should be observed that the figures for 1932-33, both absolute and percentual, are to be taken as to a certain extent the consequence of the Ottawa Agreement, which, however, need not be discussed in the present context.

5 INDIA'S INTEREST IN THE EMPIRE MARKETING BOARD

The growing importance of the Dominions and the Colonies in the Empire-economy is already a statistical fact. And the consciousness about this increased importance is an outstanding item in the new Imperial issue of the British people. Nowhere is this consciousness better embodied than in the Empire Marketing Board, whose activities deserve, therefore, a special investigation in an enquiry into the tariff economics of India *vis à vis* that of the Dominions and the Colonies.

India's economic prospects and possibilities are likely to be affected very seriously by the policies which control the budgets and administer the interests of this Board. No survey of India's commercial and industrial future can be deemed adequate which does not examine the E. M. B.'s sympathies and orientations from year to year. It is nothing short of the problem of India *versus* the Dominions (especially the Colonies) in regard to the claims upon British capital that concerns us here. Any conscious or unconscious neglect of India by the E. M. B. will ultimately mean India's relative decline in industrialization, agricultural prosperity and commercial ascendancy simultaneously with the comparatively quicker progress and higher rate of development in the Colonies and the Dominions.

The grants for research and development made by the Empire Marketing Board¹⁰, established in 1926, amounted during the fourth year to £482,000 out of its total budget of nearly £800,000. The sums contributed from other sources to the research schemes of the E. M. B. amounted to over £500,000 during the third year.

¹⁰ *Empire Marketing Board*, May 1928 to May 1929, p. 10; May 1929 to May 1930, p. 12.

The institutions of the U. K. as well as the grants obtained by them from the E. M. B. down to May 1930, i.e., the end of the fourth year are described below along with the objects for which the grants have been made.^{11*}

| Institutions | Objects | Grants of E.M.B. |
|---|---|--|
| 1. University of Cambridge | Development of the biological and agricultural departments. | £10,000 p.a. for 5 years |
| 2. Department of Scientific and Industrial Research | Development of the Low Temperature Research Station at Cambridge. | £38,500 capital and £8,000 p.a. for 5 years |
| 3. „ | Erection of New Station at East Malling, Kent, for cold storage experiments. | £55,000 cap. and £34,000 spread over 5 years |
| 4. „ | Survey of trade in frozen mutton and lamb. | £1,250 |
| 5. Rowett Research Institute, Aberdeen | Mineral content of natural pastures (with special reference to Kenya Colony). | £25,000 spread over 5 years |
| 6. School of Agriculture, Cambridge* | Physiology of reproduction and growth of farm animals. | £5,000 cap. £400 p.a. for 5 years and £500 guarantee |
| 7. „ | Grass and fodder crop conservation. | £200 cap. |
| 8. „ | Milk yield of cows crossbred from the Indian Zebu. | £250 |
| 9. University of Edinburgh* | Chair of Genetics and Animal Breeding. | £10,250 |
| 10. University of Cambridge* | Use of B.C.G. vaccine in the protection of calves against tuberculosis. | £3,000 cap. |
| 11. „ | Extension of the Department of Animal Pathology. | £4,250 |
| 12. Liverpool School of Tropical Medicine* | Metazoan Immunity. | £3,000 p.a. for 3 years |
| 13. London Quarantine Station | Export of British stock to Empire countries. | £7,750 cap. and £3,250 p.a. for 5 years |
| 14. Parasite Laboratory, Farnham Royal, England | Breeding of beneficial parasites. | £15,000 cap. and £6,000 p.a. for 5 years |
| 15. Imperial Bureau of Entomology, London. | Biological control of insect pests in the West Indies. | £2,000 p.a. for 3 years |
| 16. „ | Campaign against desert locust. | £500 |

¹¹ *Empire Marketing Board* (London 1930), pp. 12-75. The asterisks in the text indicate that the institutions concerned have obtained additional grants from other sources.

INDIA'S INTEREST IN THE EMPIRE MARKETING BOARD 45

| Institutions | Objects | Grants of E.M.B. |
|---|--|--|
| 17. London School of Hygiene and Tropical Medicine | Insect nutrition. | £1,500 spread over 3 years |
| 18. Imperial College of Science and Technology* | Stored Products Research. | £10,775 cap. and £15,936 spread over 5 years |
| 19. Leathersellers' Company of London.* | Campaign against warble fly. | £1,000 |
| 20. Natural History Museum, London | Identification and accommodation of entomological specimens. | £30,000 cap. |
| 21. Cheshunt Experimental and Research Station, England | Control of pests and diseases of glass house produce. | £1,600 cap. and £1760 p.a. for 5 years |
| 22. Imperial Bureau of Mycology, Kew* | Erection of new building. | £8,000 |
| 23. Ministry, of Agriculture and Fisheries. | Dry rot disease of swedes and turnips. | £1,320 spread over 3 years |
| 24. Rothamstead Experimental Station | Virus diseases of plants | £1,835 cap. and £12, 800 spread over 5 years |
| 25. Cheshunt Experimental and Research Station | ,, | £1,040 cap. and £8,350 spread over 5 years |
| 26. Scottish Society for Research in Plant Breeding | ,, | £4,450 cap. and £8,000 spread over 5 years |
| 27. University College, Dublin | ,, | £3,250 cap. and £5,500 spread over 5 years |
| 28. Rothamstead Experimental Station | Cotton disease | £600 cap. and £200 p. a. for 4 years |
| 29. Welsh Plant Breeding Station, Aberystwyth | Research in grasses and clovers | £4,350 cap. and £23,375 spread over 5 years |
| 30. East Anglian Institute of Agriculture, Essex | Plants of the Tidal Zone | £220 |
| 31. Welsh Plant Breeding Station Aberystwyth | Empire grassland problems | £3,850. |

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| Institutions | Objects | Grants of E.M.B. |
|--|---|--|
| 32. East Malling Research Station, Kent | Fruit research and standardization of horticultural material. | £9,050 cap. and £27,300 spread over 5 years, £13,200 cap. and £8,100 spread over 3 years |
| 33. Long Ashton Horticultural Research Station, Bristol | The growth of fruit trees | £7,025 cap. and £12,975 spread over 5 years |
| 34. Royal Botanic Gardens, Kew | Economic botany | £20,000 spread over 5 years |
| 35. „ | Classification of herbarium specimens | £15,567 spread over 5 years |
| 36. John Innes Horticultural Institution | Expedition to Iraq and Persia to collect specimens of prunus | £400. |
| 37. Ministry of Agriculture and Fisheries | Botanical nomenclature | £100. |
| 38. Medical Research Council | Vitamine content of fruits, vegetables and dairy products | £24,000 spread over 5 years |
| 39. Rowett Research Institute Aberdeen | Physiological and pathological conditions associated with diets (with special reference to Kenya) | £3,000 p. a. for 3 years |
| 40. Imperial Forestry Institute, Oxford | Higher training of forest officers | £4,750 p. a. for 2 years |
| 41. Forest products Laboratory, Princess Risborough. | Utilization of Empire timbers | £30,000 cap. and £7,500 spread over 2 years |
| 42. Empire Forestry Association | Empire Forestry Handbook | £100 |
| 43. Secretary of State * | Development of mechanical transport for use in undeveloped parts of the Empire | £60,000 spread over 5 years |
| 44. Department of Scientific and Industrial Research | Preservation and transport of fish | £33,000 spread over 3 years |
| 45. London and Liverpool Universities | Codliver oil research | £3,000 |
| 46. Great Barrier Reef Committee * | Fertility of the sea | £2,500 |
| 47. British Research Association for the Woollen and Worsted Industries, Leeds | Standardisation of wool quality | £7,800 cap. £2,200 for 1 year £3,250 p. a. for 4 years |

INDIA'S INTEREST IN THE EMPIRE MARKETING BOARD 47

| Institutions | Objects | Grants of E.M.B. |
|--|---|--|
| 48. University of Edinburgh | Sheep breeding and biology of wool | £3,000 cap. £800 p. a. for 5 years |
| 49. British Research Association for the Woollen and Worsted Industries, Leeds | Survey of Empire wools | £2,000 p. a. for 2 years |
| 50. " " | Supply of wool packs for trial in Australia, New Zealand and South Africa | £175 |
| 51. Linen Industry Research Assn. Northern Ireland * | Flax industry | £2,250 cap. £16,500 spread over 5 years |
| 52. National Institute for Research in Dairying, Reading | Faults in dairy products | £3,150 cap. and £3,900 spread over 2 years |
| 53. Department of Agriculture for Scotland | Nutritive value of milk | £3,260 |
| 54. Department of Health for Scotland | " | £3,260 |
| 55. Cambridge University Press | <i>Journal of Dairy Research</i> | £1,000 |
| 56. Rowett Research Institution, Aberdeen | Poultry nutrition | £7,000 cap. and £2,500 p. a. for 5 years |
| 57. University of Cambridge | Scientific feeding of poultry | £390 cap. £1,870 spread over 5 years |
| 58. National Institute of Poultry Husbandry, Newport, Salop | Production and marketing of table poultry | £5,000 cap. and £8,492 spread over 5 years |
| 59. University of Oxford | Fluctuations in the numbers of wild rodents | £3,010 spread over 3 years |
| 60. Ministry of Agriculture and Fisheries | Empire Meteorological Conference | £500 |
| 61. A small committee of scientists | Maturation of wine | £1,250 |
| 62. Imperial Geophysical Survey Committee* | Methods of geophysical surveying | £16,000 |
| 63. Horace Plunkett Foundation* | Cooperative organization of producers | £1,500 p. a. for 9 years |
| 64. University College of North Wales | Soil analysis | £430 |

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| Institutions | Objects | Grants of E.M.B. |
|---|---|---------------------------|
| 65. Flour Millers' Research Assn. | Milling and baking tests of Pusa wheats | £170 |
| 66. Colonial Agricultural Service London* | Advisory Council of Agriculture and Animal Health | £22,000 p. a. for 5 years |
| 67. Royal Botanic Gardens, Kew | Tung oil production and research | £700 |
| 68. Research Assn. of British Paint, Colour and Varnish Manufacturers | " | £750 p. a. for 5 years |

The institutions located in the different parts of the Colonial Empire have received the grants described in the following table :—

| Institutions. | Objects | Grants of E.M.B. |
|--|---|---|
| 1. Imperial College of Tropical Agriculture, Trinidad* | Development of a training centre for the study of tropical agricultural problems. | £ 21,000 capital and £55,000 spread over 4 years. |
| 2. " | Banana research | £ 5,774 capital, £3,806 p.a. for 5 years. |
| 3. East African Agricultural Research Station, Amani (Tanganyika)* | Cost of maintaining this Institute. | £ 6,000 p. a. for 3 years. |
| 4. Experimental Fruit Farm in Sierra Leone* | Banana and grape fruit research. | £1,500 capital, £1,500 p. a. for 5 years. |
| 5. Experimental Oil Palm Plantation in Sierra Leone.* | Plantation methods | £ 1,500 p. a. for 2 years. |
| 6. Government of Federated Malaya States * | Drying of copra | £ 1,150 p. a. for 4 years. |
| 7. Government of Fiji. | Marketing of copra | £ 750 p. a. for 2 years |
| 8. Government of Palestine . | Citrus industry | £ 1,000 for 3 years |
| 9. British Honduras* | " " | £ 280 p. a. for 3 years |
| 10. Government of British Guiana | Insecticidal plants | £ 300 p. a. for 5 years |
| 11. Government of Mauritius * | Sugar research | £ 2,000 p. a. for 5 years |
| 12. Ceylon Tea Research Institute. | Tea research | £ 1,000 capital |
| 13. Government of Jamaica * | Sericulture | £ 1,800 spread over 3 years. |

| Institutions | Objects | Grants of E.M.B. |
|--|--|---|
| 14. Government of Palestine. | „ | £ 100 |
| 15. Zionist Organisation, Palestine * | Stock rearing | £ 4,900 spread over 3 years |
| 16. Government of Northern Rhodesia * | „ | £ 600. |
| 17. Government of Kenya * | „ | £ 6,000. |
| 18. Hebrew University, Jerusalem. | Insect nutrition | £ 75 capital and £ 277-10-9 p. a. for 3 years |
| 19. Government of Tanganyika Territory * | Tsetse fly control | £ 2,000 p. a. for 5 years |
| 20. Zionist Organisation, Palestine * | Fungal wastage of fresh fruits | £ 1,520 spread over 3 years |
| 21. Government of Cyprus * | Flax development | £ 2,500 spread over 3 years |
| 22. Jamaica Producers' Association * | Co-operative marketing of citrus fruit | £ 1, 200 p. a. for 3 years |

It is to be observed, in passing, that Palestine is not a "Colony".

The grants made over to institutions located in the Dominions are tabled below :—

| Institutions | Objects | Grants of E.M.B. |
|--|---|---|
| 1. Waite Agricultural Research Institute at Adelaide * | Mineral content of natural pastures | £ 3,000 capital £ 1,875 p. a. for 5 years |
| 2. Cawthron Institute, New Zealand * | „ | £ 2,000, p. a. for 5 years |
| 3. Government of Southern Rhodesia * | „ | £ 2,500 capital £2,500 p. a. for 3 years. |
| 4. Onderstepoort Veterinary Research Station, South Africa | Animal health | £ 10,000 capital £11,000 p. a. for 5 years. |
| 5. Government of Australia. * | Export of pedigree bulls, heifers, boars, rams, ewes etc. | £ 5,000 p. a. for 2 years |
| 6. Government of Southern Rhodesia * | „ | £ 5,480 spread over 3 years |
| 7. Commonwealth Council for Scientific and Industrial Research, Canberra (Australia) * | Entomological research | £ 25,000 capital and £ 39,052 spread over 5 years |

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| | Institutions | Objects | Grants of E.M.B. |
|-----|--|----------------------------------|---|
| 8. | Cawthron Institute, New Zealand * | Control of noxious weeds | £ 1,333 capital £2,000 p. a. for 5 years. |
| 9. | New Zealand Department of Scientific and Industrial Research * | Plant breeding and seed research | £ 2,500 capital and £ 2,500 p. a. for 5 years. |
| 10. | „ * | Fruit research | £ 2,000 capital and £1,500 p. a. for 5 years. |
| 11. | Government of Newfoundland * | Fishery research | £ 5,000 capital and £5,000 p. a. for 5 years |
| 12. | University of British Columbia * | Cheese ripening | £ 1,100 spread over 2 years. |
| 13. | Ontario Agricultural College, Guelph, Canada * | Quality in Eggs | £ 350 capital £ 670 p. a. for 5 years. |

India's share in the grants of the Empire Marketing Board, modest as it is, can be seen in the following statement :

| | Institutions | Objects | Grants |
|----|----------------------------------|----------------------------|---|
| 1. | Government of Bihar and Orissa * | Lac research and marketing | £500 p. a. for 5 years (same amount to be provided by the Govt. of Bihar and Orissa) |
| 2. | Indian Tea Association * | Tea research | £3,125 capital and £687 p. a. for 5 years (same amount to be provided by the I.T.A.) |

The subjects for research are grouped under the following categories :

- (1) Biological and agricultural sciences, (2) tropical and sub-tropical development, (3) low temperature research, (4) animal husbandry, (5) animal breeding, (6) animal health, (7) export of pedigree livestock, (8) entomology, (9) mycology and plant pathology, (10) plant breeding, (11) horticulture, (12) economic botany, (13) dietetics, (14) forestry and forest products, (15) mechanical transport, (16) fisheries, (17) wool, (18) flax, (19) dairying, (20) poultry, (21) animal ecology, (22) oenology, (23) geophysics.

The institutions enjoying the grants are distributed broadcast throughout the Empire. The U. K. enjoys 68 grants, the Colonies 22, the Dominions 13 and India 2. The E. M. B. has taken steps to co-ordinate the work of the institutions located in different parts of the Empire in such a manner as prevents overlapping and duplication. Although the lion's share of the grants has fallen to the institutions in the U. K. the researches carried on by them have direct bearings on, and are indeed very often occasioned by, the economic and sanitary interests of the Colonies. They serve, besides, to function as the central stations for the guidance and control of research in the Overseas Empire. The development of the Colonies or rather the promotion of Empire-economy will appear to be the direct objective of the E. M. B's research schemes. One will not fail to notice incidentally that the Board has up till now evinced hardly any interest in the economic development of India. But altogether, the Empire has tended to grow into a reality in British business experience and commercial thought. The "rationalization" of the British Empire resources is thereby becoming an outstanding feature of world-economy.

Chapter VI

THE EXPORTS FROM INDIA UNDER IMPERIAL PREFERENCE

1 Preference Beneficial to Tata Steel

We are now in a position to grasp the economic morphology of the British Empire as well as the factual position of India in the Empire-economy and the world-economy. The economic data being what they are, let us examine the bearings of the Imperial Preference, as decided upon in accordance with the Ottawa Agreement, upon the different branches of India's international trade. We shall take up the export trade first, and begin with iron and steel.

The output of pig iron and steel at the Tata Iron and Steel Works in recent years is exhibited below:—¹

| | | 1930-31 | 1931-32 |
|------------------------------|--------|--------------|--------------|
| 1. Pig Iron | | 714,011 tons | 804,736 tons |
| 2. Steel Ingots | | 624,539 " | 602,366 " |
| 3. Saleable Steel (finished) | | 431,390 " | 449,723 " |

The production of saleable steel (finished) in 1931-32 was the highest on record, representing, as it did, an increment of 4.2 per cent. on the output in 1930-31. In pig iron also 1931-32 was a record year for the Company. There was an increment of 12.6 per cent. over the amount during the previous year.

For the purposes of export only pig iron comes into consideration. Now there are works besides those of Tata engaged in the production of pig iron. The total Indian output is described below and in its prospective the total exports:—²

| Year | Output | Exports | Percentage of export to output |
|---------|--------------|--------------|--------------------------------|
| 1926-27 | 657,000 tons | 309,000 tons | 32.2 |
| 1927-28 | 1,162,000 " | 393,000 " | 33.8 |
| 1928-29 | 1,050,000 " | 449,000 " | 42.7 |
| 1929-30 | 1,376,000 " | 568,000 " | 41.2 |
| 1930-31 | 1,140,000 " | 439,000 " | 38.5 |
| 1931-32 | 1,070,000 " | 350,000 " | 32.7 |

The output has declined since 1929-30 but on the whole it has been maintaining a high level since 1926-27. The percentage of

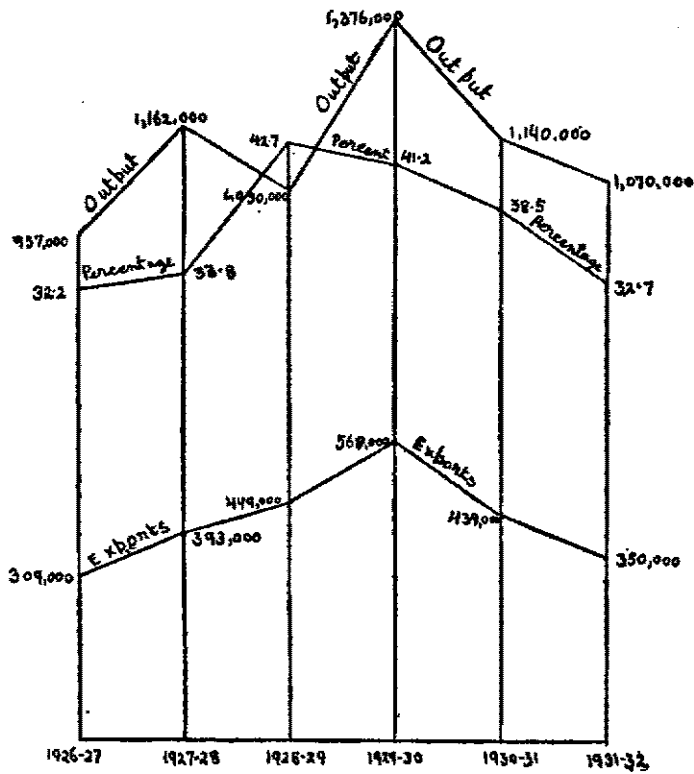
¹ *Annual Report for 1931-32* (Tata Iron & Steel Co. Ltd., Bombay) p. 5; 1932-33, p. 5. See also Sarkar: *Applied Economics* Vol. I, (Calcutta 1932), pp. 234-248.

² *RTI* 1928-29, p. 108, 1931-32, p. 125; *The Gazette of India Extraordinary* Oct. 13, 1932, p. 361.

CHART 1

Indian Pig Iron Exports Declining in Percentage of Total Output (1926-32)

N. B. The percentage curve is drawn on a different scale from that of the total output and exports.



(To face p. 52)

exports, however, rose steadily upto 1928-29 but since then has been declining and in 1931-32 reached finally almost the level of 1926-27.

While exports of pig iron have been declining it has not been possible to utilize available surpluses for the manufacture of steel, because the Indian consumption of steel also has declined during the same period. The total Indian demand for pig iron per year is normally as follows:—

| | | | |
|----------------------------------|-----|-------|--------------|
| 1. For foundry iron: | ... | ... | 150,000 tons |
| 2. For the manufacture of steel: | ... | ... | 500,000 „ |
| | | Total | 650,000 „ |

But the total capacity for output year is, 1,500,000 tons. The problem of foreign markets for pig iron is therefore a serious concern with the Indian enterprises, Tata included.

The foreign markets for Indian pig iron are in order of importance, first, Japan, the U.S.A., and Great Britain, and secondly, in smaller quantities Germany and China. The relative position of the leading foreign markets can be seen in the following table of exports (in 000 tons):—

| Year | Japan | U.S.A. | Great Britain | Other countries | Total |
|---------|-------|--------|---------------|-----------------|-------|
| 1921-22 | 58 | x | x | 1 | 59 |
| 1922-23 | 112 | 3 | x | 3 | 118 |
| 1923-24 | 144 | 24 | 3 | 12 | 183 |
| 1924-25 | 171 | 134 | 19 | 17 | 341 |
| 1925-26 | 168 | 156 | 20 | 38 | 382 |
| 1926-27 | 234 | 40 | 16 | 19 | 309 |
| 1927-28 | 271 | 65 | 21 | 36 | 393 |
| 1928-29 | 353 | 52 | 5 | 39 | 449 |
| 1929-30 | 349 | 86 | 71 | 62 | 568 |
| 1930-31 | 160 | 108 | 99 | 72 | 439 |
| 1931-32 | 188 | 51 | 69 | 42 | 350 |

Japan has been the greatest consumer of Indian pig iron. Her takings increased almost uninterruptedly from 1921-22 upto 1928-29.³ But since then there has been a decline. Part of this fall may be attributed to the world-wide depression but perhaps to a certain extent this is due also to her attempts to utilize the sources in Manchuria.

Whatever be the reason, two facts are clear: First, the percentage of exports in relation to the output has been declining, and secondly, the takings of Japan, the greatest foreign consumer, have also begun to

³ *The Gazette of India Extraordinary*, Oct. 13, 1932, p. 361. See "Planned Economy in Manchukuo" and "Iron and Machine Industries in Japan" in the *Japanese Trade Bulletin* (Calcutta), January and February 1934.

decline. Both for Tata as well as for the other companies in India it has for sometime been a necessity to look for extra-Japanese directions of export.

It appears that Great Britain is a late comer as a market for Indian pig iron and also a rather poor one. But since 1929-30 she has been using considerable quantities. And this market might increase.

We have to observe, further, that Great Britain has been importing from India not only pig iron but steel rails and semi-finished steel as well in the shape of sheet bars and billets. This item is of special interest to the Tata, as virtually the only steel manufacturing company.

In 1931-32 there was, as the *Annual Report* says, a heavy fall in the demand from the Railways and the engineering industry for tested steel. The Railway demand for Tata steel was normally fixed at some 200,000 tons in 1926. But in 1931-32 it fell off to 40,000 tons only. For 1932-33 the orders are lower than at any time since the Company started work.⁴

Both in regard to pig iron as well as to steel, therefore, the enterprises in India have been compelled to look for relief from foreign markets.

It is just at this point that the economic consequences of preference became palpable. The British Import Duties Act of 1932, if applied to India as to all other foreign countries, would have saddled Indian pig iron and steel with a duty of 33 1/3 per cent *ad valorem*. "Under the same conditions of temperature and pressure," i.e., with the same amount of import duty on their shoulders sheet bars and billets of Indian steel could hardly have succeeded in competing with the Belgian steel goods. But under preference i.e., with duty-free entry into British market Indian steel bars and billets have a chance to replace Belgian steel goods of the same classes burdened, as they are, with an import duty of 33 1/3 per cent. The British preference for Indian steel consisting in a differential duty as against Continental steel has enabled the Tata Works to deliver goods to the British market on the same terms as the British concerns. Besides, along with the British companies Tata is now able to compete with and to a certain extent displace non-Empire steel in Great Britain. This is an instance of preference helping forward the expansion of Indian exports as well as promoting the industrialization of India. The protection of British iron and steel industry against non-British goods is being enjoyed by an Indian manufacturing company although not located within the British Isles but in India.

⁴ *Annual Report (Tata) 1931-32, p. 5 ; 1932-33 pp. 4-5.*

It will be interesting to note the price, i.e., "reciprocity," offered by India to Great Britain for this privilege as extended by the latter to the former. To that we shall address ourselves in connection with Indian imports.

2 The Schedules of Preferred Exports

Let us now pass on from the special case of steel to the general export schedule and examine the groups of preference to be enjoyed by Indian articles in the U.K.

Exports from India have been enjoying preference in Great Britain since 1919, and especially since the British Finance Act of 1925. Tea, coffee, silk goods, laces, tobacco, cigars, etc., belong to the schedule of preferred goods.⁵ The list was lengthened very liberally by the legislative measure of 1932.

The preferred list may be indicated in five groups:—⁶

I. Group in which Indian goods which have previously been duty-free are to remain duty-free in future also and thus stay outside the operation of the British Import Duties Act of 1932. This group comprises among others the following commodities (worth nearly £1,343,000 as British imports from India in 1929):

- | | |
|------------------------------|-------------------|
| 1. Barley | 2. Pulses |
| 3. Miscellaneous food grains | 4. Manures |
| 5. Bones | 6. Raw goat skins |
| 7. Asbestos | |

II. Group in which non-Indian goods are to be charged at revised rates:—

1. Wheat in grain: 2s. per quarter
2. Rice, husked including cargo rice and cleaned rice whole but not including broken rice: 1d per lb.
3. Vegetable oils:
(castor, linseed, coconut, groundnut, rape, sesamum) 15 per cent *ad valorem*

⁵ For preferences granted to Indian goods in 1924-26 see "India in the British Trade", "Imperial Preference," "Empire Marketing" and "Empire Trade Policy" in the *Journal of the Bengal National Chamber of Commerce* for March 1927, September 1930 and March 1931.

⁶ *Gazette of India Extraordinary* Oct. 13, 1932, pp. 395-397.

IMPERIAL PREFERENCE

4. Magnesium Chloride 1s per cwt.
 5. Linseed 10 per cent.
ad valorem.

In 1919 British imports in this group amounted to £2,093,000.

III. Group in which the margin of preference over non-Indian goods is specified in favour of Indian goods.

Coffee 9s 4d. per cwt.

British imports from India were valued at £168,000 in 1929.

IV. Group in which (1) the margin of preference over foreign goods enjoyed by Indian goods up till now is not to be reduced and (2) the rate of preference is to be heightened for Indian goods, should it happen to be heightened for goods coming from other parts of the Empire.

The articles in this group are enumerated below along with the rates of preference :

| Articles | Preference | Articles | Preference |
|---|-------------|-----------------------------------|-----------------|
| 1. Tea | 2d per lb. | 13. Woollen carpets and rugs | 20 per cent |
| 2. Coir yarn | 10 per cent | 14. Bran and pollards | 10 " |
| 3. Coir mats and matting | 20 " | 15. Rice meal and dust | 10 " |
| 4. Cotton yarn | 10 " | 16. Lead | 10 " |
| 5. Cotton manufactures | 20 " | 17. Tobacco, un-manufactured | 2s. 4d. per lb. |
| 6. Leather undressed, hides (other than sole leather) | 10 " | 18. Tobacco, manufactured,—cigars | 3s. 10½d. " |
| 7. Leather undressed, skins | 10 " | 19. Castor seed | 10 per cent |
| 8. Jute manufactures | 20 " | 20. Magnesite | 10 " |
| 9. Oil seed cake and meal | 10 " | 21. Sandal wood oil | 10 " |
| 10. Spices | 10 " | 22. Granite setts and kerbs | 15 " |
| 11. Teak (hewn and sawn) | 10 " | 23. Groundnuts | 10 " |
| 12. Other hardwoods (hewn and sawn) | 10 " | | |

The total British imports from India in 1929 were worth £38,264,000.

V. Group in which certain specified goods such as according to the provisions of the British Import Duties Act of 1932 might be charged but because of Imperial Preference are allowed to enter free of duty.

| Goods | Value of British Imports from India in 1929 |
|---|---|
| 1 Shellac, seed lac and stick lac | £1,396,000 |
| 2 Jute, raw | 8,413,000 |
| 3 Myrobalans | £249,000 |
| 4 Rice broken | 175,000 |
| 5 Mica slabs and splittings | 328,000 |
| 6 <i>Crotalaria juncea</i> and any other varieties of Indian hemp that can be distinguished | 127,000 |
| Total | £8,688,000 |

While examining these items of export it should be quite in place to survey their relative importance in the total exports from India. The percentages for two years⁷ in regard to the leading articles of export are given below.

| Articles | 1928-29 | 1931-32 |
|------------------------------|---------|---------|
| 1. Jute raw | 9.80 | 7.18 |
| 2. Jute manuf. | 17.24 | 14.06 |
| 3. Cotton, raw | 20.20 | 15.26 |
| 4. Grain, pulse and flour... | 10.21 | 13.07 |
| 5. Oil seeds | 8.97 | 9.36 |
| 6. Tea | 8.06 | 12.47 |
| 7. Hides and skins raw ... | 2.90 | 2.34 |
| 8. Leather | 2.82 | 3.43 |

At the threshold of an examination of the preferences granted by the United Kingdom to exports from India it is very worth while to observe that in 1932 the Import Duties Act was passed by which the British tariff was entirely transformed and placed on a fundamentally protective basis. Almost every category of goods entering Britain became subject to import duty. Indian goods normally were not to be exempt. They would have had to bear the duties and compete with all foreign, i.e. non-British goods including those from other parts of the Empire, on the British market. It is only when one fully weighs the significance of the British tariff revolution that one can understand the meaning of such concessions as are embodied in Groups I and V, namely, the groups which do not ostensibly have any reference to preference.

These concessions bearing on the two groups are apparently very simple and might appear almost meaningless. But their value would become manifest if one visualises the eventuality that Indian manufactures or other articles find it difficult to compete on the British market with similar goods from foreign countries or from other parts of the British Empire and are gradually compelled to lose the British customers. That eventuality would become a solid reality when, for instance, other parts of the British Empire actually enjoy the preference extended to them by Great Britain. The favours granted to India in the Groups I and II are therefore positively useful in so far as they prevent Indian goods from having to submit to special disadvantage in competition with non-Indian goods on the British market and belong naturally to the category of preference.

⁷ R.T.I. 1928-29 p. 65, 1931-32 p. 80, 1932-33, p. 79.

Rather, the Indian goods of Group I., viz, the manufactured and semi-manufactured articles will be able to compete with foreign goods of the same class on favourable terms. While they themselves will be duty-free on the British market the foreign goods will have to enter Britain after paying heavy duty ranging from 10 to 20 per cent. Thus just like the British manufactures the Indian manufactures will enjoy protection in the U.K. against non-British and non-Empire manufactures. The Indian goods are thereby enabled, if not to expand, at any rate to hold their own on the British Market. The possibility of maintaining their previous position is to be treated as tantamount to expansion in the present circumstances.

3 The Trend of Exports from India

The geographical distribution of the exports from India during the last two decades can be seen in part in the following table :^a—

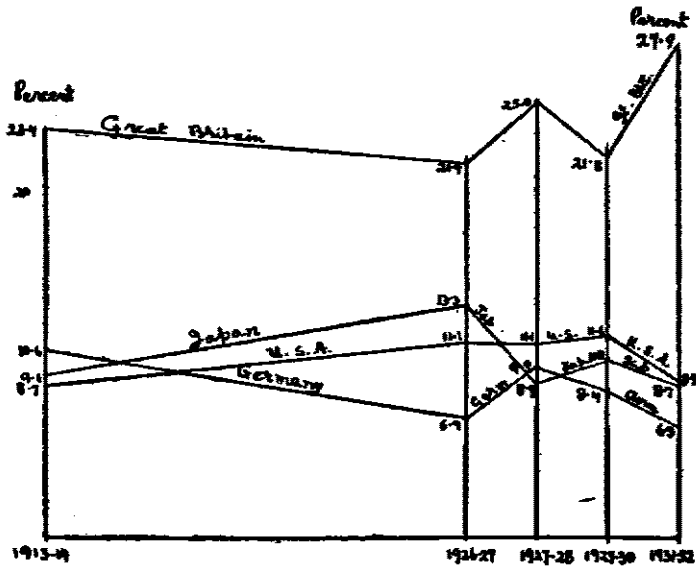
| Directions | 1913-14 Per cent | 1926-27 Per cent | 1927-28 Per cent | 1929-30 Per cent | 1931-32 Per cent |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 1. United Kingdom | 23.4 | 21.4 | 25.0 | 21.8 | 27.9 |
| 2. Germany | 10.6 | 6.9 | 9.9 | 8.4 | 6.3 |
| 3. Japan | 9.1 | 13.3 | 8.9 | 10.2 | 8.7 |
| 4. U.S.A. | 8.7 | 11.1 | 11.1 | 11.6 | 8.9 |
| 5. Rest of the world | 48.2 | 47.3 | 45.1 | 48.0 | 48.2 |
| Total | 100 | 100 | 100 | 100 | 100 |

During 1913-14 not more than 51.8 per cent of Indian goods was absorbed by the four great powers, Great Britain, Germany, Japan and the U. S. A. In 1931-32 the same four countries could not absorb more than the same percentage of Indian exports (1932-33, 52.2%). For nearly half of her exports—47.8 to 48.2 per cent—India has to depend on the markets of the rest of the world. The goods of India are pretty well distributed in all directions. And yet during 1931-32 as during 1913-14 India had one big customer which towered above all the rest into solitary greatness. This was Great Britain. In the pre-war year the British market was for Indian goods much larger than the German and the Japanese markets combined and during 1931-32 the German, the Japanese and the American markets put together were less extensive for the consumption of Indian exports than the British market alone. The importance of Great Britain for the export trade of India is thus paramount. Besides, whether it is possible to

^a R. T. J. 1928-29, p. 118, 1931-32, p. 134, 1932-33, p. 128.

CHART 2

Some Foreign Markets for Indian Goods
in Percentage of Total Exports
(1913-32)



(To face p. 58)

speak of any definite trend on the strength of the movement since the beginning of the depression in 1929 is doubtful. But it is mentionable that while during the last three years Great Britain's takings of Indian goods have steadily gone up (1932-33, 28·4%), those of the other three countries have gone down.

4 The Diverse Foreign Markets for Indian Goods

The Imperial Preference Act leaves India free to continue her export relations with all the countries with which she is in contact. There is nothing in it to prevent her from selling her goods to Germany, Japan, U. S. A. or the rest of the world. In so far as these countries do not raise too high tariff walls against the entry of foreign goods India may be expected to maintain her share in their markets. But on account of the agricultural depression virtually every country has levied high import duties⁹ which to a certain extent perhaps explain the fall in the percentage of Indian exports in the regions concerned.

Situated as India is with 27·9 per cent of her exports destined for the British market the protective tariff of the U. K. established by the Import Duties Act would have inflicted some loss on the Indian producer. The export of Indian goods would thus have encountered some fresh hindrances in addition to those in other regions.

The most serious certainly would have been the import duties in the country which is expected to buy 27·9 per cent of India's sendings. From such an eventuality India may be said to have been saved by the Imperial Preference which has really served, so far as she is concerned, to counteract the unfavourable tendencies of the Import Duties Act.

Instead of encountering unfriendly obstacles at the ports Indian goods have legally been assured an unusually favourable welcome among British consumers. The export trade of India is passing therefore through two sets of experiences:—(1) maintenance of the *status quo* in non-Empire markets, subject of course to the conditions of the new tariffs of the depression period, and (2) chances of expansion, or at any rate, holding their own in the British market, first, because of exceptionally favourable treatment (pro-Empire business sentiment on a national scale), and secondly, because of easier conditions of competition with non-Empire goods. It is to be observed

⁹ *Sapra*, pp. 7-9. See the footnotes, 15, 16, 17, 18.

that most of the articles of Indian origin or manufacture are to enjoy this preference in the United Kingdom.

From the standpoint of value some of the most important articles exported by India to the U. K. were the following (1930-31)¹⁰ :—

| Articles | Value |
|---|----------------------|
| 1. Tea | Rs. 199,458,000 |
| 2. Hides, dressed or tanned | „ 57,426,000 |
| 3. Cotton, raw | „ 30,007,000 |
| 4. Wool, raw | „ 22,735,000 |
| 5. Jute, raw | „ 22,337,000 |
| 6. Wheat | „ 17,068,000 |
| 7. Lead | „ 16,667,000 |
| 8. Linseed | „ 12,409,000 |
| 9. Jute gunny bags | „ 12,099,000 |
| 10. Miscellaneous Metals and Ores (other than lead, mica, manganese) | „ 10,697,000 |
| 11. Other Articles | „ 116,131,000 |
| | „ <u>517,734,000</u> |

We have singled out ten different categories of exports, each valued at more than Rs. 10,000,000. They together constitute a worth of Rs. 400,903,000 out of a total of Rs. 517,734,000 exported to the United Kingdom in 1930-31.

The year 1930-31 was a depression year but the figures for 1931-32 were still more humble as indicated below.

| Articles | Value |
|-----------------------------|------------------------|
| 1. Tea | Rs. 169,284,000 |
| 2. Hides, dressed or tanned | „ 48,503,000 |
| 3. Jute, raw | „ 31,109,000 |
| 4. Wool, raw | „ 24,954,000 |
| 5. Cotton, raw | „ 15,395,000 |
| 6. Groundnut | „ 11,471,000 |
| 7. Jute gunny bags | „ 11,373,000 |
| 8. Lead | „ 10,963,000 |
| 9. Other Articles | „ 110,975,000 |
| Total | Rs. <u>434,027,000</u> |

A comparison of the two years shows not only a mere difference in the values of goods exported but also a change in the relative position of the articles in the total. Tea and hides dressed maintain their places. The three textile raw materials change position in the inverse order. Wheat has no place in the second list, i.e. the value exported in 1931-32 is less than Rs. 10,000,000. Linseed is replaced by groundnut.

¹⁰ R.T.I. 1931-32, p. 194. See also 1932-33, p. 186.

One should not take any year's figures as normal. The hide and seek between groundnut and linseed would be interesting in this regard. The export figures are detailed below (in Rupees).

| Seeds | Prewar average | 1929-30 | 1930-31 | 1931-32 |
|--------------|----------------|------------|------------|------------|
| 1. Groundnut | 296,000 | 12,437,000 | 7,152,000 | 11,471,000 |
| 2. Linseed | 26,501,000 | 18,094,000 | 12,409,000 | 1,647,000 |

While analyzing the probable economic consequences of the new tariff it should not be proper to take the figures except as chiefly illustrative data.

Taking the figures of 1930-31 we find, then, that of the ten articles in the table hides dressed or tanned do not belong to the schedule of the preferred goods. Cotton raw also lies outside. In article 8 of the Trade Agreement there is of course an undertaking to the effect that attempts will be made to promote the greater use of Indian cotton in the U. K. This, however, is only a pious wish and may be ignored for the time being, although there are solid reasons to believe that the wish is likely to be realized to some extent on account of the exigencies of the British textile industry under the changed conditions of manufacture and commerce. Raw wool, likewise, does not find itself among the preferred.

Excluding, then, hides dressed or tanned, cotton raw and wool raw, i.e. a total worth of Rs 110,168,000, but including the "other articles" worth Rs. 116,831,000 practically all of which belong to the preferred schedules, we find that goods worth Rs 407,566,000 are to enjoy preference in one form or another, positive or negative. This is 78.6 per cent of the total export of Indian home produce to the U. K. and more than the total values of home produce exported by India to Germany and the U. S. A. combined or to Germany and Japan combined.¹¹

5 Monopoly: Jute

The schedules of the Indian Tariff enumerate the items, as we have seen, in an haphazard manner. The object there is to place the items together according to categories of *ad valorem* or other duties.

In international statistics, however, the exports and imports of India as of other countries are generally classified as follows¹² : —

1. Food, Drink, Tobacco,

¹¹ R.T.I. 1932-33, pp. 186, 190, 197.

¹² *Annuario Statistico Italiano 1930* (Rome), p. 280; *Statistisches Jahrbuch für das deutsche Reich* (Berlin), *Labour Year Book 1930* (London), pp. 196-197, R.T.I. 1931-32 pp. 168-171, 1932-33, pp. 160-163.

2. Raw Materials and Produce and Articles mainly unmanufactured,

3. Articles wholly or mainly manufactured,

4. Living Animals

We shall classify the export goods of India for the purposes of economic analysis into three groups, namely,—

(1) Monopoly goods, lac, raw jute, myrobalam.

(2) Manufactures or Semi-manufactures, e.g., dressed or tanned hides, jute manufactures, vegetable oils, coir mats, cotton yarns and manufactures, oil seed cake and meal, sandal wood oil, woollen carpets and rugs, pig iron.

(3) Raw produce: (a) raw materials for industry

(b) food, drink etc.

The number of monopoly goods is very limited. Indeed there is hardly any except raw jute and lac and possibly myrobalam.

The case of raw jute is interesting. It is one of the preferred goods in so far as no duty is to be levied on it, as for, instance, on account of the Import Duties Act it might become subject to a 10 per cent *ad valorem*. As a virtual monopoly raw jute does not have to fear competition in British markets, and so a positive preference would be superfluous. But the preference in the negative from chosen for it perhaps possess some value as an economic proposition. The levy of 10 per cent duty might have militated against its rather free or liberal consumption in Great Britain and thus hurt to a certain extent the interest of the Bengali cultivators. The export of raw jute to the U. K. might have been somewhat affected but has now been placed on a relatively smooth basis on account of the preference.

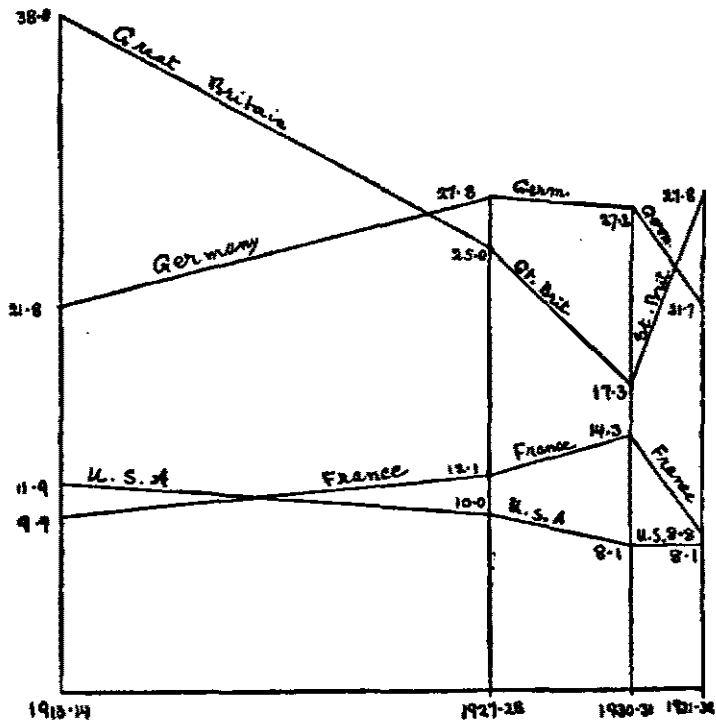
The chances for a more extensive sale of raw jute in the British market cannot be overlooked. The more important among the different foreign markets for raw jute are enumerated below in total values¹³:

| Years | Great Britain | U. S. A. | Germany. | France |
|---------|----------------|------------|------------|------------|
| 1920-21 | Rs. 52,545,000 | 28,058,000 | 23,725,000 | 22,103,000 |
| 1922-23 | 59,212,000 | 33,942,000 | 55,788,000 | 22,493,000 |
| 1924-25 | 105,696,000 | 38,698,000 | 81,603,000 | 52,995,000 |
| 1927-28 | 76,807,000 | 30,599,000 | 85,384,000 | 37,000,000 |
| 1929-30 | 55,606,000 | 25,217,000 | 74,064,000 | 36,185,000 |
| 1930-31 | 22,300,000 | 10,400,000 | 35,000,000 | 18,500,000 |
| 1931-32 | 31,100,000 | 9,100,000 | 24,000,000 | 9,900,000 |

¹³ *Statistical Abstract for British India from 1920-21 to 1929-30*, p. 614, R.T.J. 1931-32, p. 85, 1932-33, p. 82.

CHART 3.

Some Foreign Markets for Raw Jute
in Percentage of Total Exports from India (1913-32)



(To face p. 69)

In percentage of total exports the relations between the leading foreign markets, the U. K., Germany, U. S. A. and France for jute can be seen in the following table¹⁴ :—

| Country | 1913-14 | 1927-28 | 1930-31 | 1931-32 |
|------------------|---------|---------|---------|---------|
| 1. Great Britain | 38.0 | 25.0 | 17.3 | 27.8 |
| 2. Germany | 21.8 | 27.8 | 27.2 | 21.7 |
| 3. U. S. A. | 11.9 | 10.0 | 8.1 | 8.1 |
| 4. France | 9.9 | 12.1 | 14.3 | 8.8 |

In the pre-war year the U. K.'s share was 38.0% of the total exports. It came down to 17.3 per cent in 1930-31 but in 1931-32 has risen to 27.8 per cent. The U. K. can expect to rise further, if not up to the pre-war level, at any rate, somewhere near it. And this is likely to happen under the new conditions.

6 Manufactures : Jute

We shall now take up the group of manufactures or semi-manufactures. It is worth while to observe that India is already a manufacturing country and that among her exports the manufactures occupy no negligible place. The relative position of "articles wholly or mainly manufactured" in the total exports from India can be seen both in absolute figures as well as percentage as follows¹⁵ :—

| Year | Manufactured | Total | Percentage |
|---------------------|-----------------|-------------------|------------|
| 1. Prewar Average | Rs. 506,101,000 | Rs. 2,194,973,000 | 23.0% |
| 2. Post-war Average | 779,648,000 | 2,863,339,000 | 27.1% |
| 3. 1931-32 | 426,226,000 | 1,558,886,000 | 27.3% |
| 4. 1932-33 | 384,811,000 | 1,324,057,000 | 29.0% |

The percentage of manufactures as Indian exports has risen from 23.0 in pre-war years to 27.3 in 1931-32 (29% in 1932-33). India is thus gradually getting known also as an industrial country in the diverse regions of the world.

Let us take jute manufactures for the present study.

In regard to jute manufactures it is necessary to call attention to an important fact which as a rule is likely to be ignored. Although jute is a monopoly, jute manufactures are not. On the British market Indian jute manufactures have to compete not only with British goods but with the jute manufactures of several non-Empire countries, for example, Germany and Italy, as well.

14 R.T.I. 1928-29, p. 121, 1931-32, p. 137, 1932-33, p. 131.

15 R.T.I. 1931-32, p. 171, 1932-33, p. 163.

The Italian jute industry¹⁶ comprises some 60 mills (*jutifici*) with 85,000 spindles and 5,000 looms and offers employment normally to nearly 16,000 workmen. The consumption of jute in these mills may be seen in the following figures :—

| | | | |
|--------------------|-----|---------|-----------------|
| 1. Pre-war Average | ... | 373,000 | quintals (cwts) |
| 2. 1925-27 | „ | 480,000 | |
| 3. 1928-29 | „ | 580,000 | |
| 4. 1930 | „ | 490,178 | |

The export of jute manufactures¹⁷ from Italy is exhibited in the following table (in quintals or hundred-weights) :

| Category | Pre war Average | | | | |
|-------------------------|-----------------|--------|---------|--------|--------|
| | | 1926 | 1928 | 1929 | 1930 |
| 1. Yarn | 2,200 | 0,700 | 0,400 | 0,500 | 5,800 |
| 2. Cloth | } 30,100 | 65,500 | 104,800 | 99,400 | 40,400 |
| 3. Carpets and blankets | | 0,300 | 1,200 | 1,000 | 1,600 |
| 4. Bags | 26,500 | 35,200 | 41,700 | 44,700 | 35,100 |

During the quinquennium 1925-29 the export rose steadily until in 1929 it was as high as 145,000 quintals. In this export business Italy is used to compete not only with Czechoslovakia and Germany but with the U. K. and India also.

In an examination of the prospects of Indian jute manufactures in the British market the problem of international competition must not be overlooked. To enter the arena with an import duty on the back cannot be a pleasant sensation for any commodity that has to stand competition from well-established rivals. The exemption from the import duty will therefore be a great relief to the Indian jute mills catering for British consumers.

Jute manufactures are exported to foreign countries chiefly in two forms : (1) as gunny bags and (2) as gunny cloth. The total exports are indicated bellow¹⁸ :—

| Commodity | 1920-21 | 1925-26 | 1929-30 | 1931-32 |
|-----------------------|-----------------|-------------|-------------|-------------|
| 1. Gunny bags | Rs. 239,098,000 | 267,214,000 | 218,927,000 | 110,000,000 |
| 2. Gunny cloth | 285,386,000 | 318,009,000 | 296,954,000 | 105,000,000 |
| 3. Yarn & other goods | 5,468,000 | 3,175,000 | 3,887,000 | 5,382,000 |
| Total | 529,947,000 | 588,398,000 | 519,268,000 | 220,382,000 |

The foreign markets for jute manufactures are for obvious reasons not identical with those for raw jute. It is only industrial countries that can have interest in the latter and that are naturally to be treated

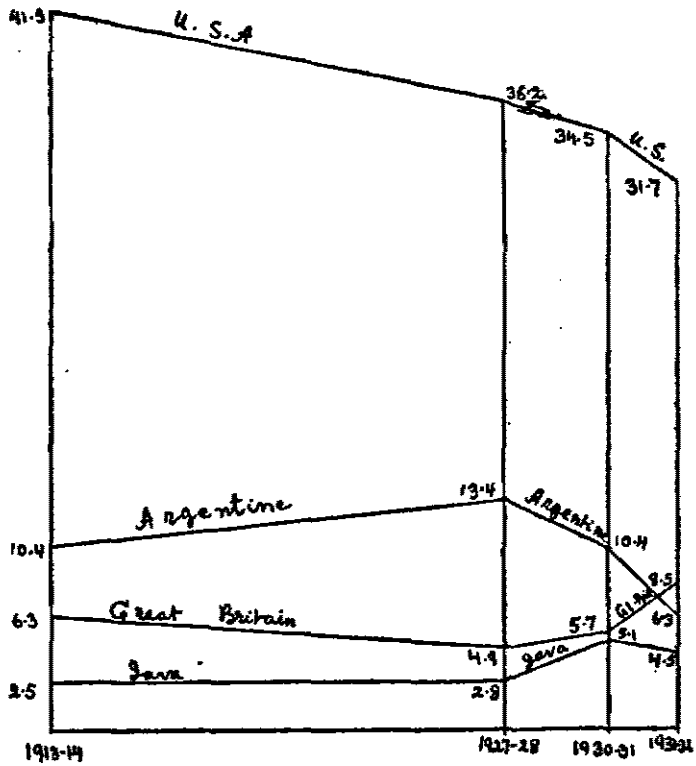
¹⁶ *Movimento Economico dell'Italia, 1931* (Banca Commerciale Italiana, Milan), pp. 427-431; Mortara : *Prospettive Economiche 1929* (Milan), pp. 182-183. See also "The Jute Mills of Italy" in the *Journal of the Bengal National Chamber of Commerce* for March 1927.

¹⁷ *Movimento 1931*, pp. 430-431.

¹⁸ *Stat. Abst.* 1921-1930, p. 615, *R.T.I.* 1931-32, pp. 85, 181, 1932-33, pp. 83, 173.

CHART 4.

Some Foreign Markets for Indian Jute Manufactures
in Percentage of Total Exports (1913-1932)



(To face p. 65)

as competitors with India in the delivery of the former in other markets. But the U. K., although herself interested in the manufacture of jute goods, for instance, like Germany, France and Italy, is unlike them also an importer of jute manufactures from India.

The percentual relation between some of the foreign markets for Indian jute manufactures is indicated below¹⁹ :—

| Country | ... | 1913-14 | 1927-28 | 1930-31. | 1931-32. |
|-------------------|-----|---------|---------|----------|----------|
| 1. U. S. A. | ... | 41.5 | 36.2 | 34.5 | 31.7 |
| 2. Australia | ... | 10.6 | 9.5 | 11.2 | 11.0 |
| 3. Argentine | ... | 10.4 | 13.4 | 10.4 | 6.3 |
| 4. United Kingdom | ... | 6.3 | 4.9 | 5.7 | 8.5 |
| 5. Java | ... | 2.5 | 2.8 | 5.1 | 4.5 |

The trend of the U. S. A. is towards a decline in the percentage (25% in 1932-33). The U. K. has expanded from 4.9 per cent in 1927-28 to 8.5 per cent in 1931-32 (8% in 1932-33), going much beyond the pre-war level. The new facilities accorded by the tariff system may help forward the expansion of the British market to a much greater extent. The industrialization of India can thus be promoted in a certain measure by preference.

The export of jute manufactures to the U. K. has been on the increase as indicated below :

| | | |
|-----------|--------------|-----------------|
| 1913-14 : | 6.3 per cent | of total export |
| 1927-28 : | 4.9 | „ „ |
| 1928-29 : | 4.8 | „ „ |
| 1930-31 : | 5.7 | „ „ |
| 1931-32 : | 8.5 | „ „ |

During the same period two of the bigger non-Empire customers, namely, the U. S. and Argentina, have reduced their takings of Indian jute manufactures, thus :—

| Country | 1913-14 | 1927-28 | 1930-31 | 1931-32 |
|--------------|---------|---------|---------|---------|
| 1. U. S. | 41.5% | 36.2% | 34.5% | 31.7% |
| 2. Argentina | 10.4% | 13.4% | 10.4% | 6.3% |

While the U. K. has been normally expanding as a market for Indian jute mills, the U. S. and Argentina have been dwindling. This trend can now but be strengthened on account of the preference. It would not be unreasonable if the jute mills of India expect to partially replace the non-Empire goods in Britain with their own manufactures and thus slowly work their way up to recovery after the long five-year depression. It is Imperial Preference that jute manufactures will have to thank considerably for the beginnings of a fresh lease of prosperity. It is to be understood that in this field as in others the very prevention

¹⁹ R.T.J., 1928-29, p. 121, 1931-32, p. 137, 1932-33, p. 131.

of the dwindling of total trade or the mere maintenance of *status quo* with the U. K. or the rest of the world is an item of substantial economic importance.

7 Raw Produce: Food and Drink

We shall now pass on to raw produce. Let us take a food grain, namely, wheat.

The export of wheat from India has come down steadily, as follows :²⁰

| Year | Total Export in tons | Percentage of Export to Total Production |
|-------------------------|----------------------|--|
| 1. Prewar Average ... | 1,308,000 | 14.0 |
| 2. Post-war Average ... | 237,000 | 3.0 |
| 3. 1927-28 ... | 300,000 | 4.0 |
| 4. 1928-29 ... | 115,000 | 1.0 |
| 5. 1930-31 ... | 197,000 | 2.0 |
| 6. 1931-32 ... | 20,000 | 0.2 |

From the pre-war average of 1,308,000 tons the export has declined to 20,000 tons only in 1931-32. So far as the percentage of export to total outturn is concerned, the decline is equally palpable, — from 14.0 per cent to 0.2 per cent. And yet the total export was valued at Rs. 19,488,000 in 1930-31 and Rs. 1,512,000 in 1931-32.

Great Britain's²¹ imports of wheat are indicated below in the perspective of India's total exports to the world (in tons) :

| Year | Total Britain's Imports | Total Indian Exports to the World |
|-------------|-------------------------|-----------------------------------|
| 1930-31 ... | 5,560,000 | 197,000 |
| 1931-32 ... | 6,145,000 | 20,000 |

In any case Indian wheat is for the British market but a drop in the ocean. But in so far as Indian wheat has to enter Britain the import duty of 2s per quarter would have been a great handicap. On the other hand, the exemption from this duty may furnish a spur to the wheat cultivators of the reclaimed areas in the Punjab, Sindh and elsewhere, and enable them to capture some of the fields in the British market occupied by the U. S. A., Russia, Rumania and Argentina. Expansion of cultivation or increase in the output of wheat may be expected in India as a consequence of the preference. And

²⁰ RTI 1928-29, pp. 161,214- 1931-32, pp. 181,234,1932-33, pp. 107,223,226. During the year 1932-33 the exports of wheat dwindled to 2,000 tons only (Rs. 400,000 nearly) constituting 0.02 per cent of total production.

²¹ *Monthly Crop Report*, Sept. 1932 (International Institute of Agriculture Rome), p. 637.

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to the extent that the export of wheat may be permitted after due regard being had to the considerations of the people's food the proposition is likely to inaugurate a new era in cereal farming.

The next raw produce for the present study that may be singled out is tea.

Even in regard to a monopoly like raw jute a favoured treatment or preference in the form of exemption from import duty is economically a worth while proposition. As for the other goods of Indian origin or manufacture none is a monopoly except the few indicated at the outset. The levy of a 10 per cent import duty on them in the U. K. would have compelled them to face a keen competition with two classes of goods: (1) non-Empire goods of the same class, and (2) Empire (i. e. Colonial, Protectorate and Dominion) goods, which would be placed on the British market without duty, and would on the contrary enjoy the Imperial preference. The competition would have been very inconvenient for India and a considerable slice of the British market might slip off her hands at a time when in other quarters of the globe also high tariffs stood against her goods as against those of others.

The slices would have passed into the hands mostly of the Colonies and Dominions. At the end of a few years the Colonies, especially backed as they are by the Colonial Development Act, would have grown into formidable rivals of India.

Let us now first take tea which heads the list of Indian exports to the U. K. in value. We shall analyze the economic consequences of preference or otherwise on this export valued at Rs. 199,458,000 i. e. 38.5 per cent of total exports to the U. K.

In 1931-32 the exports of tea ²² from the countries of origin were distributed as follows :—

| | |
|------------|-----------------|
| 1. India: | 342,946,000 lbs |
| 2. Ceylon: | 245,982,000 |
| 3. Java: | 163,312,000 |
| 4. Japan: | 21,832,000 |
| <hr/> | |
| Total | 774,072,000 lbs |

The same year the U. K. imported 550,364,000 lbs. from diverse sources.

Without preference Indian tea, burdened, as it might be, with a 10 per cent import duty would have had to compete with Ceylon, a Colony enjoying preference, as well as Java and Japan likewise paying duties. It is natural that Ceylon would have expanded at the cost of India, Java and Japan. With preference India and Ceylon, sailing in the

²² *Ibid.*, p. 643.

same boat as they do, may expect to push both Java and Japan almost to the wall. It is not improbable therefore that under the new conditions, apart from the effects of the restriction in output, the tea industry of India would get a fillip and begin to get out of the slough of depression. In tea industry, be it observed *en passant*, Indian capital is also interested although in modest proportions. The preference has meant consequently some positive good to the enterprises in India, both Indian and non-Indian. Suppose that India had chosen to stay out of the Empire ring but that the U. K. would have felt it expedient not to charge the 10 per cent duty on Indian tea as on Javanese and Japanese. In this instance, India would still have given way considerably to Ceylon, but, other circumstances remaining the same, may have had some advantage over Java and Japan.

8 Raw Produce : Oil Seeds

As raw produce oil seeds can be treated as food stuff as well as industrial raw material.

India is consuming more and more of her oil seeds at home. Hence the percentage of exports of seeds to total production has been going down, as shown below :²³

| Seeds | Pre-war Average | Post-war Average | 1927-28 | 1930-31 | 1931-32 |
|-------------------|-----------------|------------------|---------|---------|---------|
| 1. Linseed | 73.0 | 59.0 | 63.0 | 68.0 | 29.0 |
| 2. Rape & Mustard | 23.0 | 19.0 | 8.0 | 4.0 | 6.0 |
| 3. Sesamum | 25.0 | 6.0 | 2.0 | 0.2 | 3.0 |
| 4. Groundnuts | 35.0 | 19.0 | 24.0 | 19.0 | 30.0 |

The home consumption of oilseeds in the interest of industrialization and otherwise bids fair to increase in the near future. But in so far as exports may still be considered to be a part of national policy the question of India's competitors in the markets of the world is of paramount importance.

Let us take up for examination one of these seeds, namely, the one in regard to which Great Britain has placed a duty of 10 per cent *ad valorem* on non-Empire goods. This is linseed.

The trend in the world's outturn of linseed is in part exhibited below (in bushels of 56 lbs.) :²⁴

²³ RTI 1923-29, p. 214, 1931-32, p. 234, 1932-33, p. 226. Banerwar Dass: "The Crushing of Indian Cotton Seeds and the Commercial Utilization of the products obtained" (*Journal of the Bengal National Chamber of Commerce*, September, 1931).

²⁴ *Monthly Crop Report* (Rome), Jan. 1931, p. 30, Jan. 1933, p. 41.

| Year | Argentina | U. S. A. | Russia | India | Canada | Uruguay |
|-----------------------|------------|------------|------------|------------|-----------|-----------|
| 1. Average of 1924-28 | 72,407,000 | 23,816,000 | 20,866,000 | 16,760,000 | 6,085,000 | 1,905,000 |
| 2. 1929 | 50,005,000 | 17,049,000 | 26,949,000 | 12,880,000 | 2,060,000 | 3,216,000 |
| 3. 1930 | 84,409,000 | 23,682,000 | × | 14,960,000 | 4,459,000 | × |
| 4. 1931 | 89,068,000 | 11,798,000 | × | 15,080,000 | 2,465,000 | 4,837,000 |
| 5. 1932 | 53,147,000 | 11,841,000 | × | 16,440,000 | 2,446,000 | × |

As producer India has three powerful rivals, namely, Argentina, the U. S. A. and Russia, each one of which produces much more than herself. Linseed is cultivated, besides, although in small quantities in a large number of countries in Europe as well as in Africa and America. Under stimulus Africa and America can easily expand their output.

In regard to export at the present moment the really formidable rival is Argentina.

The more important features of the world's export trade in linseed for the years 1930 and 1931²⁵ are shown below (in centals = 100 lbs):

| Year | Argentina | India | Lithuania | Estonia |
|---------|------------|-----------|-----------|---------|
| 1. 1929 | 35,700,000 | 5,514,000 | 545,000 | 64,000 |
| 2. 1930 | 25,466,000 | 5,763,000 | 443,000 | 55,000 |
| 3. 1931 | 41,670,000 | 2,520,000 | 247,000 | 4,000 |

Both as producer as well as exporter India's position is therefore quite vulnerable in the field of linseed. With the burden of a 10 per cent duty the linseeds of Argentina will find it difficult to compete with the Indian on the British market and will very probably be compelled to part with a slice of her share. The export of linseed from India may therefore rise leading to an eventual increase in the acreage and output. Or, at any rate, as in other instances, the dwindling of trade and output may be counteracted to a certain extent.

In regard to linseed as to other seeds, or for that matter, any other exports from India it should be remembered that India does not have necessarily to lose the other markets of the world, i. e., the non-Empire countries, while she is making some conquests in the diverse corners of the British market. Some of the non-Empire goods displaced from the British market are likely to seek the non-Empire markets, and there, normally speaking, the Indian goods are at no special disadvantage in comparison with the others.

As foreign consumers²⁶ of Indian oilseeds outside the British Empire the following may be singled out as among the principal (in percen-

²⁵ *Monthly Crop Report* (Rome), January 1931, p. 48, Dec. 1931, p. 794, January 1933, p. 60.

²⁶ R. T. I. 1918-29, p. 121, 1931-32, p. 137, 1932-33, p. 131.

tages of total export of oilseeds from India) in the perspective of the United Kingdom :]

| Country | 1913-14 | 1927-28 | 1931-32 |
|----------------|---------|---------|---------|
| 1. France | 31.4 | 21.7 | 30.9 |
| 2. Germany | 16.0 | 23.3 | 13.7 |
| 3. Belgium | 16.0 | 2.9 | 1.2 |
| 4. Italy | 5.0 | 13.7 | 13.8 |
| 5. U. S. A. | 1.2 | 3.9 | 4.2 |
| 6. Netherlands | 1.0 | 12.3 | 15.4 |
| 7. U. K. | 22.2 | 15.8 | 13.0 |

The non-Empire markets have economically nothing to lose so far as exports of oil seeds from India are concerned simply because the Empire is offering them a preference. The price-mechanism can be but the following :—

1. On the British market Indian oilseeds can be placed at comparatively cheaper prices than those from Argentina etc.

2. The price-level at which Indian oilseeds enter the non-Empire markets (e. g. France, Netherlands, Germany, Italy etc) does not have to change, unless, of course, these markets choose to impose a tariff on India as on other foreign goods. Rather, because India is in a position to make some extra profit in British markets it may not be difficult for her to place her goods in France, Netherlands, Germany etc. at somewhat lower prices. This indeed is the economic reason why the great industrial powers can hardly think of retaliation.

9 Stimulus to Indian Agriculture and Industry

Other circumstances remaining the same, preference of Indian goods to non-Empire goods will render the latter relatively dearer than the former in the British market. Indian goods will appear cheaper to the British consumer than the other goods. Under these conditions the enlargement of the market for exports from India is to be expected as a matter of course. To a certain extent this may lead to a mere diversion of Indian goods from non-British to British markets. This change in the direction of exports can of course be effected without a change in the absolute volume of production i. e. without an expansion of total exports. But *prima facie* there is no ground for believing that the foreign markets would care to go without the Indian goods. There is no specially anti-Indian animus in the attempts of almost every country during the depression period to heighten the tariff wall or introduce the system of contingents in order to curtail imports. The measures are too universal to be treated as having any direct bearing on the British system of Empire-preference. The British preference

for Indian exports does not lead to the rise of their price in those markets. We may proceed on the hypothesis that the volume of their takings would remain unaffected and that the effect of British preference is well calculated to stimulate the consumption of Indian goods in larger quantities in the U. K. Altogether, then, the producers in India, both agricultural as well as industrial,—because in reality all classes of Indian exports are to be preferred,—will not be considered much too sanguine should they expect a quickening of production in their enterprises. British preference implies, then, increased avenues of employment in India and is therefore so far an antidote to the economic depression.

The expansion of Indian exports or, at any rate, the maintenance of their absolute and relative *status quo* in the U.K. need not necessarily lead to a glut. Part of the increased supplies may be utilized to meet the increased requirements of the "rationalized" and reorganized British industries, which, as we shall see later, have been the order of the day. We should also be prepared for the eventuality that a portion of the Indian goods will be re-exported by the U. K. in diverse directions,—to the Baltic states, to the Balkan complex and to other regions of the Continent, including Russia. The expansion of re-exports from the U. K. is likely to be a feature of world-economy during the next decade.

The re-exports (of imported goods) in the background of exports of home goods from the U. K. are detailed below from 1924 to 1929 (in million £s):²⁷—

| | 1924 | 1928 | 1929 |
|-----------------|-------|------|------|
| 1. Exports. | 1,277 | 724 | 730 |
| 2. Re-exports : | 140 | 120 | 110 |

With 1924 as 100 the coefficients are as follows

| | | | |
|---------------|-----|-------|-------|
| 1. Exports | 100 | 104·7 | 108·3 |
| 2. Re-exports | 100 | 88·0 | 84·8 |

The re-exports declined 15·2 per cent while exports increased 8·3 per cent. Naturally one can believe that it is possible for re-exports to expand. The enlarged import of Indian goods is likely to take this form in part and the U. K.'s carrying and agency-trade is perhaps in for some expansion.

²⁷ *Labour Year Book* 1930, p. 194; *Statistical Abstract for the United Kingdom* 1919-1931 (London, 1933), p. 387.

10 India's Assimilation to the Dominions and Colonies

A very important consideration bearing on India's immediate economic future must not be overlooked. Had India decided to stay outside the Empire tariff walls the Colonies and Protectorates would have grown and developed at the cost of India. Many of the articles produced in India can be grown in the tropical and subtropical areas of the Colonies. In the course of a few years, especially with the financial support such as is assured by the Colonial Development Act of 1929, these areas would grow into rivals of India as suppliers of raw produce on the British market. Thus considered, India's loss in exports would have been immense. Indeed, in the long view of economic statesmanship India *vs.* Colonies and Dominions is a great problem of British finance and Empire Development schemes.

India has thus come to a condition in which the treatment of her economic problems has been placed on the same footing as that of the Dominions and Colonies. This is a state of things in the Empire Economy such as was unthinkable even in the last years of the nineteenth century. Although a free trader in economic policy Farrer could not conceive the economic assimilation of India and the other parts of the British Empire.

"To deal with Canada or Australia on the one hand, and with India or Ceylon on the other, as united with us by the same relations, and capable of being dealt with in the same manner is," said he, "to confound things which are really distinct. Even in our purely commercial relations with these different countries there are great differences, and in all the political relations by and through which the proposed new commercial policy is to be carried out the differences are still greater. There is therefore great reason to view with suspicion any plan which proposes to apply one and the same policy, and that an entirely new and experimental policy, to all these different communities."²⁸

The distinction between India and the other parts of the Empire was a fundamental postulate with Marshall also.

In 1908 Marshall, rewriting his Memorandum of 1903 on the Fiscal Policy of International Trade, concludes against protection for England as follows: "In her case import duties, levied otherwise than with a direct view to revenue, seem to me to have no economic justification." In regard to the Colonies,²⁹ however, young as they

²⁸ Farrer (1904), p. 29.

²⁹ In Marshall's language the term Colonies includes the Dominions of to-day.

were, he could consider protective tariff to be the "path of least resistance" in order to establish new industrial ventures. But in his judgment differential duties were "essentially wasteful" and the aggregate material gain less than the aggregate material loss. From the point of view of mercantile bargaining he believed that the best preferences which the Colonies could offer to England would be of but very moderate advantage to her in her present phase." And finally, he emphasised the distinction between India and the Colonies on the grounds that India was the ward of England, that India was poor while the Colonies were rich, and that India's commercial policy had been generous.³⁰ In his analysis, therefore, the best economic policy for England could not be identical with that for the Colonies, nor could that for the Colonies be the same as that for India. Here we meet Farrer's arguments for free trade and against fair trade in a round-about way.

And we realize once more how technocracy and legal developments have conspired to bring about conditions in which by 1932 the statesmen of the U. K. considered it expedient to establish India and the Colonies (as well as the Dominions) under the same treatment.

³⁰ Marshall: *Memorandum on the Fiscal Policy of International Trade* (London, His Majesty's Stationery Office 1908), pp. 28-29.

Chapter VII

IMPORTS INTO INDIA UNDER PREFERENCE

1 Preference without Protection

It is now time to consider the economics of preference with reference to the import trade of India. The first consideration in connection with the articles of the Ottawa Agreement consists in the fact that preference is not identical with protection. The economics of preference cannot be the same as the economics of protection. The two issues are separate. By the introduction of Imperial preference the Indian tariff has not been rendered protective. The Act of 1932 does not seek to protect any Indian industry. The only object of the Act is to enable India to prefer certain foreign goods to certain other foreign goods. But there is no attempt to add to the protective measures already in force. As importer, i. e., consumer of foreign goods India is not therefore to submit to the economic consequences, so far, for instance, as prices are concerned, of a system of protective tariff.

As a rule, protection is introduced with the object of helping certain weak, i. e., economically more or less unpaying industries up against some well-established foreign competitors. It is evident that the foreign industries are in a position to deliver the goods at a lower level of prices than the home industries, which, by the nature of the case, are too inefficient to compete with the former. The home goods can compete with the foreign goods on the home market only if extraneous help in the form of protective legislation comes forward to compel the latter to enter the market at a higher than their own price-levels. The difference between this artificially raised level and the natural or original price-level of the foreign goods is a measure of the relative weakness, inefficiency, unpaying character etc. of the indigenous industries. It is more or less to the extent as measured by this difference that the price-level is automatically raised on account of protection. It is the higher prices engendered by import duties that enable the home industries to cover their original weakness and inability to compete. But the community as consumers is compelled to pay a higher price because of the import tariff.

The rise of prices is an inevitable effect of protection. But preference by itself is not necessarily protective and cannot automatically lead to a rise in the prices of imports. Should preference happen to be combined with a second element, namely, protection, the question of

a rise of prices may assume an important character. But then the rise of prices would have to be attributed to protection and not to preference.

2 Preferences-Schedules

The custom tariff on imports as in operation on April 8, 1932¹ i. e. previous to the enforcement of the Ottawa proposals may be seen as follows :—

Part I. Articles which are free of duty.

Part II. Articles which are liable to non-protective duty at special rates.

Part III. Articles which are liable to duty at 2½ per cent *ad valorem*.

Part IV. Articles which are liable to duty at 10 per cent *ad valorem*.

Certain items in this schedule are liable to an extra duty of 2½ per cent from March 1931. But with an additional surcharge of 25 per cent on the original tariff the actual rate is 15 per cent *ad valorem*.

Part V. Articles which are liable to duty at 15 per cent *ad valorem*.

Most items in this schedule are liable to an additional 5 per cent from March 1931. The additional surcharge raises the duty to 25 per cent.

Part VI. Articles which are liable to duty at 30 per cent *ad valorem*.

Certain items in this schedule are subject to an additional 10 per cent under the Indian Finance Act 1931. With the surcharge the duty rises to 50 per cent.

Part VII. Articles which are liable to protective duty at special rates.

The import tariff, as it obtains to-day (previous to the introduction of preference), is protective only in one part, namely, Part VII. As for the other parts, one is duty-free, the remaining five bearing duty, but all non-protective. These duties, non-protective as they are, may be conveniently listed as follows for the purposes of the present study :

1. Part II: Special rates
2. Part III: 2½ per cent
3. Part IV: 15 "
4. Part V: 25 "
5. Part VI: 50 "

The Act of November 1932 does not transfer to Part VII any of the articles of previous Parts.² That is, on account of Ottawa no non-pro-

1 *Review of the Trade of India in 1931-32*, pp. 254-269. For the situation in tariff rates as created by Imperial Preference see the volume for 1932-33, pp. 246-269. Parts VIII and IX are additions to the Schedules and have reference to preference. The illustrations in the text with regard to the dichotomies in Parts V. and VI. are all to be found embodied in Parts VIII and IX of the most recent tariff.

2 *The Gazette of India*, Extraordinary, Oct. 13, 1932, p. 398. See the Schedules F and G on pp. 399-404, also p. 348.

tected articles have been placed on the protected list. What has been accomplished is, first, a discrimination between goods and goods in regard to the rates, and secondly, a distribution of the rate in such a manner as to favour British goods as against non-British goods. This indeed is the A.B.C. of preference pure and undefiled.

Thus, for instance, Part V which at present (Nov. 1932) has as a rule a uniform duty of 25 per cent has obtained the following character on account of this dichotomy as engendered by preference :

- (a) British goods to pay 20 per cent instead of 25 per cent.
- (b) Non-British goods to pay 30 per cent instead of 25 per cent.

The duty on British goods has been lowered by 5 per cent and that on non-British goods raised by the same amount. The differential advantage, i. e., preference enjoyed by British goods as against non-British is thus 10 per cent. It is to this extent that British goods will be enabled to compete with the non-British on the Indian market. A large number of the articles affected by the new Act belongs to this category.

Similarly Part VI. which bears at present a more or less uniform rate of 50 per cent has been broken up into two sub-parts as follows :—

- (a) British goods liable to 40 per cent.
- (b) Non-British goods liable to 50 per cent.

The duty on non-British goods remains as it was while that on British goods has been lowered by 10 per cent. It is within this limit that the ability of the British goods to compete with the non-British on the Indian market has been facilitated or rendered comparatively easy.

On the strength of the differences in rates between the preferred British goods and the non-British goods such as are discriminated against, the part of the tariff which is subject to non-protective special rates, namely, Part II., will look in a certain measure as follows :

| Articles | Duty on British goods | Duty on non-British goods |
|---|-----------------------|---------------------------|
| 1. (a) Ale beer in barrels : per gallon | Re. 0-14-0 | Re. 1-2-0 |
| (b) Ale beer in bottles of quart size | 0-2-4 | 0-3-0 |
| 2. Perfumed spirit per gallon | Rs. 52-8-0 | Rs. 60-0-0 |
| 3. (a) Spirit in drugs and medicines entered in such a manner as to indicate that the strength is not tested per gallon | Rs. 26-0-0 | Rs. 29-0-0 |
| (b) Spirit, etc not so entered. | Rs. 36-0-0 | Rs. 40-0-0 |

| Articles | Duty on British goods | Duty on non-British goods |
|--|---|--|
| 4. Mineral oil, which has its flashing point at or above 200° F and is such as is not ordinarily used for any other purpose than for lubrication ... per gallon | 0-1-0 | 0-3-0 |
| 5. Shoes | 20 per cent | 30 per cent |
| 6. Fire-arms | Rs. 18-12-0 or 40 per cent whichever is higher | Rs. 20-10-0 or 50 per cent <i>ad valorem</i> which- ever is higher. |
| 7. Motor cars, motor cycles etc. | 30 per cent | 37½ per cent |
| 8. Motor omnibuses, omnibus and lorry chassis and parts | 20 per cent | 27½ per cent |
| 9. Wireless reception instruments and apparatus | 40 per cent | 50 per cent |
| 10 Portland cement | Rs. 13-12-0 | Rs. 18-4-0 |

When one compares the new tariff under the system of preference with that as obtaining to-day (Nov. 1932) one sees several things at a glance :-

1. Preference has not been combined with new doses of protection.

2. Wherever the rates of duty have been enhanced the increments (e. g. 5 per cent) are almost inappreciable and likely to leave hardly any influence on consumers.

3. The range of discrimination, i. e., the extent of preference, viz. 7½ to 10 per cent (as a rule) is rather narrow.

The Act does not seek to exclude non-British goods altogether and does not confer a monopoly on British goods, as the differences between the rates are not very high. The discrimination against non-British goods is indeed so slight as hardly to be felt by the interested parties. The question of a prohibitive legislation against them does not at all arise.

It is very important to call attention to these features of the preferential tariff, while examining its economic consequences, especially from the standpoint of price levels. An objective analysis reveals that so far as the price-situation is concerned, the discriminatory or preferential rearrangement of the rates of duty as such is not likely to call any circumstances into existence unfavourable to the Indian consumers.

One may attend to the question of monopoly a little further. Even supposing that Great Britain obtained a monopoly for some of her goods on the Indian market by legislative action it is normally unthinkable that she would dare raise the prices to unholy heights. It cannot be the interest of British producers as sellers in India to screw the prices up to higher than the consumer can bear. The purchasing power of the consumer as well as the desire to obtain the highest net profit from the sale of the goods in question would set the natural limits to the monopolists' ambition to export exorbitant prices.

3. The Special Case of Galvanized Steel Sheet

From 1927 to 1932 the import of galvanized steel sheet into India was subject to a protective duty, which, at first Rs. 30 per ton, was subsequently (in 1930) raised to Rs. 67 per ton. There was no preference and Tata steel (galvanized sheet) was protected as much against British as against non-British steel and to the same extent. It is worth while to note that in 1930-31 Tata produced 23,433 tons and in 1931-32 28,671 tons of galvanized sheet.³

"Under the same conditions of temperature and pressure", to use this phrase over again, British steel failed to compete successfully with Belgian steel and was indeed being displaced from the Indian market. The trend of the international competition in galvanized sheet can be seen in the development of Indian consumption from 1921 to 1932 as exhibited in the following record of imports (in 000 tons).⁴

| Year | Great Britain | Belgium | Other Countries | Total |
|---------|---------------|---------|-----------------|-------|
| 1921-22 | 83 | x | 5 | 88 |
| 1922-23 | 114 | x | 8 | 122 |
| 1923-24 | 159 | x | 6 | 165 |
| 1924-25 | 205 | 1 | 3 | 209 |
| 1925-26 | 272 | 2 | 9 | 283 |
| 1926-27 | 249 | 10 | 16 | 275 |
| 1927-28 | 298 | 22 | 12 | 332 |
| 1928-29 | 286 | 32 | 8 | 326 |
| 1929-30 | 200 | 51 | 7 | 258 |
| 1930-31 | 90 | 48 | 9 | 147 |
| 1931-32 | 55 | 27 | 2 | 84 |

³ *Annual Report*, p. 7.

⁴ *The Gazette of India*, Extraordinary, Oct. 13 1932, p. 364.

Down to 1924 Belgium was unknown on the Indian market and Great Britain was virtually the exclusive supplier of India. This monopoly position of Great Britain has been rudely shaken in recent years on account of Belgium's intrusion. The situation of the last three years can be examined in the following percentual relations bearing on each country's share of the total supply :—

| Country | 1929-30 | 1930-31 | 1931-32 |
|------------------|---------|---------|---------|
| 1. Great Britain | 77.5 | 61.2 | 65.4 |
| 2. Belgium | 19.7 | 32.6 | 32.1 |
| 3. Others | 12.8 | 6.2 | 2.5 |
| Total | 100.0 | 100.0 | 100.0 |

In the course of seven or eight years Belgium has captured some 32 per cent of India's import trade in galvanized sheet. Almost the entire ground has been lost to her by Great Britain.

In accordance with the supplementary provisions of the Ottawa Agreement the import duty on galvanized sheet has finally been rendered preferential. The non-Empire sheets are to be charged at Rs. 83 per ton. The preference to be enjoyed by the British sheets is to be of two grades :—

(1) Rs. 53, should the British sheets be made from Indian (Tata) sheet bar ; the duty being Rs. 30 per ton only.

(2) Rs. 30, should the British sheets be made from non-Empire (Belgian, Continental) sheet bar, the duty being Rs. 53 per ton only.

This is an instance of preference in addition to protection. The old protection has been preserved so that the Tata manufactures do not suffer. The novel feature is the differential treatment between two kinds of foreign sheets, British and non-British. The British sheets are required to pay lower duties than the non-British. Now, the ingredients of British sheets are twofold in nationality. A part is made from Indian sheet bars, and a part from Continental, especially Belgian. The duties are so regulated that the Belgian-British sheets have to bear more than the Indian-British. So ultimately those sheets of British origin are the most favoured or preferred which are made from Indian sheet bars. It will be recalled that exports of Indian sheet bars enjoy a preference on the British market. One understands, therefore, that in offering preference to British galvanized sheet India is to a great extent offering preference to Tata. The tariff mechanism is interesting because here we have the expansion of the Indian market for British steel (sheets) rendered possible by the expansion of the British market for Indian steel (sheet bars). The steel industry of India is being promoted, perhaps even saved, by the same process

as, and along with, a part of the steel industry of Great Britain. A more direct example of mutuality or reciprocity in preferential relations is hardly conceivable.

All the other cases of preference on Indian imports discussed up till now are cases of preference pure and simple. That is, they are not cases of protection. In those instances, i. e. in the entire tariff under the preferential system excepting the one on the import of galvanized sheet the prices as such remain unchanged or rather do not necessarily have to go higher. But in regard to galvanized sheet the new factor or rather the factor in operation since 1927 and 1930, namely, protection, has its part to play. The rise in prices of galvanized steel is a first consideration. Indeed, it is only on that basis that the Tata enterprise can function. It has been considered to be a function of the Government of India to see to it that non-Empire sheets be not presented at the Indian ports at lower than the prices on which the present calculations have been made. The prices will have to be kept at a level at which the Tata and the British companies do not incur a loss.

4 Indian Steel Industry under Preference (1927-32)

Under the Steel Industry Protection Act (1927) British steel enjoys preference to the extent of 14 to 22 per cent according to the prices prevailing in 1931-32.⁶

The system of preference has not been able to exclude non-British iron and steel goods from the Indian market. The preferential tariff was introduced in 1927. In order to understand its consequences we shall place the figures relating to the imports of iron and steel (including pig and old iron) at different dates previous and subsequent to this year. In the following table the figures are being shown under two heads, British and total ; both absolute and relative :⁶

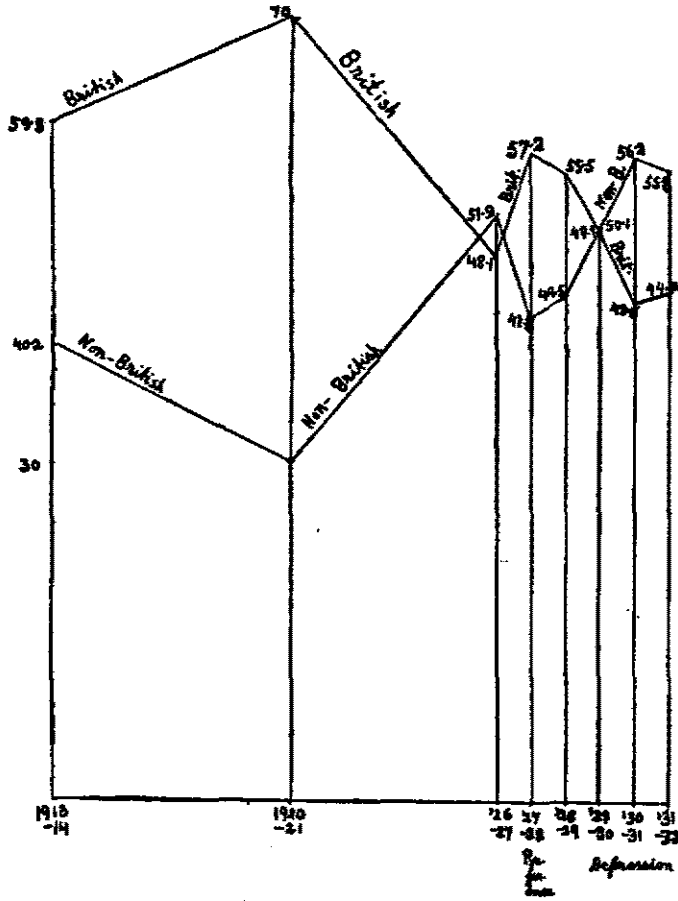
| Year | Absolute | | Percentage | |
|---------|-----------|---------|------------|-------------|
| | Total | British | British | Non-British |
| 1913-14 | 1,01,000 | 609 | 859·8 | 40·2 |
| 1920-21 | 712,000 | 498 | 70·0 | 30·0 |
| 1921-22 | 613,000 | 280 | 45·7 | 54·3 |
| 1922-23 | 746,000 | 359 | 48·1 | 51·9 |
| 1924-25 | 869,000 | 439 | 50·5 | 49·5 |
| 1926-27 | 845,000 | 406 | 48·1 | 51·9 |
| 1927-28 | 1,197,000 | 685 | 57·2 | 42·8 |
| 1928-29 | 1,170,000 | 650 | 55·5 | 44·5 |
| 1929-30 | 973,000 | 486 | 49·9 | 50·1 |
| 1930-31 | 614,000 | 260 | 43·8 | 56·2 |
| 1931-32 | 371,000 | 164 | 44·2 | 55·8 |

⁶ *Review of the Trade of India in 1931-32*, p. 50, 1932-33, p. 51.

⁵ *Gazette*, p. 371.

CHART 5.

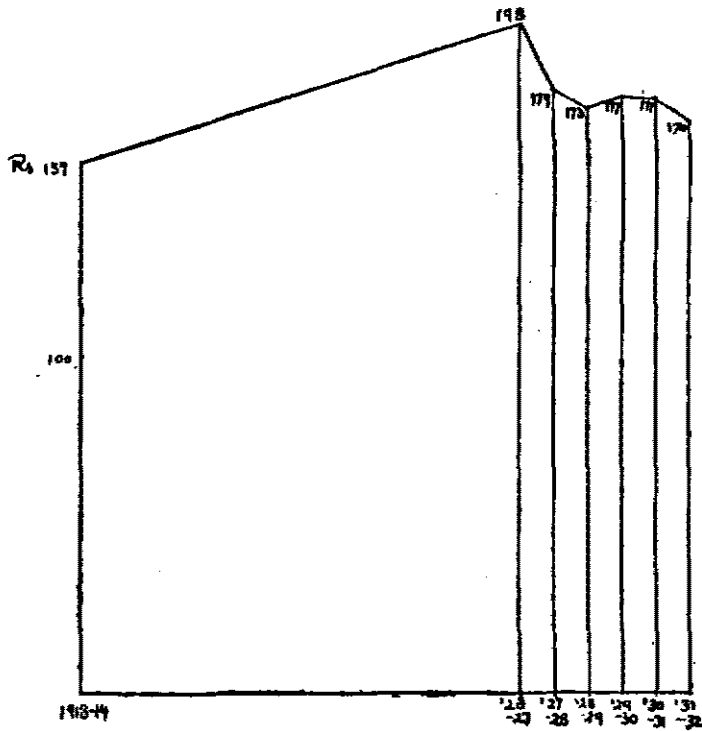
British and Non-British Percentages in India's
Import of Iron and Steel Goods
(1913-32)



(To face p. 30)

CHART 6.

Price Per Ton of Imported Iron and Steel Goods
in India (1913-32)



(To face p. 81)

It is to be observed at the outset that since 1929 there has been a steep fall in absolute figures both British and total. This is but another mark of the world-wide economic depression. But, for our present purpose the most important items to observe are (1) that the fall in the non-British figures is not as great as that in the British and (2) that the relative position between the non-British and the British has changed in favour not of the latter but of the former.

We notice that the British share in the total imports could not be raised by the system of preference up to the height of 1920-21, *viz.*, to 70 per cent, nay, to that of 1913-14, *viz.*, 59·8 per cent. Rather, the British share has been going down since the year of the preferential tariff. From 57·2 per cent it has fallen to 44·2 per cent. And on the other hand, the non-British element has risen from 42·8 per cent to 55·8 per cent during the same period. It is interesting to observe that even while there was no discrimination against them the non-British goods never could command such a high percentage of the total Indian imports as in 1931-32, namely, 55·8 per cent. Nothing proves more emphatically that preference does not necessarily spell monopoly, exclusion or prohibition.

No less interesting are the price statistics⁷ so far as the imports are concerned. The following table gives the figures :

| Year | Per Ton |
|-----------|---------|
| | Rs. |
| 1913-14 : | 157 |
| 1926-27 : | 198 |
| 1927-28 : | 179 |
| 1928-29 : | 179 |
| 1929-30 : | 177 |
| 1930-31 : | 177 |
| 1931-32 : | 170 |

There is nothing to indicate that preference leads automatically to a rise in the price level. The fall since 1927-28 has been a marked feature. This, however, need not be associated as a matter of course with the preference itself, since the diminution in prices is mainly but a sign of the depression referred to above.

5 Indian Cotton Industry under Preference (1930-32)

It is possible to watch the effects of Imperial Preference on the imports from non-British countries into India in regard to another class of goods, namely, the cotton piece-goods. The new tariff was introduced in 1930. The Cotton Industry Protection Act (1930) gave the U. K. a preference of 5 per cent. It was later raised to 6¼

⁷ *Review of the Trade of India in 1928-29*, p. 200; in 1931-32, p. 220.

IMPERIAL PREFERENCE

per cent. On August 30, 1932 the preference was raised to 25 per cent for a period of seven months.⁸

The pre-tariff and post-tariff situation can be envisaged below :⁹

| Year | Total Imports in yds. (Grey, White and Coloured) | British | Percentage of British to Total |
|------------------|---|---------------|-----------------------------------|
| Post war Average | 1,851,876,000 | 1,199,041,000 | 88.7 |
| 1929-30 | 1,883,000,000 | 1,236,000,000 | 65.6 |
| 1930-31 | 883,000,000 | 521,000,000 | 59.0 |
| 1931-32 | 752,000,000 | 377,000,000 | 50.1 |

It is to be noticed that the preference has failed to exclude non-British goods. In this instance, again, as in others, the total imports have declined, for instance from 1,883,000,000 yds. to 752,000,000 yds. on account of the world-crisis. The decline has affected the imports from Great Britain also. In September 1931 she went off the gold standard and the price at which she could offer her goods in the Indian market was more favourable to the purchaser than that at which the gold standard countries, e.g., Japan, could offer. But neither preference nor the additional facility offered by currency considerations has succeeded in arresting the decline of imports from the U. K. On the contrary, the rate at which the U. K. has declined on the Indian market is higher than that at which non-British countries have declined. In 1929-30 the British share of India's total imports of cotton manufactures was 65.6 per cent leaving 34.4 per cent to the rest of the world including Japan. But in 1931-32 it was 50.1 per cent enabling the rest of the world to command 49.9 per cent. In other words, the non-British element in India's imports has increased during the last four years inspite of the tariff discriminating against them, which is as follows :—

1. Plain grey :
 - i British : 20 per cent *ad valorem* or $3\frac{1}{2}$ annas per pound, whichever is higher.
 - ii Non-British : 25 per cent *ad valorem* or $3\frac{1}{2}$ annas per pound, whichever is higher.
2. Others :
 - i British : 20 per cent *ad valorem*.
 - ii Non-British : 25 per cent *ad valorem*.

Imperial preference as such has failed to create a monopoly for British goods or to exclude non-British stuff from the Indian market.

As for the effects of preference on price we are not taught by past experience in regard to cotton manufactures to believe that the

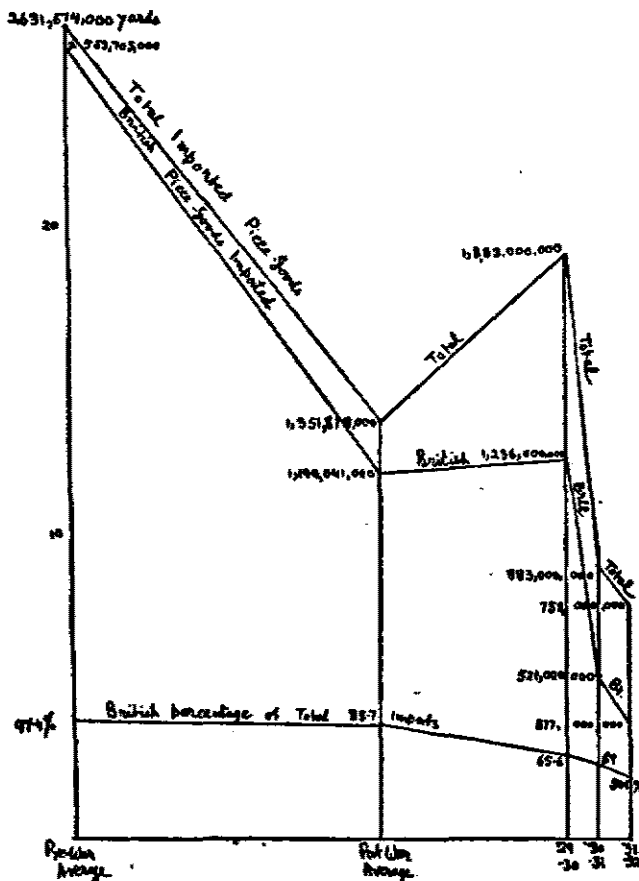
⁸ *Gazette* p. 371.

⁹ *RTI* in 1931-32, pp. 26, 216, 269.-

CHART 7.

India's Import of Cotton Piecegoods (1909-32)

N. B. The scale on which the British percentage of the total has been drawn is different from that for the absolute figures.



(To face p. 82)

consumer inevitably suffers. The prices per yard of British cotton goods were declared to be as follows¹⁰ :—

| Date | Grey | White | Coloured |
|-----------------|----------|----------|----------|
| | R. s. p. | R. s. p. | R. s. p. |
| 1931 April | 0 3 0 | 0 3 2 | 0 4 1 |
| 1932 March | 0 2 7 | 0 3 2 | 0 4 3 |
| 1931—32 Average | 0 2 7 | 0 3 2 | 0 4 2 |

With these British prices may be compared the pre-preference prices. Thus we have the following figures¹¹ :—

| Goods | 1925-26 | 1926-27 | 1927-28 | 1928-29 | 1931-32 |
|----------|----------|----------|----------|----------|----------|
| | R. s. p. | R. s. p. | R. s. p. | R. s. p. | R. s. p. |
| Grey | 0 4 11 | 0 4 2 | 0 3 11 | 0 3 10 | 0 2 7 |
| White | 0 5 6 | 0 4 11 | 0 4 5 | 0 4 5 | 0 3 2 |
| Coloured | 0 6 11 | 0 6 2 | 0 5 7 | 0 5 6 | 0 4 2 |

The trend has been on the decline since 1925-26, and indeed since 1921-22. It is the same decline that has been maintained under preference conditions also. Preference cannot be charged with having worked against the consumer.

6 International Competition in Indian Market

We understand, first, that preference by itself does not involve protection and that in the present instance the Act does not commit India to fresh doses of protective duty. In the second place, preference is not necessarily identical with the exclusion of certain foreign goods or with the grant of monopoly to a particular foreign country. The provisions of the Act, besides, contain nothing to indicate that exclusion and monopoly are in contemplation. The preference can serve but to change the direction of India's import trade. The Act contemplates that India should buy relatively more from the United Kingdom than from non-British and non-British Empire countries. This, indeed, is the very definition of the preferential system. What is expected is thus chiefly a transfer in the source of our imports from one foreign region to another foreign region. There is no competition between India and the U. K. involved in those transactions. It is assumed that India has and will have to buy a certain volume of foreign goods. Those foreign goods have to compete with one another on the Indian market. The facilities accorded by the legislation to the U. K. and the British Empire enable them to compete with non-Empire sources on easier conditions. The favoured countries are thereby enabled to increase their percen-

¹⁰ RTI (1931-32), p. 27.

¹¹ RTI (1928-29), p. 18.

tage in the Indian import trade. Of the foreign goods entering the Indian ports the share of the non-British is likely to fall and that of the British to rise.

(a) British Decline in Indian Imports

The trend of the competition between the U. K. (as well as the British Empire) and certain non-British countries on the Indian market can be easily grasped from the following figures indicating the percentage of each in India's imports:—

| Period | United Kingdom | Total British Empire | Ger- many | U.S. | Japan | Belgium | France | Italy | Nether- lands |
|-------------|----------------|----------------------|--------------|------|-------|---------|--------|-------|------------------|
| 1. Pre-War | | | | | | | | | |
| Average | 62.8 | 69* | 6.4 | 3.1 | 2.5 | 1.9 | 1.5 | 1.0 | 0.9 |
| 2. War | | | | | | | | | |
| Average | 56.5 | 65.4 | 0.7 | 7.0 | 10.4 | 0.3 | 1.3 | 1.2 | 0.6 |
| 3. Post-War | | | | | | | | | |
| Average | 57.6 | 65.2 | 2.8 | 8.5 | 8.9 | 1.8 | 0.9 | 1.0 | 0.9 |
| 4. 1927-28 | 47.7 | 54.6 | 6.1 | 8.2 | 7.2 | 3.0 | 1.7 | 2.7 | 1.9 |
| 5. 1928-29 | 44.7 | 54.1 | 6.3 | 8.9 | 7.0 | 2.8 | 1.9 | 2.9 | 1.9 |
| 6. 1930-31 | 37.2 | 46.1 | 7.5 | 9.2 | 8.8 | 2.8 | 1.9 | 2.7 | 2.0 |
| 7. 1931-32 | 35.5 | 44.8 | 8.1 | 10.2 | 10.6 | 2.4 | 1.7 | 2.8 | 1.8 |

The share of the U. K. in India's import trade¹² has come down steadily from 62.8 per cent in prewar years (1909-14) to 35.5 per cent in 1931-32. The command of the total British Empire over the Indian market has likewise declined from 69.7 per cent to 44.8 per cent during the same period. The decline is very steep.

As for some of the non-British countries it appears that France's share has fluctuated more or less uniformly round about 1.5 per cent. It has never been able to go beyond 1.9 per cent. France as a supplier of goods for the Indian market has not been able to make any mentionable inroads. The U. K. can, therefore, virtually ignore France as a competitor.

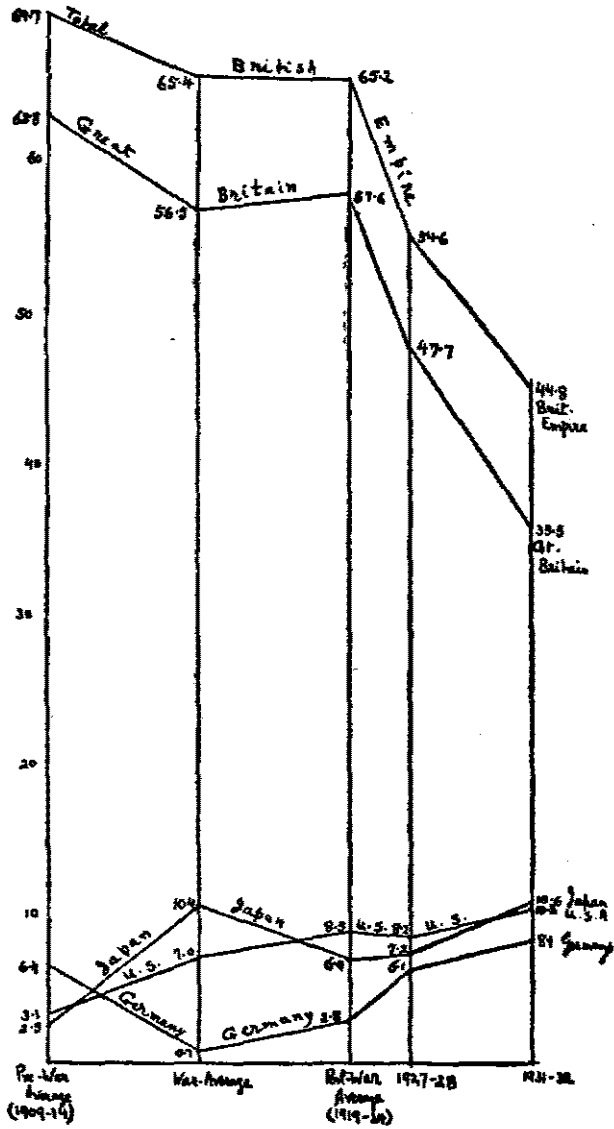
But in regard to several countries the expansion at the cost of the U. K. and the British Empire is tremendous. We may take, first, the humbler trio, Belgium, Italy, and the Netherlands. None of these three has been able in the course of the last twenty five years or so to go beyond the 3 per cent limit. But each has succeeded in increasing her quota in considerable proportions. Thus:

1. Netherlands (1931-32) 1.6 = 1.77 Netherlands (1909-14) 0.9
2. Italy (1931-32) 2.8 = 2.8 Italy (1909-14) 1.0
3. Belgium (1931-32) 2.4 = 1.26 Belgium (1909-14) 1.9

¹² *RTI* 1928-29, p. 171, 1931-32, p. 191, 1932-33, p. 183.

CHART 8.

International Competition on the Indian Market:
British and Non-British Percentages
(1909-1932)



(To face p. 84)

While France has remained more or less stationary, Belgium has advanced 1·26 times, the Netherlands 1·77 times and Italy 2·8 times. From negligible proportions each has indeed been able to rise to considerable dimensions among the suppliers of foreign goods for the Indian market.

We may now examine Germany's share in Indian imports from the viewpoint of British competition. During 1909-14 Germany (6·4) alone was greater than Netherlands (0·9), Italy (1·0), France (1·5) and Belgium (1·9), all four combined. In 1931-32 these latter have at last been able to catch up to Germany (8·1) and indeed go beyond the German level by 0·2 per cent. It is, however, not the volume of Germany's supplies to India that is a source of anxiety to the U. K. but the rate at which Germany has succeeded in expanding on the Indian market notwithstanding her post-war political and financial troubles. The following equation describes the situation:—

$$\text{Germany (1931-32) } 8\cdot1 = 1\cdot26 \text{ Germany (1909-14) } 6\cdot4$$

At the latter date Germany has become 1·26 times as strong in India as in pre-war years.

More phenomenal than the expansion of Germany, however, is the expansion of the U. S. A. and Japan. The pre-war average of these two countries combined (5·6 per cent) was considerably less than that of Germany (6·4 per cent). During the war Germany was naturally unrepresented on the Indian market, accounting for only 0·7 per cent. But the U. S. rose precipitately from 3·1 to 7 per cent and Japan from 2·5 to 10·4 per cent. The two together (17·4 per cent) represented an expansion of 11·8 per cent. And this was much more than the loss sustained by Germany, namely, 5·7 per cent. The U. S. and Japan stepped not only into Germany's shoes but made up for the losses of many others as well. For example, the gap in the Indian import market on account of the British Empire's decline from 69·7 to 65·4 per cent was likewise filled in by the U. S. and Japan. Down to 1931-32 the U. S. have steadily forged forward with slight reverses once in a while up to 10·2 per cent, while Japan in spite of several set-backs from the position of the war-period has finally recovered it with 10·6 per cent. In 1931-32 the U. S. and Japan, each was more weighty in India than Germany, and the two together were really more than 2·5 times the latter. As for the progress of each country, the following equations embody the actual situation:—

1. U. S. (1931-32) 10·2
= 3·29 U. S. (1909-14) 3·1
2. Japan (1931-32) 10·6
= 4·24 Japan (1909-14) 2·5.

The U. S. have grown 3.29 times and Japan 4.24 times during this period. From the standpoint of international competition on the Indian import market the U. K. has suffered therefore more from the conquests of the U. S. and Japan than from those of Germany.

The British losses during the period can be easily measured. The U. K. has lost $62.8-35.5=27.3$ points while the entire British Empire 24.9 points. As these points have been lost to the non-Empire countries the Imperial Preference Act of India is seeking to recover some of the lost ground for the U. K. and the Empire by bestowing special favours on them. The object of this legislation can be nothing more or less than the eventual elevation of the U. K. from 35.5 per cent back to the prewar level of 62.8, and, failing that, to the post-war level of 57.6 or even, say, to 50 per cent. In the last case the attempt would involve a rise to the extent of some 15 per cent. Should the preferential system be successful these 15 points will have to be lost by the non-Empire countries to the U. K. and the British Empire. In other words, there is implied a simple redistribution of the sources of India's imports. The total volume of imports does not have to be affected by the sheer fact of preference.

It was but a windfall that Japan and the U. S. enjoyed on the Indian market during the Great War. The losses of the U. K. in this regard were accidental. And since once new suppliers are established in a market it is difficult to oust them, the U. K. has continued to play a relatively humbler role. That is why a legislative action is calculated to help her up to a certain extent in order that she might recover a part of her prewar percentage of the Indian import trade.

(b) The Categories of Goods in Competition

From the subject of the countries which have been competing with the U. K. let us pass on to some of the goods in which the competition is being felt.

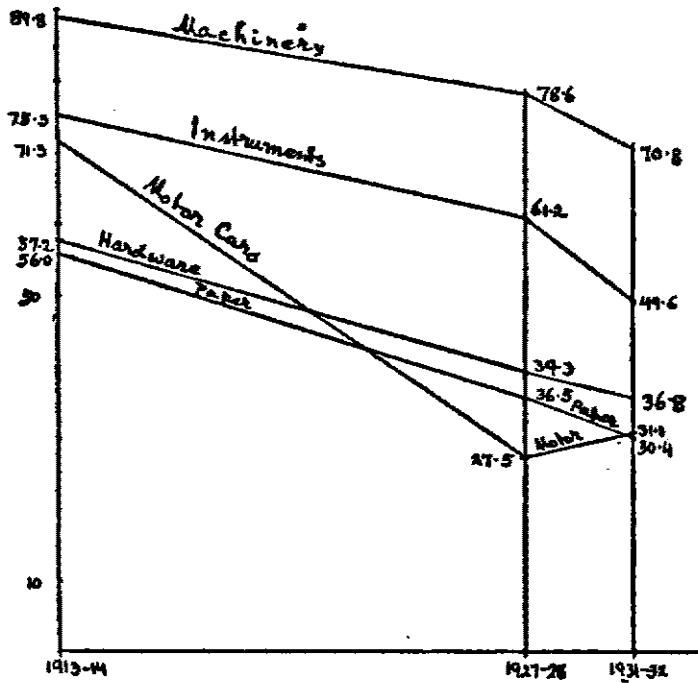
The decline in the British percentage shares of Indian imports is exhibited below in regard to some of the articles:¹³

| Goods | 1913-14 | 1927-28 | 1931-32 | Amount of Decline |
|------------------------------------|---------|---------|---------|-------------------|
| 1. Machinery | 89.8 | 78.6 | 70.8 | 19.0 |
| 2. Hardware | 57.2 | 39.3 | 36.8 | 20.4 |
| 3. Motor Cars, Motor Cycles etc | 71.3 | 27.5 | 31.1 | 40.2 |
| 4. Instruments | 75.3 | 61.2 | 49.6 | 25.7 |
| 5. Paper | 56.0 | 36.5 | 30.4 | 25.6 |

¹³ *ETI.*, 1931-32, pp. 135-136 (also 1928-29, pp. 119-120), 1932-33, pp. 129-130.

CHART 9.

Goods illustrating British Decline in the Percentage of Indian Imports (1913-32)



(To face p. 86)

The U. K.'s present decline in reference to the prewar year is in the sphere of machinery 19.0 per cent, in hardware 20.4 per cent, in motor cars 40.2 per cent, in instruments 25.7 per cent and in paper 25.6 per cent.

In regard to machinery the U. K. has lost chiefly to the U. S. which has risen from 3.3 per cent to 11.1 per cent and to Germany which has risen from 5.6 per cent to 10.3 per cent. In regard to hardware the chief winners are Germany which has risen from 18.2 to 29.1 per cent and Japan which has risen from 1.5 to 6.1.

On the motor car market the chief competitor is the U. S. which has risen from 15.1 to 48.4 per cent. As regards instruments the U. S. has risen from 8.0 to 17.0, Germany from 8.2 to 16.5 and Japan from 0.6 to 2.2. The paper trade is being captured by the Netherlands rising from 2.5 to 6.4, Norway rising from 5.0 to 10.4, Sweden from 3.1 to 11.2 and Austria from 8.3 to 14.4 per cent.

In certain other articles the British percentage has declined in the manner indicated below :¹⁴

| Goods | Prewar Average | 1931-32 | Amount of Decline |
|-----------|----------------|---------|-------------------|
| 1. Copper | 54.4 | 33.8 | 20.6 |
| 2. Zinc | 67.1 | 28.9 | 38.2 |
| 3. Brass | 52.7 | 26.2 | 26.5 |
| 4. Cement | 82.8 | 51.4 | 31.4 |

In the perspective of the pre-war average the decline of the U. K.'s share in Indian imports is 20.6 per cent in copper, 38.2 per cent in zinc, 26.5 per cent in brass and 31.4 per cent in cement. In copper the U. K. has lost chiefly to France and to a certain extent to Germany, in zinc to some unspecified countries, in brass chiefly to Germany, and in cement chiefly to Japan.

The object of preference is to arrest the decline of the British percentages in these and other goods. Nay, with this help the U. K. may find the conditions of competition somewhat easier and she may recover a few points, if not the prewar level, in each sphere.

7 The Price Level as Affected by Preference

The change in the source of India's imports cannot then by itself affect the total volume of imports. Besides, as we have observed at the outset, the price-level of imports cannot be affected simply because of the redistribution of their sources.

It will now be proper to consider in what manner the differential tariff is likely to influence the prices. We start with the premise that by granting the British goods a concession of 10 per cent *vis à vis*

¹⁴ Calcutta from the figures in RTI., 1931-32 pp. 223-224.

non-British goods the Act seeks to enable the U. K. to compete with the others on more convenient terms. The British goods are to enter the Indian market after paying customs duties at lower rates. It is presumed, therefore, that it will be possible for Great Britain, other circumstances remaining the same, to place her goods on the market at somewhat cheaper rates. This relative cheapening of British goods because of legislative preference is economically tantamount to what may be described as "underselling" or perhaps even dumping. The non-British goods are expected to be naturally at a disadvantage in so far as they have to pay 10 per cent more than the British as customs duties. The differential tariff will tend to render the non-British goods somewhat dearer than the British. It is indeed in so far as the mechanism of price is influenced by the differential tariff that the Act can achieve its object, namely, the heightening of the U. K.'s percentage share of Indian imports.

And yet it is extremely difficult to connect price-variations with tariff.¹⁵ The protectionist tariff of 1892 in France, for instance, raised the price of meat but not of wheat, though both were protected. On the other hand, there was a rise in the price of wool, linen, cotton, jute, rubber, lead, sodium nitrate etc. although they were not protected while bread fell in price in spite of protection.

We shall examine how the cheapening, the underselling or the dumping in regard to the British goods is likely to affect the general market conditions in India. Let us take two classes of commodities, one, like machinery, in which the British share is today more than fifty per cent, actually 70·8 per cent, and another like, say, paper in which it is 30·4 per cent i.e. less than half.

As soon as the U. K. commences placing British machinery on the Indian market at cheaper prices, the consumer will be automatically drawn away from the American and German goods to the "preferred" i.e. the British. But other circumstances remaining the same, both the U.S. and Germany will attempt to keep as large a part of their present shares as possible by lowering their own prices in order to come down to the British price-level. It is the lower, viz. the British price that will regulate the machinery market in India.¹⁶

15 Augier and Marvaud: *La Politique douanière de la France*, pp. 60-61.

16 The situation is entirely contrary to the position taken by Pigou in *Protective and Preferential Import Duties* (London 1906) where he assumes that the effect of preference is to raise the price. There he is interested mainly in the analysis of the extent to which the prices are likely to rise (Pages 88, 90, 94).

The general scramble for the lowering of prices that will ensue is likely to induce a somewhat enlarged demand on the part of consumers in so far as the demand for machinery is elastic. Altogether the consumers stand to gain in price. It is not unlikely, besides, that India will be tempted to buy more machinery than before. The U. K. is expected to increase her sales. The only parties to suffer in the transaction are the U. S. and Germany, especially in regard to those categories of machinery on which it is economically difficult to charge lower prices without incurring serious loss. But since the U. S. is represented by 11·3 per cent and Germany by 10·3 per cent only, the interests involved are not very considerable; and their losses, in so far as they are realities, are not likely to be heavy. Under these conditions it is problematic if the U. K. can rise more than seven to ten points from 70·8 per cent. But even this rise, small as it is, would be something substantial to the British economy.

In the case of paper, again, the price level of all imports will be set by the goods that are underselling, i. e., by the British goods. In order to retain their holds on the Indian market the Netherlands, Norway, Sweden and Austria, all four will find it expedient to lower their prices. And since the percentage share of each is rather small, the losses of each, should there be some on account of the compulsory reduction of prices, are likely to be inconsiderable. Those suppliers and those categories or qualities of paper which can hardly bear the lowering of prices to the British level will naturally have to retire in favour of those that can. Altogether, in paper as in machinery the U. K.'s share is likely to increase, although it is hardly likely to be much.

In every instance the amount of rise will depend, first, on the quality of goods, secondly, on the capacity to compete on the part of the non-British countries between themselves in regard to the lowering of prices, and last but not least, on the ability of the U. K. herself to supply an enlarged market. The extent of recovery can therefore hardly be foreseen.

But in any case we should be theoretically prepared for the extreme consideration, namely, that the cheapened British goods may reach once more the pre-war level of percentage and that the entire amount of decline may thereby be recovered from the competitors. In that eventuality also it is not the Indian consumer that suffers. We have here instances in which the U. K. gains not at India's cost but at that of non-British competitors and India gains simultaneously with the U. K. This is an aspect of Imperial preference on which adequate attention deserves to be bestowed.

In the case of protection it is the "protected," i. e., the more

expensive indigenous or *Swadeshi* goods that dictate the market price. The foreign goods are therefore compelled to become expensive. Altogether, the consumers have to bear the loss as measured in high price.

In the case of preference, it is the "preferred," i.e., the favoured, the cheapened, the underselling, or the dumped goods that determine the market price. Since there is no protection, the question of *Swadeshi* goods and their prices does not arise and may be left alone. But those foreign goods that come from the unfavoured, the maltreated or differentially handled countries, in so far as they attempt or are economically in a position to retain their share of the market, are compelled to lower their prices to the tune of the cheapened goods belonging to the preferred foreigners. In this instance, therefore, one set of foreigners tends to lose to another set of foreigners, the indigenous consumers remain unaffected in the process. Rather, on account of the cheapening engendered by preference it is not unlikely that they gain somewhat in the prices of their total imports.¹⁷

8. Japan, U. S. and Germany in India

The question of losses likely to be sustained by the three countries deserves a special analysis. To begin with Japan. The most important imports into India from Japan are the cotton manufactures. Their position in the total imports from Japan is indicated below.¹⁸

| | Prewar Average Rs. | 1929-30 Rs. | 1930-31 Rs. | 1931-32 Rs. |
|---|-----------------------|----------------|----------------|----------------|
| 1. Cotton Manufactures (including hosiery) | 7,961,000 | 157,417,000 | 77,576,000 | 67,892,000 |
| 2. Total Imports | 36,435,000 | 235,855,000 | 145,110,000 | 133,397,000 |
| 3. Percentage of 1. to 2. | 21.8 | 66.7 | 53.4 | 50.9 |

17 The standpoint taken by the present author should appear to furnish objective material for the analysis of preference *vs.* equal tariff presented by Mazzei: "Kritische Betrachtungen sur neuzeitlichen Zollpolitik" in *Weltwirtschaftliches Archiv* (Jena) for April 1933, p. 419 (sec. 8 and 9). But his conception of the probable losses to the third party (p. 423) is not acceptable in so far as long period values are concerned.

According to the Indian Fiscal Commission (1921-22) preferential duty is likely to raise the price level and thus hurt the consumer until and unless the "whole market" be captured by the preferred goods. The members of the Commission approached the problem from the standpoint of protection and indeed found many points of analogy between protection and preference. The argument advanced in the present study is entirely different from and is of course at fundamental variance with the reasoning and conclusion. See *Report* (Calcutta 1922), pp. 125-127.

18 *RTI.*, 1931-32, p. 210; 1932-33, p. 202.

The cotton goods constituted 21.8 per cent of India's imports from Japan in prewar years. During 1929-30 it rose up to 66.7 per cent. In 1931-32 it was 50.9 per cent.

Against the inroads of these cotton manufactures India has had a protective-cum-preferential tariff since 1930. So far as the present Imperial Preference Act (Ottawa) is concerned it does not interfere with the operation of the Cotton Manufactures Act. Nor does it impose any additional duties, protective or non-protective. From the present analysis, therefore, the cotton manufactures may be excluded.

The most important single item of import from Japan that is affected by the Imperial Preference Act is the silk goods of all sorts, as indicated below :—

| | Pre-war Average | 1929-30 | 1931-32 |
|--------------------|-----------------|------------|------------|
| | Rs. | Rs. | Rs. |
| 1. Artificial Silk | x | 14,547,000 | 21,626,000 |
| 2. Silk Manufac. | 13,145,000 | 16,024,000 | 9,599,000 |
| Total | 13,145,000 | 30,571,000 | 31,225,000 |

On all these goods British imports are to enjoy a preference of 10 per cent *ad valorem*.

Among the imports from the U. S. A. the more important items can be singled out as follows :—

| | Pre-War Average | 1929-30 | 1931-32 |
|---------------------------------|-----------------|-------------|-------------|
| | Rs. | Rs. | Rs. |
| 1. Mineral Oils | 21,966,000 | 31,207,000 | 31,564,000 |
| 2. Raw Cotton | 2,772,000 | 1,959,000 | 22,367,000 |
| 3. Machinery | 2,456,000 | 17,522,000 | 12,211,000 |
| 4. Motor Cars | 849,000 | 44,491,000 | 10,785,000 |
| 5. Instruments | 586,000 | 7,935,000 | 6,399,000 |
| 6. Total Imports from the U. S. | 44,903,000 | 176,615,000 | 128,362,000 |

Of these items raw cotton may be left out of consideration as it is not included in any of the schedules of the Imperial Preference Act. It bears a non-protective duty of six pies per pound according to the existing tariff which still holds good¹⁹ (No 41A Part II of Import Tariff). All the others are on the preference list. The preference on mineral oils, machinery and instruments is to be 10 per cent, and on motor cars, etc. 7½ per cent. The four items alone make up some 50 per cent of the total imports from the U. S. And there are other items. The U. S. is therefore in for landslides in the Indian market.

19 *RTI.*, 1931-32, pp. 209, 258, 1932-33, p. 197.

The more important imports from Germany are the following :²⁰

| | Pre-war Average | 1929-30 | 1931-32 |
|------------------------|-----------------|-------------|-------------|
| | Rs. | Rs. | Rs. |
| 1. Dyeing substances | 8,740,000 | 12,852,000 | 17,136,000 |
| 2. Machinery | 3,027,000 | 17,379,000 | 11,227,000 |
| 3. Hardware | 5,724,000 | 16,531,000 | 7,585,000 |
| 4. Brass | 156,000 | 12,544,000 | 7,044,000 |
| 5. Instruments | 1,357,000 | 7,715,000 | 6,142,000 |
| 6. Chemicals | 1,062,000 | 4,377,000 | 4,655,000 |
| 7. Drugs and Medicines | 619,000 | 4,061,000 | 4,277,000 |
| 8. Iron or Steel | 8,697,000 | 7,916,000 | 4,108,000 |
| 9. Total Imports | 93,556,000 | 157,921,000 | 101,984,000 |

Dyeing substances are exempt from the preference tariff.

Each one of the other items as well as many of those not mentioned in the above table are to be found in the preference list with the exception of manures, sugar, clocks and watches and a few others. Should the preference tariff work successfully, the chances of German manufactures losing a part of their markets in India are great.

9 Influence of Preference on Customs Revenues

We shall now examine Imperial Preference from the standpoint of the revenues of the Customs Department.

The Act has not added any new category to the schedule of goods such as are duty free. The Customs revenues cannot therefore suffer in this regard.

The Act has not changed the number of dutiable goods. The goods that have been dutiable up till now will remain dutiable in future also. On this count, therefore, there cannot arise any diminution in the earnings of the Customs Department.

Finally, the rates of protective duty remain untouched as also the goods protected. The revenues from import tariff cannot therefore be affected in any manner under the new Act, in so far as protection is concerned.

We have observed that in regard to all those categories of goods which will submit to the preferential tariff the rates of import duty on Empire goods have been lowered by 5 per cent while those on non-Empire goods raised by 5 per cent. It is proper therefore to examine to what extent the lowering of rates on British goods may affect the customs revenues of India.

Suppose there is an import valued at Rs. 100 with a general non-

²⁰ *BTI*, 1931-32, p. 197; 1932-33, pp. 189-190.

protective tariff of, say, 25 per cent *ad valorem* on all goods, Empire and non-Empire, entering India. Let us assume that Rs. 40 worth of imported goods are Empire goods and Rs. 60 non-Empire. Then the income of the Customs Department will be as follows:—

| Origin | Value Imported | Duty realized @ 25% |
|---------------|----------------|---------------------|
| 1. British | Rs. 40 | Rs. 10 |
| 2. Non-Empire | „ 60 | „ 15 |
| Total | „ 100 | „ 25 |

The earnings of the Customs Department amount to Rs. 25.

Let us now introduce Imperial Preference into this system. We shall assume that British goods will be charged 20 per cent *ad valorem* and non-British goods 30 per cent *ad valorem*.

There are four cases possible as a result of preferential tariff. First, the proportion between British and non-British goods may remain as it is, namely, 40:60. Secondly, the British proportion may rise at the cost of non-British, say, up to 50 per cent. Thirdly, the British proportion may exceed the 50 per cent, and say, go up to 60 per cent. Finally, the British goods may cover the entire Indian market, excluding all non-British goods and enjoying a complete monopoly.

In the first instance the financial situation will look like the following:

| Origin | Value Imported | Duty realized |
|---------------|----------------|-------------------|
| 1. Empire | Rs. 40 | Rs. 8 @ 20 p. c. |
| 2. Non-Empire | Rs. 60 | Rs. 18 @ 30 p. c. |
| Total | Rs. 100 | Rs. 26 |

The earnings of the Customs Department amount to Rs. 26, i. e. one Rupee more than under the existing non-preferential tariff.

The second instance will create the following situation:—

| Origin | Value Imported | Duty realized |
|---------------|----------------|-------------------|
| 1. Empire | Rs. 50 | Rs. 10 @ 20 p. c. |
| 2. Non-Empire | Rs. 50 | Rs. 15 @ 30 p. c. |
| Total | Rs. 100 | Rs. 25 |

That is, when the British goods *vis a vis* non-British goods exhibit the 50:50 relation the customs revenues under the new preferential system remain as much as under the non-preferential. There is neither gain nor loss so far as the public finances are concerned.

Under the third assumption we shall have the following picture:

| Origin | Value Imported | Duty realized |
|---------------|----------------|-------------------|
| 1. Empire | Rs. 60 | Rs. 12 @ 20 p. c. |
| 2. Non-Empire | Rs. 40 | Rs. 12 @ 30 p. c. |
| Total | Rs. 100 | Rs. 24 |

In this instance the customs income is Rs. 24, i. e., one Rupee less than under the existing system. As soon as the British share exceeds 50 per cent the Customs Department has to bear a loss.

This is further exemplified in the fourth instance, as follows:—

| Origin | Value Imported | Duty realized |
|-------------------|----------------|----------------------|
| 1. Empire ... | Rs. 100 ... | Rs. 20 @ 20 p. c. |
| 2. Non-Empire ... | Rs. 0-0-0 ... | Rs. 0-0-0 @ 30 p. c. |
| Total ... | Rs. 100 ... | Rs. 20 |

The duty realized by the Customs Department when non-Empire goods have been excluded and entirely replaced by Empire goods is Rs. 20.

The diverse cases may now be placed in one table as follows:—

| Tariff | Percentages of Imports | Income of Customs Department |
|--|------------------------------|------------------------------|
| 1. Non-Preferential: 25% <i>ad valorem</i> | Empire 40% Non-Empire 60% | Rs. 25 |
| 2. Preferential 20% on British, 30% on non-British | 1. Empire 40% Non-Empire 60% | Rs. 26 |
| | 2. Empire 50% Non-Empire 50% | Rs. 25 |
| | 3. Empire 60% Non-Empire 40% | Rs. 24 |
| | 4. Empire 100% Non-Empire 0% | Rs. 20 |

In the perspective of the non-preferential tariff we have then really two different groups of situations under the preferential system:—

(1) The Customs Department loses in revenue if and as long as the imports of British goods exceed 50 per cent of the total imports.

(2) The Customs Department gains in revenue if and as long as the imports of British goods remain below 50 per cent of total imports.

In other words, Imperial Preference by itself cannot lead to a reduction in the revenue of the Customs Department. The financial consideration is entirely dependent on the proportion between the two categories of foreign goods that is established as a result of the competition. Taking the proportion of 1931-32 we get the following figures for the U. K. in regard to certain items²¹:—

| Region or goods | Percentage of total imports |
|-------------------------|-----------------------------|
| 1. United Kingdom | 35.5 |
| 2. Total British Empire | 44.8 |
| 3. Hardware | 36.8 |
| 4. Motor Cars etc. | 31.1 |
| 5. Paper | 30.4 |
| 6. Instruments | 49.6 |
| 7. Liquors | 60.8 |
| 8. Machinery | 70.8 |
| 9. Copper | 33.8 |
| 10. Zinc | 28.9 |
| 11. Brass | 26.2 |
| 12. Cement | 51.4 |

21 *RTI.*, 1931-32, pp. 135-136, 191; 1932-33, pp. 128-130, 185-186.

The table indicates that generally speaking the U. K. has scope to expand considerably from 35·5% upwards in order to reach a point, namely 50%, at which the customs revenue begins to diminish. Indeed it is doubtful if in spite of preference the U. K. can come up to the 50 percent level. There is therefore hardly any likelihood of the Customs Department losing in revenue. The same observations are to be made in regard to the expansion of imports in hardware, motorcars, paper, copper, zinc and brass. In order that the Customs Department may lose in revenue it would be necessary for the imports to expand up to 50%. The present levels are comparatively speaking so low that one can hardly expect such a consummation. On the other hand, the four items, instruments, liquors, machinery and cement which are already at the threshold of 50% or beyond cannot help inflicting a loss on customs revenue even if their imports do not expand farther. But since certain expansion is to be expected the Department cannot but lose on these counts. But in many of the foreign articles imported by India the British percentage is considerably below 50 and can hardly expect to exceed this limit. The total for the U. K. is indeed 35·5 per cent only. On the whole, then, a loss in revenue should appear to be out of the question.²²

22 While discussing the revenue aspect of preferential duties the Indian Fiscal Commission (1921-22) came in part to the following conclusion: "If the preferential rate is a true reduction from the general rate, it is clear that the country granting the preferential rate is sacrificing revenue." Here, again, as in the case of price-level the Commission is thinking of the preferred goods as having captured the whole market and is evidently under the influence of ideas bearing on protection and exclusion. Quite different is the reasoning adopted in the present study. It is not the rate on, but the volume of, imports that determines the amount of revenue. The conclusion arrived at is therefore substantially different from that of the Commission. See *Report*, pp. 127-128.

From the actual figures available down to April 1934 it appears that no loss is yet in evidence. See Group VII (Duty at 30 per cent or preferential duty at 20 per cent) and Group VIII (Duty at special rates or preferential duty at lower rates) in "Indian Customs Revenue" (*Indian Trade Journal*, Calcutta, May 17, 1934).

Chapter VIII

THE TENACITY OF BRITISH INDUSTRY AND COMMERCE

An important consideration in regard to the practice of preference has reference to the extent to which the "preferred" country is capable of delivering the goods for the market, enlarged as it is artificially by legislative fiat. The U. K.'s capacity for industrial expansion should therefore demand the attention of the theorist.

I The Trend of British Exports

The first important item to notice in this connection is that in spite of temporary, seasonal and cyclical dislocations or crises the U. K. has been expanding as *manufacturer*. But perhaps more important for our present consideration is the fact that as *exporter* of "home goods" also her expansion is equally noticeable. In 1913 the exports of home goods amounted to £525,200,000.¹ The figure for 1929, the last pre-depression year, was £693,400,000.

British exports at two dates, 1913 and 1923, are indicated below in the perspective of world-exports :

| | 1913 | 1923 |
|--|----------------|----------------|
| 1. Exports of Home Produce from Great Britain | £525,000,000 | £744,000,000 |
| 2. Total World Exports | £4,035,000,000 | £5,299,000,000 |
| 3. British percentage of 2. | 13.0 | 14.0 |

In 1913 the U. K.'s share in the world's total export trade was registered at 13 per cent. Five years after the war when the world was on the eve of economic stabilization the percentage rose one point to 14. British tenacity was already in evidence.

The trend during recent years (1924-29) may be seen partly in the following schedule of home goods exported (in million £s) :—

| Goods | 1924 | 1929 |
|---|------|------|
| 1. Earthenware, glass, abrasives etc. | 12.9 | 14.0 |
| 2. Nonferrous metals and manufactures thereof | 15.7 | 18.8 |

¹ *Labour Year Book* 1930, p. 198. See also the chapter on foreign trade in Bowley: *Some Economic Consequences of the War* (London 1930).

| | | |
|---|------|------|
| 3. Cutlery, hardware, etc | 8.8 | 9.3 |
| 4. Electrical goods | 10.7 | 13.2 |
| 5. Machinery | 44.8 | 54.4 |
| 6. Manufactures of wood | 2.3 | 3.0 |
| 7. Chemicals, drugs, dyes, and colours | 25.5 | 26.6 |
| 8. Leather and manufactures thereof | 7.1 | 7.9 |
| 9. Paper and cardboard | 0.2 | 0.8 |
| 10. Vehicles including locomotives, ships and aircraft | 29.7 | 50.2 |
| 11. Rubber manufactures | 3.3 | 3.4 |
| 12. Miscellaneous articles wholly or mainly manufactured | 32.9 | 39.8 |

The expansion is to be noticed indeed along the entire front of exports except in certain branches, as follows (million £s) :—

| | 1924 | 1929 |
|----------------------------------|-------|-------|
| 1. Iron and steel manufactures | 74.2 | 68.0 |
| 2. Cotton Yarns and Manufactures | 199.2 | 135.4 |

It is interesting to observe that it is in just these two lines that the U.K. has been anxious to obtain, as she has obtained, preferential tariff in India. It was in 1927 that preference was granted to British steel and in 1930 to British cotton piece goods. The preference has failed, however, be it noted *en passant*, to arrest the decline in the British share of the Indian imports but may to a certain extent have prevented the situation from being still worse.

Be this as it may, we can single out certain items in detail in which the expansion of exports is a feature of recent British trade. The table is given below² :—

| Goods | 1924 | 1929 |
|-------------------------------|------------------------|-----------------------|
| 1. Pottery | 243,000 tons | 252,000 t |
| 2. Glass bottles | 350,000 gross | 363,000 gr |
| 3. Cement | 651,000 t | 1,092,000 t |
| 4. Copper manufactures | 62,800 t | 35,100 t |
| 5. Nickel and alloys | £971,000 | £1,729,000 |
| 6. Boots and shoes of leather | 998,000 dozen pairs | 1,006,000 doz. prs |
| 7. Hats and bonnets | 1,204,000 doz. | 1,384,000 doz. |
| 8. Ammonium sulphate | 278,000 t | 587,000 t |
| 9. Sodium compounds | 501,000 t | 514,000 t |
| 10. Paints and colours | 77,000 t | 89,000 t |
| 11. Leather | 16,400 t | 18,300 t |
| 12. Paper and cardboard | 238,000 t | 252,000 t |

² *Labour Year Book* 1930, p. 202.

The developing tendency is exhibited in a special manner by the lines of pottery, glass bottles, cement, electrical goods, paper, etc. The increase of exports in the chemical group is more or less general. The U. K.'s capacity to expand in manufacture as well as export has therefore been in evidence in recent years. In regard to the export of home goods

U. K. (1929) = 1.08 U. K. (1924). The trend is upward although to a very slight extent.

2 The Condition of other Exporting Countries

The U. K.'s industry and trade may now be placed in the perspective of some of her big rivals in order to understand to what extent her capacity to expand is relatively worth while in the race for markets. Let us begin with iron and steel goods. The exports of the five great powers in this field are being exhibited below at two dates, 1913 and 1927.³ :—

| Country | 1913 | 1927 |
|--------------------------|-------------|-------------|
| 1. Germany | 6,562,000 t | 4,585,000 t |
| 2. U. K. | 5,049,000 t | 4,263,000 t |
| 3. U. S. A. | 3,066,000 t | 2,235,000 t |
| 4. Belgium and Luxemburg | 1,729,000 t | 4,978,000 t |
| 5. France | 1,168,000 t | 4,675,000 t |

The rise of Belgium and France as two great powers in the export of iron and steel goods is a post-war phenomenon of extraordinary importance. No less characteristic is the decline of all the three "adults," Germany, the U. K. and the U. S. A. Of these three declines that of the U. K. is the least, as shown in the following equations:—

$$(1) \text{ U. K. (1927) = } 0.80 \text{ U. K. (1913)}$$

$$(2) \text{ U. S. A. (1927) = } 0.73 \text{ U. S. A. (1913)}$$

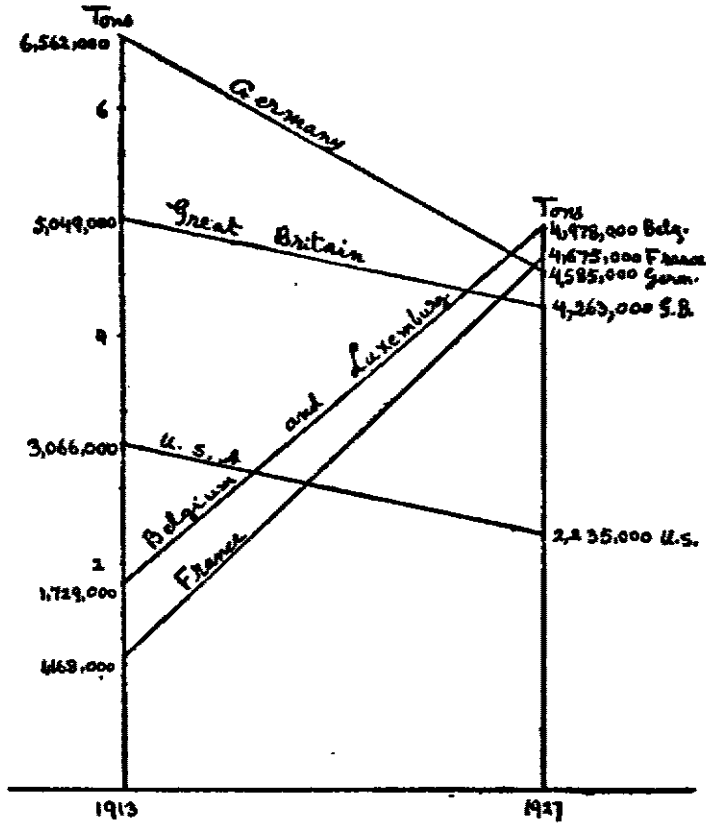
$$(3) \text{ Germany (1927) = } 0.70 \text{ Germany (1913)}$$

In a previous connection we have noticed the decline of the U. K.'s exports in iron and steel goods. It is worth while to call attention here to the fact that she is even in her fall in good company but that she is the most tenacious of all her comrades. Germany's fall is of course to be explained by the

³ *Statistisches Jahrbuch für die Eisen und Stahl industrie 1929*, p. 177 in Woytinsky: *Tatsachen und Zahlen Europas*. (Vienna p. 1930), p. 156.

CHART 10.

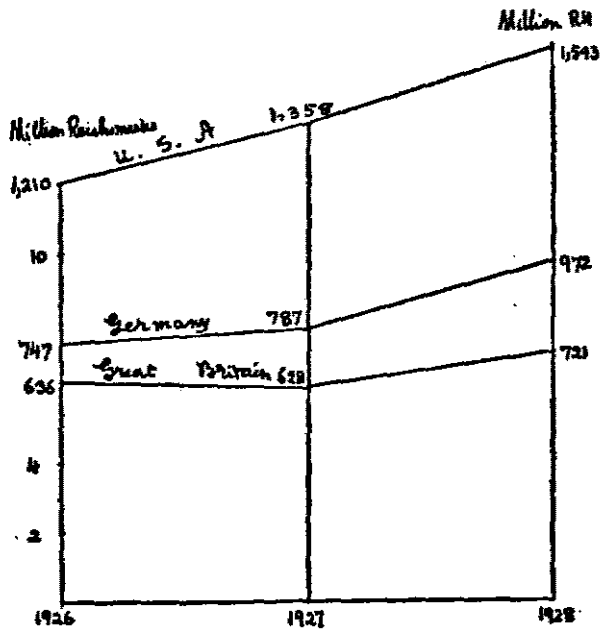
International Competition in the Export of Iron and Steel Goods (1913-27)



(To face p. 98)

CHART 11.

The Big Three in the "Positive Export"
of Machinery (1926-28)



(To face p. 99)

territorial losses, due to the provisions of the Treaty of Versailles.⁴

In regard to the export of machinery the world knows only three great powers, namely, the U. S. A., Germany and the U. K. Each one of this trio is an importer as well as an exporter of machines, but in each instance the exports exceed the imports. It is on what may be called "positive" exports, i. e. the balance of exports over imports (in Reichsmarks) that the ranking of these Big Three is based, as follows⁵ :—

| Country | 1926 | 1927 | 1928 |
|-------------|---------------|---------------|---------------|
| 1. U. S. A. | 1,210,000,000 | 1,358,000,000 | 1,593,000,000 |
| 2. Germany | 747,000,000 | 787,000,000 | 972,000,000 |
| 3. U. K. | 636,000,000 | 628,000,000 | 721,000,000 |

It appears that in machinery export the U. K. is the third power in the world. In 1927 there was a slight decline from the level of 1926. But the fall was made up and the level of 1926 exceeded in 1929.

In the field of aniline dyes "positive" exports on a substantial scale belong only to four countries, the U. K. being one. The relative position of the Big Four from 1925 to 1928 can be seen in the following table (in tons)⁶ :—

| Country | 1925 | 1926 | 1927 | 1928 |
|----------------|--------|--------|--------|--------|
| 1. Germany | 35,900 | 35,300 | 44,200 | 42,600 |
| 2. U. S. A. | 9,100 | 9,400 | 9,600 | 11,700 |
| 3. Switzerland | 6,500 | 7,000 | 8,000 | 8,700 |
| 4. U. K. | 5,900 | 5,400 | 6,300 | 8,300 |

Here also the U. K.'s position is the last. But like the others she has been maintaining her way upwards in regard to the excess of exports over imports.

It may be presumed that Imperial preference will aid the U. K. not only to maintain her upward trend in all these fields but also to raise her position somewhat, if not beyond her rivals, at any

⁴ Sarkar: *Economic Development* (Madras 1926): pp. 49, 102, 236, 324. Woytinsky: *Zehn Jahre Neues Deutschland* (Berlin 1929), p. 74

"Financial Germany since Stabilization," "The Big Five Industries of Germany," and "Aspects of Commercial Germany" in the *Journal of the Bengal National Chamber of Commerce* for September 1926, June 1928, September, 1928.

"Financial and Economic Development in France" in the *J.B.N.C.* for December 1927.

⁵ *Die wirtschaftlichen Kräfte der Welt* 1930 (Berlin), p. 142.

⁶ *Tatsachen*, p. 160.

rate, up to somewhere near them. In aniline dyes she is likely to catch up to Switzerland, and Germany and the U. S. may come down just a point or two. In the machinery market it is doubtful if the U. K. can rise up to the German level but both the U. S. and Germany may lose some customers to her.

There are certain lines in which the U. K., although a great power still in "positive exports," has been tending to decline. For instance, in regard to electro-technical products the Big Three may be described as follows (in million Reichsmarks)⁷ :—

| Country | 1926 | 1927 | 1928 |
|-------------|------|------|------|
| 1. Germany | 383 | 405 | 467 |
| 2. U. S. A. | 389 | 405 | 437 |
| 3. U. K. | 298 | 268 | 251 |

We notice that Germany and the U. S. A. are almost at a par and that both are expanding their "positive" exports at almost the same rate. It is noteworthy, further, that the U. K. is a rather backward third and that she has come down from 298,000,000 RM (or shillings) to 251,000,000 RM in three years.

A second line in which the U. K.'s positive exports have likewise been declining is that of chemicals. The Big Four, here, are described below from 1925 to 1927 (in million Reichsmarks)⁸ :—

| Country | 1925 | 1926 | 1927 |
|------------|------|------|------|
| 1. Germany | 690 | 780 | 800 |
| 2. Chile | 450 | 365 | 450 |
| 3. France | 270 | 270 | 240 |
| 4. U. K. | 210 | 185 | 200 |

The U. K.'s decline looks to a certain extent similar to Chile's. But like France she is markedly behind Germany in value.

In both these fields, electrical and chemical, the U. K.'s decline is not very great. The favours bestowed by the Preference can enable her without much difficulty to recoup her position and augment the volume and value of her positive exports.

3 Empireward Advance

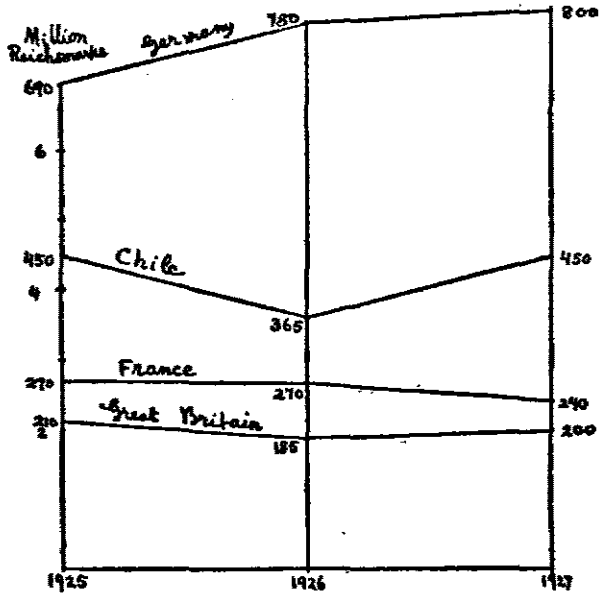
The U. K. cannot be said to have lost her hold on the world-markets. She has just been maintaining her position. It is now necessary to observe that her exports have more and more been seeking the British Empire. She has been losing the non-Empire markets

⁷ *Tatsachen*, p. 158.

⁸ *Tatsachen*, p. 159.

CHART 12.

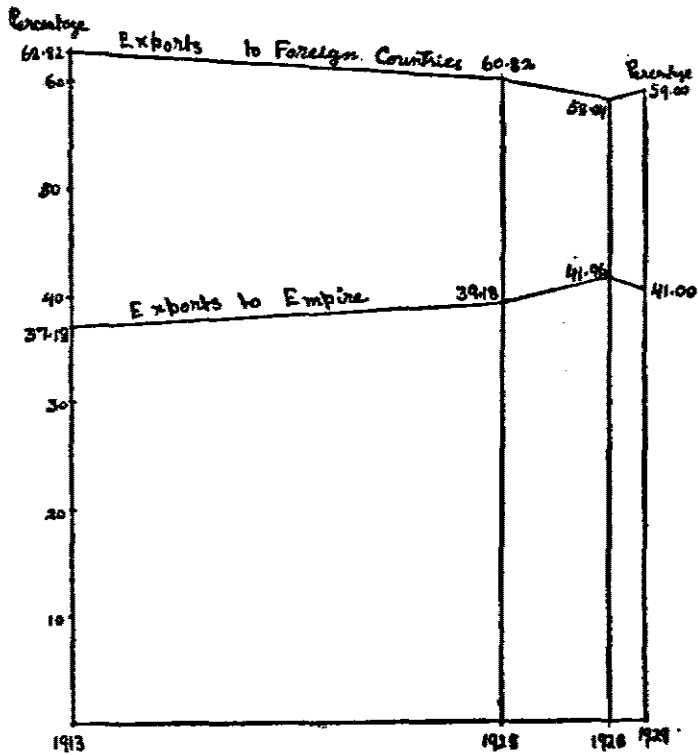
The Big Four in the "Positive Export"
of Chemicals (1925-27)



(To face p. 100)

CHART 13.

Empire Absorbing More British Goods than Foreign Countries: The Percentage of Total British Home Goods Exports (1913-29)



(To face p. 101)

but strengthening her relations with the Empire. The change in the direction of her exports of home goods may be seen percentually as follows.⁹

| Year | Exports to Empire in percentage of total Exports | Exports to Foreign Countries in percentage of total Exports |
|------|--|---|
| 1913 | 37·18 | 62·82 |
| 1925 | 39·18 | 60·82 |
| 1928 | 41·96 | 58·04 |
| 1929 | 41·00 | 59·00 |

Changes in the direction are slight but not unnoticeable. It is this trend of recent years that is likely to be intensified by the Imperial Preference scheme.

At this stage it should be interesting to call attention to the trend in the geographical distribution of British exports during nearly three quarters of a century. The following table will illustrate the directions from 1860 to 1929¹⁰ :—

| Date | Empire | Europe | Rest of the World | Total |
|------|--------|--------|-------------------|-------|
| 1860 | 32 | 33 | 35 | 100 |
| 1880 | 34 | 37 | 29 | 100 |
| 1903 | 38 | 35 | 27 | 100 |
| 1913 | 37·2 | 33·5 | 29·3 | 100 |
| 1923 | 37·1 | 33·2 | 29·7 | 100 |
| 1929 | 41·0 | | 59·0 | 100 |

Broadly speaking, the tendency of British exports is clear. The U. K.'s percentage of exports to the Empire has on the whole been expanding. From 32 per cent in 1860, or from 37·2 per cent in 1913 the share has risen to 41·0 per cent in 1929. The obverse is equally patent. The U. K. has been shipping less of her goods to the rest of the world. She is today more dependent on the Empire markets than elsewhere.

If the tendency has been towards a percentually greater absorption of British home goods in the Empire than in foreign countries it is but natural to presume that state intervention can serve to strengthen the movement.

⁹ *Labour Year Book* 1930, p. 195.

¹⁰ Adapted from Bowley: *England's Foreign Trade in the Nineteenth Century* (1905) and *Some Economic Consequences of the War* (1930) and *Labour Year Book* 1930.

sellers and replenishment of working capital, (2) the adjustment of surplus capacity to the actual and potential demand, and (3) the securing of organized economies and improvements such as might lead later on to the maintenance and perhaps to the recovery of markets.¹⁹ The cotton spinning industry was commencing the A.B.C. of "typical Continental cartels," and a regular propaganda was going on in England about "what the Germans are calling Rationalization."

The difference between the older and the new industries *vis à vis* British depression was also a matter of common knowledge with the bankers about this time. At the annual meeting of the Barclay's Bank in December 1927 the deputy chairman Sir Herbert Hambling said: "Coal, iron and steel and cotton are not in a healthy condition, but when I look at the activity in the newer industries, providing such goods as electrical equipment, motor cars, artificial silk, wireless appliances etc., in which technical skill, brains and efficiency are such important factors, it does occur to me that in the older industries something is lacking. I sometimes wonder whether some of the older concerns have kept themselves really up-to-date in efficient organization, modern machinery etc. or whether they have traded on their reputations of fifty years ago."

In order to lift the "dun out of the mire" the Samuel Commission recommended that the Board of Trade should have the powers to enforce amalgamations in the coal industry if they were not effected voluntarily within two years. Besides, according to the recommendations of the Lewis Committee, if seventy five per cent of the coal-owners in a district wished to organize co-operative selling the rest should be compelled to fall into line.

But since legislative compulsion was for the time being out of the question the banks were being advised by the *Nation's* economic experts to exercise pressure upon the industries. Most of the industries were indebted to the banks. The banks had not only secured mortgages on the tangible assets of many cotton mills but held a lien on their unpaid capital as well. Naturally, the industries could not carry on if the banks determined to call in their loans. The banks were thus in the most strategic position in order to force rationalization on British industry.

¹⁹ "The Position of the Lancashire Cotton Trade" and "British Industries in Peril" in the *Journal of the Bengal National Chamber of Commerce*, September 1927 and March 1928.

It is obvious that by the time the world depression set in in 1929 the business world in the U. K. had already started taking steps or thinking aloud about taking steps in regard to the thoroughgoing process of reconstruction. And this reconstruction involved amalgamation, the concentration of production in the most up-to-date plants, the closing down of surplus plant, and more organized and effective marketing arrangements.¹⁴

7 Advances to Colonies

Another measure is also of profound significance in the rehabilitation of British industries and possesses, besides, a tremendous value in connection with the Empire Development and Imperial Preference schemes.

The Colonial Development Act of 1929¹⁵ enables the Treasury to make advances to the Governments of the colonies, protectorates and mandated territories in connection with schemes such as promote their agriculture and industry and thereby help forward the commerce or industry of the U. K. Advances may take the form of grant or loan but must not exceed altogether £1,000,000. During the first year responsibility was sanctioned, first, to the extent of £500,000 in connection with the Zambesi Bridge in East Africa. The scheme involves an estimated expenditure of £3,000,000. Secondly, the Treasury made advances amounting to £62,000 on three schemes in the Tanganyika Territory involving as they did an expenditure of £710,000.

In connection with the Development Act comprising, as it does, two Parts it is to be observed that the grants are made conditional on the assurance that all raw materials as well as manufactured articles to be used for the schemes should as a rule be British in origin or manufacture. In case British articles are not available, it is required that Empire products should be used wherever possible.

The Colonial Development Act lays it down likewise that the plant, machinery and materials imported into the colonies, protectorates etc. should under normal circumstances be British in origin

14 For the index numbers of industrial production in the United Kingdom, Germany, the U.S.A., France and other countries see *Annuaire Statistique de la Société des Nations* 1931-32 (Geneva), pp. 176, 180, 182, 186.

15 *Labour Year Book* 1930, p. 92.

or manufacture. It was estimated that nearly one-third of the estimated cost for the Zambesi Bridge and nearly two-thirds of the costs on the Tanganyika schemes would be spent in the U. K.

From all different angles it is obvious that specific measures have been in force in order to reconstruct British economy in its diverse aspects and render it efficient on a competitive basis. When one surveys these attempts at industrial reorganization in their entirety with special reference to the period since 1919, one is convinced that Imperial Preference is not the only panacea devised by the U. K. either to cope with the post-war competition in world-economy or to withstand the consequences of unemployment. It is item by item that Imperial preference has grown to the situation of 1932 and is to be regarded as but a link in the chain of efforts consciously undertaken to help forward the rejuvenation and expansion of British agriculture, manufactures and commerce. Countries like India which on account of the Imperial Preference may have to do without non-British articles need not therefore be over-anxious as to the capacity of the U. K. to deliver the goods for the market, enlarged, as it is likely to be, on account of the partial removal of non-British goods. British industry should appear to be getting equipped and rationalized enough to supply an eventually expanded demand.

Chapter IX

THE ECONOMICS OF RETALIATION

1 India's Vulnerable Points

So far as imports are concerned, neither in price nor in customs revenue does India have to bear any loss. From the standpoint of the U. K. there is expected to be a relative increase in the percentage of her share in the Indian market. Should the preference scheme prove to be successful in actual business there is no doubt that the suppliers of goods for the Indian market other than U. K. will have to suffer. The comparative position of the different sources of India's imports will therefore change, U. K. gaining at the cost of the rest. We have already noticed that among these other countries three come in for special consideration, namely, Japan, Germany, and the U.S.A.

India can be hit by all these countries, should each one of them decide to go without the goods which it imports from her in considerable quantities. Let us examine these goods in regard to each of the three countries.

The most important exports from India to Japan consist in raw cotton as detailed below in the perspective of total exports of Indian produce to Japan¹ :—

| | Prewar Average | 1929-30 | 1931-32 |
|------------------|----------------|-------------|-------------|
| | Rs. | Rs. | Rs. |
| 1. Raw Cotton | 145,070,000 | 272,964,000 | 110,466,000 |
| 2. Total Exports | 168,468,000 | 322,672,000 | 139,428,000 |
| 3. Percentage of | | | |
| 1 to 2 | 86.3% | 84.4% | 79.0% |

India's sales of raw cotton to Japan have ranged from Rs. 145,070,000 over Rs. 272,964,000 to Rs. 110,466,000. And this has meant in the background of total sales of Indian goods to Japan a percentage of 86.3, 84.4 and 79.0. And so far as the entire export of raw cotton is concerned India's Japanese market has grown as follows :

| | |
|---------------|--|
| 1913-14: 47.2 | Per cent of total export of raw cotton |
| 1930-31: 45.3 | „ |
| 1931-32: 47.1 | „ |

1 *RTI* 1931-32, pp. 137, 211, 1932-33, pp. 131, 203.

Japanese consumption accounts for 47·1 per cent of total raw cotton exports from India (54·5% in 1932-33). Naturally, from the Japanese standpoint raw cotton is India's vulnerable point.

Another vulnerable point of India's from the Japanese angle of vision is pig iron. Exports of pig iron to Japan in the perspective of total exports are indicated below.² :—

| | Prewar Average Rs. | 1929-30 Rs. | 1931-32 Rs. |
|-------------------------------|-----------------------|----------------|----------------|
| 1. Japan | 1,524,000 | 18,002,000 | 8,530,000 |
| 2. Total Exports (1913-14) | 4,200,000 | 25,900,000 | 12,300,000 |
| 3. Percentage of 1 to 2 | 36·3% | 69·5% | 69·1% |

The export of pig iron from India to Japan has increased from 36·3 to 69·1 per cent. India has become more dependent on Japan than on the U. K., the U. S. A., and Germany for the outlet of this commodity.

With reference to the question of retaliation be it observed that pig iron is already on the schedule of specially preferred goods. As for raw cotton, although there is no definite decree concerning preference the wish has been expressed to the effect that the British firms should consume more of this Indian produce in the future. Japanese attempts at retaliation by curtailing the purchase of these goods may therefore easily be frustrated, because India's losses in Japan are likely to be made up to a certain extent by the expansion of market in the U. K.

The values of leading exports to the U. S.³ in the perspective of the total exports to the same country are indicated below :—

| Goods | Prewar Average Rs. | 1929-30 Rs. | 1931-32 Rs. |
|----------------------------------|-----------------------|----------------|----------------|
| 1. Hides and skins: raw | 84,876,000 | 89,379,000 | 17,938,000 |
| 2. Jute manufactures | 78,389,000 | 187,661,000 | 67,008,000 |
| 3. Total exports to the U. S. | 168,360,000 | 363,282,000 | 136,638,000 |

The two items constituted in 1931-32 some 61 per cent of the values imported by the U. S. from India. Any wilful restriction of purchases in these lines on the part of the U. S. might therefore be harmful to India's producers.

The percentage share of India's total exports of raw hides and

² *BTI* 1931-32, pp. 123, 125, 211, 1932-33, pp. 117, 203.

³ *BTI* 1931-32, pp. 137, 205, 1932-33, pp. 131, 197.

skins as well as of jute manufactures such as is consumed in the U. S. will appear from the following table :—

| | 1918-14 | 1930-31 | 1931-32 |
|-------------------|---------|---------|---------|
| Jute Manufactures | 41·5% | 34·5% | 31·7% |
| Raw Hides | 24·3% | 22·9% | 20·5% |

In 1931-32 the U. S. imported 31·7 per cent of the total exports from India in jute manufactures and 20·5 per cent in raw hides and skins. In regard to the first item her share was by far the highest, and in regard to the second it was higher than that of every other country except that of the U. K.

The two most important exports from India to the U.S.A. are (1) jute cloth and (2) raw hides and skins. India might be hit by the U.S. declining to purchase these goods of India out of motives of retaliation. But it is interesting that those two goods are to enjoy a preference in the U. K. In other words, a good and expanding market is already assured for them and the United States are virtually left without a handle with which to hurt India in a serious manner.

Among the articles of export to Germany the more important ones are shown below in the perspective of India's total exports to that country :⁴

| | Prewar Average | 1929-30 | 1931-32 |
|-------------------------|----------------|-------------|-------------|
| Goods | Rs. | Rs. | Rs. |
| 1. Raw Jute | 49,040,000 | 74,064,000 | 24,369,000 |
| 2. Oilseeds | 34,551,000 | 52,370,000 | 19,955,000 |
| 3. Rice not in the husk | 34,137,000 | 33,101,000 | 15,568,000 |
| 4. Raw Cotton | 44,506,000 | 43,943,000 | 14,753,000 |
| 5. Total of all exports | 223,035,000 | 266,088,000 | 100,181,000 |

In 1931-32 raw jute, oil seeds, rice not in the husk, and raw cotton constituted some 72 per cent of all Germany's purchases from India. The following table shows Germany's takings in the percentage of the total Indian exports of the goods concerned :—

| Goods | 1919-14 | 1930-31 | 1931-32 |
|---------------|---------|---------|---------|
| 1. Raw Jute | 21·8 | 27·2 | 21·7 |
| 2. Oilseeds | 16·0 | 13·1 | 13·7 |
| 3. Raw Cotton | 14·6 | 7·1 | 6·3 |

In raw jute Germany is second only to the U. K., in oil seeds her proportion is quite high being equal to the U. K.'s, and in raw cotton also her equality with the U. K. is a statistical fact.

⁴ *BTI* 1931-32, pp. 137, 188, 230, 1932-33, pp. 131, 190, 223.

As for rice not in the husk Germany's proportion can be seen in the background of the U. K.'s proportions as well as of the total exports from India in the following table :—

| | Prewar Average | Postwar Average | 1931-32 |
|----------------------------|----------------|-----------------|--------------|
| 1. Germany | 345,000 tons | 207,000 tons | 231,000 tons |
| 2. U. K. | 159,000 „ | 96,000 „ | 117,000 „ |
| 3. Total Exports | 2,398,000 „ | 1,462,000 „ | 2,301,000 „ |
| 4. Percentage of 1 to 3 | 14.3 | 14.1 | 10.0 |

Germany's proportions have of late been declining but they are still quite high.

Here, again, as in the case of the U. S. it is interesting to observe that with the exception of raw cotton all the other goods are assured favourable reception in the U. K. because of preference. In other words, should Germany decide to retaliate against India by restricting her consumption of these classes of Indian goods India may not have to suffer at all. Besides, in so far as raw jute is India's monopoly it is hardly conceivable that Germany should in the near future seriously think of retaliating on this point in spite of the use of paper, sisal and other substitutes for jute.

As for the possibility of all the three countries combining against India or for that matter the British Empire the situation today is not more favourable than in the days of Chamberlain, whose reading of world politics was as follows :

“No one outside the Kaiser's dominions wishes to injure England industrially or politically, in order to increase the power of Germany in either respect.⁵ No one in Europe wishes to see the commercial supremacy of the British Empire subverted in order that American competition may reign without a rival in our stead. Upon these matters continental and American interests, so far from being capable of combination against us are divided and permanently divided down to the foundation.”

2 Maximum Consumers' Surplus obtained from Indian Goods

As in other economics, in the economics of retaliation also the fundamental problem is that of price. Economically speaking, a region can venture to retaliate by curtailing the import of goods from a certain region only when it knows that its demand

⁵ *Imperial Reciprocity* (Daily Telegraph, London, 1903), p. 20.

can be satisfied on more or less identical price-levels for the same quality and quantity of goods by another region. Now in regard to jute it is well known to be as yet a monopoly of India. Chemical or synthetic substitutes for jute have been manufactured in Germany but they should appear to be more or less technological curiosities as yet. Instead of jute bags Germany was using paper bags during the war and even today paper bags are in use in some of her cement works. A new fibre plant *sisal* has been introduced from Africa into Java in German farms, and fibres have been exported to Germany also, but their cultivation on a large business scale is not yet a question of practical politics. The plant jute itself has been grown in South America but the problem of "retting", as practised in Bengal, Assam and Bihar, remains yet to be solved in the New Hemisphere. For quite a long time jute cannot be replaced nor can it be grown *effectively* outside of India. It is therefore bound to remain a monopoly for a considerable period. No country can therefore prudently think of retaliating upon India by boycotting or restricting the import of her jute.⁶

The other goods that India exports to Germany, the U. S. A., Japan etc. are, however, not monopolies. The prices of those goods in non-Empire markets must, therefore, be the deciding factors in regard to the question of retaliation. It is obvious that goods such as are not monopolies have had always in the past to stand the world competition in foreign markets. India is not the only source of the goods that Japan, the U. S., Germany and other countries import from her. And if up till now India's pig iron, oilseeds, hides and skins, raw cotton or jute manufactures have been selling in these regions it is because these goods could not be supplied from non-Indian sources on more favourable terms. In other words, maximum consumers' surplus has been being obtained in these regions from the purchase of Indian commodities. For Germany, Japan and the U. S. or other countries to think of being indifferent to the Indian source of supply and transferring orders to non-Indian sources can but spell higher cost of raw materials or of living to their own producers. This would be tantamount to an economic waste of the first magnitude. It is to be presumed that Indian goods, even those that are not monopolies, could not possibly be dispensed with by these countries.

Rather, their takings of Indian produce have actually increased. Thus from the pre-war average of 3,200 tons Germany's import of linseed

⁶ On the subject of jute see Sarkar: "Economic Planning for Bengal" in the *Insurance and Finance Review*, Calcutta, March 1934.

from India rose to 6,200 tons in 1928-29, the pre-depression year. The pre-war average for the export of groundnuts to Germany was 7,400 tons. In 1928-29 it was 241,200 t. The pre-war average of Japan's takings of Indian raw cotton amounted to 1,012,000 bales of 400 lbs each. In 1928-29 it was 1,610,000 bales. Similarly the U. S. which took 663,900,000 yds of jute cloth in pre-war years took 1,021,800,000 yds in 1928-29. If anything, these statistics point to the increasing dependence of Germany, Japan and the U. S. on Indian supply.⁷ Economically, therefore, retaliation is unthinkable.

Should Germany, for instance, decide to curtail her takings of Indian hides, rice or oilseeds she can only hurt herself, in regard to the supply of raw material for her factories. Secondly, in regard to the re-export of some of this raw produce or the export of manufactures into which this enters as an ingredient into Eastern Europe, the Balkan Complex and the Baltic states she is likely to go down. Indeed, much of this German re-export and export would be captured by any other big importer of Indian produce, e. g. the U. K. An attempt at retaliation on Germany's part would thus be equivalent to her wilfully isolating herself as during a state of war.

3 The Case of Uneconomic Retaliation

But an uneconomic retaliation is theoretically not inconceivable. That is, a region might choose to pay higher prices for non-Indian goods rather than obtain Indian produce of the desired quality and quantity at lower price. Business contacts with new sources might be opened and promoted at some extra financial outlay. Such developments are quite thinkable under bellicose inspiration.

The economic consequences of this kind of political retaliation deserve some analysis. Assuming, as an extreme case, the initiation of actual retaliation no matter in what form, on the part of Germany, Japan or U. S. A., we have to take note of the following circumstances. First, the U. K., because of the preference extended to Indian produce, is likely, as we have observed before, to increase her takings of just those goods which are to be hit by retaliation.

Secondly, it will be a paying proposition for the U. K. to divert a comparatively larger share of India's exports from non-Empire to British markets, because she will thus be enabled to function through

⁷ *RTI* 1928 29, pp. 207-210.

re-exports as a much more important intermediary between India and the non-Indian markets.⁸

Finally, we have to call attention to an important consideration in connection with the imports as affected by India's preference for British manufactures. The very fact that India is to buy more British goods implies automatically that as a rule the U.K. will be compelled to buy more of Indian goods in order to get the price of her goods sold to India. In case of retaliation, the lost ground may thus to a certain extent be covered by the U. K.

Retaliation is not the proper tactic that economic statesmen of the non-Empire countries can think of in the present juncture. We have already some experience of preferential tariffs and of discriminations, e. g. against Japanese cotton goods since 1930 and against Continental steel since 1927. Up till now it is impossible statistically to maintain that India's exports in any of the important lines have been hit by measures of alleged retaliation emanating from any quarter. The fall in export is a universal phenomenon today on account of world-wide depression.⁹ India is no exception and her fall need not be associated necessarily with any anti-Indian movement. Last but not least, it should be borne in mind that the rates of preference in the Ottawa Agreement are so modest that for all practical purposes the effects are not likely to be very appreciable. Should however the tariff discrimination be effective enough, the businessmen of Germany, Japan, and the U. S. will know how to cut prices in order to bring them down to the British price-level. And in any case it should be possible for the statesmen of those countries to facilitate a process of dumping directed against the Indian market. Price-cutting and dumping are economic measures of importance such as can be depended upon for a long while with success before people think of taking to retaliation. Or perhaps price-cutting and dumping as economic methods ought to be regarded as the other side of the shield in the world-economy of Imperial Preference, and indeed should be appraised as new forms of retaliation.

8 For the position of re-exports in the system of British exports from 1913 to 1929 and for the depression years down to 1932 see *Statistical Abstract for the United Kingdom* (London 1934), pp. 340-343, 391, 392-397. Nearly 12 per cent of total exports from the U. K. is made up of re-exports of imported goods.

9 *World-Economic Survey 1932-33* (Geneva 1933), pp. 210-214. For the commercial policy in general for the depression period see pp. 198-209. See also Sarkar: "Indian Export, Price and Exchange Movements on the Eve of Recovery" in the *Financial Times*, Calcutta, January-August 1934.

4 The Dumping Complex

We are employing the expressions, price-cutting and dumping, in the same breath. For practical purposes they may often be taken as interchangeable terms. In any case, the nature of dumping is not precise. It is proper, therefore, to devote some attention to the analysis of certain factors like, say, price-cutting associated with the dumping complex, or at any rate, to visualize some of the phenomena which under certain conditions are condemned as dumping by the parties affected.

At the outset it is interesting to recall that since the tariff Act of 1910¹⁰ France has always taxed foreign goods which have enjoyed direct or indirect subsidy in the country of their origin. The British system likewise taxes foreign goods whenever they are delivered, no matter for what reason, at prices lower than similar British goods.

It is the object of preference to enable the preferred country to lower the price, or, at any rate, to make it lower than the country discriminated against. By sheer instinct of self-preservation, therefore, the latter seeks every method which can help it to bring the price down to the lower level reached by the preferred country and thus neutralize the preference. Hence arise phenomena generally described as dumping.

Economically speaking, dumping is an apt reply to preference. Whenever the tariff is preferential, foreign suppliers may be said to tend to "dump". They cannot be expected to let the market which discriminates against them slip off their hands. And in order to keep the market as much and as long as possible in their hands they naturally consider it expedient to lower the prices. This lowering of prices is, in the first place, a pure business proposition and should depend, as it generally does, on the cost of producing the goods. The more rationalized, the more technically efficient, the more cartelized, trustified or otherwise scientifically organized the industry is, the more easy is it to offer the goods at lower prices and thus penetrate the unfavourable market in spite of discriminating opposition.

In other words, the possibility of a certain country enjoying preference may be reduced to very modest dimensions on account of the superior competing capacity of the country discriminated against. As a rule, such a phenomenon need not be described as

¹⁰ Gignoux: *L'Après-Guerre* (Paris 1924), pp. 54-55.

dumping proper. But from the standpoint of the country enjoying preference or the country which offers preference the goods coming from the country discriminated against and penetrating the market in spite of the discrimination are liable to be treated as dumped goods.

The country discriminated against may not always happen to be technocratically and financially better equipped. Under such circumstances, therefore, a second set of conditions may come to its help in order that the market which discriminates against it may be retained for itself. Discrimination or preference, nay, protection and of course "promotion of trade within the Commonwealth" are in the last analysis non-economic, and essentially political by their very nature. They go against the Ricardian law of "natural traffic" by all means. The reply to them is therefore naturally non-economic and political. When a country finds that by purely economic methods it is not possible to counteract the discrimination against itself and lower the prices to the level of the preferred or favoured goods the state comes to the rescue and offers such facilities as may endow the industry with superior competing capacity. State aid¹ can take the form of direct subventions or subsidies. Subsidizing used to be the most general tactic in pre-war years. But since the post-war inflation, especially in Germany, taught all Governments the magic of depreciated currency as a means of promoting imports and capturing foreign markets the conscious and deliberate depreciation of currency has loomed large in the consciousness of all states as a new weapon to be wielded in international commercial warfare. This, then, is the latest species of dumping recognized both in economic practice and theory. Perhaps this is the only species of dumping according to extremist ways of thinking. For economic considerations, however, with special reference to competition in world markets from the standpoint of price we should consider dumping to be any phenomenon which in one way or other, economic and non-economic, militates against the system of preference. Dumping, therefore, belongs as much to the natural order of economic relations between nations as preference. As soon as the "most-favoured nation" clause is withdrawn, the world-economy is automatically thrown over to the system of dumping.

Let us analyse dumping now from the side of the market that

11 Posse: "Handelsvertrage" in *Handwörterbuch der Staatswissenschaften*, -
Ergänzungsband (Jena 1929), p. 489.

is being dumped upon and ascertain the different kinds of alleged dumping that the business world can possibly experience.

In the early years of the twentieth century the conception of dumping was very simple, nay, naive. While arguing, from the platform of free trade, that protection was, first, neither a remedy against dumping nor, secondly, as a promoter of dumping beneficial to the industrial system of a country, Pigou described the phenomenon as follows :—"Surplus produce is sometimes dumped into this country. In bad times foreign manufacturers do not want to spoil their own market by selling in it cheap. Neither do they want to disorganize their staff by shutting down their works. Consequently, when practicable, it is very convenient for them to dump their surplus abroad and spoil the market of somebody else"¹². Dumping was considered as but a form of or means to "disposal of surplus,"—effected, as it might happen sometimes, with the help of protection.

But to-day dumping is said to take place when a commodity is sold abroad at a lower price than at home. This difference between external and internal prices can be brought about by state or private subsidies, lowering of railway and shipping freights etc. When the cost of production is low on account of lower wages, taxes, social services, longer hours, etc., it is possible to deliver the goods abroad cheaper than the rates prevailing in the importing country: This, however, is not dumping in the strict sense. On account of currency depreciation also the goods can be delivered abroad at prices lower than the prices prevailing in the importing country, but the export prices are not necessarily lower than the prices charged at home. There is then in this instance also no real dumping.

The circumstances which render competition unfair may then be classified as follows¹³ :—

1. The state may come to the aid of the competing industry by bounties, subsidies or otherwise.
2. Socialistic or social service legislation in the interest of workmen may involve extra expenses incurred by employers and hence raise the cost of production in the importing country.

¹² *Protective and Preferential Duties* (1906) pp. 72, 77. According to Pigou, hundred per cent free trader as he was, dumping "is of course directly advantageous to us because it enables us to buy what we want at low prices."

¹³ Palgrave: *Dictionary of Political Economy* (London 1913), Vol. III, p. 791.

3. The absence of such legislation may render the cost of production in the competing country relatively lower.

4. On account of protective tariff the competing industry may derive large profits at home and therefore be in a position to place the goods abroad at less than the full cost of production.

Dumping proper¹⁴ consists in the sale of goods abroad at a price considerably lower than in the countries of their origin. Very often the difference between the external and internal price levels may not be evident. But from the standpoint of production and employment one can notice easily that foreign goods are being delivered at prices lower than the costs of production in the country of their sale. One way or the other, dumping can be facilitated by protection and by cartels or trusts because it is through them that the fixed expenses of production may be placed on the shoulders of the home consumers. And naturally, therefore, as a rule, it is the protectionists who detect dumping, proper or fictitious, on the part of foreign countries and demand enhancement of import duties.¹⁵ Protection is invoked to militate against protection.

And since the system of preference would seek to maintain itself or rather render itself "effective", anti-dumping measures become an automatic necessity: International economic competition cannot under the present circumstances of world-economy fight shy of preference-dumping-antidumping complex. Anti-dumping legislation directed against Japan (1933) is, then, India's first inevitable step *vis à vis* world-economy in her career of assimilation to Empire-economy, no matter whether the alleged Japanese dumping be a fact and how it is to be interpreted.

5 Alleged Japanese Dumping

The U. K. went off the gold standard in September 1931, and along with her, India. The fall in the Sterling-Rupee complex led automatically to the appreciation of the Japanese yen as of the dollar, the Mark and other gold standard currencies. Japanese and other foreign goods appeared comparatively more expensive in terms of Indian Rupees than British goods. It was to save Japanese export out of these inconveniences that the fall of the

14 Gignoux: *L'Après-Guerre* (Paris 1924), p. 54.

15 *Problèmes du Chômage en 1931* (Genève 1931), p. 161.

yen was planned early in 1932. From the Indian side since then it has been attempted to demonstrate that Japan has been systematically dumping her goods. The existence of dumping is very difficult to prove.¹⁶ If we take the case of the imports of cotton goods from Japan into India we have to observe that while, on the one hand, the depreciation of yen may facilitate the import of her products in India, on the other hand, Japan as purchaser of Indian goods, for instance, raw cotton and pig iron, etc. has to bear the brunt of higher prices, and therefore of higher costs of production.

As for the increased imports of cotton goods, one is convinced that it is not Japan alone, the alleged dumper, that has enjoyed them but others as well and indeed in greater proportions than herself. Thus for the period of five months (January to May) the year 1932 marks an increase in imports upon the year 1931 in regard to all sources, as follows:—

| Country | 1931 Yds | 1932 Yds | Percentage of Increase |
|-----------|-------------|-------------|---------------------------|
| 1. Japan | 143,011,043 | 167,719,847 | 17 |
| 2. U. K. | 145,541,465 | 202,028,779 | 38 |
| 3. Others | 15,788,741 | 20,870,240 | 32 |
| Total | 304,341,249 | 390,618,866 | 25 |

While the increase for Japan was 17 per cent only that for the U. K. was 38 per cent. The Japanese increase cannot be regarded as exceptional.

A more or rather the genuinely crucial point is the price levels at home and abroad. The internal prices of Japanese cotton goods were not higher than their prices for export in India. Thus, for instance, the following prices were quoted in May-June 1932 for grey shirting (known as "Momo") and *dhoty* ("Hanabatei"):

| | | Export Price | Internal Price |
|---------------|-----|---------------------|----------------|
| | | Yens | Yens |
| I. Momo | ... | 4.30 (May 18) | 4.20 |
| | | 4.10 (May 31) | 4.10 |
| | | 4.05 (June 18) | 4.05 |
| II. Hanabatei | ... | 1.05 (May End) | 1.00 |
| | | 1.025 (June Middle) | 0.98 |

¹⁶ Statement submitted to the Indian Tariff Board by the Japanese Piece-goods and Yarn Merchants' Association, Bombay, published in *The Indo-Japanese Trade Bulletin* (Calcutta), September, 1932.

The prices at which Japanese mills sold for home consumption appear to have been actually lower than those at which they booked orders for export.¹⁷ In other words, dumping, strictly so called, did not exist.

17 The Japanese question has been dealt with in some detail by Sudha Kanta De: "The Cotton Tariff: Its Significance" in the *Journal of the Bengal National Chamber of Commerce*, June 1930. Cf. also Rashbehari Bose: "The Truth about Japanese Competition" (*J. B. N. C.*, March 1927), Dhires Chakravarti: "Textile Industry in India and Japan" in the *J. B. N. C.*, for December 1926. See, further, "India's Big Industries on Trial," *J. B. N. C.*, September 1927.

See Sarkar: "The Strength and Limitations of Economic Japan" and "Business Organization as an Aid to the Economic Expansion of Japan" in the *Calcutta Review* for November 1933 and January 1934, "Indian Export, Price and Exchange Movements" in the *Financial Times* (Calcutta), January-August 1934.

Chapter X

BRITISH EMPIRE VIS-À-VIS WORLD ECONOMY

1 U. K.'s Dependence on the World

Neither for the U. K. nor for the British Empire and indeed for India can it be part of economic policy to antagonize the rest of the world. The British Empire is, as we have seen in a previous Chapter (V), much too dependent on non-Empire regions both in imports and exports to think of functioning in splendid isolation.

India's exports to non-Empire countries¹ have evolved in the following percentages of total exports:

| | |
|-------------------------|------|
| 1. Pre-war Average : | 58·9 |
| 2. War " : | 48·3 |
| 3. Post-war " : | 58·6 |
| 4. 1927-28 : | 59·9 |
| 5. 1928-29 : | 64·5 |
| 6. 1930-31 : | 60·5 |
| 7. 1931-32 : | 55·5 |

The proportions have not been declining except during the last few years. And they are still above fifty per cent (54·2% in 1932-33).

India's interest in non-Empire markets is very substantial. She cannot afford to risk an anti-Indian movement or tariff reprisal in these countries while enjoying preference in the British Empire. India's imports from these countries can be seen in the percentage of her total imports from abroad in the following table:—

| | |
|-------------------------|------|
| 1. Pre-war Average : | 30·3 |
| 2. War " : | 34·6 |
| 3. Post-war " : | 34·6 |
| 4. 1927-28 : | 45·4 |
| 5. 1928-29 : | 45·9 |
| 6. 1930-31 : | 53·9 |
| 7. 1931-32 : | 57·6 |

India depends on non-Empire countries for 57·6 per cent of her purchases from abroad (55·2% in 1932-33). The proportion is too high to be ignored by India while granting preference to the British Empire

The U. K. also on her part while granting preference to India,

¹ RTI 1928-29, p. 171, 1931-32, p. 191, 1932-33, p. 183.

the Dominions and the Colonies cannot afford to ignore the bulk of her imports from non-Empire countries. Their percentage in relation to the total imports has grown as follows² :—

| | |
|--------|-------|
| 1913 : | 75.13 |
| 1925 : | 70.37 |
| 1928 : | 73.00 |
| 1929 : | 73.88 |

The imports of U. K. and Ireland for previous periods from the British Empire as well as from foreign countries are shown below in the percentages of the total imports³ :—

| Year | Foreign Countries | British Empire | Total |
|------|-------------------|----------------|-------|
| 1856 | 75.1 | 24.9 | 100.0 |
| 1871 | 78.0 | 22.0 | 100.0 |
| 1881 | 76.9 | 23.1 | 100.0 |
| 1891 | 77.2 | 22.8 | 100.0 |
| 1901 | 79.8 | 20.2 | 100.0 |

The exports of U. K. and Ireland's home goods to foreign countries as well as to the Empire for previous periods may be seen below in percentage of the total⁴ :—

| Year | Foreign Countries | British Empire | Total |
|------|-------------------|----------------|-------|
| 1856 | 71.2 | 28.8 | 100.0 |
| 1871 | 77.0 | 23.0 | 100.0 |
| 1881 | 66.3 | 33.7 | 100.0 |
| 1891 | 65.2 | 34.8 | 100.0 |
| 1901 | 62.4 | 37.6 | 100.0 |

The U. K. is dependent on non-Empire countries for nearly 75 per cent of her foreign goods.

But in regard to the total exports of home goods the percentage going to non-Empire markets is as follows :—

| | |
|--------|-------|
| 1913 : | 62.82 |
| 1925 : | 60.82 |
| 1928 : | 58.04 |
| 1929 : | 59.00 |

As for re-exports, i.e., exports of imported goods the non-Empire countries have commanded the following percentages of the total during the last fifteen years or so :

| | |
|--------|-------|
| 1913 : | 87.58 |
| 1925 : | 89.40 |
| 1928 : | 88.21 |
| 1929 : | 87.19 |

² *Labour Year Book 1930*, p. 195; *Statistical Abstract for the United Kingdom* (London 1934), pp. 348-349.

³ Farrer: *Free Trade versus Fair Trade* (1904), p. 380.

⁴ *Ibid.*, p. 378.

While enjoying preference in the British Empire the U. K. can never ignore the consideration that 59 per cent of her exports and 87·19 per cent of her re-exports are absorbed in non-Empire markets.

Her position is not radically different from that of France.

The imports and exports of France⁵ (in francs) for 1912 are indicated below under two heads: (1) foreign countries and (2) French Colonies:

| | A. General Commerce | |
|--------------------|----------------------|---------------------|
| | Imports | Exports |
| Foreign Countries: | 9,354,800,000 | 7,801,000,000 |
| French Colonies: | 938,000,000 | 1,022,900,000 |
| | <hr/> 10,293,600,000 | <hr/> 8,823,900,000 |
| | B. Special Commerce | |
| | Imports | Exports |
| Foreign Countries: | 7,349,500,000 | 5,802,600,000 |
| French Colonies: | 887,300,000 | 910,000,000 |
| | <hr/> 8,230,800,000 | <hr/> 6,712,600,000 |

Colonial commerce (special, i.e. goods only) represented nearly 12 per cent of the total foreign trade of France. It rose from the situation in 1900, when the proportion was just below 10 per cent, to 19 per cent in 1929.

2 British Investments in Non-Empire Countries

The foreign investments of the U. K. indicate likewise the extent to which the non-Empire countries normally influence British economy. The following classification exhibits the proportions about 1930⁶ :—

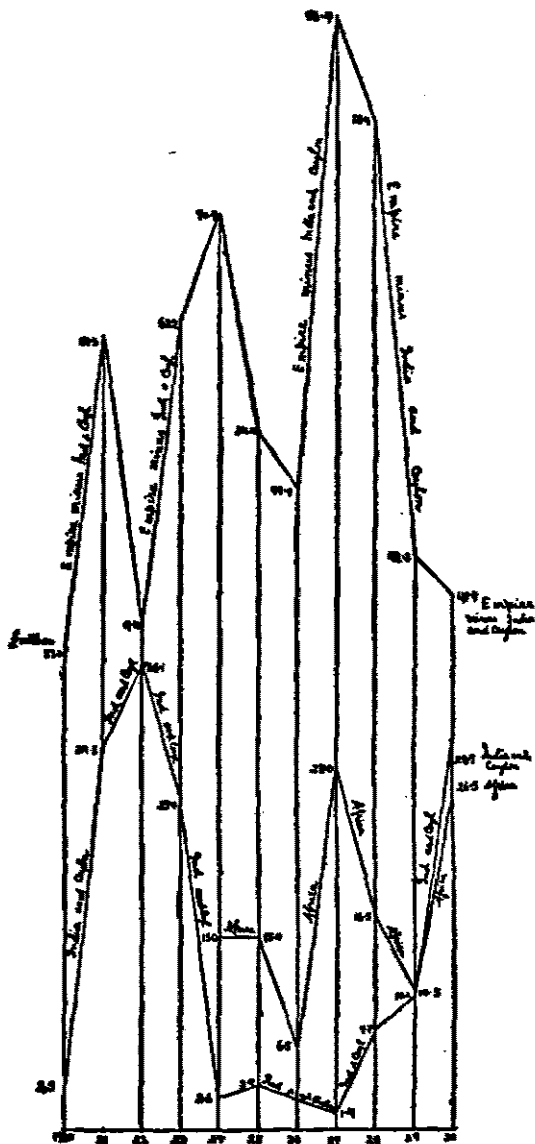
| I. Empire | Millions |
|--------------------------------|---------------|
| 1. Australia and New Zealand : | £ 608 |
| 2. Canada and Newfoundland : | 494 |
| 3. India and Ceylon : | 362 |
| 4. South Africa : | 185 |
| 5. British Africa : | 127 |
| 6. Other British Possessions : | 152 |
| | <hr/> £ 1,926 |

⁵ Girault: *The Colonial Tariff Policy of France* (Oxford 1916), p. 165. For the latest figures (1929) see *Annuaire Statistique de la France* 1931 (Paris 1932), p. 212.

⁶ *Europa* Vol. I, (London). See also "The New Capital Market" in the *Midland Bank Monthly Review* for January-February, February-March and

CHART 14.

British Investments Overseas (1920-30)
 (in million £s):
 (1) India and Ceylon vs. Rest of the Empire
 (2) India and Ceylon vs. Africa



(To face p. 123)

II. Non-Empire Countries.

| | Millions |
|---------------------------------|----------|
| 1. Europe : | £ 408 |
| 2. Argentine : | 342 |
| 3. Other South America : | 299 |
| 4. U. S. A. : | 278 |
| 5. Asia and Africa : | 268 |
| 6. Mexico and Central America : | 105 |
| | £ 1,698 |
| Grand Total | £ 3,624 |

The non-Empire countries attract 46·8 per cent of total capital exported by the U. K.

British investments in foreign countries are tabled below in three groups from 1920 to 1930 (in million £s) :

| Year | Total | India and Ceylon | Other Parts of Empire | Non-Empire Countries |
|------|-------|---------------------|--------------------------|-------------------------|
| 1920 | 53·2 | 3·5 | 37·0 | 12·7 |
| 1921 | 115·7 | 29·5 | 61·3 | 24·9 |
| 1922 | 135·2 | 36·1 | 39·4 | 59·7 |
| 1923 | 136·2 | 25·4 | 62·2 | 48·6 |
| 1924 | 134·2 | 2·6 | 70·9 | 60·7 |
| 1925 | 87·8 | 3·4 | 54·0 | 30·4 |
| 1926 | 112·4 | 2·1 | 49·9 | 60·4 |
| 1927 | 138·7 | 1·4 | 86·4 | 50·9 |
| 1928 | 143·4 | 7·7 | 78·4 | 57·3 |
| 1929 | 94·3 | 10·1 | 44·3 | 39·9 |
| 1930 | 108·8 | 28·7 | 41·4 | 38·7 |

3 The U. K.'s New Agreements with Foreigners (1933)

The Imperial Preference Scheme of the U. K. is therefore not a rigid one. It is elastic enough to admit of modifications. For instance, in May 1933, a trade agreement came into operation between Germany and the U.K. by which, as announced by Reuter (April 28, 1933), the former obtained tariff concessions in regard to the export of toys, musical instruments, clocks, jewellery,

October-November, 1933, *The Course and Phases of the World Economic Depression* (Geneva 1931), pp. 28, 35, 201, 208; *Federal Reserve Bulletin* (November 1932), p. 698, as well as Sarkar: "Economic Planning for Bengal" in the *Insurance and Finance Review* (Calcutta), March 1933.

? *Memorandum on International Trade*, Vol. II. *Balances of International Payments* (Geneva 1931), p. 178.

hollow wares, safety razor blades and certain chemicals. In return for these concessions the U. K. got the undertaking that Germany would not buy less than 190,000 tons of British coal and coke every month (nearly twice the present quota).

About the same time a trade agreement was signed between the Argentine and the U. K. by which the latter undertook to import frozen beef, chilled beef, mutton and lamb from the former in quotas not more than 10 per cent below the maximum allowed under the Imperial Preference. The Argentine likewise agreed to import more British coal, motor cars and other engineering products. These mutual concessions were associated with a new British loan to Argentine of £10,000,000 at 3½ per cent plus 1 per cent for amortization redeemable in twenty years. The loan was granted mainly with the object of dealing with frozen credits and adjustments of Anglo-Argentine trade.⁸

It is therefore only as an integral part of the world-economy that the British Empire can prosper. Imperial Preference serves but to "rationalize" the resources of the British Empire on a more or less unitary or federal basis. This economic concentration or consolidation movement will tend to strengthen the material foundations of the different parts and raise productivity, the standard of living and purchasing power of each. *Vis-a-vis* the world economy the British Empire bids fair consequently to function as an economically stronger and more efficient limb thereby promoting the prosperity of other lands. Imperial Preference, in so far as it is a tightening of the bonds of the British Empire does not involve therefore a weakening or dissolution of world-solidarity but becomes a stepping stone to the establishment of economic internationalism on a more solid foundation.

4 The Growth of U. K. as Market for Foreign Goods

The prosperity of the U. K. as embodied in the purchasing power of the British people has implied good business for non-British countries. Foreign goods have had an expanding market in the U.K. as shown in the value of British imports from abroad. The growth of the U. K. as a market for German, American, Japanese and other

⁸ "The British Trade Agreements," and "Empire Trade" in the *Lloyds Bank Monthly* (London), June and October 1933.

foreign goods can be watched in the following figures of imports from the countries concerned (in quinquennial totals) :⁹

| Countries | 1866-70 £ | 1876-80 £ | 1886-1890 £ | 1896-1900 £ |
|-------------|--------------|--------------|----------------|----------------|
| 1. Germany | 89,927,000 | 116,916,000 | 125,900,000 | 148,600,000 |
| 2. U. S. A. | 223,340,000 | 441,770,000 | 437,600,000 | 604,300,000 |
| 3. Japan | 1,036,000 | 3,003,000 | 4,100,000 | 6,900,000 |
| 4. France | 175,732,000 | 212,936,000 | 208,200,000 | 261,400,000 |
| 5. Russia | 99,200,000 | 89,428,000 | 106,700,000 | 105,100,000 |
| 6. Holland | 61,037,000 | 105,797,000 | 129,300,000 | 148,600,000 |

The purchasing power of a country and along with it the demand for foreign manufactures rises because of industrialization. The growth of the average annual value of imports in regard to manufactured goods for home consumption was, as the following table indicates for a number of European countries, a statistical fact for two decades previous to the world-war (in million £s) :¹⁰

| Country | 1892-96 | 1897-1901 | 1902-06 | 1907-11 |
|--------------------|---------|-----------|---------|---------|
| 1. Germany | 43.8 | 53.0 | 64.2 | 87.1 |
| 2. France | 23.4 | 29.8 | 34.0 | 51.2 |
| 3. Italy | 10.2 | 12.5 | 18.2 | 31.8 |
| 4. Russia | 12.3 | 19.7 | 19.4 | 31.4 |
| 5. Holland | 24.0 | 30.2 | 38.8 | 47.7 |
| 6. Austria Hungary | 16.6 | 19.0 | 22.9 | 30.8 |

In Germany as in other countries the demand for foreign manufactures rose during this period higher than the total population. Per head of population, therefore, all these countries were consuming more manufactured articles of foreign origin in 1911 than in 1892.

The quinquennium preceding the present world-depression has witnessed developments which indicate that even industrial countries can expand as markets for manufactured goods. The following table exhibits six countries, Belgium, France, Germany, Japan, U.K. and U.S.A. from 1925 to 1929¹¹ in their role as importers of manufactures, these being shown as percentage of total imports :—

| Country | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 six months |
|---------------------------|------|------|------|------|------|--------------------|
| 1. Belgium and Luxembourg | 21.8 | 21.9 | 23.7 | 26.3 | 27.1 | 30.9 |
| 2. France | 12.8 | 13.2 | 13.9 | 18.8 | 20.2 | 23.8 |
| 3. Germany | 16.2 | 13.6 | 17.8 | 17.5 | 18.9 | 17.3 |
| 4. Japan | 21.3 | 22.0 | 22.7 | 24.5 | 24.0 | 21.8 |
| 5. U. K. | 18.5 | 18.5 | 19.9 | 20.9 | 21.2 | 22.0 |
| 6. U. S. A. | 21.8 | 23.0 | 25.0 | 25.6 | 26.0 | 25.7 |

⁹ Farrer, pp. 394-397.

¹⁰ *Statistical Abstracts for the Principal and other Foreign Countries 1903*, pp. 81-88, and 1914, pp. 99-108.

¹¹ "The World's Trade in Manufactured Goods" in the *Midland Bank Monthly Review*, August-Sept. 1931, p. 2.

It is noteworthy that with the exception of the year 1926 for Germany every year has been for each country a year of relatively greater import of manufactures than the preceding year. The more industrialized, the more protective (?), the more *Swadeshi*, the more "autarchic" or self-sufficient these countries have tried to be, the more have they factually bought manufactured articles of foreign countries.

Economically speaking, at any rate, the different countries of the world-economy including the great industrial adults like the U. S., Germany and others should appraise the strengthening or rationalization of the British Empire as accomplished by reciprocal preference as the source of new strength for themselves in so far as the outlets for their goods have to be expanded in all directions.¹²

12 The position of British consumption (per head) of certain imported articles from 1913 to 1932 may be seen in the *Statistical Abstract for the United Kingdom* (London 1934), pp. 366-367.

Chapter XI

ECONOMIC INDIA VIS-A-VIS WORLD ECONOMY.

I Consequences of the World Economy

It will be necessary now more than ever to realize the pragmatic meaning of the international technocracy, i.e. the technical and commercial world-solidarity for peoples like us situated as we are on the lower rungs of the industrial ladder. World-economy is but a phase, the most recent phase, in the economic and cultural evolution of mankind. But not every human group or community is in a favourable enough position to make the best use of the "conjuncture."

The establishment of the air-service between England and India (April, 1929) and the phone links between India and Europe (May 1933) points to some of the present-day world-forces. The trusts, both internal and international, point to some other world-unifying forces that are governing the daily life of everybody. The advantages of this new world-order will be enjoyed, however, only by those peoples that are adequately equipped to utilize them in the most successful manner. The economic statesmanship of India will have to be perpetually alert on this aspect of equipment.

In the first place, exchange of goods is going on on an unprecedented scale between the remotest corners of the world. The producers of one country depend for their prosperity on the consumers in another country. The home market does not nowadays invariably loom large to the producer. The economic position is fundamentally one of "interdependence" in two forms: first, movements of manufactured goods from the industrially adult to the young countries, and secondly, movements of raw materials and semi-manufactures from the young to the adult. But between two adults, e.g. Germany and England, the exchange consists in the transfer of manufactures from each side. Among adults America is rather an exception in so far as she is an exporter of raw produce in considerable proportions.

Secondly, the export and import of human materials, emigration, immigration, population movements between the two Hemispheres constitute a most remarkable expression of the present economic order. The "white" anti-Asian and anti-African policies in the U. S. A. and the British Dominions happen to be dictated by

political, racial and imperialistic chauvinism. But they are essentially un-economic and anti-economic. Otherwise, the distribution of population is taking place more or less according to the demands of what may be described as "natural traffic." This distribution takes, generally speaking, two forms, the migration of higher intellectuals and technical experts from the industrially adult to the young countries, and the migration of mere hands (peasants or working men) from the young to adult regions.

Last but not least, there are the exports and imports of capital. Finance seeks the best fields for investment here and there and everywhere. The forms are two-fold: investments of adult countries in the young, and loans of the young contracted in the adult countries. These two forms are in actual intercourse as follows: first, export of goods, such as machineries and chemicals, from the adult, creditor nations; secondly, export of services, higher intellectuals and technical experts, from the adult, creditor nations; thirdly, enlarged export of raw produce and semi-manufactures from the young to the adult in order to pay the interest on the old loans contracted abroad as well as new ones; and finally, a favourable balance of trade in the young countries. India for instance, sells more goods abroad than she buys.

2 The Economic Realities of India

It is in the midst of these tendencies that young as India is as an industrial and commercial power she will have to promote her interests in intimate association with the adults of the economic world. It is not safe or prudent, however, for youngsters to be on terms of intimacy with the adults.

Thus considered, India's position might not appear to be very enviable. The chances that India, functioning alone and on the strength of her own resources in capital and technology, may possibly have in regard to socio-economic elevation are likely to be very remote. World-economy as such can but force India to understand her limitations along the entire front of her economic life. It is only when one fully realizes the impact of international technocracy and solidarity on the weaker members of the world-system that one can rationally appreciate how India's formal assimilation to the Empire-economy by Imperial Preference bids fair to mark an important stage in the uplift of her millions on the economic plane. Imperial Preference, rightly applied,

may to a certain extent, save India from the hundred per cent "freedom" in international competition and enable her to assimilate, at some safe distance from the giants, the principles of modern technique and business organization.

India should not fail to take advantage of British developments to the extent that one might expect of a country in so great association with Great Britain. We have to follow the land-legislation and land-reform movements that characterize the British economic history of the last two decades. Some of the most fruitful British activities in the fields of social assurance and labour welfare ought likewise to have repercussion on Indian public life or Government enterprise.

The amount of real cultural contact between England and the Indian people ought to expand and become intimate. In regard to literature, philosophical investigations, educational experiments, and scientific research we cannot afford to postpone studying Great Britain until it is perhaps as a rule thirty to forty years too late. The cultural agencies in India should attempt to promote spiritual contact between India and British progress in a systematic, comprehensive and practical manner. Or, at any rate, to be less aggressive, the connecting links ought to function more efficiently or adequately.

There is a class of metaphysicians who would at once retort—"Well, England or for that matter Western civilization is entirely different in mental outlook from Indian and Oriental culture. The two worlds have moved along two different lines in the past and are likely to do so in the future. So there is nothing to be sorry for, if India were really to fail to assimilate the British developments in economic and social evolution."

By the rigid test of measurable, positive phenomena it would however appear that in classical times or in the Middle Ages, down to the industrial revolution, the relations between landlords and tenants, the laws of property in regard to the women and the serfs, the social morphology of the village and the industrial organization of the guilds were governed in the main on similar and almost identical lines both in the East and the West.¹ And during the nineteenth and twentieth centuries, whenever and wherever in Japan, China, India or Turkey a

¹ Sorokin: *Principles of Rural-Urban Sociology* (Boston 1929), pp. 359, 480-481, *Source-Book of Sociology* Vol. II, (Boston 1932), 571-573, 595-601; Hillebrandt: *Altindische Politik* (Jena, 1925); Sarkar: "Realities in the Relations between East and West" in *Prabhuddha Bharata* (Calcutta, February 1934).

modern workshop has been established, no matter whether under foreign or indigenous initiative,—the same “modernism” in labour conditions, business organization, economic legislation and social welfare movements as well as in the so-called philosophical attitudes or outlook on life and the universe has manifested itself in these countries as in the West. The ideals of civilization were hardly ever different and they are not different today.

The solid fact that counts, however, is that India happens to remain in large part still in the mediæval-agrarian and pre-industrial stages. The advances that we have made in modernization are partial and halting.² A thorough-going uptodatization of Indian economic and social structure is the one grand mission of patriotism at the present moment.

We need a fresh orientation, likewise, to the diverse creative forces in the country. It must be clearly realized that commercial prosperity cannot be achieved unless there is a simultaneous and parallel growth in our agricultural wealth as well as manufacturing power. It is agriculture and industry that furnish the very raw materials of commerce. The function of commercial people consists fundamentally in the mere transfer of goods or services not only from place to place, but also from person to person and time to time (as in banking and insurance).

It is by transfers or movements that commerce creates values. But the goods and services, or, in other words, the stuffs to be handled by commercial transaction are the gifts of agriculture and industry. As the background of a prosperous commercial India we have therefore to look for an intensified and modernized agricultural system as well as richly diversified manufacturing enterprises. The three arms of the creator of values, although differing as they do in their modes of operation, must have to be attended to by economic statesmanship in a unified, organic policy of national welfare or “economic planning,” as it is fashionable to say at the present moment. Every measure, legal or technical, that is calculated to add to the yields of our soils, and every enterprise that helps forward the utilization of our raw produce for semi-manufactures or finished goods in our districts will have to be watched with the keenest interest by the representatives of our commercial business.

² Sarkar: *Political Philosophies Since 1905* (Madras, 1928), pp. 965-66, “Indiens Entwicklung im Vergleich zu Eur-Amerika” (*Deutsche Rundschau*, Berlin 1930), “Società ed Economia nell’ India antica e moderna” (*Annali di Economia*, Milan 1930); *Die Entwicklung und weltwirtschaftliche Bedeutung des modernen Indien* (Stuttgart 1931), pp. 5-9.

And automatically comes the question of experts in these different lines of economic activity. India needs not only the commercial heads,—bankers, insurance men, stock exchange and share market specialists, and transportation experts,—but chemists and engineers as well. It is chemistry and engineering that are in urgent demand for the agricultural renaissance and industrial transformation of India. The prosperity of commercial India will depend on the quality, quantity and variety of co-operation that our bankers and other traders can obtain from chemists and engineers. The increasing role of chemistry and engineering, i.e. of technology will have to be adequately envisaged by the pioneers of our commerce.³

3 Mutual Exploitation In Imperial Preference

The subject of Empire Development deserves, therefore, a more careful and intensive study in India.⁴ It is time to realize how much of India's industrialization, agricultural progress, banking developments and material prosperity are connected with the British "key industries" movements, Overseas Trade Facilities Act (1924) and the Finance Act of 1925 as well as subsequent industrial and commercial legislation. The momentous changes that have been taking place in England and their affinities with our own welfare have been touched upon in the previous sections.

The British Empire is a legal and political unit. The problem of Empire Development consists in transforming this unit into an economic entity, self-sufficient or "autarchic," so far as it is practicable, as the "Empire Crusaders" have been attempting. From the Indian angle we have only one problem to discuss in this connection, namely,—"Is there anything in all these recent British schemes likely to be economically beneficial to India?" In other words, we have to analyze the final impacts of Imperial Preference on economic India.

Let us take certain actual facts in the recent history of trade relations between the U. K. and India.

One may ask the question: "Who are the best friends of the cultivators of jute in Bengal?" And the answer that should seem to be the most appropriate is that they are not the Bengali people. It is the British capitalists in Scotland or the British *entrepreneurs*

³ Sarkar: *Economic Development* (Madras 1926), pp. 415-417.

⁴ Sarkar: "Economic Planning for Bengal" (*Insurance and Finance Review*, Calcutta, March 1933).

in India whose enterprise is chiefly responsible for the little joy and sunshine that there is in the rural cottages of Bengal.

On the other hand, who are the best friends of British labor, specially of such as is employed in the export industries of Lancashire, Yorkshire and other countries? It is certainly not the Englishmen, — but the millions of customers in India whose demand and purchasing power determine to a considerable extent the quality, quantity and variety of manufactures in Great Britain.

Modern economic life is, as often discussed above, not governed by the village, town or even national market. National economy has virtually ceased to exist. We are living today in the epoch of the world-market. It is the world-economy that regulates the fortunes of British labor as much as of the Indian peasant. Inter-parliamentary commercial congresses on the one hand and aerial transportation on the other have been revolutionizing the economic processes all along the line.

It is hardly possible today to maintain the dogma of "exploitation." One should like to know who is exploiting whom. If Indian agriculture is being exploited by Great Britain, no less are British talent, British organizing ability and through them the world-market being exploited by the Indian people in and through the self-same agency. Command over Indian raw produce is certainly a great advantage for Great Britain. But the creation of a steady and expanding market for the goods⁵ produced by Indian brawn and brain is no less significant an instrument in the struggle for existence assured to India by British industrial organization. The exploitation of Great Britain's material and manual resources by India, although perhaps unconsciously and rather passively, is one of the greatest facts of modern civilization.

If, then, one must use the word "exploitation" at all, it is an instance of mutual exploitation that has been obtaining in the relations between India and the U.K. How to promote this mutual exploitation more extensively and intensively according to the changed circumstances of the day is the problem of Empire Development, as Indians should conceive it, especially now that reciprocal Imperial Preference has been introduced.

⁵ From a quinquennial average of Rs. 558,600,000 during 1884-89 the exports from India rose to Rs. 8,635,100,000 during 1924-29. See *RTI* in 1932-33, p. 158.

4 India vs. Dominions and Colonies as Market for British Capital

It is necessary, therefore, to take a bird's eye view of the Empire resources.

Whatever be the differences in race, history and dimension between Canada, Africa, Australia, New Zealand, the Colonies and India, their economic situation is practically identical in so far as the present problem is concerned. Each one of them is young in capital power and has to depend to a considerable extent on the influx of this agent of production from the U. K. The main responsibility of the U.K. in the production of this Empire-idea lies in the supply of the "sinews of war" to the needy members of the partnership.

It is the business side of the Empire-idea that affects the British investors. And from their standpoint it resolves itself into a comparative study of the different Dominions, Colonies and India as fields for investment.

All these regions, as we have said, need capital. But certain special features must be noted in each instance.

Australia needs men. So also does New Zealand. Even supposing that the potentialities of these countries are enormous, what could a population of, say, half a million, roughly speaking, the inhabitants of a quarter-district of Bengal, possibly achieve? Population cannot be multiplied over-night. The possibilities of labor supply from the U. K. or of migration⁶ from "desirable races" are moreover very limited. Both Australia and New Zealand suffer therefore from natural limitations in regard to their capacity for absorbing British finance on a large scale.

Likewise is Africa's capacity to absorb British capital limited for the time being. Much spade-work remains to be done in the line of transportation and communication. Besides, the question of manpower is especially complicated because of the fact that the tsetse fly and sleeping sickness remain yet to be overpowered in order to make the continent habitable for human beings, even for the indigenous races.

Next remains Canada. Here certainly there is a vast field but the U.S. have already entrenched themselves in Canadian industry. And

⁶ For British emigration to the Empire countries in North America, Australia and New Zealand, South Africa and elsewhere see the *Statistical Abstract for the U.K. 1913-1932* (London 1934), p. 13. The figure has steadily come down from 132,217 in 1924 to 106,900 in 1929 and 21,249 in 1932. See also *Annuaire Statistique de la Société des Nations 1931-32* (Geneva), p. 55.

it is in the teeth of keen competition with American finance that British capital can make headway in Canada.

When all such considerations are carefully reviewed in detail it should appear that India, rich as it is in natural and human resources, is for British capital the most convenient lucrative field of investment in the Empire. And yet in recent years no definite declaration of policy in regard to India seems to have been made from the side of British financiers. In regard to the Dominions the goal has been clearly laid out as follows:—

“It is the belief of the Empire Crusaders that the fostering of key industries in the Dominions is of vital importance not only to the prosperity but to the safety of the Empire as a whole, and that every effort should be made to maintain those that already exist and encourage their growth where as yet there are none.”⁷

Now that Imperial Preference has become law the declaration of such a policy of investment in regard to India should be considered overdue. Objectively speaking, it is curious that, as we have seen in a previous connection, relatively small proportions of British capital have been reaching India in comparison with the amounts reaching the Dominions and the Colonies. Let us take the period from 1920 to 1923. The proportions are as follows (in millions):

| Year. | India and Ceylon. | Empire minus India and Ceylon. |
|-------|-------------------|--------------------------------|
| | £ | £ |
| 1920 | 3.5 | 37.0 |
| 1921 | 29.5 | 61.3 |
| 1922 | 36.1 | 89.4 |
| 1923 | 25.4 | 62.2 |
| Total | 94.5 | 199.9 |

During these four years India and Ceylon obtained £94,500,000 while the share of the rest of the Empire was £199,900,000. The Dominions and the Colonies obtained more than twice the share of India.

From 1924 to 1930 the situation was as follows (in millions):—

| Year. | India and Ceylon. | Empire minus India and Ceylon. |
|-------|-------------------|--------------------------------|
| | £ | £ |
| 1924 | 2.6 | 70.9 |
| 1925 | 3.4 | 54.0 |
| 1926 | 2.1 | 49.9 |
| 1927 | 1.4 | 86.4 |
| 1928 | 7.7 | 78.4 |
| 1929 | 10.1 | 44.3 |
| 1930 | 28.7 | 41.4 |
| Total | 56.0 | 425.3 |

⁷ Beaverbrook: *Empire Free Trade* (London 1929), p. 14.

During these seven years the Dominions and the Colonies obtained in the aggregate more than seven and a half times as much as India. For four years 1924—27 India was virtually starved in regard to the supply of British capital. One can easily understand, how, while other parts of the Empire were being furnished with the "sinews of war," India was compelled to carry on without capital. The entire post-war period has been one of capital famine for India, in so far as external finance is concerned. One realizes why India has remained more or less stationary in industrialism at a time when the other parts of the Empire have been growing by leaps and bounds. Uptill now Empire Development has involved to a considerable extent the neglect of India in favour of the Dominions and the Colonies.

The change in the direction of Empire investments can be noticed in part as follows where Africa is being presented as a rival to India as a claimant to to British capital :—

| Year. | India and Ceylon. £ | Africa. £ |
|-------|------------------------|--------------|
| 1924 | 2,600,000 | 15,000,000 |
| 1925 | 3,400,000 | 15,000,000 |
| 1926 | 2,100,000 | 6,500,000 |
| 1927 | 1,400,000 | 28,000,000 |
| 1928 | 7,700,000 | 16,500,000 |
| 1929 | 10,100,000 | 10,500,000 |
| 1930 | 28,700,000 | 26,500,000 |
| Total | 56,000,000 | 118,000,000 |

The partiality of the British capital market for Africa from 1924 to 1930 is registered by the outflow of more than twice as much loans and investments towards her as towards India.⁸

5 India's Capital Requirements and British Labour

It is certainly difficult to account for this relative indifferentism of the British investing public in regard to india. And it is adding insult to injury when the External Capital Committees's Report comes to the conclusion that "India already possesses a large

⁸ *Memorandum on International Trade 1927-29, Vol. II, Balances of International Payments* (Geneva 1931), p. 178; *Federal Reserve Bulletin* (Washington, D.C., November 1932); p. 698; *Midland Bank Monthly Review* (London, January February 1933); *Labour Year Book 1930* (London), pp. 145-146; Also *supra*, pp. 122-123.

store of potential capital" and emphasises the general principle that "the real solution of the problem lies in the encouragement of the Indian investor."

It should seem that the problem has not been envisaged in its proper perspective. A correct reading of the situation and the needs of economic development should lead to quite the contrary advice. The development of india's internal capital should undoubtedly be the goal of statesmanship. But the sheet anchor of India's financial policy for some long time should consist in the encouragement by all means of the influx of external capital on reasonable terms. It is in measures calculated to facilitate the administration of adequate doses of external finance that we should find the foundations of genuine economic planning or "planned economy" in India.

But, then, there is a certain section of the British public, specially in the ranks of labour, that is not disposed in a friendly manner to the export of capital. According to this view, investments abroad imply the elimination of so many chances of employment for labour at home.

This, however, is a misconception arising from an inadequate realization of the processes involved in foreign investment. When British capital is invested in India or anywhere else outside of the U. K. people as a rule seem to visualize so many lumps of bullion or sacks of gold sovereigns or bundles of promissory notes leaving the British shores. What exactly happens is something different. Foreign investments imply chiefly, if not exclusively, two things : first, export of goods and, secondly, export of services.

In case more British capital were to be invested in Indian enterprise we should then see India purchasing more British goods and employing more Britons in certain grades. And to the extent that more articles made in the U. K. are sold in India the export of British capital to India implies the employment of more hands in the U. K.

We may take the oils and fats, leather, glass or sugar resources of India. In each of these lines India can grow into a great industrial region. The man-power is already there both for manual work and second grade technical as well as some high class technical services also. What is needed is an oil-trust, leather-trust or sugar trust, at the metropolitan cities to tap the resources in the villages and establish factories in different districts,—all financed and controlled by the central syndicate. As soon as the trusts begin to function India will need machineries, tools and implements, and chemicals, as well as engineers, chemists and organizers. And all this can be taken care of by finance in London.

The advantages on the Indian side are considerable. Under these conditions Indian labour will seek to leave the congested villages and farms for the new factories and find fruitful careers in different lines. On the other hand, hardly anything prejudicial can happen to the British working classes, for a growing market is automatically created for the products of their labour. Besides, it is self-evident that it is only those portions of "surplus" capital which do not find "profitable" market in the U. K. that will seek Indian and other external business. British labour does not necessarily have to be jealous of the fields of investment in India, for it is only when it finds that the local market is fed up that British capital tends to be abroad looking for employment.

6 Industrialized India a Foundation of World Prosperity

Here, perhaps, the British industrialists and exporters may have their objections and not without reason. For, we are looking forward to an all-round industrialization of India, including the elevation of agriculture to the technical plane. Incidentally, it may be observed that modernized and scientific agriculture is essentially an aspect of industrialization,—involving, as it does, machineries and chemical fertilizers on the technical side, and co-operative banking and the organization of transportation and marketing facilities on the economic side. And India, industrialized in every item, is bound to tell in the long run on the U. K.'s manufactures.

But here, again, the situation is not so pessimistic as it appears at first sight. All the countries that have been getting industrialized since the War,—Latin America, Soviet Russia, the Balkan States, Italy, China, India,—are in need of tools and implements,—*Produktionsmittel* i.e., instruments of production,—involved in the processes of industrialization and these have to be imported from the long-standing or "adult" industrial powers.⁹ In the second place, whenever the question of "quality" arises, these youngsters are bound to place their orders with the adult nations. And finally, the more industrialized

⁹ *Die wirtschaftlichen Kräfte der Welt* (Dresdner Bank, Berlin, 1927); Woytinsky: *Tatsachen und Zahlen Europas* (Vienna 1930), pp. 156-160; *Supra*, pp. 98-100. For comparative and historical figures relating to the big steel, chemical, textile, and electrical "powers" see *Annuaire Statistique de la Statistique Generale de la France* 1931 (Paris 1932), pp. 72*, 305*, 334*, 343*, 345*.

these countries are the richer they become, their purchasing power increases and along with it the demand for foreign supplies.¹⁰

So far as India is concerned, the true patriotic regret should be not so much that she has bought British goods but that she has been too poor to buy enough of them. This is another way of saying that India been unable to produce a large number of goods of different qualities to pay for the imports. The more India advances in *Swadeshi*, i.e., in indigenous industry movement the more will she have to depend on abroad.

Altogether, the cumulative result of all these industrializations abroad can but lead to a slow but sure transformation of the British industrial system and business organization. The U. K., like the other industrial "great powers", will be compelled to revise or re-arrange their manufacturing forces and change the direction of their services to mankind. They will have to specialize in the higher and finer classes of goods, more precise instruments and elaborate or complicated machineries, the young countries being left to handle the "intermediates" and semi-manufactures. A new industrial and commercial revolution is being consummated under our very eyes. But this is in no way detrimental to the interest of the big industrial powers of today, provided they know how to go on in a wide-awake manner.

The exports and imports of the eight industrial countries, namely, Austria, Belgium, Czechoslovakia, France, Germany, Italy, Switzerland and the United Kingdom between themselves in recent years show that industrialization in stead of being a hindrance has really been a stimulus to the trade in "finished goods". The foreign trade (export and import) of these eight countries combined from 1911-13 to 1927-29 can be seen in the following table arranged as it is in three categories of commodities (*in Reichsmarks*)¹¹ :—

| Goods | 1911-13 | 1927-29 |
|--|----------------|----------------|
| | RM | RM |
| 1. Food stuffs, including living animals | 4,800,000,000 | 8,900,000,000 |
| 2. Raw Materials | 11,800,000,000 | 18,000,000,000 |
| 3. Finished Goods | 18,800,000,000 | 19,100,000,000 |
| Total | 29,400,000,000 | 36,000,000,000 |

10 *Midland Bank Monthly Review* (London) on British and American Capital in the *Journal of the Bengal National Chamber of Commerce*, December, 1931.

11 Schlote: "Zur Frage der sogenannten Enteuropäisierung des Welthandels" in *Weltwirtschaftliches Archiv* (Jena), for April, 1933, pp. 383, 400.

The percentual proportions of these three categories of goods were as follows during the two different periods :—

| Period | Food | Raw Materials | Finished Goods | Total |
|---------|------|---------------|----------------|-------|
| 1911-13 | 14.5 | 38.5 | 47.0 | 100.0 |
| 1927-29 | 10.8 | 36.1 | 53.1 | 100.0 |

The trade in food went down from 14.5 to 10.8 per cent and that in raw materials from 38.5 to 36.1 per cent. But so far as finished goods are concerned the trade went up from 47.0 to 53.1 per cent. During 1911-13 finished goods constituted 47.0 per cent of the total foreign trade of the eight countries in question. During 1927-29 the proportion was 53.1 per cent. And in absolute figures,—with 1911-13 as 100, the trade in foodstuff in 1927-29 was 92 and in raw materials 115 while that in finished goods 139. It is in the field of finished goods that Austria, Belgium etc. have grown into better purchasers of one another than in regard to other categories of commodities.

From 1920 to 1929 while the total imports of the U. S.¹² went down from 5,278,000,000 dollars to 4,399,000,000 dollars the imports of "finished goods" actually rose from 877,000,000 dollars to 994,000,000 dollars. In Germany during the same period the imports of finished goods were more than quadrupled (from 558 million Marks to 2,269 million M) at a time when the total imports were increased less than 3½ times (3,929 million M to 13,447 million M).

During the quinquennium 1924-29 Czechoslovakia more than tripled her takings of foreign finished goods (from 1,995 million crowns to 6,229 million crowns) while her total imports were less than double (from 10,221 million crowns to 19,876 million crowns).

In Italy the index of total imports rose 23 per cent only from 1920 to 1929, but that of imports in finished goods rose 61 per cent.

The pre-war average in Indian¹³ imports of manufactured goods was valued at 1,120 million Rupees. It rose to 1,930 million Rupees in the post-war quinquennium. The rise was 72 per cent. During the same period the total exports rose from 1,460 million Rs. to 2,540 million Rs, the rise in the coefficient being nearly 73 per cent. Foreign goods in the line of manufactures were rising in the import schedule almost in the same proportion as other kinds of goods.

12 The tripartite classification of imports for these and other countries from 1821, 1872, 1894 etc. down to 1931 may be seen in the *Annuaire Statistique de la France* (Paris 1932), pp. 389*-391.*

13 *ATI* 1928-29, pp. 148-149, 1932-33, pp. 160-161.

From the peak as represented by the post-war average the total imports came down to 1,330 million Rupees in 1932-33. The decline was 47·7 per cent. But during the same period of depression the fall in the import of manufactured goods was 50·3 per cent, i.e., slightly deeper (from 1930 millions to 950 millions). The import of manufactured goods was therefore relatively somewhat less than that of other goods. But altogether from 1905 to 1933 the imports of manufactures may be taken to have advanced almost parallel to those of other goods.

It is, however, necessary to observe that in Indian statistics the category, "finished" goods, is not used. We have taken that group only which is described as "articles wholly or mainly manufactured". But perhaps it should be reasonable to include some of the articles mentioned in another group which is known as "mainly unmanufactured." "Oils, vegetable, mineral and animal," for instance, are to be found in that group. The imports on this item are quite heavy, for instance, Rs. 39,488,000 (pre-war average), Rs. 82,833,000 (post-war average), Rs. 115,323,000 (1928-29) and Rs. 80,001,000 (1932-33). If this and similar items are added to the previous group the proportion of "finished" goods to other goods in India's imports would be found to have increased during the last quarter of a century or so.

The industrialization of India to the extent that it is likely to be promoted by Imperial Preference can thus really be an economic force such as ought to be appreciated by industrial adults like Germany and the U. S. A.¹⁴ As an aid to the increase in the purchasing power of Indian agriculturists Imperial Preference should be appraised as a source of inspiration to the German and American exporters.

Continental and American economists ought therefore to look upon industrialized India and the new British Empire-complex as the foundation of world-prosperity in the long run.

7 India's Emigrants and Empire-Economy

The import of capital from the U. K. is but one aspect of India's fundamental economic problems as a member of the British Empire. India cannot afford to be neglected and discriminated against. If India is to function as an efficient member of the Empire economy she must have adequate supplies of British capital on reasonable and honourable terms. Students and statesmen of Imperial Preference

14 Sarkar: *Applied Economics* Vol. I, (Calcutta 1932), pp. 269, 290-297.

both in India and the U. K. would have to devote greater attention to this item of reciprocity in inter-imperial relations as envisaged from the Indian angle.

The other aspect of Empire-economy which affects India profoundly lies in the domain of inter-imperial population movements. India has need to export a part of her human resources and she cannot afford to be discriminated against in any region of the Empire. It is not enough to establish reciprocity and preference in regard to goods only. The two other arms of international trade, namely, the migration of finance as well as the migration of labour, also will have to be attended to in a genuinely imperial manner.

India has already a South African question which from the Indian side cannot be taken as closed. Students of Empire-economy will have to discuss to what extent South Africa is in a position to evolve a democratic polity such as would be elastic enough to admit Indian settlers to the civil liberties of the modern world. Today a uni-racial state, if it ever was a reality, is as much a thing of the past as "national" economy. Especially is this true of undeveloped, new regions, each one of which is bound to be a multi-racial, hetero-national, polyglot state. Here one touches indeed the very foundations of the modern world and the anatomy of contemporary civilization.

Economically speaking, it would be as suicidal for South Africa or Australia to reject the imports in men and women from India as it would be for India to boycott foreign machineries and foreign capital resources. South Africa might afford to do it on two conditions. First, if the United Kingdom were prolific enough. And in the second place, if the U. K. chose to direct the whole exodus of surplus labour force exclusively to South Africa.¹⁵ But it is doubtful whether the growing social ideals of birth control are going to be sacrificed in the interest of the Dominions. Economic considerations should therefore counsel South Africa not to close her doors to Indian immigration. To use an old Ricardian expression, it is the demands of "natural traffic" that attract Indians to South Africa. The immigration and settlement laws of South Africa have been militating against the "natural distribution" of the world's population resources. Especially, when reciprocity has become the fundamental principle of Empire-economy South Africa's obstinacy in the matter of

¹⁵ For emigration from the U.K. to South Africa see *St. Abst.* 1913-37 (London 1934), p. 13.

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¹⁵ For emigration from the U.K. to South Africa see *St. Abst.* 1913-37 (London 1934), p. 13.

declaring herself a forbidden land to Indians can but be tantamount to perpetuating an economic anachronism.¹⁶

8 Swaraj Through Imperial Preference

The full import of Imperial Preference remains to be understood not only by the British financiers, Continental and American economists as well as the Dominion statesmen but also by the Indian nationalists.

One must not ignore that "external" capital appears objectionable to Indian patriotic sentiment. But whatever be the sentimental orientations to British finance, our nationalists and patriots must not forget the objective fact that it is mainly through this capital that India is already the eighth industrial power of the world and that not only the working-men, but also the intellectual classes, those who constitute the back-bone of the *Swaraj* (self-government) movement, owe their awakening and spiritualization in a great measure to the enterprises run or controlled by the British people in India. And more British capital will imply more prosperous peasantry, more organised and efficient labor, more self-conscious middle class and, paradoxically enough, more *Swaraj*.

The time is opportune for discussing the establishment of a ministry of economic development or bureau of national welfare in connection with the Supreme Government at Delhi,—together with its provincial affiliations. In order to be assured of continuous contact with the developments in policy and thought in Great Britain this ministry or bureau should have a strong and adequate staff to represent it permanently in London. The functions of this set of officers will consist in connecting the different resources of the Empire with one another especially with reference to India. That would be the nucleus of a real "planning" for the Indian economy.

In the near future the legal, economic and political relations between nations are going to lose much of their traditional significance. International intercourse bids fair to assume the character of a round-table study of the raw materials, human agencies, and financial resources of the world with a view to the fullest utilization of each in the interest of the happiness of mankind. The patriots and nationalists of the different sections of the world must have to re-shape their philosophies and policies *en rapport* with the demands of the new

16 The Nationalist Party, the northern section of the South African Party, as well as the Labour Party are all anti-Asian in policy. See *Political Handbook of the World 1930* (Council of Foreign Relations, New York), pp. 171-172.

era of Imperial inter-dependence, mutual exploitation and world-economy. The economists of India also will have to get oriented to the new foundations of her national economy and learn to develop it as an integral part of Empire-economy.

Chapter XII

CONCLUSIONS

On an unpolitical, economic analysis it appears that Imperial Preference is one of the important factors calculated to help forward the industrialization of India and heighten the standard of living of the British working classes and consequently to enable the British Empire thus enriched to function as a better purchaser of non-Empire goods. The rationalization of the British Empire brought about by this Imperial Preference ought then to be appraised as a solid plank in the tightening of the mutualities involved in the establishment of the world-economy on a sound foundation.

The study has been conducted from the standpoint of comparative tariff policy and as objectively as possible on the basis of international statistics in imports and exports. Some fundamental theoretical considerations bearing on the nature of international trade, especially in its dynamic aspects, have not failed to emerge as a result of this realistic investigation. They have indeed constituted the *milieu* of the entire analysis and furnish the keynote to the interpretations of the data brought together in this survey. The study may well close with a resumé or rather a generalized statement in regard to the economics of Imperial Preference as a tariff policy in its bearings on the members of the Empire-economy as well as on the rest of the world.

Whatever be the tariff policy, protection as, generally speaking, with the German *Zollverein*, or free trade as with the Cobden-Chevalier Treaty, the motive in each case for every state is the promotion of its wealth, the increased prosperity of its people. Historically speaking, it is interesting to observe that the wealth of nations has grown under the one tariff as under the other. Pragmatically considered, it is just the conjuncture of circumstances, more political perhaps than economic or social, which brings one policy into greater limelight than another. And at any rate, the conjuncture is usually too pluralistic to admit of any factor, however powerful, as being regarded as the exclusive or "determining" factor. It should be as unscientific to be a tariff monist as a currency monist. Indeed, in every economic complex the two forces, technology and business organization, both involving finance as a matter of course, have always played such a great role that it is well nigh impossible

to scientifically isolate the tariff policy and examine its unaided contributions to the general welfare and material prosperity. We are forced to begin with a general proposition to the effect that no matter what has or has not been claimed in favour of free trade as an historic fact, protection as such is *in the long run* not necessarily an effective barrier to international trade, i.e., a positive hindrance to the export and import of goods except perhaps superficially and temporarily, as one can notice today in the epoch of world economic depression since 1929. And in any case, protection cannot be charged with having retarded the progress of mankind in the standard of living, purchasing power, financial strength etc.¹

As a tariff policy, Imperial Preference of the reciprocal brand is protective so far as the U. K. and the Dominions are concerned, but generally free from the standpoint of India and the Colonies. The issue of free trade versus protection is *in the last analysis* not an important consideration. The most important item is the channel along which the energies, capital and population resources as well as finished goods and raw materials of the world are going to be diverted on account of the conscious and deliberate tightening of the bonds in order to construct the British Empire Zone. It should be remembered that protection has for some time been an integral part of the tariff policy in India although not to the same extent as in the U. K. under the Import Duties Act of 1932.

The Ottawa Agreement of 1932 bids fair to be as epoch-making in the transformation of the world's economic system as the Cobden-Chevalier Treaty of 1860 and the *Deutscher Zollverein* of 1833. In its actual economic consequences for the Empire-economy it is likely to be as far-reaching as was the *Zollverein* for Germanic territories.²

The Empire-economy is not going to be a *geschlossener Handelsstaat* ("closed commercial state") like the utopia conceived by Fichte, but an enlarged and strengthened economic unit developing its relations with the other economic units of the world in an active manner. The four Empire regions will tend to become "richer" and therefore to buy more from and sell more to the non-Empire world.

1 Sarkar: *Applied Economics*, Vol. I, pp. 293-294.

2 For Germany today also a preferential system is being demanded. See Werner: "Hundert Jahre deutscher Zollverein" in *Technik und Wirtschaft* (Berlin, January 1934), pp. 5-10.

In this connection it is important to examine the problems of preference in regard to the Danubian economies such as are analyzed by Hantos in *Le Mois* of Paris. See *Rassegna Economica* (Naples) for April 1934, pp. 306-307.

The reasons are obvious. Political autarchy can be, as it has been, a reality; but except in primitive anthropological conditions economic autarchy is a contradiction in terms. In the political field nationalism is by nature exclusive, but as soon as economic nationalism makes its appearance it dissolves itself into an active agent in economic internationalism. The wealth of a group fructifies by influencing the economic activities of its neighbours.³

Under the ægis of Imperial Preference the circulation of goods for consumption as well as production, services and capital between the different members of the Empire is likely to be more intense and vigorous. But this intensity and vigour can but manifest themselves by influencing the outside world as consumer of its goods and producer for its markets. Imperial Preference which is apparently intended to bring about an economic autarchy for the British Empire will factually turn out to be but a force in the elevation of the entire world to a higher standard of living.

Besides, it has been pointed out that Imperial Preference as actually established is not of a rigid character. The system is elastic enough to admit of new "preferential" arrangements with non-Empire countries.

Within a few months of the signing of the Ottawa Agreement Denmark guaranteed to buy from the U. K. 80 per cent of her coal requirements while in return the U. K. guaranteed the import of a certain quota of bacon, butter, and eggs. A similar reciprocity was entered into between Germany and the U. K. With Argentina an agreement was likewise signed to the effect that the U. K. would impose no new tariffs upon chilled beef for three years and would have lower duties on certain goods in Argentina as well as favourable treatment in regard to British undertakings.⁴

Each of the four economies in the Empire-economy, the British, the Dominion, the Indian and the Colonial, will be affected by Imperial Preference in its own way according to the different degrees of development attained by it at the present moment. A general result will be the industrialization of the Indian as of the Dominion and the Colonial economies, no doubt, at different rates.

3 For international finance and commerce as the basis of Indian national economy see Sarkar: "The Economic and Financial Policy" (*Indian Commercial and Statistical Review*, Calcutta July 1934).

4 *Supra*, p. 123; see also "The British Trade Agreements" in the *Lloyds Bank Monthly* for June 1933 and "Empire Trade" in the same *Review* for October 1933.

These industrializations (the so many *Swadeshi* movements within the Empire) will lead to an overhauling of the industrial system of the U. K. itself. While the foundations of the productive system and economic order in the different parts of the Empire overseas are going to be relaid the organization of industry and trade at the "metropolis" cannot but undergo a fundamental remaking.

Those industries which cater to the production of simpler and elementary goods will have to be more and more abandoned by the U. K. in favour of altogether new or pioneering industries or of such as cater to the production of goods, machineries, tools and implements, or of quality-goods. The process involved will be tantamount to a radical transformation which may be described as the "second industrial revolution" as distinguished from the first industrial revolution in India and the Colonies and to a certain extent the Dominions.

On account of the increased purchasing power and the industrialization facilitated by the Imperial Preference India, the Dominions and the Colonies are expected to buy more and more from Germany, the U. S. and other industrial countries also as from the U. K. And the impact of all these industrializations within the Empire Zone on Germany, the U. S. etc. will be identical with that on the U. K. That is, a thorough-going reconstruction of German and American as of British industries is bound to become a reality leading thereby to the consummation of their "second industrial revolution". The industrial structure of Germany being the most nearly allied to the British, Germany will feel the impact of the *Swadeshi* movements in India, the Dominions and the Colonies more or less to the same extent and in almost the same manner as the United Kingdom.

The socio-economic consequences on the "industrial adults" of the non-Empire world will thus be analogous to those on the U. K. The most characteristic feature of the business morphology in all these regions will be the transfer of finance from old grooves of investment to new channels. This change in the direction of capital outlay or indeed the entire complex of transformations leading to the replacement of the old by the new kinds of business cannot but be a costly and painful transition, involving losses, bank failures, crises, unemployment. The period over which the transition is to spread itself is not likely to be a period of business rest or stability in currency and public finance. But in this absence of rest and stability Germany and the U. S. A. are to have their share as much as the U. K.

The present world-depression (1929-34) has indeed come independently of the Imperial Preference. The measures connected

with this tariff policy are likely, as we have observed before, to mitigate here and there in piecemeal manner some of the aspects of the universal crisis. But the depression is not going to be mastered by it alone and may tend to go on, although perhaps once in a while in somewhat less acute forms, being really but a manifestation of the secular changes that are calculated to transform the world in the course of half a generation or so.⁵ These depressions and crises—the sufferings and dislocations—are the prices that the world-economy has to pay in its efforts to get rejuvenated according to the latest demands of technocracy. The industrialization of the backward and undeveloped or “younger” regions of the Empire which the Imperial Preference is likely to promote will carry benefits as well as sacrifices as much to U. K. as to the non-Empire regions. It is impossible for the Empire-economy to function alone and in splendid isolation without reference to the world-economy.

No matter what be the political relations or constitutional types the effect of world-forces, for instance, of industrialization in India on Germany will be of the same nature as on the U. K. because of the similarity of economic morphology between these two industrial adults. Imperial Preference is destined to function but as another factor in the promotion of rationalization and evolution of the second industrial revolution such as had been going on during and since the War in more or less the same manner both in Germany and the U. K.

For the next decade or half a generation the industrialization of the Colonies is perhaps not likely to be heavy enough to enable them to compete with other industrial centres. But the industries of India as of the Dominions are expected to compete with those of the U. K. as of Germany, the U. S., Japan etc. in regard to elementary goods. India, for instance, will have to compete with them not only at home but also abroad especially in Asia and Africa.⁶

We have noticed in a previous connection that as exporter India is already known not only as an agricultural but also as an industrial country (p. 63). The exports of jute bags rose, for instance, from 339,100,000 in pre-war years to 434,000,000 in 1930-31 and of jute cloth from 970,000,000 yds. to 1,271,000,000 yds. during the

⁵ Sarkar: *Applied Economics*, Vol. I. (1932), Chapter on “World-Crisis,” pp. 289-292.

⁶ For India's exports to Iraq, Kenya and Uganda, and Portuguese East Africa see *Trade Mission to the Near East and Africa* (Calcutta 1928), pp. 34, 141, 194, 249-253. See also “A Voice from Tanganyika” in the *Journal of the Bengal National Chamber of Commerce* for March 1927.

same period. In 1931-32 there was a decline in each item on account of the depression.⁷ In cotton manufactures the exports of coloured, printed or dyed piecegoods rose from 42,384,000 yds. in pre-war quinquennium to 95,784,000 yds. in 1931-32.⁸

We shall indicate the geographical distribution of some of these exports. The export of Indian cotton twist and yarn (in value) took the following direction⁹ :—

| Country | Pre-war (in Rs. 000) | 1929-30 (in Rs. 000) | 1931-32 (in Rs. 000) |
|------------------------|----------------------------|----------------------------|----------------------------|
| 1. Egypt | 1,012 | 3,712 | 1,336 |
| 2. Persia | 1,205 | 3,412 | 3,820 |
| 3. Straits Settlements | 2,441 | 841 | 532 |
| | <u>4,658</u> | <u>7,979</u> | <u>5,688</u> |

The foreign markets for Indian cotton manufactures are indicated below (in value of exports) :

| | Pre-war, (in Rs. 000) | 1929-30 (in Rs. 000) | 1931-32 (in Rs. 000) |
|------------------------------|-----------------------------|----------------------------|----------------------------|
| 1. Kenya Colony (British) | 1,091 | 3,686 | 1,678 |
| 2. Tanganyika (British) | 1,246 | 2,675 | 2,258 |
| 3. Somaliland (Italian) | 244 | 311 | 113 |
| 4. East Africa (Portuguese) | 908 | 2,025 | 1,451 |
| 5. Aden (British) | 1,838 | 1,283 | 831 |
| 6. Maskat | 526 | 1,089 | 877 |
| 7. Arabia | 283 | 2,087 | 1,063 |
| 8. Bahrein Islands | 448 | 1,636 | 1,471 |
| 9. Ceylon | 3,603 | 8,178 | 7,094 |
| 10. Persia | 1,373 | 4,636 | 4,831 |
| 11. Siam | 1,075 | 2,844 | 1,236 |
| 12. Straits Settlements | 5,759 | 10,580 | 4,824 |
| 13. Iraq | | 3,507 | 4,436 |
| 14. Turkey in Asia | 5,950 | 280 | 157 |
| | <u>24,344</u> | <u>44,817</u> | <u>32,320</u> |

The exports rose from Rs. 24,344,000 to 44,817,000 in 1929 but fell to Rs. 32,320,000 on account of the world depression.¹⁰ The countries are situated mostly in Western Asia and Eastern Africa. It is clear that inspite of the depression these markets continue

7 *RTI.*, 1931-32 p. 227

8 *Ibid.*, p. 228.

9 *Ibid.*, pp. 201-214.

10 For further depression during 1932-33 see *RTI.*, 1933, u. 220.

to be very valuable and are indeed more valuable than in pre-war years. It is in these regions that the problems of industrialized India as exporter are going to be acute on account of international competition during the next decade. And the brunt of this competition will have to be borne almost exclusively by capitalism such as has been growing under Indian auspices.¹¹

¹¹ Sarkar: "Economic and Financial Policy" (*Indian Commercial and Statistical Review*, Calcutta, July, 1934).

Appendix

THE FUNCTIONING OF THE OTTAWA AGREEMENT

It is only recently that indices to the retreat of the world-economic depression have been slightly in evidence¹. But otherwise up till now the Ottawa Agreement has been functioning under the shadow of the universal crisis. It is perhaps to a certain extent as one of the antidotes to this crisis that Imperial Preference may be said to have been planned.

It is in the perspective of those abnormal conditions, therefore, that the following figures² relating to the functioning of the Ottawa Agreement down to September 1933 have to be read. Two tables for 1931-33 are being exhibited. One describes the imports, exports as well as the re-exports³ of the U. K. in absolute figures as well as in percentages, first, with the Empire countries, and secondly, with the non-Empire countries, as follows :

The United Kingdom's Trade with Empire and Non-Empire Countries

| | January to September | | | January to September | | |
|--|----------------------|-----------------|-----------------|----------------------|------------------|------------------|
| | 1931 (£'000) | 1932 (£'000) | 1933 (£'000) | 1931 Per cent | 1932 Per cent | 1933 Per cent |
| Imports from | | | | | | |
| Empire Countries | 180,866 | 183,412 | 181,720 | 29·11 | 35·26 | 37·25 |
| Non-Empire Countries | 440,487 | 336,803 | 306,134 | 70·89 | 64·74 | 62·75 |
| All Countries | 621,353 | 520,215 | 487,854 | 100·00 | 100·00 | 100·00 |
| Exports (British Produce) to:— | | | | | | |
| Empire Countries | 129,262 | 123,486 | 118,218 | 44·21 | 45·55 | 44·05 |
| Non-Empire Countries | 163,129 | 147,621 | 150,172 | 55·79 | 64·45 | 55·95 |
| All Countries | 292,391 | 271,107 | 268,390 | 100·00 | 100·00 | 100·00 |
| Exports (Imported Merchandise) i.e. "Re-exports" to:— | | | | | | |
| Empire Countries | 12,026 | 8,915 | 7,566 | 24·92 | 22·84 | 20·36 |
| Non-Empire Countries | 36,229 | 30,113 | 29,597 | 75·08 | 77·16 | 79·64 |
| All Countries | 48,255 | 39,028 | 37,163 | 100·00 | 100·00 | 100·00 |

1 Sarkar: "Indian Export, Price and Exchange Movements on the Eve of Recovery (with reference to Economic Structure and Economic Planning)" in the *Financial Times*, Calcutta, January-August 1934.

2 *Barclays Bank Monthly Review* (London), January, 1934, "U.K. Trade and the Ottawa Agreement" pp. 3-5.

3 On re-exports see *Supra* pp. 112, 113, 121.

The persistence of the depression is embodied in the absolute decline in both imports and exports as exhibited in the above table, which comes down to September 1933. But it is clear that so far as imports are concerned the Empire countries have advanced from 29·11 per cent in 1931 to 37·25 per cent in 1933. In other words, the U. K. has been importing relatively more from the Empire than from the non-Empire countries. In regard to exports, however, the relative position of the Empire and the non-Empire countries as markets for the U. K. has remained virtually the same.

From the returns for the first quarter of 1934 (January—March) we can glean the following figures with special reference to the Empire countries :

| | | Compared to the corresponding quarter of 1933 |
|-----------------------------|-------------|--|
| 1. Imports of the U. K. : | £72,089,000 | +16% |
| 2. Exports from the U. K. : | £41,880,000 | + 6% |

The expansion on both heads should evidently point perhaps to a somewhat pronounced retreat of the depression.⁴

Another table is being exhibited below in which we have a special survey of the British Empire-Economy with reference to the U. K.'s imports, exports, and re-exports, likewise in absolute figures as well as in percentages.

The Empire Trade of the United Kingdom

| | January to September | | | January to September | | |
|--|----------------------|------------------|-------------------|----------------------|-----------------|-----------------|
| | 1931 (£1,000) | 1932 (£1,000) | 1933. (£1,000) | 1931 p. cent | 1932 p. cent | 1933 p. cent |
| Imports from :— | | | | | | |
| Irish Free State | 26,029 | 19,880 | 12,488 | 4·19 | 3·82 | 2·56 |
| Union of South Africa | 9,795 | 10,717 | 10,102 | 1·58 | 2·06 | 2·07 |
| Southern Rhodesia | 734 | 756 | 892 | 0·12 | 0·15 | 0·18 |
| British India | 24,424 | 21,913 | 24,807 | 3·93 | 4·21 | 4·98 |
| Australia | 32,150 | 34,659 | 34,281 | 5·18 | 6·67 | 7·03 |
| New Zealand | 31,464 | 31,535 | 31,409 | 5·06 | 6·06 | 6·44 |
| Canada | 22,003 | 28,763 | 32,001 | 3·54 | 5·53 | 6·56 |
| Newfoundland | 1,376 | 1,248 | 1,418 | 0·22 | 0·24 | 0·29 |
| Total from British Empire | 180,866 | 183,412 | 181,720 | 29·11 | 35·26 | 37·25 |
| Total from British Empire exclusive of the Irish Free State | 154,837 | 163,532 | 169,232 | 24·92 | 31·44 | 34·69 |
| Exports (British Produce) to : | | | | | | |
| Irish Free State | 22,651 | 20,894 | 19,812 | 7·75 | 7·71 | 5·15 |
| Union of South Africa | 16,301 | 12,815 | 18,556 | 5·67 | 4·73 | 6·17 |
| Southern Rhodesia | 1,107 | 829 | 1,055 | 0·33 | 0·31 | 0·39 |
| British India | 24,740 | 25,906 | 24,425 | 8·46 | 9·55 | 9·10 |
| Australia | 10,976 | 14,229 | 15,414 | 3·75 | 5·25 | 5·74 |

⁴ Hobson: "Trade Recovery and the Future" in *Lloyds Bank Limited Monthly Review* (London), July, 1934, pp. 296-297.

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| | January to September | | | January to September | | |
|--|----------------------|------------------|------------------|----------------------|-----------------|-----------------|
| | 1931 (£1,000) | 1932 (£1,000) | 1933 (£1,000) | 1931 p. cent | 1932 p. cent | 1933 p. cent |
| New Zealand | 8,528 | 7,638 | 6,970 | 2.92 | 2.82 | 2.60 |
| Canada | 16,275 | 12,011 | 12,114 | 5.57 | 4.43 | 4.51 |
| Newfoundland | 406 | 423 | 474 | 0.14 | 0.15 | 0.18 |
| Total to British Empire | 129,262 | 123,486 | 118,218 | 44.21 | 45.55 | 44.05 |
| Total to British Empire exclusive of the Irish Free State | 106,611 | 102,592 | 104,406 | 36.46 | 37.84 | 38.90 |
| Exports (Imported Merchandise) i.e. "Re-exports" to:— | | | | | | |
| Irish Free State | 6,406 | 4,898 | 3,403 | 13.27 | 12.55 | 9.16 |
| Union of South Africa | 789 | 391 | 419 | 1.64 | 1.00 | 1.13 |
| Southern Rhodesia | 31 | 19 | 19 | 0.06 | 0.05 | 0.05 |
| British India | 621 | 436 | 484 | 1.29 | 1.11 | 1.30 |
| Australia | 481 | 436 | 542 | 1.00 | 1.13 | 1.46 |
| New Zealand | 421 | 224 | 201 | 0.87 | 0.57 | 0.54 |
| Canada | 1,194 | 672 | 750 | 2.47 | 1.72 | 2.02 |
| Newfoundland | 63 | 50 | 50 | 0.13 | 0.13 | 0.13 |
| Total to British Empire | 12,026 | 8,915 | 7,566 | 24.92 | 22.84 | 20.36 |
| Total to British Empire exclusive of the Irish Free State | 5,620 | 4,017 | 4,163 | 11.65 | 10.29 | 11.20 |

This table may be supplemented by the following figures for the first quarter of the current year (January—March 1934):

Compared to the corresponding quarter of 1933

| | | |
|---|---------------|------|
| 1. Imports of the U. K. from India and Ceylon | £1,13,896,000 | +41% |
| 2. Exports from the U. K. to India and Ceylon | £9,344,000 | +1% |

The special study of the Empire trade as exhibited in the above tables indicates that the U. K. has been importing larger values from India. The fall in 1932 from the position of 1931 was almost wholly made up in 1933 in so far as absolute figures are concerned. In percentual relations, again, in 1933 Indian goods represented 4.93 per cent of the total U. K. imports from the world. The percentage rose from 4.21 in 1932 and 3.93 in 1931. India's hold over the British market was thus stronger in 1933 than in 1931. In so far as the impact of Imperial Preference is to be seen in these developments it is found to be connected with the expansion of Indian exports in the U. K.⁵

⁵ *Supra*, pp. 54, 58-59, 65-67, 69-71. See Sarkar: "The Logic of the Ottawa Agreement" in *Arthik Upanati* (Economic Progress), Calcutta, November 1932 and April 1933.

On the other hand, in regard to the U. K.'s exports to India there was some decline in 1933 compared to the situation in 1932 which indeed had marked an improvement upon the condition in 1931. The decline in percentage is also to be noticed. Of the total exports from the U. K. 9.10 per cent constituted India's share in 1933 whereas it had been 9.55 per cent in 1932. To the extent that it is possible to draw any conclusion within the limitations referred to above, we are to observe that Imperial Preference is not automatically associated with the expansion in British exports to India.⁶ But the returns of the period from January to March 1934 show that exports from the U. K. to India and Ceylon were valued at £ 9,344,000. This is one per cent more than the figure of the corresponding quarter in 1933.

From the Indian side it is possible to get the returns for a complete Ottawa year (April 1933—March 1934).⁷ In the returns from 1932-33,⁸ be it observed *en passant*, not more than a quarter is to be treated as the first Ottawa period.

Comparative figures, both absolute and percentual, are being given from 1931 to 1934, first, in regard to exports, and secondly, in regard to imports.

On the exports side there was a total rise in 1933-34 from the figure of 1932-33 indicating perhaps a slight "recovery" as it does, from the depression's trough. This absolute rise was shared by the non-Empire countries as well as by the Empire countries. The greatest share in the rise fell to the U. K., as the following table will show:—

India's Exports to the Empire and Non-Empire Countries

| | 1931-32 | Percent | 1932-33 | Percent | 1933-34 | Percent |
|----------------------------------|------------------------|---------|------------------------|---------|------------------------|---------|
| | (in million Rupees) | | (in million Rupees) | | (in million Rupees) | |
| 1. U. K. | 448,0 | 27.9 | 384,6 | 28.4 | 465,7 | 31.8 |
| 2. Total British Empire | 709,8 | 44.2 | 620,8 | 45.8 | 676,0 | 46.2 |
| 3. Total Non-Empire countries | 895,7 | 55.8 | 735,5 | 54.2 | 787,1 | 53.8 |
| Grand Total | 1,605,5 | 100 | 1,356,9 | 100 | 1,463,1 | 100 |

⁶ See the discussion at pp. 81-84, 86, 87, 89.

⁷ *Accounts relating to the Seaborne Trade and Navigation of British India* (Delhi), March 1934, pp. 27-28; *Barclays Bank Monthly Review* (London), June 1934, p. 10.

The analysis of the export percentages yields the result that the non-Empire countries fell slightly from 54·2 to 53·8. Naturally, therefore, the Empire countries rose correspondingly to a slight extent from 45·8 to 46·2 per cent. But the rise of the U. K. alone was from 28·4 to 31·8 per cent,—a significant improvement of 3·4 per cent. The change in the "direction" of exports has come about as expected.⁸

The imports schedule of India is now being exhibited as follows:—

India's Imports from the Empire and Non-Empire Countries

| | 1931-32 (in million Rupees) | Percent | 1932-33 (in million Rupees) | Percent | 1933-34 (in million Rupees) | Percent |
|----------------------------------|-----------------------------------|---------|-----------------------------------|---------|-----------------------------------|---------|
| 1. U. K. | 448,1 | 35.5 | 488,0 | 36.8 | 475,8 | 41.2 |
| 2. Total British Empire | 566,7 | 44.8 | 593,8 | 44.8 | 576,8 | 50.0 |
| 3. Total non-Empire Countries | 697,0 | 55.2 | 732,0 | 55.2 | 576,9 | 50.0 |
| Grand Total | 1,263,7 | 100 | 1,325,8 | 100 | 1,153,8 | 100 |

The imports schedule indicates that in the period from April 1933 to March 1934 there was a decline from the position of the previous year so far as India's total takings of foreign goods are concerned. The absolute decline is to be noticed as much in the figures relating to the U. K. and the total British Empire as to the total non-Empire countries. It is these non-Empire countries that represent the greatest absolute decline.

In percentual relations, however, the U. K. rose from 36·8 per cent in 1932-33 to 41·2 per cent of the Indian imports in 1933-34. The ascent from 35·5 per cent of 1931-32 is steady and remarkable. Equally noticeable is the decline in percentage of the non-Empire regions from 55·2 to 50·0.⁹ This change in the "direction" of overseas trade as embodied in the relative percentual ascendancy of the U. K. as contrasted with the non-Empire countries has come about according to expectations.

Let us take the figures of India's trade with some non-Empire countries for the period as described above, namely, from April 1931 to March 1934. The following table describes the comparative position:¹⁰

⁸ *Supra*, pp. 70-71.

⁹ See p. 84 *Supra* for the arguments advanced in regard to both these items; also *Arthik Unnati*, November 1932 and April 1933.

¹⁰ *Barclays Bank Monthly*, June 1934, p. 10.

India's Exports to some Non-Empire Countries

| | 1931-32 | Percent | 1932-33 | Percent | 1933-34 | Percent |
|-------------|------------------------|---------|------------------------|---------|------------------------|---------|
| | (in million Rupees) | | (in million Rupees) | | (in million Rupees) | |
| 1. Japan | 139 | 9.0 | 140 | 10.5 | 126 | 8.6 |
| 2. U. S. A. | 139 | 9.0 | 98 | 7.4 | 139 | 9.5 |
| 3. Germany | 103 | 6.6 | 86 | 6.5 | 95 | 6.5 |
| 4. France | 76 | 4.9 | 81 | 6.1 | 69 | 4.7 |
| 5. Italy | 54 | 4.9 | 47 | 3.5 | 57 | 3.9 |

India's Imports from some Non-Empire Countries

| | 1931-32 | Percent | 1932-33 | Percent | 1933-34 | Percent |
|-------------|------------------------|---------|------------------------|---------|------------------------|---------|
| | (in million Rupees) | | (in million Rupees) | | (in million Rupees) | |
| 1. Japan | 133 | 10.6 | 205 | 15.4 | 164 | 14.2 |
| 2. U. S. A. | 128 | 10.2 | 113 | 8.5 | 72 | 6.2 |
| 3. Germany | 102 | 8.1 | 104 | 7.8 | 99 | 7.7 |

Exports from India increased in the cases of Italy (from 3.5 to 3.9 per cent) and the U. S. A. (from 7.4 to 9.5 per cent). In regard to Germany they remained constant at 6.5 per cent. The decline is to be noticed in the case of Japan, namely, from 10.5 to 8.6 per cent, which was almost identical with the 8.7 per cent of 1931-32 and 8.9 per cent of 1927-28.¹¹

Like the exports, the imports also from Germany remained almost constant (7.7 per cent in 1933-34 against 7.8 per cent in 1932-33). But decline was experienced in the cases of the U. S. A. and Japan, the former coming down from 8.5 to 6.2 per cent while the latter was hit somewhat lightly since the contraction was from 15.4 to 14.2 per cent only.

In 1932 the U. S. A. exported 24.9 million dollars worth of goods to India but in 1933 the exports were valued at 19.9 million dollars only. The decrease was measured by 20.3 per cent.¹²

On the strength of the statistics available at present it is possible to draw tentative conclusions in regard to one or two points. First, on the import market of India the U. K. has gained at the cost of the non-Empire countries. She has commenced rising towards the pre-war level from which she declined in post-war years. The coefficient 41.2 (1933-34) is yet quite below the 42.8 of 1929-30, however.¹³

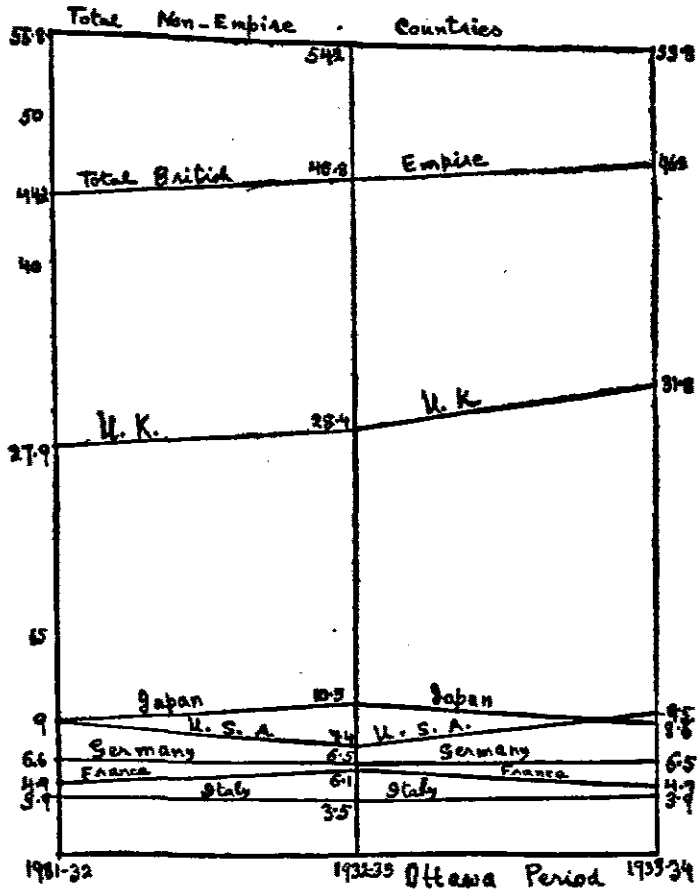
11 *R.T.I.*, 1928-29, p. 171, 1932-33, p. 183.

12 *Barclays Bank Monthly*, June 1934, p. 8.

13 *R.T.I.*, 1932-33, p. 128.

CHART 15

Exports from India to Empire and Non-Empire Countries during
the First Ottawa Year in Percentage of Total Exports
(1932-34)



(To face page 156)

As exporter, India has not lost her non-Empire markets. Rather they have served but to demonstrate the tenacity of India's export trade. And in regard to the British market India has, first, succeeded in averting the losses to the Colonies, enjoying preference as they did, such as she might have suffered had she chosen to remain outside the Empire ring. In the second place, India has not only maintained her *status quo* but actually strengthened it, increasing thereby her command over the U. K. as supplier of the latter's external goods.

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