THE OTTAWA TRADE AGREEMENT

B E T W E E N

INDIA AND GREAT BRITAIN.

BY

C. N. VAKIL.

A N D

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BETWEEN

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India: Ten Annas
Foreign: One Shilling

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PREFACE

The importance of a detailed study of the implications of the Ottawa Trade Agreement between India and the United Kingdom need not be emphasised. The legislator, the businessman, the average citizen in his capacity as consumer and taxpayer and the student of Economics are all interested in the agreement. Such a study is however generally avoided because of the bewildering mass of statistics involved in the same, some of which are not easily accessible.

The subject was discussed by one of us in its broad outlines in two public lectures in Bombay in the beginning of August. The problem however required fuller examination with the help of all the relevant statistical sources. An attempt has been made in this pamphlet to explain in simple language the fruits of such a study. It is not pretended that a more intensive study is not possible; in fact, it is both possible and required. If such an intensive inquiry into the effects of the agreement on each article of trade can be made by those interested in the same, we shall be in a better position to realise the implications of the agreement. It is expected that this pamphlet will give an impetus to such an enquiry on the one hand, and will enable the public in general to grasp the essentials of the problem on the other.

Thanks are due to Mr. R. G. Saraiya of Messrs. Narandas Rajaram & Co. Bombay, for the figures and other information in connection with Raw Cotton. Considerable help has been received from Messrs. D. N. Maluste, M. A. Mulky and A. G. Sheth, postgraduate students of this School, in the collection of the preliminary data and in other ways.

SCHOOL OF ECONOMICS AND SOCIOLOGY, UNIVERSITY OF BOMBAY
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NOTE ON STATISTICAL CALCULATIONS AND SOURCES

CALCULATIONS

In arriving at the estimates of possible gain or loss due to the proposed trade agreement, we have chosen the year 1929-30 as the last year which was not affected by the recent abnormal slump in prices. In view of universal efforts towards a higher level of prices, the future normal trade relations of countries will not be on the basis of the present price-level. The recent slump began with the Wall Street crisis of October 1929, the effects of which have dominated the trade figures of the following years. We have, therefore, come to the conclusion that from the point of view of the future normal trade relations between U. K. and India, the year 1929-30 is the most reliable basis. Whereas the figures for India relate to the financial year beginning with 1st April, those for the U. K. relate to the calendar year 1929, and have been converted into rupees at £ = 13·3 Rs.

It may be pointed out that the classification and terms used in the statistical publications of both the countries are not uniform. In order to arrive at comparable figures, we have had to make several adjustments all of which it has not been found possible to indicate in detail.

SOURCES

The tables in the Appendix have been compiled from the following publications:—

(1) Statistical Abstract of the U. K., 1932.
(2) Annual Statement of the Trade of U. K. with foreign countries and British countries, Vols. I to IV.
(3) Monthly Accounts relating to the Trade of the U. K.
(4) Statistical Tables relating to British Trade and Industry, 1930.
(5) Monthly Accounts relating to the Sea-Borne Trade and Navigation of British India.
(6) Annual Statement of the Sea-Borne Trade of India, Vols. I and II.
(7) Annual Review of the Trade of India.
(8) Government of India Budgets.
(9) Indian Trade Journal.

APPENDIX

STATISTICAL TABLES

TABLE I

EXPORTS OF MERCHANDISE FROM INDIA

(*In lakhs of Rupees*)

Year	Total	To U. K.	To other Empire countries	To non-Empire countries
Pre-war average	2,19,50	56,30	35,24	1,32,06
1921–22	2,31,38	46,02	45,23	1,40,12
1929–30	3,10,80	69,59	45,02	2,03,32
1930–31	2,20,49	51,77	34,35	1,34,37
1931–32	1,55,89	43,46	25,26	87,17

IMPORTS OF MERCHANDISE INTO INDIA

(*In lakhs of Rupees*)

Year	Total	From U.K.	From other Empire Countries	From non-Empire countries
Pre-war average	1,45,84	91,58	9,96	44,31
1921–22	2,66,35	1,50,92	26,44	88,98
1929–30	2,40,80	1,03,10	21,36	1,16,34
1930–31	1,64,82	61,29	14,73	88,80
1931–32	1,26,34	44,76	11,86	69,72

TABLE II

RETAINED IMPORTS OF THE U. K.

Percentage Distribution according to Countries

Countries	1924	1925	1926	1927	1928	1929
(1) *Food, Drink and Tobacco*						
Self-governing Dominions	26·69	29·46	27·90	25·53	27·49	25·31
Colonies and Protectorates	4·60	4·76	5·33	6·11	5·52	5·63
India	6·34	5·15	4·33	5·21	4·13	3·84
Foreign countries ...	62·37	60·63	62·44	63·15	62·86	65·22
(2) *Articles wholly or mainly unmanufactured*						
Self-governing Dominions	12·55	13·62	12·74	13·20	13·48	13·93
Colonies and Protectorates	5·18	6·93	9·60	7·67	5·84	9·91
India	7·03	8·15	4·70	6·06	7·16	6·95
Foreign countries ...	75·24	71·30	72·96	73·07	73·52	69·21
(3) *Articles wholly or mainly manufactured*						
Self-governing Dominions	5·75	5·53	5·01	5·12	5·15	5·31
Colonies and Protectorates	1·29	1·30	1·04	1·39	1·21	0·77
India	2·93	3·29	2·70	2·96	3·32	2·97
Foreign countries ...	90·03	89·88	91·25	90·53	90·32	90·95
(4) *Total*						
Self-governing Dominions	17·96	19·14	17·78	17·03	18·09	17·09
Colonies and Protectorates	3·99	4·52	5·43	5·22	4·45	5·41
India	5·72	5·54	4·00	4·80	4·67	4·39
Foreign countries ...	72·33	70·80	72·79	72·95	72·79	73·11

TABLE III

EXPORTS OF DOMESTIC PRODUCE FROM THE U. K.

Percentage Distribution according to Countries

Countries	1924	1925	1926	1927	1928	1929
(1) *Food, Drink and Tobacco*						
Self-governing Dominions	36·13	34·52	35·59	34·47	33·16	31·53
Colonies and Protectorates	13·19	14,75	17·25	17·57	18·13	18·76
India	4·84	5·44	7·03	7·40	6·94	8·29
Foreign Countries ...	45·84	45·29	40·13	40·56	41·77	41·42
(2) *Articles wholly or mainly unmanufactured*						
Self-governing Dominions	5·84	7·20	7·60	7·98	7·90	8·26
Colonies and Protectorates	2·72	3·21	3·17	3·16	2·88	2·62
India	0·55	0·76	1·15	0·76	0·71	0·70
Foreign Countries ...	90·89	88·83	88·08	88·10	88·51	88·42
(3) *Articles wholly or mainly manufactured*						
Self-governing Dominions	24·77	24·37	27·38	25·92	25·33	25·95
Colonies and Protectorates	6·75	7·84	8·04	8·55	8·78	8·60
India	13·93	13·18	14·20	14·10	13·51	12·48
Foreign Countries ...	54·55	54·61	50·38	51·13	52·38	52·97
(4) *Total*						
Self-governing Dominions	23·56	23·68	26·99	25·04	24·48	24·74
Colonies and Protectorates	6·80	7·96	8·58	9·04	9·20	9·02
India	11·31	11·12	12·52	12·00	11·60	10·73
Foreign Countries ...	58·33	57·24	51·91	53·92	54·72	55·51

TABLE IV

ARTICLES OF IMPORT INTO INDIA UNDER THE OTTAWA AGREEMENT

Figures for 1929-30: in lakhs of Rupees

A. ARTICLES MAINLY IMPORTED FROM U. K.

ARTICLES	I Total Imports	II Imports from U. K.	III Maximum margin left for U. K.	IV Total exports from U. K.	V Whether U. K's share is declining (-), steady or increasing (+)	VI Capacity of U. K. to absorb margin
MAJOR: Total Import Exceeding one Crore						
(1) Cotton piecegoods ...	50,25	33,65	16,60	131,06	—	830
(2) Cotton twist and yarn...	5,99	2,96	3,03	27,50	Steady	151
(3) Iron & Steel goods ...	17,19	10,16	7,03	90,45	Steady	466
(4) Machinery and millwork	18,21	13,68	4,53	73,15	—	151
(5) Instruments, Apparatus and appliances ...	5,38	3,03	2,35	8,64	Steady	157
(6) Hardware	5,06	1,80	3,26	1,86	—	6
(7) Woollen manufactures	3,76	1,28	2,58	50,00	Steady	129
(8) Paper	3,35	1,13	2,22	13,03	—	111
(9) Rubber manufactures ...	3,30	1,11	2,19	4,52	—	109
(10) Chemicals	2,78	1,59	1,19	35,37	Steady	83
(11) Drugs & Medicines ...	2,26	95	1,31	...	+	...
(12) Apparel, haberdashery and millinery ...	1,75	85	90	10,77	—	60
(13) Paints & Painters' materials	1,46	99	47	5,32	Steady	24
(14) Building and Engineering materials	1,34	65	69	not specified	Steady	35
(15) Cycles	1,18	96	22	1,86	—	11
(16) Earthernware, Porcelain, furniture & cabinetware	1,09	39	70	14,49	—	35
(17) Stationery (excluding paper)	1,05	55	50	1,33	Steady	25
(18) Ale & Beer	1,03	60	43	2,39	Steady	22
Total of 1-18	126,43	76,33	50,20	471,74		24,05

(1) Protection on certain varieties; competition from local industry and from Japan. Hence 50 p. c. of the margin can be captured.
(2) Competition from Local Industry and from China and Japan. Capacity same as above.
(3) Protected Industry. Preference for British goods in the protective scheme. U. K. may capture two-thirds of the margin.
(4) Proposed preference only on those paying 25 p. c. duty. Allowing for this and for competition from other countries, U. K. may capture one-third of the margin.
(5) U. K. may capture two-thirds of the margin.
(6) U. K. may capture more if she increases her production.
(7-9) U. K. may capture 50 per cent of the margin.
(10-11) Heavy chemicals protected; competition in other chemicals. U. K. may capture one-third of the margin.
(12) U. K. may capture two-thirds of the margin.
(13-18) U. K. may capture 50 per cent of the margin.

TABLE IV (*continued*)

A. ARTICLES MAINLY IMPORTED FROM U. K. (*continued*)

ARTICLES	I Total Imports	II Imports from U. K.	III Maximum margin left for U. K.	IV Total exports from U. K.	V Whether U. K's. share is declining (–), steady or increasing (+)	VI Capacity of U. K. to absorb margin
MINOR: Total Imports Less than one Crore						
(19) Toilet requisites ...	72	27	45	1,46	—	22
(20) Toilet soap	50	39	11	93	steady	5
(21) Leather manufactures (ex. boots & shoes) ...	39	31	8	10,50	steady	8
(22) Asbestos...	32	21	11	1,86	steady	7
(23) Confectionery	25	19	6	1,33	—	4
(24) Filled cartridges and cartridge cases ...	15	11	4	70	steady	4
(25) Brushes	13	5	8	66	—	4
(26) Oil cloth and floor cloth	12	5	7	1,33	—	4
(27) Cordage & Rope ...	11	5	6	3,05	steady	6
(28) Perfumed spirit ...	11	4	7	included in (19)	steady	0
(29) Leather cloth and artificial leather	5	3	2	not specified	steady	1
(30) Fish oil	5	2	3	66	steady	2
(31) Engine and Boiler packing	4	3	1	13	+	1
(32) Cocoa & Chocolate ...	3	2	1	1,46	steady	1
(33) Paint solutions... ...	2	0·8	1·2	70	—	1
Total of 19–33	299	177·8	121·2	24,77		70

(19–20) U. K. may capture 50 per cent of the margin.

(21) U. K. may capture the maximum margin.

(22–23) U. K. may capture two-thirds of the margin.

(24) U. K. may capture the maximum margin.

(25) U. K. may capture 50 per cent of the margin.

(26) U. K. may capture more than half the margin.

(27) U. K. may capture the maximum margin.

(29) U. K. may capture 50 per cent of the margin.

(30) U. K. may capture 2/3rds of the margin.

(31–33) U. K. may capture the maximum margin.

TABLE IV (*continued*)

B. ARTICLES MAINLY IMPORTED FROM COUNTRIES OTHER THAN U. K.

ARTICLES	I	II	III	IV	V	VI
	Total Imports	Imports from U. K.	Maximum margin left for U. K.	Total exports from U. K.	Whether U. K's. share is declining (–), steady or increasing (+)	Capacity of U. K. to absorb margin
MAJOR: Total Imports Exceeding one Crore						
(34) Copper	301	29	272	438	—	136
(35) Motor vehicles	752	156	596	1968	—	200
(36) Brass and similar alloys	223	56	167	425	—	55
(37) Silk piecegoods ...	222	1	221	53	—	26
(38) Artificial silk piecegoods	211	3	208	678	nil	104
(39) Aluminium	201	57	144	146	—	48
(40) Canned and bottled provisions...	186	48	138	385	steady	92
(41) Mineral lubricating oil	130	24	106	106	steady	19
Total of 34–41	22,26	374	18,52	41,99		680

(34) U. K. may capture 50 per cent of the margin.

(35) 7½% preference only. Competition from other countries. U. K. may capture about one-third of the margin.

(36) Germany is the principal supplier. U. K. may capture about one-third of the margin.

(37) U. K. may send half their total export at present.

(38) Trade of recent growth only. U. K. may capture 50 per cent of the margin.

(39) U. K. may capture one-third of the margin.

(40) U. K. may capture two-thirds of the margins.

(41) U. S. A. chief supplier. U. K. may capture less than one-fourth her capacity ($106 - 24 = 82 \times \frac{1}{4} = 20\frac{1}{2}$).

TABLE IV (*continued*)

B. ARTICLES MAINLY IMPORTED FROM COUNTRIES OTHER THAN U. K.

ARTICLES	I	II	III	IV	V	VI
	Total Imports	Imports from U. K.	Maximum margin left for U. K.	Total exports from U. K.	Whether U. K's share is declining (-), steady or increasing (+)	Capacity of U. K. to absorb margin
MINOR: Total Import Less Than One Crore						
(42) Condensed and preserved milk	88	28	60	133	steady	30
(43) Boots and Shoes ...	87	22	65	731	—	32
(44) Silk yarn	71	0·8	70	66	steady	1
(45) Toys and requisites for games	64	15	49	93	—	24
(46) Umbrellas and Umbrella fittings... ...	43	11	32	70	—	16
(47) Vegetable non-essential oil	43	7	36	478	steady	36
(48) Cutlery	41	11	30	146	—	15
(49) Zinc	39	11	28	26	—	7
(50) Tinned and canned fish.	25	3	22	12	steady	4
(51) German silver	16	2	14	not specified	steady	—
(52) Canned and bottled fruit	14	1	13	7	steady	3
(53) Natural essential oil ...	13	3	10	26	—	5
(54) Metal buttons	10	1	9	1	—	1
(55) Ghee	8	2	6	70	—	6
(56) Smokers' requisites ...	6	1	5	26	steady	2
(57) Cork manufactures ...	2	0·6	1·4	13	—	0·6
(58) Synthetic essential oil ...	1	0·1	0·9	5	—	0·4
Total of 42–58	571	119·5	451·3	1903		183
Grand Total ...	157,39	83,04·3	74,44·7	557,53		33,38

(42–43) U. K. may capture 50 per cent of the margin.
(44) Capacity of U. K. to capture Indian market limited in view of present volume of trade.
(45–46) U. K. may capture 50 per cent of the margin.
(47) U. K. may capture the maximum margin unless local industry is developed.
(48) U. K. may capture 50 per cent of the margin.
(49, 50 & 52) U. K. may capture half her capacity ; *cf.* (41) above.
(53) U. K. may capture 50 per cent of the margin.
(54) In view of possibilities of development of this industry in U. K. she may double her existing trade.
(55) U. K. may capture the maximum margin.
(56) U. K. may capture 50 per cent of the margin.
(57–58) U. K. may capture nearly half the margin.

TABLE V

ARTICLES OF EXPORT FROM INDIA UNDER THE OTTAWA AGREEMENT

Figures for 1929–30: in lakhs of Rupees

A. ARTICLES IN WHICH INDIA IS THE CHIEF SUPPLIER TO U. K.

ARTICLES	1 Total Export	2 Export to U.K.	3 Total import into U.K.	4 Maximum margin available to India (3–2)	5 Estimated capacity of India to meet margin	
(1) Jute manufactures ...	51,92	3,17	3,78	1,61	161	
(2) Tea	26,00	22,19	49,87	26,68	200	
(3) Tanned hides and skins	8,05	6,97	9,84	2,87	108	
(4) Goat skins —raw ...	4,43	19	1,98	1,78	19	40
—tanned ...	2,25	2,05	2,26	21	21	
(5) Castorseed	2,14	49	79	30	30	
(6) Teakwood	1,47	92	12,63	11,71	27	
(7) Oilseed cake	3,11	1,19	5,98	4,79	1,23	
(of which groundnut cake and linseed cake)	2,59	1,16	2,39	1,23	...	
(8) Groundnuts	16,38	1,24	3,19	1,95	195	
(9) Coir manufactures ...	1,04	20	1,73	1,53	40	
(10) Sandalwood oil ...	23	7	...	...	...	
Total of 1-10	114,76	36,61	...	...	924	

(1) India may capture the maximum margin.

(2) Ceylon, the next large supplier, will also get preference. Out of a maximum margin of 400 lakhs taking Ceylon's trade into account, India may capture half.

(3) Corresponding to undressed leather in U. K. trade figures, India may capture to the full extent of her total capacity, 805 — 697 = 108.

(4) India may double her export of raw goat skins and absorb the whole margin in tanned goat skins.

(5) India may capture the whole margin.

(6) All hardwoods taken for U. K. figure; separate details not available. India's capacity poor; may divert half her other trade to U. K.

(7) Chief supplier to U. K. of groundnut cake and linseed cake only; may capture the whole margin in them; in others expansion is not possible.

(8) India may capture the whole margin.

(9) The export figures of India and the import figures for U. K. do not tally. We assume that India may treble her export to U. K.

TABLE V (*continued*)

B. ARTICLES IN WHICH OTHER BRITISH COUNTRIES COMPETE WITH INDIA IN THE U. K. MARKET

ARTICLES	1	2	3	4	5
	Total export	Export to U. K.	Total Import into U.K.	Maximum margin available to India (3-2)	Estimated capacity of India to meet margin
(11) Pig-lead	2,44	1,54	9,17	7,63	22
(12) Coffee	1,45	54	4,92	4,38	15
(13) Spices	1,96	26	3,05	2,79	42
(14) Tobacco	1,06	41	22,85	22,44	32
(15) Pulses	1,63	35	not available		32
(16) Beans	43	11	1,33	...	8
(17) Barley	6	5	7,34	...	1
Total of 11-17 ...	9,03	3,26			152

(11) Pig-lead and sheet together in U. K. figure. India may capture one-fourth of her total capacity. *cf.* (3) above

(12) India may capture one-sixth of her total capacity.

(13) India may capture one-fourth of her total capacity.

(14) India may capture 50 per cent of her total capacity.

(15-16) India may capture one-fourth of her total capacity.

(17) India may capture to the full extent of her capacity.

TABLE V (*continued*)

C. ARTICLES IN WHICH THE EXPANSION OF INDIAN EXPORT TRADE WITH U. K. IS LIMITED

ARTICLES	1 Total export	2 Export to U.K.	3 Total Import into U.K.	4 Maximum margin available to India (3–2)	5 Estimated capacity of India to meet margin
(18) Cotton piecegoods ...	4,67	0·2	678	678	
(19) Cotton twist and yarn...	1,90	0·8	172	171	
(20) Rice (not in the husk)...	3128	50	239	189	90
(21) Carpets and rugs ...	85	38	319	281	12
(22) Non-essential vegetable oils...	31	7	550	543	7
(23) Bran and Pollards ...	118	85	93	8	...
(24) Manures	124	3	133	130	
(25) Magnesite	...	...	...	...	
(26) Granite and magnesium chloride	...	...	120	...	
(27) Asbestos	...	...	133	...	
Total of 18–27	4143	184	...	...	109

D. SPECIAL ARTICLES

(28) Raw cotton	6507	431	10054	9623	
(29) Linseed	572	180	651	471	100
(30) Pig-iron	259	33	66	33	
Total of 28-30	7338	644			
Grand Total...	23860	4815	...	...	1284

(18-19) No possibility of India capturing additional market in U. K.

(20) India may capture about half the margin.

(21) Woollen carpets and rugs. India may capture one-fourth her total capacity.

(22) India may double her export to U. K.

(23) India has reached her limits. Here, too, the export figures of India and import figures for U. K. do not tally.

(24) Figures of fertilisers for U. K.; Indian exports of crude manures; no expansion possible.

(29) India may capture nearly one-fourth of her total capacity.

TABLE VI

CUSTOMS REVENUE FROM ARTICLES OF IMPORT INCLUDED IN THE OTTAWA AGREEMENT

(In Lakhs of Rupees)

ARTICLES	1929–30	1931–32	Duty now in operation
(1) Cotton piecegoods ...	5,83	3,70	Various rates.[1]
(2) Cotton twist and yarn	45	37	6¼ p. c. or 1 7/8 per lb.
(3) Iron and steel goods ...	2,60	1,53	Various rates.
(4) Machinery & millwork	...	68·8	Various rates.
(5) Instruments, apparatus and appliances ...	50·2	51·6	25 p. c. excluding surgical, musical and telegraphic.
(6) Hardware	81·6	60	25 p. c.
(7) Woollen manufactures	52·4	26·9	25 p. c.
(8) Paper & Stationery ...	59·8	61·9	Printing paper & other paper not containing mechanical pulp an. 1 ps. 3 per lb.
(9) Rubber manufactures ...	75	66	25 p. c. (excluding those for aeroplane)
(10) Chemicals	69·9	2·8	Heavy chemicals under different protective (specific) rates; others 25 p. c.
(11) Drugs and medicines ...		82·2	
(12) Apparel, haberdashery and millinery ...	43	35	25 p. c.
(13) Paints and Painters' materials	26·1	24	25 p. c.
(14) Building and Engineering materials ...	13	12	Other than steel or Portland cement 25 p. c.
(15) Cycles	...	...	25 per cent.
(16) Earthernware, Porcelain, Furniture and cabinetware ...	51	41	25 p. c.
(17) Stationery (excluding paper)	Included in (8)		Writing paper an. 1 ps. 3 per lb. or 18¾ p. c.; others 25 p. c.
(18) Ale and Beer	24	31	Different specific rates varying from 5/8 an. per bottle to as. 4 per gallon.
(19) Toilet requisites ...	11	10	25 p. c.
(20) Toilet soap	24·8	19·5	25 p. c.
(21) Leather manufactures (excluding boots and shoes)	5·2	4·6	25 p. c.

1. Cotton piecegoods (other than fents of not more than nine yards in length)—

(*a*) plain grey, that is, not bleached or dyed in the piece, if imported in piece which either are without woven headings or contain any length of more than nine yards which is not divided by transverse woven headings—

(i) of British manufacture ... ... 25 p.c. or 4 3/8 as. per pound whichever is higher.

(ii) not of British manufacture ... ... 31½ per cent or 4 3/8 as. per pound whichever is higher.

(*b*) others—

(i) of British manufacture ... ... 25 p. c.

(ii) not of British manufacture ... ... 50 p. c.

ARTICLES	1929-30	1931-32	Duty now in operation
(22) Asbestos	...	...	Unspecified, hence 25 p. c.
(23) Confectionery	7·8	8	50 p. c.
(24) Filled cartridges and cartridge cases ...	...	...	Not otherwise specified; 50 p. c.
(25) Brushes	2·0	1·8	25 p. c. along with brooms.
(26) Oil cloth and floor cloth	2·4	1·9	25 p. c.
(27) Cordage and Rope ...	2·0	1·5	(and vegetable fibre not otherwise specified) 25 p. c.
(28) Perfumed spirit ...	4·9	4·1	Rs. 6 per gallon
(29) Leather cloth and artificial leather ...	...	...	not specified, hence 25 p. c.
(30) Fish oil	...	...	,,
(31) Engine & boiler packing	1·2	1·0	25 p. c.
(32) Cocoa and chocolate ...	Included in (23)		
(33) Paint solutions ...	Included in (13)		
(34) Copper	9·7	16	25 p. c.
(35) Motor vehicles	95	63	37½ p. c. for motor cycles only; for others 25 p. c.
(36) Brass and similar alloys	21	17·9	25 p. c.
(37) Silk piecegoods ...	79	1,09	50 p. c.
(38) Artificial silk goods ...			
(39) Aluminium	...	...	25 p. c.
(40) Canned and bottled provisions	84·7	74·7	not specified, hence 25 p. c.
(41) Mineral lubricating oil	...	...	not otherwise specified; 25 p. c.
(42) Condensed and Preserved milk	Included in (40)		not specified, hence 25 p. c.
(43) Boots and shoes ...	...	11·5	25 p. c. or as. 5 per pair.
(44) Silk yarn	11	11	25 p. c.
(45) Toys and requisites for games	19	16	50. p. c.
(46) Umbrellas & umbrella fittings...	6	6	25 p. c.
(47) Vegetable non-essential oil	16·3	20·1	25 p. c.
(48) Cutlery	5·5	4·1	(other than plated with gold or silver) 25 p. c.
(49) Zinc	...	...	25 p. c.
(50) Tinned and canned fish.	0·6	0·7	not specified, hence 25 p. c.
(51) German silver ...	...	...	25. p. c.
(52) Canned and bottled fruit	...	...	not specified; hence 25 p. c.
(53) Natural essential oil ...	...	...	25 p. c.
(54) Metal buttons ...	...	...	not specified; hence 25 p. c.
(55) Ghee	...	...	(clarified) 10 p. c.
(56) Smoker's requisites ...	1·8	1·0	(other than tobacco or matches) 50 p. c.
(57) Cork manufactures ...	...	...	not specified, hence 25 p. c.
(58) Synthetic essential oil...	...	...	25 p. c.
Grand Total ...	18,44·9	15,26·6	

Note:—In view of the fact that separate details for some articles are not available, it will be safe to assume a total revenue of 20 crores from these articles in 1929-30. It is significant that the revenue has fallen in 1931-32 in spite of large increases in duty in the interval.

TABLE VII

CUSTOMS REVENUE AND TOTAL REVENUE OF GOVERNMENT OF INDIA[1]

	Lakhs of Rupees	
	Customs net	Total Net Revenue
1921–22	33,75	81,30
1926–27	46,57	95,05
1927–28	47,37	87,30
1928–29	48,34	88,51
1929–30	50,31	92,43
1930–31	45,88	81,85
1931–32 ... ... (Revised Estimate)	45,31	77,70
1932–33 ... ... (Budget Estimate)	51,40	86,23

1. Government of India : Budget for 1932–33, pp. 108 and 110.

Printed by M. N. Kulkarni at the Karnatak Printing Press, 318A, Thakurdwar, Bombay, and published by Prof. C. N. Vakil, at Cutch Castle, Sandhurst Road, Bombay 4.

ARTICLES	1929-30	1931-32	Duty now in operation
(22) Asbestos	...	...	Unspecified, hence 25 p. c.
(23) Confectionery	7·8	8	50 p. c.
(24) Filled cartridges and cartridge cases ...	...	...	Not otherwise specified; 50 p. c.
(25) Brushes	2·0	1·8	25 p. c. along with brooms.
(26) Oil cloth and floor cloth	2·4	1·9	25 p. c.
(27) Cordage and Rope ...	2·0	1·5	(and vegetable fibre not otherwise specified) 25 p. c.
(28) Perfumed spirit ...	4·9	4·1	Rs. 6 per gallon
(29) Leather cloth and artificial leather ...	...	...	not specified, hence 25 p. c.
(30) Fish oil	...	...	"
(31) Engine & boiler packing	1·2	1·0	25 p. c.
(32) Cocoa and chocolate ...	Included in (23)		
(33) Paint solutions ...	Included in (13)		
(34) Copper	9·7	16	25 p. c.
(35) Motor vehicles	95	63	37½ p. c. for motor cycles only; for others 25 p. c.
(36) Brass and similar alloys	21	17·9	25 p. c.
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(54) Metal buttons ...	...	...	not specified; hence 25 p. c.
(55) Ghee	...	...	(clarified) 10 p. c.
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(57) Cork manufactures ...	...	...	not specified, hence 25 p. c.
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Grand Total ...	18,44·9	15,26·6	

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SUPPLEMENT TO

"THE OTTAWA TRADE AGREEMENT BETWEEN INDIA AND GREAT BRITAIN"

BY

C. N. VAKIL AND M. C. MUNSHI

Introduction

Our publication on the "Ottawa Trade Agreement between India and Great Britain" has been largely used by important commercial bodies and others interested in the subject, with or without acknowledgment. In view of this, our responsibility has increased, particularly because attempts have been made in some quarters to create a prejudice against our calculations and conclusions. We have decided to issue this supplement to explain the correct method regarding the use of statistics in such a subject, and to discuss briefly some of the important problems raised in the Report of the Indian Delegation, which could not be anticipated by us. Incidentally, we shall take this opportunity to correct some clerical errors and misprints in our publication, and also to modify one of the estimates due to more details that are available in the Report of the Delegation (see Appendix). These have been given for the sake of accuracy. We should like, however, to emphasise the fact that our arguments and conclusions are not affected by these corrections.

Caution in the use of Statistics

Those who are not familiar with the difficulties of handling statistical publications issued by the Government, of compiling from them the data relevant to a problem, and of presenting them in a form easy to grasp the situation, do not always realise the fact that it is impossible to have mathematical precision in the estimates and calculations that must be based on them. Whereas too much cannot be expected from statistics, they are most invaluable in indicating definitely the possible economic tendencies if properly used. They must be properly used, because it is easy to mislead the layman by making either a deliberately wrong use or a biassed use of figures to suit one's point of view. Because of the same reason, statistics on the same subject, compiled by different parties, cannot be expected to tally exactly, unless their methods of approach, and their points of view are identical. In comparing the figures presented by different parties on the same problem, the emphasis should therefore be on the methods and the points of view, which lead to statistical results, and not so much on the figures themselves. Because once there is unanimity regarding methods and points of view, it should not be difficult to bring about common statistical results based on them.

The Committee of the Federation of Indian Chambers of Commerce and Industry referring to our publication observe that "the figures given in the brochure do not appear to be at variance with those given by the Delegation and they have not yet been challenged either by the Government of India, or by their Delegation to Ottawa". It may be possible for anyone holding a different point of view to challenge this or that figure in our publication. In view of

what we have said above what is of importance is not the challenging merely of the figures contained in our publication, but that of the various points of view relating to the Trade Agreement, and of the methods of approach regarding statistical calculations that we have adopted. And in this connection we are glad to find that the Committee of the Federation in "commending to the Government of India for consideration the above publication" observe that "the Indian point of view . . . . . is very ably put forward" in it.

Misleading presentation of data by the Delegation

A most important illustration of the remarks made above can be found in the Report of the Indian Delegation. In para 101, they observe that " the only test by which the value of a trade agreement can be judged is the extent to which it results in an increase in the export trade of the countries concerned etc." Though they lay down this test, they make no efforts whatsoever to apply the same to the available statistics in order to judge the value of the agreement to either party. We have laid down this very test on page 10 of our publication, and have attempted to apply the same to the available data, of either country, in detail, as can be seen from Tables IV and V. Though there may be differences of opinion in this or that detail, this is the only way in which a valid judgment can be formed of the true value of the agreement, and such estimates based on known economic tendencies are certainly a more reliable guide than the mere assertions of the Delegation.

Whereas with the expert assistance and the staff available to the Delegation, they have not cared to make such estimates according to the very test laid down by them, they have presented other data which they themselves consider to be unsatisfactory or 'crude' in judging 'the fairness of an agreement'. But even such unsatisfactory data are presented in a manner which has created considerable confusion and misled many people. In calculating the amount of Indian exports that will receive preference in Britain, they *include* articles like Tea, which were *already* receiving preference in that market irrespective of the Import Duties Act of 1932. (para 21 of the Report). On the other hand, while calculating the preference that British goods will receive in the Indian market, they *exclude* steel and cotton goods on the ground that these articles were *already* receiving preference.[1] By adopting this obviously fallacious method they arrive at the figure of £ 17·4 million of British imports into India that will receive preference, (para 42), and of £ 41·8 million of Indian goods that will receive preference in the British market. (para 52). The erroneous impression thus created has been repeated in para 98; this has been widely quoted and has misled many.

1. The importance of this preference to the British Government can be realised from para 100:—"It cannot be denied that if there had been no differential duties His Majesty's Government in the United Kingdom would have been prepared to enter into the Agreement actually concluded, or that they would be prepared to continue the Agreement indefinitely if the differential duties were abolished". If the Indian Delegation had imitated the British Government in holding out a threat of the withdrawal of these existing preferences, they would have turned the tables completely in India's favour.

The Delegation admit in para 101 that if these excluded articles are taken into account 'the balance appears to be fairly even', that is, the amount of goods of either country likely to receive preference is about the same. They do not however give any figure in this connection.

To those who agree with us in the points of view presented, in the tests applied, and in the methods of statistical calculations adopted, we would request not to be led away by any prejudice[1] that may be created against this or that detail in our estimates. Let those who have any doubt ask for similar estimates from the Delegation or from the Government of India, and subject them to an equally searching scrutiny before accepting them, because on the basis of such estimates alone in the light of the tests laid down could the fairness of the agreement be properly judged, as admitted by the Delegation in para 101.

The basic year and the test anticipated

In this connection we may point out that though our publication was issued before the Report of the Delegation was published, we anticipated the Report correctly in two important aspects. The few statistical figures which the Delegation have given refer to the year 1929–30, and we have taken the same year as the basis of our calculations, because that is the most recent normal year not affected by the prevailing slump in prices. So far as the test of judging the value of a trade agreement is concerned, we also anticipated correctly the Report of the Delegation, and we have applied the same in detail. We must admit, however, that we could not anticipate (1) that the Delegation had made a multilateral agreement with the United Kingdom and the Colonial Empire together, (2) that the Delegation would emphasise only one single aspect of the Agreement to the exclusion of others, and (3) that the Delegation had by putting a novel interprêtation on the existing differential duties on certain classes of goods in India assumed fundamental changes in the industrial policy of the country. We shall therefore refer in brief to these three points.

Agreement with the Colonial Empire

The Agreement commits India to a policy of preference to all the Colonies and Mandated territories. Most of the important Colonies are debarred from giving reciprocal treatment to Indian goods by international agreements. The remaining are giving some preference to goods, like jute manufactures, or are going to reciprocate under certain conditions. In the case of these latter, complete trade returns are not available, and the Delegation admit that there are 'insuperable difficulties' in assessing the value of the preferences exchanged. Besides, there will be great administrative dif-

1. It would be obviously unfair to us if prejudices are created against our estimates on the floor of the Assembly where we cannot reply immediately, when ample opportunity was available to those interested to challenge the same beforehand. One of the first few persons to receive copies of our publication was Mr. Shanmukham Chetty, on the day of his landing in Bombay in the beginning of October.

ficulties in preventing the misuse of the preferential system because of the fact that the major portion of the trade of Singapore and Hongkong is entrepôt trade. The acceptance of 'the principle that in no part of it (the Colonial Empire) shall India be placed at a disability in competition with any other Empire countries', sounds good, but there is nothing to show that this principle will bring any advantage to India in return for what she is required to give. In fact, on the basis of the remarks of the Delegation themselves, this part of the Agreement stands self-condemned.

Undue emphasis on one single aspect only

The Report of the Delegation shows a curious lack of understanding of the most elementary principles and facts of modern economic life. A trade agreement between any two countries may promote trade between them, but neither country would be a party to the agreement if it adversely affected its trade with other countries, and if the balance of advantages was against it. Besides, a trade agreement intended to give preference to the goods of one country, may result in making the goods of other countries dear, and the taxpayer may be unnecessarily called upon to pay additional or avoidable indirect taxes. These are important and vital considerations which should be properly weighed before committing a country to an agreement of the kind proposed. In spite of this, nowhere in the Report of the Delegation is there any consideration given to these aspects, and the Delegation base their justification of the Agreement only on one, namely, the threatened loss of Indian trade in the British market by its non-acceptance. We must say that this method of approaching such an important problem is neither businesslike, nor economically sound. (*cf.* footnote, page 2.)

Industrial Policy[1]

The Delegation observe that 'the protection afforded to Indian industries has not been in any way impaired and India retains complete freedom to shape her tariff policy in the manner she thinks best. The provision in the Agreement which makes it subject to denunciation at six months' notice preserves complete liberty to a new Government in India to make its own decisions and the provision for variation removes any fear that the Agreement might operate as a bar to India's industrial progress'. (Para 102)

It is true that existing protective schemes are not affected by the Agreement. But it is difficult to believe the remaining part of this passage which tries to show that the fiscal independence of India is intact. The Report of the Delegation and the Trade Agreement commit India to a fundamental change in her industrial policy. The accidents connected with the present policy of Discriminating Protection have been taken as the basis of a novel interpretation of India's industrial policy. If this is accepted, the industrial career of India shall be diverted into channels other than those expected by the Indian Fiscal Commission and the Indian Legislature. It will mean that in the case of those industries in which British

1. Adapted from an article by C. N. Vakil in the *Free Press Journal*, 21-10-1932.

manufacturers are interested, protection to Indian industries will be subject to a preference for British goods. This will be done on the ground that the British manufacturers are turning out specialised products, the manufacture of which India need not hope to undertake (para 113). In order to complete the picture, arrangements will be made for a scheme of industrial co-operation by which Indian manufacturers shall manufacture some semi-finished goods which will be sent to the U. K. for being further manufactured into finished articles to be reconsigned in that form to India (*Cf.* Steel Agreement). This means that the industrial growth of India will be stunted. In order to appreciate how this unforeseen situation is being brought about, we must follow the chain of events during recent years, and those parts of the Report and the Agreement which are relevant to the issue.

When the Steel Protection Act of 1924 came for revision in 1927, the Tariff Board recommended lower duties to British steel goods as against those coming from other countries.[1] The Legislative Assembly objected to this scheme as one introducing the principle of Imperial Preference to which India was not committed.[2] The Protection Act was however in the form of a taxation bill, which could be initiated only by the Executive. If the Assembly carried this objection to its logical conclusion, the Government would withdraw the whole bill, and even the limited amount of protection offered to the steel industry would not be available. On the supposition that half a loaf was better than none, the Assembly had to acquiesce in accepting the proposed arrangement.

When in 1930, after protracted negotiations, the Government of India agreed to give some measure of protection to the cotton textile industry, they introduced a bill with a preference in favour of British goods. On this occasion there was no investigation by the Tariff Board. It is well known that the question resulted for a time in an important constitutional deadlock. But just as on the preceding occasion the woes of the Tata Company led the Assembly into acquiescence, similarly on this occasion the woes of the Bombay Mill industry led to a compromise.[3] If the Assembly did not accept the proposed preference for British goods as suggested by the Government, it was known that the whole bill would be withdrawn.[4] Once again on the assumption that half a loaf was better than none, the Assembly was forced to agree to a measure of protection which involved preference for British goods.

The Indian Legislature, businessmen, economists and the Indian public in general, were however not aware that these two cases which took place under such circumstances, would be used to give a novel interpretation to the Fiscal Policy of this country. This was first made public by Sir Atul Chatterjee in his opening speech at the Ottawa Conference on 21st July 1932. He said: "theoretically it might seem that preference in the case of protective duties would be excluded altogether, but practically the result has been different. One of the most interesting things about the Indian system of protection is that it has

1. Sir P. Ginwala was Chairman of the Tariff Board at that time.
2. Mr. Shanmukham Chetty was one of those who opposed it.
3. This was due to the efforts of Mr. Shanmukham Chetty.
4. Sir George Rainy was in charge of the bill.

led directly to what has been in effect, if not in intention, a preference for Empire goods. In two very important cases, iron and steel, and cotton piecegoods, it has been found that the imposition of a lower rate of duty on goods made in the United Kingdom is entirely consistent with India's interests. My colleagues and I hope that an examination on similar lines of other protected industries may lead to a solution which will be in the interests of both India and of other parts of the Commonweath." (page 56 of the Report).

There is an admission that preference in a protective scheme is out of question. In spite of this, it is certainly a most interesting thing about the Indian system of protection that it contains preference for Empire goods in certain cases. It was not, however, true to say that the existence of such duties in the case of steel and cotton is entirely consistent with India's interest, because the records of the Legislative Assembly tell a different story. From the same point of view, there was no justification for Sir Atul Chatterjee and his colleagues to express the hope that similar arrangements in other protected industries would be made.

With a view to make the public accept this novel interpretation of the Indian Fiscal Policy, the report of the Delegation reiterates the same idea in paragraphs 14, 15, 29, 39 and 99. This means that in the opinion of the Indian Delegation to the Ottawa Conference, the Fiscal policy of India is Protection with Discrimination in favour of British goods,[1] in those cases in which British manufacturers are interested. The principles of Discriminating Protection laid down by the Indian Fiscal Commission, and accepted by the Indian Legislature are calculated to discriminate in favour of the Indian consumer so that he may not be unduly taxed. But whereas the levy of some burden on the Indian taxpayer in the interest of the larger and varied industrial progress of this country was accepted, it was not the intention of anyone in this country to ask the Indian taxpayer to pay in order that the British manufacturer may flourish. One would hesitate to make such an apparently absurd observation, but for the fact that this is unfortunately the logical conclusion at which the Delegation have arrived, out of the novel interpretation that they have put on the Fiscal Policy of this country. This absurd position can be seen in the Supplementary Steel Agreement which is made under the cloak of the theory of Industrial Co-operation. (Para 113). The idea underlying this theory is that the less industrialised Empire countries shall have the market in certain classes of goods, and that the more industrialised Empire country or countries shall have the market in more specialised goods. For this purpose, the Empire market is considered as one unit. The Steel Agreement contemplates an arrangement by which the Tata Company will send Indian sheet bar manufactured by itself at Jamshedpur to England, will get it manufactured there into galvanised sheet and bring it back again to India in that form to be disposed of locally. (Para 85). In the first place this is an admission on behalf of the Tata Company of the fact that in spite of the protec-

1. The Goverment of India have suggested the same policy in their reference to the Tariff Board in connection with the statutory enquiry re; the Cotton Textile Industry now in progress.

tion that that they have enjoyed for so many years, they are not able to manufacture galvanised sheet in this country in sufficient quantities. At the same time it is possible that if the Tata Company find this particular transaction convenient to themselves, they may like to continue the process instead of developing the steel industry further, which is expected of them under the protection granted to them by the Indian Legislature. That this is likely can be seen from the remark in the Report of the Delegation where they observe that " if we had been unable to reach agreement, the almost inevitable result must have been the erection of new iron steel furnaces in the U. K. and the accelerated establishment of additional galvanised sheet plant in India, thereby aggravating the conditions from which the world is suffering ". (Para 86). The altruistic motive of helping the world out of its suffering is indeed flattering, but a country in the position of India needs more the help of other countries in its own suffering, instead of being able to offer help to others. Protection has been granted to the steel industry not only because it fulfils the conditions laid down by the Fiscal Commission, but also because it is a key industry. The Tariff Board has remarked that there is room in India for three iron works of the kind of Jamshedpur. If these facts have any meaning, the arrangement by which the growth of the steel industry in this country may be stunted, stands self-condemned, and the condemnation should be still greater if this arrangement is going to be the beginning of a policy by which Indian manufacturers shall manufacture only semi-finished goods, which will be sent for being turned into finished articles to England and reconsigned to India for disposal. The Indian taxpayer will be perfectly justified in refusing to be a party to the development of industries of this character, because he will find himself in the absurd position pointed out above that he is being taxed in order that the British manufacturer may carry on certain specialised processes of manufacture for the Indian market.

Conclusion

The conclusion is obvious that the report of the Indian Delegation and the Agreement go far beyond the scope of Trade Agreements, that they introduce novel features into the Fiscal Policy of this country, which were never contemplated, that they commit India to the principle of Protection with Discrimination in favour of British goods, that thereby they accept the position of a stunted industrial growth in India as illustrated by the Supplementary Steel Agreement based on the theory ot Industrial Co-operation. These are far-reaching consequences which cannot be lightly accepted even though they are coupled with the clause, that it is possible to terminate the Agreement by a six months' notice, because the power to denounce the Agreement at six months' notice cannot appeal to those who believe that it is economically unsound.

And let us repeat that this conclusion is true in addition to the other defects of the Agreement pointed out in our publication and in this supplement.

31*st October* 1932.

APPENDIX

We request the readers of our publication to make the following corrections in it; those in Tables I and V are due to clerical errors or misprints; those in Table IV are due to more details regarding the Agreement made available in the Report of the Delegation. Consequential changes in the text have also been indicated. We want to emphasise the fact that our arguments and conclusions are not affected by the clerical errors and misprints. One of our estimates has been slightly modified in view of the new details referred to above, but this also does not affect our conclusion in that behalf.

Table I

Substitute the following :—

	Total	To U. K.	To other Empire countries.
Pre-war average ...	2,24,12	56,30	35,76
1929–30	3,17,93		

On page 23, para 2, line 9, read ' 317 ' for ' 310 '

Table V

Substitute the following :—

	(1)	(2)	(3)	(4)	(5)
(1) Jute manufactures			4,78		
(2) Tea				27,68	
Total of 1–10	119,61	39,84			
Grand Total (page 36)	243,45	51,38			

On page 18 :—

para 2, line 3, read ' 120 crores ' instead of ' 115 crores'.
para 2, line 4, read ' 40 ' crores instead of ' 36·6 ' crores.
para 2, line 6, omit ' more than'.
para 2, line 13, read ' 120' crores instead of ' 115 ' crores.
para 3, line 7, read ' 3·9 crores ' instead of ' 3·6 crores'.

On page 22 :—

in table, last column, first item, read ' 390 ' instead of ' 360 '.
in table, total, last column, read ' 822 ' instead of ' 792 '.
in last para, line 3, read ' 822 ' instead of ' 792 '.

Table IV

Regarding the classes of British goods on which India is to give preference all the details were not available in the Government communique which announced the Agreement. In view of the details given in the Report of the Delegation, a few exceptions will be necessary in the estimates given by us. It is not possible nor is it necessary to reproduce all the details in this supplement. We may however observe that making a due allowance for these, the estimates regarding the additional export trade that the U. K. will obtain in India, should be modified by reducing it from 33·3 crores to 30 crores. This will be erring on the safe side. In this connection, please see Table IV, page 33, column VI, and also pages 14, 15, 22 and 25. In all these places, read ' 30 crores' in place of ' 33 or 33·3 crores' whichever may have been used.

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