

THE OTTAWA TRADE AGREEMENT

B E T W E E N

INDIA AND GREAT BRITAIN.

BY

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A N D

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BETWEEN

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AND

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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.

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As. 10/-

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 $\text{£} = 13.3 \text{ Rs.}$

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.

THE OTTAWA TRADE AGREEMENT BETWEEN INDIA AND GREAT BRITAIN

I. THE ECONOMIC OUTLOOK IN ENGLAND

The Industrial Revolution in England which preceded similar events in other countries enabled her to enjoy the industrial leadership of the world for many years. The growth of modern industries in other countries and the struggle for markets was gradually reducing the relative position of England. This tendency was brought in greater relief by the events of the War and the post-war periods. Even during the war period important discussions for a thorough overhauling of the British Economic Policy were going on; some of these have taken shape in recent years; some are still being shaped. We propose to give a brief summary of the leading events which have brought about this change.

The U. S. A. and Japan are the two most important countries which availed themselves of the opportunities created by the War; they developed their industries and export trade in many directions. Other countries from Turkey to China also began to take active steps towards industrialisation. In India the policy of Discriminating Protection was adopted in 1924.

Europe was cut up into a large number of small nations by the Treaty of Versailles. Each of these countries began to think on national lines and planned for the development of industries with the help of tariff walls. The tariff barriers thus created led to a mutual restriction of trade and added to the difficulties of the economic reconstruction of Europe. In spite of the efforts of a World Economic Conference and of the League of Nations, this situation has remained unchanged.

The economic domination of the U. S. A. over Europe is another important factor in the economy of the world. Most European countries owe large sums of money to the U. S. A. either as war debts or debts for reconstruction. The inter-allied debts of European countries, the reparations to be paid by Germany, and the debt to the U. S. A. have

all conspired to create an unnatural economic situation in the western world. Various schemes have been made from time to time to adjust and reduce the burdens thus created; the last of such schemes being that made at the Lausanne Conference for the ultimate abolition of the Reparation payments. The cancellation of the American debt is bound up with the difficult problem of disarmament by European countries.

In the meanwhile, the economic policy of the U. S. A. is creating further difficulties. They are in the position of receiving large sums of money from the U. K. and other countries. They are at the same time making such payments in goods difficult by their recently increased tariff. The U. S. A. do not want the manufactured goods of Europe to compete with their home produce; at the same time they want to have an aggressive export policy for their own goods in different parts of the world. This has resulted in two situations: (a) either the U. S. A. should give further credits to European countries or (b) the debtors should pay the U. S. A. in gold.

The huge accumulation of gold in the U. S. A. during and since the War is mainly accounted for by this phenomenon. The movement of gold between the different countries of the world and the problem of the Gold Standard are too large and complicated to be discussed in detail here. But a brief reference may be made to the policy of the U. K. in this connection. The Gold Standard had been temporarily suspended by the U. K. during the War. The pound sterling had depreciated, but its depreciation was small compared with that of other European countries. The restoration of the pound sterling to its pre-war gold value in 1925, and the adoption of the machinery of the Gold Bullion Standard involved a large amount of deflation in the U. K. This policy had a great reaction on English industry and trade because of the depressing effect on prices which followed.

The depression was further accentuated by the world fall in gold prices due to the policy of the U. S. A. British industry was therefore hit by these monetary factors in addition to the industrial progress and competition of other countries mentioned above.

At the same time important changes amounting to a New Industrial Revolution were taking place in industrial production in some parts of the world. In order to adjust to the rapidly changing events in the world, industrialists began to adopt a policy of rationalisation. This involved changes in technique, in machinery and above all in organisation. Combinations of producers in the same industry or allied industries followed. International agreements between producers of the same class of goods took place for the removal of competition and the division of markets. We are yet too near the events to be able to gauge all the consequences of this movement; but one thing

is clear that wherever it succeeded it naturally led to increase in unemployment.

The labour movement in the U. K. is strong and well organised. Attempts at reducing wages or in any way affecting the standard of life of the labourers meet with a fierce opposition. So far as the most important item in the cost of production of British industry is concerned, easy adjustment to the new conditions is not possible. At the same time, the Government have found it necessary to maintain large numbers of the unemployed from public funds by means of dole. On account of this as well as on account of the huge national debt of the U. K. we find that the level of taxation is the highest in that country. Most of the taxes are borne by industry directly or indirectly, and at a time when industry is in a bad way, such taxation is likely to do more harm than good.

The decline in the trade¹ of the U. K. and her relative position with other countries is brought out in the table on page 6 which gives in terms of index numbers the imports and exports of leading countries revalued on the basis of the prices ruling in 1913.

The following table shows the volume of the trade of the U. K. over a series of years and the ratio of exports to imports and reflects the tendencies referred to above.

U. K. Trade in manufactures in million³ £.

Year	Retained Imports	Domestic Exports	Ratio of Exports to Imports
1860	20.4	123.7	6.06
1870	45.4	181.1	3.99
1880	62.8	196.9	3.13
1890	73.5	225.4	3.07
1900	110.1	219.7	1.99
1910	129.5	344.1	2.58
1913	164.1	400.3	2.44
1920	399.3	1093.2	2.74
1924	266.0	618.9	2.33
1929	305.5	573.8	1.88
1930	283.2	419.8	1.48
1931 (January to June)	115.2	150.4	1.30

To remove the unusual difficulty in which the U. K. is thus involved, several remedies have been adopted; the two important events with which we are concerned are (1) the abandonment of the Gold Standard and (2) the adoption of a policy of Protection and Imperial

1. Also cf. Tables II and III.

2. This table has been taken from Williams, *Through Tariffs to Prosperity*, p. 112.

Retained Imports and Domestic Exports of the leading Countries re-valued at 1918 Prices¹

	IMPORTS						EXPORTS					
	1913	1921	1924	1927	1928	1929	1913	1921	1924	1927	1928	1929
United Kingdom	100*	74*	107*	117*	113*	119*	100	50	81	83	84	87
Germany	100	53	63	106	103	109	100	44	51	76	86	95
France	100	86	90	109	116	133	100	105	133	146	148	147
Russia	100	15	15	39	49	42	100	1	23	37	41	47
Denmark	100	91	131	138	144	147	100	90	134	167	174	170
Switzerland	100	66	87	91	98	101	100	61	88	99	102	101
Sweden	100	77	133	149	160	167	100	53	93	117	107	134
Italy... ..	100	96	102	113	132	131	100	79	119	130	132	146
U. S. A.	100	120	156	180	181	206	100	119	129	157	164	169
Canada	100	82	95	149	179	...	100	117	183	209	256	...
Argentina	100	67	90	112	127	137	100	91	144	167	...	...
Australia ... ..	...	...	...	...	...	...	100	98	81	110	108	...
New Zealand	100	93	143	147	150	165	100	125	142	152	157	162
South Africa †	100	56	94	149	...	...	100	78	82	118	119	118
Japan	100	142	162	...	...	...	100	113	140	...	...	...
India	100	68	75	100	104	...	100	75	102	101	107	...
China	100	96	108	107	122	120	100	119	...	133	143	133

* Total imports.

† Excluding bullion.

1. This table has been taken from Cole, *British Trade and Industry*, p. 135.

Preference. It is beyond our scope to go into the circumstances which led to the abandonment of the Gold Standard by the U. K. in September 1931. It is well known that similar steps have been taken by other countries, and that among the important countries still on the Gold Standard are the U. S. A. and France. The monetary problem of the world will have to be solved sooner or later, but it is so intimately bound up with other economic problems that a permanent solution is likely to take time. For the present the U. K. has succeeded in getting a higher level of prices as measured in sterling; British goods compete favourably with goods from gold standard countries; in countries like India where the local currency is linked to sterling British goods get a preference against goods coming from gold standard countries, which may be measured by the amount of the depreciation of sterling relatively to gold, which is about 33 per cent. at present.

History of Imperial Preference in the U. K.

It is well known that the old colonial policy of England was that of exploitation of the colonies for the advantage of the mother country. This was carried to the extent of taxing the colonies in the interests of the mother country. After the successful revolt of the American colonies, this was changed. The second stage may be described as that of the development of the colonies by the investment of British capital particularly in Railways and in other activities, and the establishment of closer trade relations. After the colonies became politically independent, they gradually became conscious of the need for economic progress in trade and industry. On the one hand they adopted an independent fiscal policy meant to develop their industries with the help of protective duties and other forms of state assistance. On the other they tried to increase their trade with the U. K. and the Empire countries by special arrangements. Towards this end they advocated a policy of Imperial Preference at the Imperial Conferences, which were held from time to time to consider Empire problems. This appeal fell on deaf ears so far as the U. K. was concerned. Wedded to a policy of Free Trade, proud of her industrial leadership, the U. K. did not show any willingness to allow Dominion goods to enter British ports at a preferential rate of duty. In the hope that in due course their appeal would be heard, the Dominions began in 1897 by giving some preference to British goods in their own markets; some of them at the same time entered into mutual trade agreements. This may be considered to be the third phase in the Empire Economic Policy.

Among the statesmen of England, however, there was one who foresaw the advantage to the U. K. in the adoption of a policy of

Imperial Preference by her. It was this conviction which led to the Tariff Reform propaganda initiated by Joseph Chamberlain in 1903. Gradually this movement spread and the Conservative party was convinced of the utility of a change in the Economic policy of the U. K. even before the War. The War gave them an opportunity to put their ideas into practice, and the events described above have gradually brought about a thorough change in the Economic policy of the U. K. The McKenna duties of 1915 were imposed for revenue purposes, but were certainly protective in character. In 1919, it fell to the lot of Mr. (now Sir) Austen Chamberlain to introduce preferential duties advocated by his father since 1903. With the exception of two brief interludes of the Labour Government, we can say that the policy of the U. K. has been in recent years towards Protection and Imperial Preference. The passing of the Safeguarding of Industries Act and the Dyestuffs Importation Act of 1921, the special procedure contrived by the Conservative Government for granting assistance under the Safeguarding of Industries Act during 1925 to 1927; and the introduction of the Churchill duties are among the active measures in pursuance of this policy. Along with this there came into existence the Imperial Economic Committee appointed by the Imperial Economic Conference and the Empire Marketing Board appointed by the British Government. The work of these two bodies has been to investigate facts and help in the development of the new Economic policy referred to above. The culmination of this policy came with the formation of the National Government with a large Conservative majority in 1931. The passing of the Import Duties Act this year and the power given to the Executive to impose protective duties to help any industry in difficulties are the final acts in the long drama enacted to mark the conversion of the U. K. from a Free Trade to a protective country.

Having given some preference to Empire products since 1919, and armed with the powers of the Import Duties Act, the British Cabinet was ready to forge a permanent scheme of Imperial Preference at a specially convened Imperial Economic Conference. Besides the acute depression in British industry, the low level of British exports, the unusually large number of the unemployed maintained by state funds and other factors, British economic life suffered a further blow in common with the world by the Wall Street crash of October 1929, which brought an era of a low level of prices all over the world. It was under great pressure that the U. K. gave up the Gold Standard in 1931. She now wants to restore her position (1) by taking a lead in the settlement of European problems as she did at the Lausanne Conference, and (2) by taking a lead in the settlement of world problems at the World Economic Conference which is due to take place

in the future. In order to restore economic strength to her industry and trade on the one hand and to assert her leadership in the councils of the world on the other, the U. K. found that it could make good use of the Imperial Economic Conference of Ottawa. If the U. K. could be assured of increased markets in the different parts of the Empire by trade agreements between herself and the other members of the Empire, a great impetus would be given to British industry, and at the same time the voice of British statesmen in the councils of the world would get more weight. The Dominions have been willing and even anxious in the past to enter into such agreements; the need of the U. K. would give them the right opportunity. Politically they are independent and in a position to strike a bargain best suited to their interests. It was in a Conference held under such an environment in a Dominion capital that the representatives of the Government of India were sent to enter into a trade agreement with the U. K. They were sent not because the Government of India or any important commercial interest in the country had shown a desire to enter into such an agreement. They were sent because the Government of India had a notice from the Government of the U. K. under the Import Duties Act of this year, that certain articles on which customs duties had been imposed by the U. K. would be exempt from duty till November 1932, and that the U. K. would be willing to continue the exemption provided the Government of India entered into an agreement giving preference to certain British goods in India.¹

II. IMPERIAL PREFERENCE AND TRADE AGREEMENTS

Definition of Imperial Preference

Imperial Preference is an extension of the Swadeshi principle to the Empire with an important difference. Whereas Swadeshi means the voluntary preference of our own goods to the goods of other countries, Imperial Preference means the preference for Empire goods to non-Empire goods enforced by law, that is, by making non-Empire goods dearer than Empire goods with the help of Customs duties. In the former case the appeal is to one's patriotic sentiment; in the latter case the appeal is to one's pocket. In other words, Imperial Preference may mean a sort of an Empire Zollverein or a scheme of protection for Empire goods against the competition of non-Empire goods in Empire markets.

The development of schemes of Imperial Preference that has taken place between the U. K. and the Dominions has assumed several forms. (1) Tariff preference in favour of British or Dominion

1. Cf. Speech of Sir G. Rainy in the Legislative Assembly in April, 1932, quoted later in the section on "The Indian Point of View".

goods as against non-Empire goods. (2) Administrative preference or preference to Empire goods by public bodies in their requirements. (3) Preference resulting from investments, the creditor country laying down a condition to that effect. (4) Voluntary preference resulting from propaganda such as of the Empire Marketing Board. It is expected that as a consequence of this policy the volume of trade between the Empire countries will increase, and that the economic development of the colonies will be accelerated, resulting in increased immigration and an increased demand for British products.

Trade Agreements

The Ottawa Conference has attempted the development of the existing schemes of Imperial Preference by means of Trade Agreements between different parts of the Empire. Trade agreements between any two countries for mutual benefit are well known in history. A trade agreement based on the principle of reciprocity may if properly devised add to the economic prosperity of the countries concerned. This implies the giving and taking of approximately equal advantages for the disposal of the products of one country into another, which may not be otherwise possible. Such reciprocity treaties have been usually governed by the most favoured nation clause. This means that while trade relations between the two contracting parties are promoted, those with others are not jeopardised. In fact in the case of the unconditional most favoured nation clause, the concessions granted by a particular trade agreement in respect of tariff rates automatically extend to those other countries who are enjoying the most favoured nation treatment in the countries entering into that agreement. In the case of the conditional application of the clause, the other countries are entitled to get the benefits of the new trade agreement provided they make similar concessions.

The Chief Criteria re: Trade Agreements

In the case of a trade agreement between any two countries there are certain governing factors which will decide the question whether such an agreement should be made or if one is in existence whether it should be continued. (1) The chief criterion is the additional market which the agreement is likely to bring about for the goods of each country. (2) The maximum available additional market may not be captured by a country if its capacity to supply the same is limited, and therefore the capacity of each country to take advantage of the extra market should be determined. (3) As against the available advantage of this nature, we should weigh the burden or sacrifice involved, say, by way of increased or avoidable duties on some articles. (4) At the same time an estimate of the probable harm involved in not entering

into a proposed agreement due to the restriction of trade should also be taken into account.

III. THE ECONOMIC OUTLOOK IN INDIA

The proposed Ottawa Agreement between India and the U. K. should be judged in the light of these criteria. Before we do so however we should briefly consider the general attitude of India on this question from the point of view of her own industrial and commercial requirements.

Till the end of the last century the imports of India came chiefly from the U. K. In more recent years, the imports have assumed an international aspect. Her exports have been taken by a large number of countries in varying quantities for many years. Though the U. K. is the largest single buyer, the percentage of exports going to other countries is very large.¹

In the international commerce of the world India occupies an important place. But this position does not bring her as large a gain as she is entitled to because of the quality of her trade, namely, export mainly of raw materials and foodstuffs and import mainly of manufactured goods. An attempt to remove this anomaly has been made by the adoption of the policy of Discriminating Protection since 1924. Only a few industries have so far been investigated and protection granted in the case of some of them. The economic policy of this country should be to develop this effort on more comprehensive lines with a view to increase the industrial production of the country which alone will enable her to solve the poverty problem of the masses. Any attempt to divert our efforts from this goal is likely to perpetuate the present

1. Cf. Table I in Appendix, and the following:—

India's Trade with some Principal Countries : Shares of Principal Countries
(In percentages)

YEAR.	IMPORTS				EXPORTS				TOTAL			
	U. K.	Germany	U. S. A.	Japan	U. K.	Germany	U. S. A.	Japan	U. K.	Germany	U. S. A.	Japan
Pre-war average ...	62.8	6.4	3.1	2.5	25.1	9.8	7.5	7.5	40.0	8.5	5.8	5.5
Post-war average ...	57.6	2.8	8.5	6.9	24.2	4.9	12.0	13.3	39.5	4.0	10.4	10.4
1926-27 ...	47.8	7.3	7.9	7.1	21.5	6.6	11.1	13.3	32.8	6.9	9.7	10.7
1928-29 ...	44.7	6.3	6.1	7.0	21.4	9.6	11.8	10.2	31.4	8.2	9.7	8.8
1929-30 ...	42.8	6.6	7.3	9.8	21.9	8.8	11.6	10.2	30.9	7.6	10.1	10.8
1930-31 ...	37.2	7.5	9.2	8.8	24.0	6.4	9.4	10.6	29.6	6.8	9.3	9.8

Cf. 'The Place of India in International Commerce' by M. C. Munshi in Bombay University Journal, July 1932.

backward position of India as a supplier of raw materials and an importer of manufactured goods.

Indian Attitude towards Imperial Preference

It was perhaps the impossibility of having any gain for India from a scheme of Imperial Preference that led Lord Curzon's Government in 1904 to reject the proposals for such a scheme then made. The attitude of the Indian authorities continued to be the same till before the War.

The Indian Fiscal Commission noticed a general unanimity of opinion among the witnesses examined by them against Imperial Preference. Even the majority report did not try to make a definite recommendation on the subject and laid it down that any scheme of Imperial Preference should be first investigated by the Tariff Board; that it should not diminish in any way the protection required by Indian industries; and that the decision should rest with the Indian Legislature.

In the case of protection to the steel industry, preferential rates of duty for British steel were proposed by the Tariff Board in 1926 on the ground of differences in prices. These were accepted by the Legislature without committing itself to the principle of preference. In the case of protection to the cotton industry the Tariff Board did not make any discriminatory suggestion in favour of British goods. The Government of India, however, proposed a preferential duty in 1930 which was accepted by the Legislature with a slight modification. The principle of Imperial Preference was however not accepted.

A second inquiry into the state of the cotton industry was due because the protective duty imposed in 1930 was due to expire in 1933. In their reference to the Tariff Board in this connection, the Government of India, in the beginning of this year, included the question whether it would not serve the interests of the Indian industry by having differential rates of duty in favour of British goods.

IV. THE OTTAWA AGREEMENT AND U. K.

We are now in a position to consider the proposed Trade Agreement between India and the U. K. on its own merits. The Agreement provides that India shall give a preference of 10 per cent.¹ on articles coming from the U. K. In return, it has been provided that the U. K. shall give a similar preference on Indian articles. The way in which the preference will have to be given by India differs from the way in which it will be given by the U. K. This will be explained in appropriate places. For the present, we shall proceed to consider the advantages that the U. K. is likely to derive from the proposed agree-

1. 7½ per cent. on motor vehicles.

ment. In doing so we shall bear in mind the criteria already laid down with reference to the utility of trade agreements.

Possible Additional Market for British Goods in India

The number of articles on which India is to give preference to British goods is 58, most of which are manufactured goods. For the sake of making the required estimate, we have divided these articles into (1) those mainly imported from the U. K. and (2) those mainly imported from other countries. Each of these categories has been further divided into major and minor articles; the major articles being those whose total import into India exceeds one crore and the minor being those whose total import is less than one crore. We find that the number of articles mainly coming from the U. K. is 33 and that of those mainly coming from other countries is 25. Of the former 18 are major articles, and 15 are minor. Of the latter 8 are major and 17 are minor articles. The maximum additional margin of trade available to the U. K. in these articles will be seen from the following figures:—

Figures in lakhs of Rupees

Articles	Total imports into India	Imports from U. K.	Maximum margin left for U. K.
I. Mainly imported from U. K.:—Major ...	1,26,43	76,33	50,20
II. Mainly imported from U. K.:—Minor ...	2,99	1,77.8	1,21.2
III. Mainly imported from other countries:—Major	22,26	3,74	18,52
IV. Mainly imported from other countries:—Minor	5,71	1,19.5	4,51.3
Total...	1,57,39	83,04.3	74,44.5

It may be of interest to mention the major articles mainly coming from the U. K. because they constitute the most important element in the agreement. They are:—(1) Cotton piecegoods; (2) Cotton twist and yarn; (3) Iron and steel goods; (4) Machinery and mill-work; (5) Instruments, apparatus and appliances; (6) Hardware; (7) Woollen manufactures; (8) Paper; (9) Rubber manufactures; (10) Chemicals; (11) Drugs and medicines; (12) Apparel, haberdashery and millinery; (13) Paints and Painters' materials; (14) Building and Engineering

materials; (15) Cycles; (16) Earthenware, Porcelain furniture and cabinetware; (17) Stationery; and (18) Ale and Beer.

We find from the above table that the maximum margin of additional trade that the U. K. can capture is 74.4 crores. It is obvious, however, that even with the help of the preferential duty the U. K. will not be able to capture the whole of this available market. In order to estimate the probable capacity of the U. K. to absorb this market, we have taken into account the following factors.¹ The total export from the U. K. to all countries of each of these articles has been taken as the indication of the maximum capacity of the U. K. to produce the same article for export. It is true that in many cases the production will be increased if the foreign demand is large enough but we have no data for calculating the same. We have further reviewed the figures of the import of each of these articles from the U. K. into India in recent years and have determined whether there is a tendency towards a decline or a rise or whether the import is steady. Along with these factors, we take into account the other factors affecting the import of each article into India, such as protection to the indigenous industry; competition from other countries; and the possibility of expansion of the industry in the U. K. On a general review of all these factors, we come to conclusions regarding the probable amount of market that the U. K. will be able to capture in each case; in most cases we estimate that 50 per cent. of the available market will go to the U. K., though in many the percentage varies due to special features. We find that the estimate of the additional market that the U. K. will thus capture is as under in each of the above groups, the figures being in lakhs of rupees.

<i>Group of Articles</i>	<i>Maximum margin left for U. K.</i>	<i>Estimated additional market that U. K. will capture</i>
I	5020	2405
II	121.2	70
III	1852	680
IV	451.3	183
	<u>7444.5</u>	<u>3338</u>

This shows that out of a maximum available market of 74.4 crores, the U. K. will be able to capture 33.3 crores with the help of the proposed preference.

Other Preferences to British Goods

It must be pointed out that there are certain factors which have been omitted from the above estimate. In the case of some of the articles, allowances have to be made because of exceptions in the case of those varieties to which the preference is not to be applied. This

1. For details see Table IV.

cannot be calculated. But at the same time there are other factors on the opposite side which are also difficult to estimate. For example, the U. K. gets preference for her goods in India (1) due to administrative arrangements and (2) to investment of British capital in India. In addition to this, since the abandonment of the Gold Standard by the U. K. and the linking of the rupee to the sterling, the U. K. gets a preference of about 33 per cent. in the Indian market against goods coming from Gold Standard countries. Besides, the recent imposition of additional duties on non-British cotton piecegoods gives a preference of 25 per cent. to the U. K. over cotton goods coming from countries other than Japan, the case of Japan on the ground of depreciated currency being special.

The existing protective duties are not affected by the Ottawa agreement and in making the above estimate we have taken note of this factor as far as possible. The fact however remains that in the two most important cases of steel and cotton goods, the protective duties are so arranged as to give a preference to British goods.

Conclusion re: Additional Market for U. K.

In view of the fact that it is not possible to take into account the above mentioned considerations in making the required estimate, we shall err on the safe side if we take the estimate already explained above, namely, 33.3 crores, as the probable additional market that the U. K. will capture with the help of the proposed preference.

Fresh Taxation Inevitable

But in order that this may be so, India will have to make important changes in her tariff. A glance at Table VI will show that most of these articles are subject to a duty of 25 per cent. The total revenue derived from these articles is about 20 crores or 50 per cent. of the total Customs Revenue from Import duties. Customs Revenue happens to be the most important single source of revenue to the Central Government¹. The Government of India derive more than 45 crores² from this source out of its total net revenue of less than 90 crores, which means 50 per cent. In view of their present financial position and the impending constitutional changes, it is not possible for the Government of India to reduce taxation under this item. In fact during the last three years, increasing reliance has been placed on this source to make up for the deficits in the Central Budget.

The agreement implies a difference of 10 per cent. in the duty in favour of British goods. If this cannot be done by lowering the duty on British goods, lest the revenue may suffer, the duty on non-British goods will have to be raised. Or, there may be, say, a 5 per cent.

1. For details see Table VII.

2. Out of this about 5 crores are derived from export duties.

reduction on British goods and a 5 per cent. increase on non-British goods to bring about a difference of 10 per cent. In any case, this must involve some fresh taxation for India. The nature and extent of this additional taxation cannot be determined till the proposals of the Government of India embodying this agreement are known, but there is no doubt that the amount is likely to be substantial.

India can escape fresh taxation only on one hypothesis, namely, that the entire additional market in these articles amounting to 74.4 crores is captured by the U. K. because in that case the lower rate of duty chargeable on British goods only will come into operation. If this is possible, the reciprocal advantage that India should receive from the agreement should be in proportion. If this is not possible, India must pay additional taxation on those imports of these articles which continue to come from other countries¹. Even if it becomes possible in future to reduce indirect taxation on the whole, it will be necessary for the Indian taxpayer to continue to pay some avoidable higher duties, so long as the agreement lasts, and to the extent to which the whole additional market in these articles is not captured by British goods.

V. THE OTTAWA AGREEMENT AND INDIA

Import Duty in United Kingdom on Indian Goods

We shall now consider the Ottawa Agreement from the Indian point of view. In this connection we shall have to bear in mind two aspects :—(1) The amount of additional trade which India is likely to get in the British market ; and (2) the effects of the non-acceptance of the agreement by India. It is necessary to study this latter aspect, because a good deal has been made out of it. The position is that the U. K. has imposed this year a general duty of 10 per cent. on all imports with the exception of certain essential foodstuffs and raw materials. Indian and Dominion products have been free from the operation of this duty pending the ratification of the Ottawa Agreements. On the side of the U. K. the exemption to Indian products will continue if the agreement is accepted by India. If not, the U. K. will impose the 10 per cent. duty on Indian products. It has been apprehended that our trade will under such a contingency shrink and our loss on that account will be so great, that it is worth our while to agree to give the required preference to British goods in India. We shall therefore study in detail the amount of additional trade available to us by the acceptance of the agreement, and also the

1. According to the above estimate 74.4 - 33.3, that is, 41.1 crores worth of imports of these articles will come from other countries. At the rate of 10 per cent. this will mean a taxation, additional or avoidable, of more than 4 crores.

amount of loss of trade that we may incur by the non-acceptance of the agreement. This will enable us to weigh the balance of advantages on the whole in their true perspective.

Classification of Articles on which India is to receive Preference

The total number of commodities on which India is to receive preference in the British market is 30. In order to estimate the gain or the loss of trade under either contingency just mentioned, we shall divide these articles into four groups :—(1) Articles in which India is the chief supplier to the U. K. This is the most important group containing 10 articles. (2) The second group contains 7 articles in which the British Dominions compete with India in the British market. (3) The third group relates to 10 articles in which for one reason or another the expansion of our export trade to the U. K. cannot be large. (4) The fourth group contains three articles, which are going to receive special treatment.

Method of Estimating Additional Market for India in U. K.¹

In order to estimate the additional trade that India may hope to get in these articles, we have first taken the total import into the U. K. in each case. Deducting the existing import from India, we get the amount supplied by other countries. In order to find whether India can supply the whole or part of this quantity, we have taken the total export of the same commodity to all countries from India. Deducting the existing export from India to the U. K. we get the figure of export to other countries. This indicates our capacity to supply the British demand, on the assumption that our production and exportable surplus remain the same. Having got the figure for the additional market in the U. K. and the figure of our capacity to meet the same, we have the basic data to estimate the amount of new trade with U. K. that we may have, with due reference to the peculiarities of each article.

Articles in which India is the Chief Supplier to U. K.

The articles in the first group or those in which India is the chief supplier are :— (1) Jute manufactures; (2) Tea; (3) Tanned hides and skins; (4) Goat skins; (5) Castor seed; (6) Teakwood; (7) Oilseed cake; (8) Groundnuts; (9) Coir manufactures; and (10) Sandalwood oil. In view of the fact that the position of India in these articles is strong, we shall assume that as a rule India will be able to capture the available market in the U. K. to the fullest extent of her capacity, unless there be special factors pointing towards a modification of this possibility. For example, the most important article in

1. For details see Table V.

this group from the point of view of our export to U. K. is tea. There is a large available market in tea in U. K. but there are obvious limitations to our capacity to capture the same as indicated by our export figures. Besides, the next largest supplier, namely, Ceylon will get the same preference, and the share of India in the additional market will therefore be further limited. The total additional market that India can hope to capture in this group may be estimated at 9.2 crores on the lines explained above.

In case of non-acceptance of the agreement by India, the position in regard to these articles will determine the position on the whole. The total amount of our exports of these articles was 115 crores in 1929-30 of which 36.6 crores were sent to the U. K. In the first place, this shows that we have large buyers of these articles outside the U. K. who in the aggregate took more than twice as much as the U. K. In view of this, some loss of our trade in the U. K. in these articles will not be felt; it will be made good by gain elsewhere. The question therefore is to ascertain the amount of the probable loss of trade by us if the U. K. imposes a 10 per cent duty on these products. The two most important articles in this list are jute manufactures and tea; we exported 52 crores of the former and 26 crores of the latter or a total of 78 out of 115 crores of this group. The U. K. takes only a small quantity of our jute manufactures, about 3 crores. In view of our monopolistic position in this article, we need have no fears regarding the British market which takes such a small percentage of our jute manufactures. But she takes most of our tea, nearly 22 crores. If the U. K. imposes a 10 per cent duty on our tea, the first sufferer will be the British consumer. India is the chief supplier of tea to the U. K. Ceylon comes next in importance. Java also sends some tea to the U. K. The capacity of Ceylon and Java to supply the British market is not much greater than now. If they succeed in displacing some Indian tea out of the British market, the chief sufferer will be the British tea planter in India. In view of this, our conclusion is that the U. K. is not likely to impose a duty of 10 per cent on Indian tea, and that if she does we are not likely to lose much; the shrinkage in trade will be very little, if any.

The other important articles in this group are chiefly raw materials for British industry, e.g., tanned hides and skins, goat skins, and so on. Even if a duty is imposed on these articles, which is not likely, the trade will not suffer much partly because our position in them is strong, and partly because British industries are likely to require them. Allowing for all circumstances, we may safely say that not more than 10 per cent of our total trade in this group or about 3.6 crores is likely to shrink by the proposed duty in case of non-acceptance of the agreement by us.

Articles in which Dominions will compete

The second group of articles contains (1) Pig-lead; (2) Coffee; (3) Spices; (4) Tobacco; (5) Pulses; (6) Beans; and (7) Barley. In the case of these articles the margin of additional trade in the U.K. is large, but our capacity is limited and the Dominions are also supplying these articles to the U. K. Our total export of these articles in 1929-30 was 9 crores out of which we sent 3.2 crores to the U. K. In view of our limited capacity on the one hand, and in view of the fact that the same preference will be available to the Dominions on the other, it is not likely that we shall be able to obtain more than one-fourth of the additional market in these articles, or 152 lakhs on detailed considerations of each article. In case of non-acceptance of the agreement we may err on the safe side by assuming that our trade in this group will shrink by one-fourth.

Articles with Limited Capacity for Expansion of Trade

The third group contains the following:—(1) Cotton piecegoods; (2) Cotton twist and yarn; (3) Rice; (4) Carpets and rugs; (5) Non-essential vegetable oils; (6) Bran and pollards; (7) Manures; (8) Magnesite; (9) Granite and magnesium chloride; and (10) Asbestos. In the case of the last three articles, we find no separate figures of exports from India; these articles are obviously of little importance, and one does not know why they have been included in the list. Again, cotton yarn and piecegoods from India have no market of any importance in the U. K. and are not likely to have any. Only small quantities of the other articles are taken by the U. K., the total for the group being 184 lakhs out of our total export of 41 crores in these articles. We assume an increase of 109 lakhs in our trade in this group if we get the preference; in case of non-acceptance of the agreement, we assume a loss of one-fourth of this trade or 46 lakhs.

Three Special Articles : (1) Linseed

The fourth group consists of three articles which are to receive special treatment. They are Linseed, Pig-iron and Cotton. In the case of Linseed which is at present free from duty, it is proposed that the U. K. will levy a duty of 10 per cent. and that Indian Linseed will get preference. The U. K. is importing 651 lakhs worth of Linseed of which 180 lakhs worth goes from India. We exported 572 lakhs worth of Linseed in 1929-30 of which the major portion or 392 lakhs worth was taken mainly by France and Australia. The chief supplier of Linseed to the U. K. is the Argentine Republic which sends about 4.7 crores. Large amounts of British capital have been invested in the Argentine Republic, and already the Republic has sought for a separate trade agreement with the U. K. We may estimate that with

the proposed arrangement, another crore worth of Linseed from India may go to the U. K. instead of to some other countries.

(2) *Pig-iron*

In the case of pig-iron, we exported 259 lakhs in 1929-30 of which Japan and the U. S. A. took large quantities, the U. K. having taken 33 lakhs. The terms on which this article may be admitted free of duty in the U. K. are to be settled. We cannot estimate the figure of additional trade under the circumstances, but it is obvious that it cannot be large, particularly if the steel industry in this country expands.

(3) *Cotton*

In the case of Indian cotton, it has been said that arrangements will be made to see that increasing quantities of Indian cotton are used by Lancashire. Out of 100 crores of cotton imported by the U. K. in 1929, she took 4 crores from India. She gets most of her cotton from Egypt and the U. S. A. In the same year, we exported 65 crores worth of cotton, of which 4 crores went to the U. K. Our chief buyers are Japan and China.

The position regarding the cotton trade needs fuller consideration and will be better realised from the following figures of the export of raw cotton from India to certain countries in recent years :

Export of Raw Cotton from India

(In bales of 400 lbs. each)

	1929-30	1930-31
Exports to U. K.	270,000	281,000
To other parts of the Empire	7,000	6,000
To Japan	1640,000	1686,000
To China	566,000	606,000
Total including other countries	4070,000	3926,000

The very subordinate position of the U. K. among the buyers of Indian cotton is obvious from the above table. The relative position of Indian cotton in the British market compared with cotton imported by U. K. from other countries is poor as can be seen from the following table:

Consumption of various kinds of Cotton in Great Britain
(In thousands of bales)

	1927-28	1928-29	1929-30	1930-31
(1) American ... (bales of 500 lbs.)	1942	1936	1390	944
(2) Egyptian ... (bales of 700 lbs.)	352	364	307	246
(3) Indian ... (bales of 400 lbs.)	138	205	225	248
(4) Sundry ... (bales of 478 lbs.)	510	420	550	493

Though a relative increase in the use of Indian cotton in the U. K. is seen in the above table, it is obvious that the prospects of a further increase are not bright inasmuch as these have not been guaranteed, but have been left for further exploration by the Lancashire industry. Besides, part of the recent increase is due to the requirements of the newly developed artificial silk industry in the U.K. It may be pointed out that the imports of Russian cotton which have been included in 'Sundry' in the table above, have increased in a much greater proportion than those of Indian cotton.

If arrangements to bring about a large export of Indian cotton to the U. K. are made, this will be done on the assumption that superior varieties of cotton are grown in India. Experiments in this connection have so far not given material results. Besides, if finer varieties of cotton are grown in India, Indian mills will be the first buyers, because they have now to import large quantities of superior cotton from other countries. The extent to which the Indian demand will absorb such production in the country may be indicated by the present imports of cotton by India. This demand is likely to increase with the growth of the Indian Mill Industry in future.

Imports of Foreign Cotton into Bombay
(Bales of 392 lbs. each)

	1928-29	1929-30	1930-31	1931-32
East African ...	107,747	134,533	179,473	133,162
Egyptian ...	1,636	12,387	148,947	121,032
American ...	11,719	15,889	140,296	280,808
Persian ...	1,774	704	1,438	2,951
Total	122,876	163,513	470,154	537,953

N. B.—In 1931-32, an additional import of 70,000 bales came through Bhavnagar,

This means that the Indian grower will have to satisfy a demand of nearly 600,000 bales of higher staple cotton before he can hope to cater for the British market. If it is contended that the Lancashire industry will be willing to use inferior Indian cotton in increasing quantities, the situation will be worse, because in that case Lancashire goods will compete with the Indian industry which will then have to be protected against Lancashire.

In view of these considerations, we do not look forward to any appreciable expansion of our trade in raw cotton with the U. K.

So far as the shrinkage in trade in linseed, pig-iron and cotton by the non-acceptance of the agreement is concerned, we assume the same percentage as in other cases, namely, a reduction of 25 per cent. Our total export of these three articles to the U. K. in 1929-30 was 644 lakhs, and therefore the shrinkage may be put at 161 lakhs.

The position regarding the gain or loss to India in the British market by the acceptance or rejection of the proposed agreement may be thus summarised :—

Group of Articles.	Estimated additional market in U. K.	Estimated loss of market in U. K.
	<i>lakhs of Rupees</i>	
I	924	360
II	152	225
III	109	46
IV	100	161
Total	1285	792

Conclusion re: additional market for India in U. K.

We are thus likely to get an additional market for Indian products in the U. K. of the value of 1285 lakhs or about 13 crores by accepting the agreement, and we are likely to lose a market of 792 lakhs or about 8 crores in the U. K. by non-acceptance of the agreement. From the preceding survey, it is obvious that the expansion of our trade with the U. K. will be mainly brought about by a diversion of our exports from other countries to the U.K. By entering into the proposed agreement we shall reduce the imports of other countries into India and therefore their capacity to take our exports will be reduced. If we take the estimates already made, it will be seen that we shall displace foreign goods worth 33 crores by British goods. ✓ If we assume that the demand for Indian products in foreign markets will be reduced to this extent, we shall have to find markets for the

same. For this purpose we shall have the consolation of getting an additional market of 13 crores in the U. K. This means that there will be difficulties for the disposal of our goods on the existing level, and even if these are overcome, it is obvious that we cannot expect a favourable reaction on our production.

Conclusion re: loss to India by non-acceptance

In the case of non-acceptance of the agreement by us the loss of our trade in the U. K. estimated at 8 crores is not large and need cause no anxiety. In the first place, most of the articles in question are required either for direct consumption or for industry in the U. K., and it is not likely that restrictive duties will be imposed on them. Even if they are imposed, the demand being strong the shrinkage in trade will not be large, and we believe that the above figure is an overestimate erring on the safe side. Our total exports in 1929-30 amounted to 310 crores, of which the U. K. took nearly 70 crores. Having got large buyers outside the U. K. it should not be difficult for us to arrange for the disposal of our goods to this extent in other markets, or for the diversion of 2.6 per cent. of our exports from the U. K. to other countries. This means that there will not be any unfavourable reaction on our production by the non-acceptance of the agreement.

VI. THE INDIAN POINT OF VIEW

The question from the Indian point of view is whether we need special devices for the disposal of our goods. On the whole, we are in no such need; it is the requirement of other countries for our raw materials which determines the volume of our exports. In fact by restricting the imports of non-British goods, we may create ill-will among some of our best customers.

Some of the recent difficulties of our export trade are due to the fall of world prices, which is greater in the case of raw products compared with manufactured goods. The Ottawa agreement is not likely to remove this difficulty.

Our real need is to utilise these raw products more and more for our own industrial development. For example, we want to manufacture more cotton and steel goods and reduce the import of the same; we want to manufacture our hides and skins and oilseeds and export the finished goods, if there is not sufficient market for these at home. The Ottawa agreement presupposes that we shall continue to supply raw materials to the world, and not develop ourselves industrially.

So far as the threat of the loss of market for some of our goods in the U. K. is concerned, we have already shown the hollowness of

the same. Besides, we have further to remember that a country interested in sending to us large quantities of imports cannot in her own interest lightly restrict our exports, which are the means of payments for our imports.

The determining factor¹ in the proposed agreement is obviously the need of the U. K. for a larger market in India. As already shown the industrial leadership of the U. K. has been challenged and her trade is meeting with increasing competition everywhere. The land of *laissez faire* has found herself in the position of seeking protection both at home and in the Empire against non-Empire goods. But if the U. K. wants certain economic advantages in India, let her offer equally advantageous terms to India of a real character, if the agreement is to be on a basis of reciprocity.

There is one more point of view from which the agreement may be considered. The trade relations of India with the U. K. are already large—larger than that of any other single country. The proposed agreement will make them still larger with the consequence that India will have to depend to an increasing extent on the U. K. for the disposal of her goods, and for the supply of her requirements. So far as the gain from international trade is concerned this position is not desirable because it is a well-established rule that "any country gains the more from trade the larger the number of other countries which compete with each other in buying and selling with it"².

The Government communique observes that "in concluding this agreement the Indian Delegation have throughout kept before them two main principles, namely, the extension and the development of the export trade of India and the reservation unimpaired to the protection enjoyed by certain Indian industries".

We have given ample proof in the foregoing analysis of the possibilities of gain or loss to India under the agreement to show that there will be no real extension and development of the export trade of India, and that on the whole India may incur greater real loss than real gain in trade by the acceptance of the agreement. So far as the protection to certain existing industries is concerned, it is true that the agreement regarding new preferential duties will not apply to them. But this remark conceals two important things. In the first place we have already found that the present method of giving protection to Indian industries is so worked that it involves a preferential arrange-

1. Cf. Sir George Rainy's reply in the Legislative Assembly 7th April 1932 :—"It (Government of India) has been further invited in particular to consider the question whether having regard to the new Tariff policy of H. M's Government in U. K., Great Britain and India should enter into a tariff agreement so as to benefit the trade of both the countries."

2. H. G. Brown, *International Trade*, p. 38.

ment for British goods in the case of those industries in which the U. K. is interested. For example, the two largest industries which have come under the protective scheme, namely, steel and cotton, are those in which the U. K. is interested in the Indian market, and we find that the protective scheme itself gives preference to British steel and cotton goods. The other thing which is concealed in the remark referred to above is that in future whenever protection is sought by an Indian industry, similar difficulties will arise and the greater the interest of the U. K. in any particular item of trade, the greater the certainty of there being a preference for British goods even in a protective scheme. If we look at the articles of import on which preference is proposed to be given, we shall find that there are many in which India will and must try to progress industrially at an early date in her own interest, and for this purpose state assistance in the form of protection or otherwise may be necessary.

VII. SUMMARY OF CONCLUSIONS

Our conclusions on the implications of the Ottawa Trade Agreement between India and the U. K. may be thus summarised :—

- (1) That the determining factor in the proposed agreement is the need of the U. K. for a larger market in India.
- (2) That the additional market which the U. K. will be able to capture in India may be estimated at 33 crores.¹
- (3) That this will give an impetus to industrial production in the U. K.¹
- (4) That in order to do so, there will have to be substantial additions to taxation in this country.
- (5) That even if it is possible in future to reduce taxation, there will be some avoidable larger duties on the articles in question, so long as the agreement lasts, and so long as the U. K. has not captured the whole trade in these articles.
- (6) That India is likely to get an additional market of 13 crores in the U. K. by accepting the agreement.
- (7) That this will be brought about mainly by a diversion of our trade from other countries to the U. K. and therefore it will not lead to increased production in the country.
- (8) That the displacement of our import trade with other countries to the extent of 33 crores will reduce their capacity

1. The invisible gains to the U. K. due to such enlarged trade with India in the form of additional freight, insurance charges, banking and financial activities etc. have not been taken into account in forming our estimate.

to take our exports, and in some cases ill-will may be created.

- (9) That the diversion of our export trade of 13 crores from other countries to the U. K. will not be an adequate compensation for the difficulty pointed out in (8).
- (10) That India may lose on a liberal estimate a market of 8 crores in the U. K. by non-acceptance of the agreement.
- (11) That this is only 2.6 per cent. of our total exports, and in view of our strong position in the world market we shall not find it difficult to find markets for these goods.
- (12) That the U. K. is not likely to restrict our exports as most of them are required either for consumption or for industrial purposes; besides, being interested in sending large quantities of imports to us, she would be compelled to take adequate quantities of our exports.
- (13) That the agreement presupposes that India will continue to be a supplier of raw materials, and will not develop industrially.
- (14) That there will be no real advantage on the whole to India by the acceptance of the agreement as suggested in the Government communique.
- (15) That there will be difficulties in the way of future development of our industries.

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
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(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 1929-80: in lakhs of Rupees

A. ARTICLES MAINLY IMPORTED FROM 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 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 mill-work ...	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) Earthenware, Porcelain, furniture & cabinet-ware ...	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	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 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 arti- ficial 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	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
(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
—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	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
(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	100
(29) Linseed ...	572	180	651	471	
(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	6½ 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 diffe- rent 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 Engineer- ing materials ...	13	12	Other than steel or Portland cement 25 p. c.
(15) Cycles ...	...	...	25 per cent.
(16) Earthenware, Porce- lain, Furniture and cabinetware ...	51	41	25 p. c.
(17) Stationery (excluding paper) ...	Included in (8)		Writing paper an. 1 ps. 3 per lb. or 18½ p. c.; others 25 p. c.
(18) Ale and Beer ...	24	31	Different specific rates vary- ing 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 other- wise specified) 25 p. c.
(28) Perfumed spirit	4-9	4-1	Rs. 6 per gallon
(29) Leather cloth and arti- ficial 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 Preser- ved 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	

Notes.—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 INDIA¹

	<i>Lakhs of Rupees</i>	
	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.

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 other- wise specified) 25 p. c.
(28) Perfumed spirit	4-9	4-1	Rs. 6 per gallon
(29) Leather cloth and arti- ficial 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 Preser- ved 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	

Notes—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
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GOVERNMENT OF INDIA¹

	<i>Lakhs of Rupees</i>	
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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.

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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 prejudice¹ 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 interpretation 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.

difficulties 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 Policy¹

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 Commonwealth." (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 Government 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 re-consigned 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 of 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.

31st 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.