

THE OTTAWA TRADE AGREEMENT

AND INDIA.

BY

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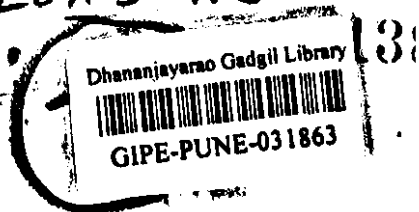
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benefits to Indian Producers and Consumers.—The Real Test.
Interests of Agriculturists.—The trade Agreement entered into between Indian and British delegates at the Ottawa Conference and which the British Governments in India and England are endeavouring to implement is of more than ordinary interest to the Indian Agriculturist. Though the agriculturist in India knows nothing of the Ottawa Agreement and its reactions on him, it is *his interests* that form the main theme of the controversy that is now raging between the defenders and opponents of the Agreement—the Pro-Ottawites and the Anti-Ottawites. The Report of the British Indian delegation on the Ottawa Agreement primarily justifies the Agreement on the ground that it promotes the economic prosperity of the Indian producer. The Report, to put it briefly, asserts that, while the non-acceptance of the Agreement will have serious reverse effects on India's export trade with the United Kingdom and the Dominions, and with it on the productive enterprise of the Indian farmer, its acceptance will result in a substantial expansion of that trade, and with it of India's agricultural production. The opponents of the Agreement contend that the Report is "but a piece of propaganda in favour of British Industry under the guise of the so-called protection of the interests of the Indian farmer," and that while its non-acceptance will not have any disastrous effects on India's export trade and productive activities, its acceptance will probably entail reduced demands to his products from Non-empire countries and will at best result in the diversion of a part of that trade from those countries to the United Kingdom and not in the real expansion of it or of any consequential increase in production. "If we can put aside for a moment the political and semi-political issues which are no doubt inextricably mixed up with the Agreement, the interests of the Indian farmer therefore furnish the

most important residuary test by which the benefit or otherwise to India from the Agreement is to be determined.

Interests of manufacturers.—It does not, of course, mean that the effect of the Agreement on our manufacturing industries is not also an equally important test by which it should be judged. While India is bound to continue to be an essentially agricultural country for a long time to come, she certainly does not wish to play the role of the producer of raw materials or of semi-manufactured articles for the benefit of other industrial countries, herself depending on such countries for the supply of manufactured goods required by her own people in their daily life. The Indian producer would like to produce more, but, at the same time, would like to reduce his dependence on overseas markets for the absorption of his exportable surpluses and would prefer his raw products being consumed more and more by his own people and by the factories of his own country. If he can grow better cotton, he would like the hand-loom and power-loom in India to turn it into finer varieties of cloth than are now manufactured, to stop the import of such cotton for the purpose from outside and to make it unnecessary for his people to import any foreign cloth. If he can increase and improve his production of oil-seeds, he would like his oil-mills to crush them in order to export the surplus of the finished oils not required for use in India and to retain the whole of the cake to feed his cattle and enrich his soil. In other words, the economic prosperity of the Indian farmer lies not merely in the improvement of Indian agriculture, but also in the regeneration of Indian industries simultaneously.

Interests of Consumers.—Again it must be remembered that the Indian farmer, who is the producer of the bulk of India's national wealth, is also the main consumer of the goods manufactured in India or imported from outside, because the rural population of India, which is directly or indirectly dependent on agriculture as the chief occupation, form 90 per cent. of the total population. So, another important related test by which the effects of the Ottawa Agreement on the economic life of the Indian farmer are to be judged is, does it increase his cost of living by leading to direct or indirect taxation?

If it does, it will obviously operate as a serious handicap to Indian agriculture as well as Indian industries. The Indian farmer's staying power and his standards of life are already so low that any factor, such as additional taxation, direct or indirect, which goes to reduce them further, cannot but cripple his productive activity and his purchasing power to the detriment of India's agricultural and industrial development.

Political issues eliminated.—It therefore follows that, before India accepts the Agreement, she must be satisfied that, on a balance, it will prove beneficial to Indian agricultural and industrial progress and that it will have beneficial repercussions on the economic life of the Indian farmer both as a producer and as a consumer. In the process of this ascertainment, many complex issues are involved. The economic, political and constitutional issues are often so inseparably interrelated that most economic problems cannot be solved without tackling their political and constitutional aspects as well. Granting that the delegates sent by the Government of India are the best that India can find to represent her and that the Government of India itself, in entering into the Agreement with His Majesty's Government, is actuated by the sole desire of placing India's interests in the forefront, still there are several other political and constitutional factors which require being investigated into in connection with any kind of trade agreements between India and other parts of the British Empire. I, however, propose to eliminate their consideration from my present examination of the Agreement and wish to confine myself to the economic and financial repercussions of the Agreement on Indian agriculture and industries.

The Agreement.

The essence of the Agreement is that India shall guarantee a preference of 10 per cent. on specified goods coming from the United Kingdom, other than motor vehicles on which the preference is to be 7½ per cent. In return for this, the United Kingdom shall guarantee a similar preference to certain specified articles imported from India. 'Preference' means that the goods from the favoured country pay import duty at a lower rate than the general duty or the

duty paid on goods of the unfavoured country. It will be explained later how this preference is created in practice. The object of the preference is to make Non-Empire goods dearer than Empire goods with the help of customs duties and to thereby create a greater demand for Empire goods. The Agreement is drawn up in the form of 14 articles and 8 related schedules and may be divided into four parts; (1) the part dealing with the undertakings given by His Majesty's Government in the United Kingdom in regard to the preferences to be given to the Indian commodities and the lists of such commodities; (2) the part dealing with the undertakings given on behalf of the Government of India in regard to the preferences to be given to the British commodities and the lists of such commodities; (3) the part dealing with the undertakings given and received by His Majesty's Government and the Government of India as regards the trade between India and the Colonial Empire (*i.e.* Non-Self-Governing Colonies, Protectorates and certain Mandated Territories); and (4) the part dealing with the reciprocal undertakings concerning the Government of His Majesty and the Indian Government. The Agreement embodies what in essence may be called a scheme of Inter-Imperial Preference on a basis of reciprocity in respect of a limited number of commodities, the United Kingdom undertaking to accord the same preferences to India and the Dominions, and India undertaking likewise to give the same preferences to the United Kingdom and the Dominions, with a declaration by both Britain and India of their intention to extend the scheme to the Colonial Empire.

It will be convenient to examine the Agreement in relation to its four parts separately in the first instance and then to take a general survey of it as a whole, to determine whether, on a balance, it operates to the gain or loss of India.

PART I OF THE AGREEMENT.

Preference by the United Kingdom to India.

Articles 1 to 8 and Schedules A to D contain the provisions relating to preferences to Indian goods in the United Kingdom. Schedule D gives a list of 6 articles which will be admitted into the United Kingdom free of duty from all sources, Indian or otherwise. They are shellac, raw jute, myrabolams, broken-rice, mica slabs, and varieties of Indian hemp. These are admittedly articles in which India has a monopoly and for which the United Kingdom has industrial and other uses. Their free admission involves no real concession to India while it benefits England. Schedules A, B and C contain lists of the articles on which new or increased preferences

are agreed to be granted and those to which the continuance of preferences is agreed. Such articles number about 30.* The Ottawa Report estimates the value of such imports into the United Kingdom in 1929 at £41·86 millions.

In order to understand the implications of the Agreement, it is necessary to state briefly the position of the trade relations between India and the United Kingdom on the date of the Agreement, and the circumstances under which the Indian delegates went to the Ottawa Conference. Though the United Kingdom was

*These articles are classified under the following four heads by Prof. C. N. Vakil of the Bombay University. The values of the total exports of India in those articles and of the exports to the United Kingdom are also given for 1929—30:—

	Total amount of exports in 1929—1930.	Exports to United Kingdom.
	Rs.	Rs.
<i>First Group :—</i>		
10 articles in which India is the chief supplier to the United Kingdom.		
(1) Jute manufactures, (2) Tea, (3) Tanned hides and skins, (4) Goat skin, (5) Caster seed, (6) Teak wood, (7) Oil seeds, (8) Groundnuts, (9) Coir manufactures, and (10) Sandalwood Oil ...	115 crores	36·6 crores
<i>Second Group :—</i>		
7 articles in which Dominions also compete with India :—		
(1) Pig lead, (2) Coffee, (3) Spices (4) Tobacco, (5) Pulses, (6) Beans and (7) Barley	9 crores	3·2 crores
<i>Third Group :—</i>		
9 articles with limited capacity for expansion of trade :—		
(1) Cotton piece-goods, (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	41 crores	184 lakhs
<i>Fourth Group :—</i>		
3 Special articles :—		
(1) Linseed	6·5 crores	1·8 crores
(2) Pig-iron	2·59 "	33 lakhs
(3) Cotton	100 "	4 crores.

and has been substantially a free trade country till 1931, when the National Government assumed control over her destinies, since 1919 she has been involved in a policy of encouraging Empire trade by grant of tariff preferences. It is the result of a plea that the Dominions, specially Canada, have been putting forward for Imperial preference since 1897. So, certain articles like coffee, tobacco, fruit and silk (to mention only those in which India is interested) have been for some years past allowed to enter into the United Kingdom at rates of duty substantially lower than those applicable to foreign products and still enjoy such preferences. The articles which are enjoying preferences in the United Kingdom in this manner are more numerous in the case of Dominions than those in which India is interested. Some Dominions have, on their part, given preference to some articles of the United Kingdom. The duty on tea imported into the United Kingdom was removed in 1929 and the preference which the Empire tea enjoyed in the United Kingdom till then was put an end to; but it was restored by the Finance Act in 1932 with an added preference of 2d. a pound. The National Government, soon after its accession to power in 1931, elaborated plans for the imposition of a general tariff both for protection and revenue purposes and passed early in this year the famous Import Duties Act. That Act contained a schedule of articles which the United Kingdom would import duty free, evidently in the interests of the British Consumer and the British Industries. The Act imposed a 10 per cent. duty, generally speaking, but ranging from 10 to 33 per cent. in some cases, on all commodities other than those included in that free schedule and those not liable to import duties under earlier Acts of Parliament which imposed certain duties from time to time on some commodities imported into the United Kingdom. The Import Duties Act of 1932 contained a provision by which the products of Dominions and India, to which the Act applied, were exempted from the operation of the new duties upto the 15th November 1932. His Majesty's Government made an announcement in the Parliament in this connection that, if Dominions and India entered into a satisfactory agreement with the United Kingdom at Ottawa, orders for the further exemption of the Dominion and Indian goods from the duties under the Act would be issued while, in the absence of such an agreement being concluded, no guarantee of the continuance of such an exemption could be given. The Dominions have been anxious at least since 1897 to evolve some schemes of reciprocal preferences with the United Kingdom. But it was the United Kingdom, for reasons which it is not necessary to state here, but mainly by reason of her dominant

industrial position and free trade tendencies, that was not enthusiastic over the idea. It is now the United Kingdom's turn under the pressure of a combination of world factors which affected her trade, commerce and industry adversely, to take the initiative to materialise an elaborate scheme of reciprocal preferences, between the Empire countries. So, the Dominions and the United Kingdom went to Ottawa fully prepared to conclude an agreement which is but the culmination of a policy over which they have been working for a generation. But India's participation in that Conference was not due to any desire on the part of the people of India to evolve any scheme of imperial preference at Ottawa. Even the Government of India, so far as the public are aware, did not take any initiative in the matter. The Indian public were indeed in complete ignorance of the matter until the Government of India, in answer to a question put in the Assembly, casually revealed the fact that they nominated certain delegates to represent India at Ottawa. This participation of India at the Conference was obviously the result of a notice given to the Government of India by the Government of His Majesty that, unless a trade agreement was concluded by the Indian Government and ratified by the Indian Legislature before the 15th November, certain Indian commodities might be made liable to import duties under the Import Duties Act. It was under these circumstances that the Indian Government's delegates went to Ottawa and entered into the Agreement with the British Delegates.

The Agreement has been concluded. It has not yet become effective, for it awaits the ratification of the Legislative Assembly. Very likely it will be ratified by that body. The question still remains whether it is acceptable to the Indian people, whose interests the Assembly cannot be said to represent, both because it is constituted on a very limited franchise and even so, its decisions are not solely those of the elected members but also of the officials of the Government and the members nominated by them. The minority of the Indian Fiscal Commission said that India could consider schemes of Imperial Preference if the *Non-Official Members* of the Legislature Assembly were given power by legislation or other equally effective methods to initiate, grant, vary or withdraw preferences in the interests of India and the decisions thereof did not depend on official votes. This request is now repeated but the authorities in England and India have declared their intention of implementing the Agreement with the help of the official votes.

Effects of the Agreement on India's Export Trade.

Retention of our Export Trade.—The supporters of the Agreement appear, *prima facie*, to stress more on the dangers to India which are certain to follow in the wake of its non-acceptance than on the positive gains that will accrue from its acceptance. They, no doubt, also urge in favour of its acceptance that, on a balance, it operates to the advantage of India. But, a reading of the report unmistakably discloses the mental attitude with which the Indian delegates approached the problem. At the very outset, they formulate the question with which they were confronted thus: "Whether India could afford to stand out of an agreement which seemed likely to include most, if not all, Empire countries other than herself. *It is no longer* a question of what India stood to gain but of what she stood to lose." It therefore becomes necessary to examine how far this fear of the Indian delegates is justified. The task may be said to involve, for its complete discharge, a detailed examination of the position regarding the exportable surpluses of each of the 30 articles for which India is promised preferences and see how far our export trade in respect of each of them will be affected adversely in the absence of those preferences, which other parts of the Empire will enjoy. But, the basis for the Indian delegates' apprehension can be effectively tested by confining our attention to some of the chief agricultural products of India such as tea, jute, cotton, rice and oil-seeds, for instance.

Tea.—Of the Articles mentioned above, tea occupies the foremost place in regard to Indian export trade with the United Kingdom. Indeed, out of the total value of £ 41·86 millions of Indian articles to which the United Kingdom agrees to give preference, tea covers one half, for the export of tea from India to the United Kingdom is in the neighbourhood of £ 20 millions. In 1929–30, the value of Indian tea exported to the United Kingdom was 23 crores of rupees. The other countries which supply tea to the United Kingdom are Ceylon and Java. Ceylon sends annually tea worth Rs. 18 crores and Java a comparatively small quantity. Assuming that a preference of 10 per cent is given to Ceylon while it is denied to India if she did not accept the Ottawa Agreement, it is absolutely impossible for Ceylon to so expand her tea production as to replace India with its Rs. 22 crores worth of annual export to the United Kingdom and the British people will have to buy Indian tea with the duty added. Even assuming that Ceylon can expand to some extent, the position might at best be reversed and she might be able to supply Rs. 23

crores worth leaving India to supply 18 crores worth. Such supply from India to the United Kingdom must be at an extra cost of 10 per cent to the British consumer. The position of India in tea being strong in the market of the United Kingdom, the higher duty paid by Indian tea will govern the general price level of tea in the United Kingdom. So even Ceylon tea becomes dearer. It is therefore extremely unlikely, almost improbable, that the United Kingdom will tax Indian tea, and make it more costly for her people. Even in the regime of the National Government, there are powerful elements in British politics opposed to further taxing of food and increasing the cost of living. Moreover, the Indian tea industry is mainly in the hands of British capitalists and it is incredible that the United Kingdom will do anything to injure the vast and important interests of the British tea-planters and manufacturers. The Indian part of the tea industry cannot be singled out for being hit and the Indian labour on the tea plantations cannot similarly be injured unless the main British tea interests in India are injured. In the absence of more convincing arguments than are contained in the Report as to why England should think of making Indian tea more costly to her people and of injuring the interests of her countrymen, who have sunk a large British capital in tea-plantations and developed Indian tea trade with the United Kingdom, it must be said that the fears entertained by the Indian delegates in this matter are wholly unfounded. It must be further remembered that there is nothing in the Import Duties Act of 1932 to remove the preference which Indian tea had secured under the Finance Act of 1932, by the mere non-acceptance of the Ottawa Agreement, for articles liable to duties under the older Acts including the Finance Act are excluded from the operation of the Import Duties' Act. So, His Majesty's Government must go out of their way to undo the existing preference to Indian tea, by some action outside the scope of the Import Duties Act. The elaborate plea about Indian tea trade suffering by the non-acceptance of the Agreement therefore seems to be quite unreal to my mind and looks more like propaganda in favour of the Agreement than an argument based on evidence and probabilities.

Jute.—India has a monopoly of raw jute and it is naturally put in the list of articles which are imported into the United Kingdom free of duty from all sources. So, the non-acceptance of the Agreement or the removal of raw jute from the free list will have no effect on it. As for our jute manufactures also, we have a virtual though not absolute monopoly, and the United Kingdom is only a small

purchaser from us. Of the Rs. 52 crores worth of jute manufactures exported by us in 1929-30, the United Kingdom took about Rs. 3 crores worth and no more. So, we send 94 per cent of our jute manufactures to other countries than the United Kingdom. A duty of 10 per cent on our jute manufactures besides increasing the cost to the British consumers, will also affect the British capitalists in India in whose hands that industry is largely concentrated. If the United Kingdom were to tax our jute manufactures, may we not impose an export duty on our raw jute going to her? So, the plea that jute industry and jute trade will suffer by the non-acceptance of the Agreement is also unreal.

Cotton :—In regard to India's raw cotton, the Agreement does not give any preference for the obvious reason that the United Kingdom, by the imposition of import duties on foreign cotton, will increase the cost of production of cloth by Lancashire. Article 8 of the Agreement merely states that the United Kingdom will co-operate with India in schemes for "promoting whether by research, propaganda or improved marketing the greater use of Indian cotton in the United Kingdom." At present, England buys very little of Indian cotton. In 1929, out of Rs. 100 crores worth of cotton imported by the United Kingdom, she purchased only for 4 crores from India. India's chief purchasers of cotton are Japan and China. In 1929, India exported 65 crores worth of cotton, most of which she sold to those two countries. Assuming that by research and propaganda, India can be helped to produce better varieties of cotton, there is ample scope for its consumption by her own mills for the manufacture of higher counts of yarn, for which purpose they now import large quantities of foreign cotton. As regards India's cotton manufactures there is admittedly little demand for them in England. So the non-acceptance of the Agreement will have little adverse effect on our export trade in raw cotton or cotton manufactures, or will its acceptance help much its expansion of export trade in them with the United Kingdom.

Rice :—It is estimated that the Indian Empire (India and Burma) consumes 93 per cent of rice produced and exports only 7 per cent, of which 3 per cent is purchased by the United Kingdom. When Burma is separated from India, the latter's share of trade will be much less. Though the Indian rice, which supplies 1/3 of the United Kingdom's requirements, is cheaper than the American and Spanish rice, which supplies the remaining 2/3, there are other factors which determine consumption, such as methods of packing and polishing, which are no doubt matters of

fashion, but are paramount with the consumer. Spain has, besides, peculiar advantages such as cheap transport facilities by coastal steamers and opportunities for direct contact with the grocers which will make it difficult for India to compete. Even if India's rice is subjected to Import duties, she will not be worse off than America and Spain who will come under the same duties. So, the export trade of India proper (less Burma) in rice, even though it may slightly profit by the preference, will be a negligible factor in estimating the effects of the Agreement. Wheat and other food grains are negligible factors likewise in our export trade.

Oil Seeds :-- India has a virtual monopoly in certain kinds of oil seeds like castor seed, and the United Kingdom is not a large purchaser thereof. In 1929-30, of the Rs. 214 lakhs worth of castor seeds exported from India, the United Kingdom purchased only Rs. 49 lakhs worth. In groundnut also, the United Kingdom is not a large purchaser. In 1929-30, India exported Rs. 16.38 crores worth of groundnut, of which the United Kingdom purchased only Rs. 1.24 crores worth. I consider that India's endeavour should be to crush her oil seeds and not to find facilities in overseas markets for exporting her seed, so that other countries may crush it and send the finished oils into India, retaining the most valuable food and fertilising stuff, the cake, for themselves. There is use for any amount of cake to feed the Indian cattle and manure the Indian soil. With the growth of Indian industries there will be increased demand for her vegetable oils for internal consumption. I consider it a great catastrophe to Indian agriculture and industries to encourage the export of oil seeds and oil seed cakes. So, it is preference to Indian vegetable oils that ought to interest us more than preference to oil seeds. India can and does produce castor oil, cocoanut oil, linseed oil, rape oil, groundnut oil and sesamum oil. But, most of these are now absorbed by the eastern countries and England buys very little and gets her supply of vegetable oils from the continent of Europe. Does the preference offered to these oils help Indian export trade in them with the United Kingdom? It is possible that the enhanced preference which these oils get in the United Kingdom by the duty on such Non-Empire oils being raised from 10 to 15 per cent may help Indian trade in vegetable oils. The report, however, points out that Indian oils have two serious handicaps, namely, expensive packing and high sea freight and it remains to be seen how far the promised preference will expand Indian export trade in those oils with the United Kingdom.

Other articles.—I have taken some of our chief agricultural products as instances in regard to which we may test, in the main, the foundation for the Indian delegates' grave apprehensions about the impending disaster to Indian export trade by the non-acceptance of the Agreement. The position of our export trade in these products with the United Kingdom and the other countries, is such as not to warrant that alarmist view. It is not my purpose to establish that the export trade in no Indian commodity will benefit at all by the preferences under the Agreement. It is possible that on an examination of the case with regard to each of the important articles to which preference is promised, it will be found that in the case of some a certain amount of advantage will be gained by the preferences. Take, for instance, coffee whose position now is very weak in the markets of the United Kingdom. Since 1919, it has been enjoying a preference of 2s. 4d. per cwt and India supplied only 8½ per cent. of the United Kingdom's requirements. The preference is now raised by the Agreement by 7 shillings, that is, to 9s. 4d. a cwt. So our export in coffee may improve to some extent though it is true that the other Empire countries, which also supply coffee to the United Kingdom, which gets 45 per cent. of its coffee from the Empire countries, would enjoy the same preference, and Central America and Brazil are very strong rivals to compete with. Similarly Indian Tobacco may have some benefits by the preference, but India will not suffer seriously even if no preference is given. Take again tanned hides and skins; it is true that our position in the United Kingdom market is strong. In 1930-31, the value of our total export of the commodity was Rs. 6.27 crores, of which Rs. 5.74 crores worth went to the United Kingdom. Nevertheless, our trade in tanned hides and skins not being altogether free from competition, the preference may give it some advantage. But, taking our export trade in the articles covered by the Agreement as a whole, it must be said that even though the Agreement may benefit some of the articles, the non-acceptance of the agreement, if dictated by other paramount economic considerations, will not seriously jeopardize our export trade in the preferred articles.

Expansion of our Export Trade.—So much in regard to the negative argument against the Agreement. Then there remains the positive aspect of the case for the Agreement, namely, that its acceptance will result in a substantial expansion of our export trade and increased agricultural production in regard to the articles which obtain preference under the Agreement. Here again, the legitimate line of enquiry to follow will be to examine what

margin there is in the total import trade from all countries of the several articles into the United Kingdom which India can capture by replacing the other countries from which the United Kingdom now obtains her supply of those articles. This enquiry, on further analysis, falls into two parts. We have first to determine what additional part of that portion of supplies, which the United Kingdom gets in these preferred articles from countries other than India, can be captured by India, *on the basis that India's production and exportable surplus remain the same as now*. The results obtained from this enquiry will only disclose what part of our existing export trade in these articles is divertable to the United Kingdom from the Non-Empire countries. I do not think that the possibility of such diversion alone, even if established, will be urged to be a sufficient reason in favour of accepting the Agreement. So it is not a fruitful enquiry on which the defenders of the Agreement need over-stress, for it cannot obviously justify by itself either the concluding or the ratification of the Agreement. The really important part of the enquiry must be what fresh stimulus India will get for her productive activity in the articles which obtain preferences and how much more can she produce to replace the foreign competitors in these articles in the Empire markets. The Report does not throw much light on this aspect of the question, which is really the crux of the matter. There are mere vague generalisations of the possibilities of expansion of India's production and export trade in some of the articles under the preference scheme. Let me take one outstanding example to which the Report devotes considerable space to test the soundness of the reasoning adopted in the Report. †

Linseed.—Linseed is said to be an article in which there is considerable possibility of expansion of production and of finding larger market in the United Kingdom. It is true that the United Kingdom is a large buyer of linseed for the sake of its oil which is required for industrial purposes and for its cake as food stuff. She gets the bulk of her supply of linseed from Argentine and only about $\frac{1}{4}$ of her requirements from India. The total value of seeds imported by the United Kingdom in 1929-30 was Rs. 6.51 crores, out of which seed worth Rs. 1.8 crores was from India and Rs. 4.7 crores from Argentine. In that year, India exported Rs. 5.72 crores worth of linseed, of which 3.92 crores was taken by France and Australia. Expressed in bulk instead of value, during the quinquennium 1926-30, the average imports of linseed into the United Kingdom was 314 thousand tons a year. In the same period, the average export from India to all countries was 215 thousand tons a year, of which $\frac{1}{4}$ or about 50 thousand tons only went

to the United Kingdom. The question is whether India can displace Argentine to any appreciable extent with the help of the 10 per cent preference and increase her annual production of linseed to export larger quantities to the United Kingdom, without losing any part of her trade with France and Australia. Only in that contingency will there be a real expansion in our export trade in linseed. The report asserts in a very general way that "India can without difficulty meet a very large part of the United Kingdom's requirements" but gives no reasons in support of the statement, except the belief in "the extraordinary elasticity of Indian agricultural production in response to variations in world demands."

This easy optimism is scarcely justified. Indeed, India's agricultural and marketing enterprises are perhaps the least organised in the world and are certainly not superior to those of Argentine. The materials placed before the Royal Commission on Agricultural and the Indian Central Banking Enquiry Committee disclose a depressing story about the capacity of India's products to make headway in overseas markets in competition with the foreign countries. In the case of linseed itself, the Indian production received a serious setback in recent years; while it reached a figure of 533 thousand tons in 1922—23, it has come down to 237 thousand tons in 1930—31, evidently due to want of demand for it in overseas markets. So to prophesy that a 10 per cent preference will enable India to enlarge the area under linseed by 2 million acres to obtain an additional annual production of 250 thousand tons is a hazardous economic venture. In the Argentine Republic, large British capital is invested and the Republic is negotiating for a separate trade agreement with the United Kingdom. It is not unlikely that with subsidies, rationalisation of agriculture, greater facilities for assemblage and transport and other forms of State Aid, Argentine can get over the 10 per cent preference and make her linseed cheaper than Indian seed in the United Kingdom's market.

There are again the tremendous factors of price level and monetary policies which may upset any calculations in regard to our capacity to capture larger markets for our products. Sir Attul Chatterjee himself pointed out in his opening speech at Ottawa that "the benefits to production and trade of a preferential system may easily be swept away, unless it is supported by a monetary and credit policy, which assures a reasonable measure of stability of general wholesale prices."

These general considerations which apply to linseed apply to many other articles. Here again, it is unnecessary to deny that in the case of no article, the Agreement will help. But, the effect on India's export trade in the shape of real expansion seems to be small. In some of the articles to which preference is promised, there is keen competition from the Dominions (See Group II foot note, page 5). Where the Dominions would enjoy the same preference as India, the latter cannot make much headway. In some others, there is little scope for expansion of export trade owing to India's limited capacity to produce them. (See Group III, foot note, page 5). Attempts were made by some critics of the Agreement to arrive at some mathematical results as to what the extent of the immediate and potential gains by the acceptance of the Agreement to Indian export trade will be and what the probable loss, by its non-acceptance. One estimate puts such gain at Rs. 13 crores per year and such loss at Rs. 8 crores a year. But, I consider those estimates very inconclusive as they are necessarily based on surmises and are not expected to take note of several extraneous factors which may upset the calculations. So, it is in my opinion far better not to widen the sphere of controversy by clothing hypothetical estimates with the dignity of mathematical conclusions. The other considerations adverted to by me are sufficient to justify the conclusion that both the negative and positive tests have failed, and that on the first part of the Agreement, namely, *preference to India by the United Kingdom*, it may be stated our export trade will not be appreciably jeopardized by the non-availability of those preferences, nor will it appreciably expand by coming under the Agreement.

Two outstanding factors :—In coming to these conclusions, a consideration of supreme importance, namely, how this Agreement between India and the Empire countries, which involves increase of duties on foreign goods, will be received by our non-Empire customers, to whom we sell 60 per cent of our exportable surpluses and what reactions it will have on our trade with them, has been left out. It will be adverted to in my general survey of the Agreement as a whole, for it is a more appropriate context. Then there also remains another crucial question; assuming the preferences we get under the Agreement will operate beneficially to some of our exportable commodities, what has India to give in return for such preferences? This is the topic which falls for consideration under part II of the Agreement.

PART II OF THE AGREEMENT

Preferences to the United Kingdom by India.

Articles 10 and 11 of the Agreement and the related schedules F. and G. embody the undertakings given by the Government of India to His Majesty's Government in regard to preferences which certain British goods should enjoy in India. Article 10 provides for

preference being given to 163 classes of goods enumerated in schedule F* and imported from the United Kingdom into India, the

* Prof. C. N. Vakil of the Bombay University has grouped them into 58 classes and divided the 58 classes into 2 categories, namely, articles mainly imported from the United Kingdom and articles mainly imported from countries other than the United Kingdom. They are given below:—

A.—ARTICLES MAINLY IMPORTED FROM THE UNITED KINGDOM.

Major: Total imports exceeding one crore.

- | | |
|---|--|
| 1. Cotton piece-goods. | 11. Drugs and medicines. |
| 2. Cotton twist and yarn. | 12. Apparel, haberdashery and millinery. |
| 3. Iron and steel goods. | 13. Paints and painter's materials. |
| 4. Machinery and mill-work. | 14. Building and Engineering materials. |
| 5. Instruments, Apparatus and appliances. | 15. Cycles. |
| 6. Hardware. | 16. Earthenware, Porcelain, furniture and cabinetware. |
| 7. Woolen manufactures. | 17. Stationery (excluding paper) |
| 8. Paper. | 18. Ale and Beer. |
| 9. Rubber manufactures. | |
| 10. Chemicals. | |

Minor: Total imports less than one crore.

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| 19. Toilet requisities. | 26. Oil cloth and floor cloth. |
| 20. Toilet Soap. | 27. Cordage and Rope. |
| 21. Leather manufactures (excluding boots and shoes). | 28. Perfumed spirit. |
| 22. Asbestos. | 29. Leather cloth and artificial leather. |
| 23. Confectionery. | 30. Fish oil. |
| 24. Filled cartridges and cartridge cases. | 31. Engine and Boiler packing. |
| 25. Brushes. | 32. Cocoa and Chocolate. |
| | 33. Paint solutions. |

B.—ARTICLES MAINLY IMPORTED FROM COUNTRIES OTHER THAN THE UNITED KINGDOM.

Major: Total Imports exceeding one crore.

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| 34. Copper. | 38. Artificial silk piece.goods. |
| 35. Motor vehicles. | 39. Aluminium. |
| 36. Brass and similar alloys. | 40. Canned and bottled provisions. |
| 37. Silk piece-goods. | 41. Mineral lubricating oil. |

Minor: Total imports less than one crore.

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| 42. Condensed and preserved milk. | 50. Tinned and canned fish. |
| 43. Boots and shoes. | 51. German silver. |
| 44. Silk yarn. | 52. Canned and bottled fruit. |
| 45. Toys and requisites for games. | 53. Natural essential oil. |
| 46. Umbrellas and Umbrella fittings. | 54. Metal buttons. |
| 47. Vegetable and nonessential oil. | 55. Ghee. |
| 48. Cutlery. | 56. Smokers' requisites. |
| 49. Zinc. | 57. Cork manufactures. |
| | 58. Synthetic essential oil. |

margin of preference being 10 per cent on goods other than motor vehicles and 7½ per cent on motor vehicles. Article 11 deals separately with British cotton, silk and artificial silk goods enumerated in schedule G. The preference in the case of these goods also is to be 10 per cent and they are not now subjected in India to any scheme of protection. So, they might well have been included in schedule F. But the parties to the Agreement have reserved freedom to the Government of India to fix suitable differential duties on British and non-British cotton, silk and artificial silk goods, so as to give adequate encouragement to the British ones after the Tariff Board disposes off the reference now pending before it in regard to cotton and artificial silk goods and after the recommendations of the Board are considered by the Government of India. So, our attention may now be confined to the commodities listed in schedule F.

The range of Preference to British Goods.—The articles in schedule F cover a very wide field of imports into India. The special merit claimed by the Report for schedule F, from the standpoint of India, is this: Goods which are at present free of duty, or dutiable at specially low rates or subject to protective duties under the Indian Tariff system are excluded from the operation of the preference within the scope of schedule F. These are chiefly articles of machinery which help Indian agriculture or establishment of industrial plant in India.* The British Indian Delegation express their satisfaction at this achievement in these words: "It is in this way that we have been able to attain the objects which, from the outset, we set before us, viz., that, if an agreement was made, the preferences given should not involve a departure from the established principles of Indian Tariff Policy." But the really vital feature about Schedule F is that it covers such a very wide range of British imports as to practically include most manufactured goods in daily use in India. This aspect which is the most important objection to the Agreement, has not drawn any comment from the Indian delegates. In addition to these new preferences, it is well-known that the United Kingdom has been enjoying very important preferences in India already in the case of her two most important industries, namely, steel and cotton textiles. When protection was given to Indian steel industry by the Act of 1927 and to Indian Cotton industry by the Act of 1930, British steel and cotton goods

*Agricultural implements, dairy and poultry farming appliances, machinery including textile machinery and apparatus, printing and lithographic material, railway plant and rolling stock.

were given preferences over non-British steel and cotton goods. The preferential duties thus fixed on steel will remain in force till March 1934 and those on cotton goods till March 1933. The Indian cotton industry is now the subject of a fresh enquiry by the Tariff Board and a revision of the present preferential duties on imported cotton goods which were protected by the Act of 1930 would follow in the wake of the result of that enquiry and will become operative immediately after the expiry of the 3 year period ending with March 1933. It is not unlikely that the United Kingdom will receive enhanced preferences. In these circumstances, the admission into India, free of duty or at lower duties, of agricultural implements and machinery, becomes a negligible concession in the Agreement, which gives preferences to British goods, admittedly to the extent of at least 26 per cent. of the United Kingdom's total import trade with us.

An Emergent Supplementary Agreement.

In the case of steel and iron industry, no Agreement was concluded at Ottawa, it is said, owing to its "importance" and "difficulty," and the British Indian delegates were invited to England to settle it there with His Majesty's Government. The results of the further negotiations thus carried on in England are embodied in Chapter VI of the report and in a Supplementary Agreement. Notwithstanding the fact that the statutory enquiry into the steel industry will be held in 1933 in India and a revision of the duties will be taken up in the Budget session of the Assembly in 1934, some urgent necessity was discovered in England at the post-Ottawa negotiations to enter into a supplementary Agreement in regard to steel industry and to give important preferences to a certain class of British steel goods in the interval between now and March 1934, when the operation of the Indian Steel Protection Act of 1927 expires. The effect of this Supplementary Agreement in a nutshell is this: India is to export sheet bar (semi finished steel product used in the manufacture of galvanised sheets) to the United Kingdom to enable her to manufacture galvanised sheets (finished products) and to reimport the sheets into India at the preferential rate.

Till surcharges on import duties were imposed by the Indian Finance (Supplementary) Act of 1931, the duty on all galvanised sheet imported into India from any source was Rs. 67 a ton. With the surcharge, it has risen to Rs. 83-12-0 a ton. This has undoubtedly given a great impetus for the manufacture of galvanised sheets by the Tata Iron and Steel works. In fact, in India's markets, Tata's galvanised sheets are largely in evidence. Now, under the Supplementary

Agreement. the following preferential rates are agreed to by Indian delegates to be in force till the end of March 1934 when the present Steel Protection Act expires.

Sheets not made in the United Kingdom ...	Rs. 83-12-0 a ton
Sheets made in the United Kingdom with sheet bar obtained from other countries than India	Rs. 53-0-0 a ton
Sheets made in the United Kingdom from Indian sheet bar.	Rs. 30-0-0 a ton

The precise economic implication of the arrangement is thus set out in the Report itself, "Any increase in the sale of British galvanised sheet in India should be accompanied by an equivalent increase in the sale of Indian sheet bar in the United Kingdom." The British manufacturer must have an inducement to use Indian sheet bar when making sheet for India's markets. Lest continental competition in the Indian markets in this commodity with the British Producers should be so great as to overcome even these enhanced preferences, a special provision is made in the Agreement to enable the Government to increase the duty on Non-British galvanised sheets from Rs. 83-12-0 to any extent, to protect the British sheet industry. This power is to be exercised by the Government of India promptly and with a heavy hand. Provision is also made to permit the Government of India to impose additional duty on British sheet also, if the British manufactures resort to cutting down the price below a certain basic level so as to hit the Indian sheet industry; but a significant rider is added to the latter recommendation to the effect that "the danger is not a possible contingency." The justification for this Emergent Supplementary Agreement is thus put in the Report: "If we had not been able to reach the agreement, the almost inevitable result must have been the erection of new iron and steel furnaces in the United Kingdom and the accentuated establishment of additional galvanising plants in India; thereby aggravating the conditions from which the world is suffering." But, to an Indian, the plea will not, I believe, appeal. The expansion of India's galvanised sheet plant will be to meet the requirements of the home market, while the new furnaces in the United Kingdom are contrived to capture Indian and other external markets. It must be added that this explanation about *the dangers of the accentuated establishment of additional sheet plants in India* is a bit inconsistent with an earlier assumption that "even when

the new equipment at Jamshedpur is in full operation, half the consumption (of India) would still have to be met from outside India." Then, what is the danger in leaving the Indian sheet industry to expand till it is able to supply half the home market, (its utmost) and to whom is such expansion a danger?

I have devoted so much space to this Supplementary Agreement regarding galvanised sheet industry, because it gives a most penetrating insight into the manner in which the British delegates set about their work in gaining their vital objects through the Agreement. Incidentally, it may help to dispel the belief that is being instilled into some minds that the Indian delegates outwitted the British delegates and drove a clever bargain, the secrets of which it will not be in India's interests to reveal just at present. This Supplementary Agreement not only creates an increased market for British galvanised sheets in India, but will also give a double freight to British ships in carrying Indian sheet bar to England and bring it back to India in the shape of galvanised sheets. This is but an illustration of the traditional policy of encouraging the export of India's raw and half finished commercial products in order to send them back to India as finished goods for Indian consumption.

The preferences, which the United Kingdom gets under the Agreement, are said to extend to British imports of the value of £ 17·4 millions an year. This estimate excludes British imports of steel and cotton goods into India which at present enjoy preference. They amount to about £ 26·6 millions an year. The preference therefore really extends to British imports of £ 44 millions and not to £ 17·4 millions. In contrast to this mode of stating the British case, the value of Indian goods receiving preferences under the Agreement is given at £ 41·8 millions, though Indian tea of the value of £ 20 millions and other articles like coffee and tobacco have also been receiving preferences in England as British steel and cotton goods have been receiving in India. The reason given in the Report for this difference in the method of stating the case for India and the United Kingdom is that it is unfair to the United Kingdom to add to the value of the goods receiving preferences under the Agreement the value of steel and cotton goods entering India subject to preferential duties. The Report says: "This is a crude test and the fairness of the Agreement cannot with any exactness be measured in this way." In addition to this plea it is further stated in the Report that 'the value of the imports from the United Kingdom

which would actually be benefited by the preferences is somewhat over-stated, while the figure given for the value of imports into the United Kingdom from India is more precise !

To understand the effects on India of the preference given to British goods, it is necessary to know two things : (1) what part of the total imports into India of the goods in which the United Kingdom gets preference comes from the United Kingdom, and what part from the rest, and (2) what is the relative position of the United Kingdom in regard to the goods she imports into India in comparison with the other countries, which import the same kind of goods into India. It is estimated, taking the year 1929-30, that the total value of the imports into India, of the goods coming under the scheme of preference, is Rs. 157·39 crores. Out of these, those from the United Kingdom amount to Rs. 83·04 crores and those from other countries to Rs. 74·44 crores. In regard to the relative position of the British imports in comparison with those of other countries, it is stated that, of the 58 articles into which British imports are grouped, 33 come mainly from the United Kingdom and 25 mainly from other countries. (Vide foot note to page 16). As in the case of the Indian exports to the United Kingdom, some attempts are made to arrive at mathematical results as to the estimated margin of India's import trade, which the United Kingdom may capture with the help of the preferences. One estimate is that out of the present margin of 74 crores, the United Kingdom may capture about Rs. 33 crores. For the same reasons that I gave in regard to similar estimates of the extent to which the Indian exports may capture the margin in the United Kingdom, I consider that these estimates also are inconclusive.

There is one more important term of the Agreement which has to be mentioned in dealing with this part of the Agreement. What is guaranteed by India to the United Kingdom under the arrangement is merely a *margin* of preferences as is the case with the Indian goods receiving preferential treatment in the United Kingdom under the older Acts and not any particular level of duty. This margin can be created either by reducing the present level of duty on British goods (other than motor vehicles) by 10 per cent, leaving the duty on non-British goods as it is, or by increasing the duty on the Non-British goods by 10 per cent, leaving the duty on the British goods as it is, or by a combination of both the methods. It is the last method that is adopted by the Government of India in the proposed Ottawa Tariff Bill. Taking the present level of revenue

duties applicable to British and Non-British goods at 25 per cent. *in valorem*, the proposal amounts to bringing down the duty on British goods to 20 per cent and increasing the duty on Non-British goods to 30 per cent, thus creating the 10 per cent margin. All that is guaranteed being a 10 per cent margin, it will be theoretically open for India to tax British goods at 100 per cent and Non-British goods at 110 per cent. How these several methods of creating the requisite margin affect the Indian consumer and Indian trade, commerce and industries, will be dealt with later in the general survey of the Agreement as a whole.

The laborious process through which we have gone to ascertain whether the preferences given to Indian articles by the United Kingdom will really benefit India's export trade and if so to what extent, need not be gone into in connection with the second part of the agreement, namely, the preferences to the United Kingdom by India. It is nobody's case that the United Kingdom will not profit by the preferences given by India to her goods. In fact it is common ground that it would. The British Indian delegates concede it and the British delegates feel happy over it. So, all that remains to be ascertained is, while these preferences to British imports into India unquestionably benefit the United Kingdom, what effect will they have on India. This will be the main question to which the general survey of the Agreement will be devoted.

PART III OF THE AGREEMENT.

India and the Colonial Empire.

Articles 9 and 12 with the related schedules E and H contain the undertakings given and received by His Majesty's Government and the Government of India as regards the trade between India and the Colonial Empire. For the purpose of this Agreement, the expression "Colonial Empire" must be understood to include the Non-Self-Governing Colonies, Protectorates and certain Mandated Territories. This part of the Agreement need not detain us long. There is very little reciprocity involved in it. Certain parts of the Empire like Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland and part of N. Rodeasia are precluded from giving any trade preferences to other countries by international conventions. Other Colonies and Protectorates have to examine the question of preferences to India with special regard to their own tariff policies. Parts of the Empire, like the Strait Settlements and Honkong, offer special difficulties by reason of their extensive entrepot trade which make it difficult to ascertain whether a particular article comes from that Colony.

Moreover, there are no statistical trade returns from the colonies. Any attempt to ascertain the value of the preferences exchanged between India and the Colonial Empire is therefore not easy. So, the precise nature of the action which His Majesty's Government is expected to take under article 9 and that which the Government of India is expected to take under article 12 are to be awaited.

PART IV OF THE AGREEMENT.

Reciprocal undertakings between the United Kingdom and India .

Reciprocity.—Articles 13 and 14 are reciprocal and concern the Government of His Majesty and the Government of India. By article 13, His Majesty's Government undertakes to give to India any tariff preference accorded to the Dominions and the Government of India undertakes to extend to the United Kingdom any tariff preferences which they may accord to any Dominion. This is the natural corollary of an Inter-Imperial Scheme of reciprocal trade preferences. It is, generally speaking, the present policy of the United Kingdom to give the same preference to the Dominions and India, and, in future, according to the spirit of the Agreement, the policy will be to extend similar preferences to the Colonies, Protectorates and Mandated Territories as well. It will indeed be necessary to do so in the interests of the British Consumers themselves, so that all parts of the Empire may compete on the same tariff level in the markets of the United Kingdom. If preference is given to the Dominions' goods excluding Indian and the colonial goods of the same description, it would obviously enable the Dominions' producers to take advantage of the absence of competition from India and the colonies and put up the prices to the British Consumers. Britain being committed to a policy of reciprocal preferences to the Dominions, its extension to India and the colonies is matter of necessity to the United Kingdom, in order to safeguard the interests of her own consumers. So, the preferences given to India and promised to the Colonial Empire under the Ottawa Agreement, far from being a burden on the British consumer, essentially operate as safe-guards in his favour. Whether the preferences which the Government of India has agreed to give to the United Kingdom in return operate similarly, that is, not as a burden on the Indian Consumer but as a safeguard to his interests, is the question. If it is so, there is a case of real reciprocity and India must have been eager to accept the Agreement. It is, however, strange that, while all the British interests in India and England hail the Agreement with enthusiasm

and put forth strenuous efforts to ensure its being quickly implemented by necessary legislation in India, most Indian interests and Indian economists are opposed to the Agreement in its present form. Unless all of them are suffering from economic illiteracy or intellectual dishonesty or mental aberration, there must be some good justification for the practically unanimous Indian opposition to the Agreement.

Freedom to terminate the Agreement.—Article 14 enables His Majesty's Government and the Government of India to terminate the Agreement by 6 month's notice of denunciation. Much is made of this term of the Agreement, and it is pressed largely into service as one of the arguments in favour of accepting the Agreement, at least as an experimental measure, to test whether its defenders may not, after all turn out to be better judges of its benefits to India. It will perhaps be found, on a correct examination of the constitutional position as to the powers of the legislature of a country entering into a trade agreement with another, that the power to terminate an agreement on a reasonable notice of denunciation, in the interests of the fiscal policies of its country, will remain in tact, notwithstanding the absence of an express provision in the agreement to that effect. This seems to have been the view expressed by Sir John Simon in the course of the debate in the House of Commons on the Ottawa Bill. Apart from this constitutional position, the very idea of ratifying the Agreement, if there is any likelihood of its being terminated six months hence, is preposterous. In fact, Sir John Simon ridiculed the suggestion to introduce a similar clause of denunciation in the agreements with the Dominions, which are made for five years, by quoting the following epitaph in a Country churchyard on a baby that died soon after its birth :

“ If I should be so soon done for
I wonder what I was begun for.”

Moreover, once a trade agreement is ratified, numerous vested trade interests will grow up under it. It will be a futile agreement if it should be otherwise. Our experience is that, even without complications arising from trade agreements, it is an uphill task for the Indian Legislature to adjust her tariff policy to the real economic needs of India. How much more difficult it should be to do so, when new rights are created under solemn trade treaties which are acted upon for a certain period, must be evident to everyone who bestows any thought to the question.

A General Survey of the Agreement.

A Plea to Postpone the Agreement.—The Scheme of the Ottawa Agreement is said to differ from the Imperial Preference Scheme which Lord Curzon's Government said in 1903 was detrimental to India's interests and which the majority of the Indian members of the Fiscal Commission also rejected in 1922. It is true that the Agreement does not embody a scheme of general preferences but adumbrates a scheme which is limited to selected commodities and based on reciprocity. Taking the Agreement as a whole and the wide range of the British imports which are to receive preference in India, the prevailing Indian opinion seems to be that the main objections urged against the adoption by India of the old plan of Imperial Preference still hold good. The fundamental consideration to be borne in mind in connection with a proposal to commit India to any form of Imperial preference is to be found in the dissenting minute of the majority of the Indian members of the Fiscal Commission. They say "The principle of Imperial Preference implies the uncontrolled power of initiating, granting, varying and withdrawing preference from time to time consistently with each country's interest and on lines which are not injurious to itself." If this test is accepted as correct, the defenders of the Agreement must necessarily maintain that India has such power and that her Government acts solely in her interests. In any case they seem to say that India now virtually enjoys fiscal autonomy as a result of certain recent developments. The fiscal convention that the Secretary of State is not normally expected to interfere in matters on which the Indian Legislature and the Executive are in agreement, the creation of the Tariff Board to investigate schemes of discriminating protection to enable the Indian Legislature to pass suitable measures to protect Indian industries and the holding out of an assurance that in no case a preference will be allowed to diminish the protection which an Indian industry requires are claimed by the supporters of the Agreement to be fundamental factors in the present fiscal policy of India which were not in operation either in Lord Curzon's time or at the time when the Indian Fiscal Commission reported. These developments which emerged from the recommendations of the Joint Parliamentary Committee and of the Industrial and Fiscal Commissions, it is said, have altered the situation so radically that the test laid down by the Fiscal Commission about India's fitness to consider schemes of preference may now be taken to be satisfied.

But the people of India do not concede that these developments have resulted in securing to India in practice, the fiscal freedom necessary to initiate, grant, vary or withdraw preference from time to time to promote her true economic interests. It is mainly on this ground that Indian opinion urges the postponement of the consideration of the Agreement by the Indian Legislature, till responsibility is introduced into the Central Government, under the impending scheme of constitutional reforms. The objection to this request, namely, that it is impossible for the United Kingdom to wait till then and that the scheme of reciprocal preferences in the case of the Dominions and non-reciprocal preferences in the case of India cannot be simultaneously, pursued even for a temporary period, is utterly unconvincing. What will be the magnitude of the possible financial loss which England may sustain by exempting India from the operation of the Import Duties Act for two or three years more? To-day, does not the United Kingdom enjoy statutory preferences to her steel and cotton goods? In addition to these, has she not been enjoying and will she not continue to enjoy, other substantial preferences, such as the administrative encouragement given to the purchase of British goods for the public and semi-public departments of the State and the direct and indirect advantages of a creditor country by reason of the large investments of British capital in India, not to speak of the gains arising from the manipulation of the currency policy of India? So, the loss of import duties which the United Kingdom may sustain by allowing free import of Indian commodities till the new constitution is brought into force will be as dust in the balance when weighed against the stupendous fiscal benefits which the United Kingdom received and still receives from India.

It would appear from the published proceedings of the First and Second Sessions of the Round Table Conference, specially those of the Federal Structure Committee, that it was all along contemplated both by the British Commercial interests and the Indian delegates that a Commercial Treaty or a Trade Agreement between India and Britain should follow the new constitution in which the financial safeguards necessary in the interests of India and Britain would be settled. But, for reasons best known to His Majesty's Government, the process is reversed and India is being committed in advance of the constitutional reforms to a far reaching policy of Imperial Preference, to the detriment of the future of her fiscal freedom.

Case for the Agreement examined on its merits :—It is urged at the outset that India could not possibly refrain from participating in

the Ottawa Conference for she could not stand out of a scheme of trade preferences in which all the other Empire countries join and face their competition in commodities in respect of which she will be deprived of the benefit of the preferences. The answer to this plea, as already stated, is that the situation created at Ottawa is not of India's making. Nevertheless, assuming that in the circumstances in which she is placed to day by the action of other Empire countries, it becomes inevitable for India that she should enter into some kind of trade agreement with the United Kingdom, the question still remains whether the particular Agreement concluded at Ottawa is one which it is obligatory on her to accept. The very intention of the proposal that it should be ratified by the Indian Legislature before it becomes operative is that India must have the freedom to examine it on its merits and to accept it only, if it is beneficial to her on the whole and to reject it, if it is not. What then are the grounds urged in favour of its acceptance ?

The positive and negative virtues claimed for the Agreement may be thus summarised :—

- i. It helps India to *retain* her export trade in the concerned commodities with the Empire countries, which will otherwise slip away from her. It is also calculated to *expand* the total volume of India's export trade in those commodities which receive preference and will increase her present level of production.
- ii. It does not interfere with the protection afforded to the Indian industries.
- iii. It does not interfere with India's freedom to shape her tariff policies ;
- iv. It brings about industrial co-operation between India and the Empire countries ; and
- v. It helps the revival of world trade.

So let us examine the validity of these claims.

(i) *Retention and Expansion of our Export Trade* :—In considering Part I of the Agreement, the position of our principal exportable commodities in the World markets was examined ; it was found that the non-acceptance of the Agreement would not seriously dislocate our export trade with the Empire countries and that its acceptance, while it might result in a partial diversion of that trade

from the non-Empire to Empire countries, would not lead to any substantial expansion of our trade, or increase of our production. Further it has not been established that a preference of 10 per cent will enable the several preferred Indian products to successfully overcome in Britains' market the competition of the Dominions or of the foreign countries which are much better organised in Agriculture and Marketing, in many cases with substantial State Aid. India's agricultural products are mostly consumed internally and except in the case of cotton, tea, jute, oil-seeds and tobacco India is not competing with other countries in overseas markets to any large extent. The position with regard to these commercial crops in the United Kingdom was dealt with under part I of the Agreement.

The question what effect the Ottawa compact between India and the Empire countries would have on our export trade with non-Empire countries is an essential test in this connection. The relative position of our export trade as a whole with the Empire countries and non-Empire countries is somewhat like this :—We sell about 40 per cent of our exports to the United Kingdom and the other Empire countries put together. Out of this, the share of our export trade with the United Kingdom might be put down on the average at 25 per cent of our total export trade though since 1931 it has risen slightly. Thus, Britain is our single largest purchaser, but the other countries put together buy from us three times as much as she does. Therefore, the effect of a trade agreement with His Majesty's Government on our large export trade with other countries must necessarily form a vital consideration in determining whether we should accept the Ottawa Agreement or not. Nevertheless it is most surprising that the Report should have practically ignored this aspect of the problem. India has secured preferences to some of the commodities imported into the United Kingdom by her offering similar preferences to the commodities imported from the United Kingdom into India. In other words, India has to erect higher and more extensive tariff barriers against the inflow of non-Empire goods into her market. The effect of this must be the diminution of the import trade of those countries with India, for they have to compete with British goods in Indian markets with a load of at least 10 per cent on the prices of their goods. The non-Empire countries would certainly not like this arrangement, whatever else they may do or not do. It is too soon to say what action they may take to undo the effects of the Agreement. Assuming that retaliation is not a sensible

proposition in trade and that India's exports being chiefly raw products, which possess food and industrial value to the purchasers, the non-Empire countries will not boycott them, there still remains the probability that countries which are forced to sell less to us will be forced by the sheer operation of economic factors to buy less from us. So, if we apprehend that as a result of the operation of the Agreement in its present form there may be reduction in the demand for our exports to the non-Empire countries, whose *import trade* with us is hit by the Agreement, it cannot be said that those apprehensions are baseless. In any case, it rests heavily on those who advocate the acceptance of the Agreement to make out that *our export* trade with the non-Empire countries will not be dislocated or diminished by the operation of the Agreement.

It is unnecessary to give detailed figures about the relative volumes of our foreign trade with the United Kingdom and other countries. To show the magnitude of the problem it is enough if we know the position in regard to a few important countries. In the year 1929-30, the figures for which are throughout adopted in the Report, our export trade with the United Kingdom was 21.9 per cent of our total export trade, while the proportions for Germany, the United States of America and Japan were 8.8, 11.6, and 10.2, respectively. In other words, these three non-Empire countries alone absorbed 30 per cent of our total exports as against the 21.9 per cent absorbed by the United Kingdom. In the same year, these three countries did so much as about 25 per cent of our total import trade with us. Our export trade with the United Kingdom has practically remained stationary in the last two decades; the pre-war average was 25.1; post-war average till 1926-27 was 24.2 and in 1930-31, it was 24 per cent. On the other hand it has been growing with other countries. The pre-war average for the three non-Empire countries named above (Germany, the U. S. A., and Japan) was 24.8, the post war average till 1926-27 was 30.2 per cent, which level it still maintains. In regard to our import trade, the position is even more crucial. The pre-war average of the imports into India from the United Kingdom was 62.8 per cent of our total imports; its post-war average till 1926-27 was 57.8 per cent. It has been declining further since then and in 1930-31, it was no more than 37.2 per cent. It stood at 35.4 per cent at the time of the Ottawa Conference. Thus in these two decades, the United Kingdom's share has come down from 63 per cent of our total import trade to 35½ per cent. So the non-Empire countries which are purchasers of 60 per cent of our

exports are also supplying us with more than 50 per cent of our needs in imported manufactured goods. The three countries above named alone supply 25 per cent. It is in relation to these factors that we have to examine the effect of the Agreement on our export trade with the non-Empire countries. It seems to be a fair and reasonable inference to draw from these facts that the import trade of the non-Empire countries with India will diminish by reason of higher duties on their goods and that such diminution will lead to a reduction in the demand for our commodities by those countries and a contraction of our export trade with them.

(ii) *Protection to Our Industries*:—The Report, it is true, contains assurances to the effect that the preferences will not be allowed to impair the protection afforded to our industries. It is impossible not to make this concession in theory; both the majority and the minority of the Fiscal Commission have laid this down as a condition precedent to the adoption by India of any scheme of Imperial Preference. All the Dominions have claimed in unequivocal terms that not only their existing industries but also industries "to be established hereafter," must in no way suffer by the Agreement in the matter of protection needed by them. So a different rule cannot be laid down in the Agreement for India. But the real question is will this assurance operate in India in practice in the same way as it does in the case of the United Kingdom and the Dominions. The plain answer to this simple question depends upon answers to two other plain questions; (a) Has the Indian Legislature the same powers to give protection to Indian Industries by tariff legislation as the legislatures of the United Kingdom and the Dominion have? (b) Even if it has such power in constitutional theory, is it in a position to exercise it in practice in accordance with the wishes of the people of India and solely in their interests? The answers to these questions must obviously be based on the past and present experience of the working of the Indian Legislature in matters fiscal. It constitutes the most important and exciting chapter in the Economic History of India. The outstanding feature of that chapter is that the decisions of the Indian Legislature during the last century and a half, in regard to protection to and development of Indian industries, have been mainly influenced by considerations of their reactions on the vested interests in India of British Industries. The textile industry is perhaps the most conspicuous example. The latest act of the Legislative Assembly in regard to it is to secure preference to the British cotton textiles, over the non-British ones, although the Indian Tariff Board did not make any such discriminating proposal. Throughout

the Report it is said that the preference to Britain's cotton and steel was given in the "Interests of India". But nowhere was it explained in what way it was to India's interests. The implication is perhaps that the Steel Protection Act and the Cotton Protection Act would never have been passed but for the preferences given to the British steel and cotton goods and it was therefore to the interest of India in that sense to get those Acts passed by conceding those preferences. I am aware that Sir George Rainy put forward in 1930 several grounds in favour of the preference to British Cotton Goods benefit to the Indian consumers was one. But those grounds were disproved by later examination.

The extremely difficult position in which the Indian Legislature finds itself to-day to reconcile the industrial interests of India and of the United Kingdom, will become, if anything, more difficult as a result of the Agreement. The increase of our export as well as our import trade with a single country, the United Kingdom, which is aimed at by the Agreement, will make the dependence of India for her overseas trade on the United Kingdom greater and consequently the vested interests of British manufacturers in India will also become greater. The opposition from that quarter to any demand for protection to Indian industries, which has always been and is still serious, will naturally become intensified more and more, as the interests of British manufacturers in Indian import trade become larger and larger. They will neither agree to Indian industries with which they compete getting effective protection nor to a reduction of tariffs once imposed on non-British imports, so long as they benefit British goods, although they may hit the Indian consumers. So the assurance that any article for the manufacture of which in India, protection may be desired by India can be put on the list of protected articles and removed from the preference list of the Agreement is a theoretical concession of little practical value to India at this stage and the difficulties for giving protection to Indian industries will as a matter of fact become greater by the acceptance of the Agreement.

The industries which are at present protected in India are very few, and in the case of the two most important protected industries, Steel and Cotton, the protection was secured by concession of substantial preferences to Britain to the manifest prejudice of the of the Indian consumer. So the future worth of the assurance of protection to Indian industries not being impaired by preference remains to be tested while its present worth is little.

In connection with this aspect of the problem it must be stated that the actual method proposed to be adopted to create the prescribed margin of preference to British imports namely, the reduction of duties on British imports by 5 per cent., and raising those on non-British imports by 5 per cent. may have an adverse effect on some of the industries which are now sheltered by the Revenue Duties though not protected by Protective Duties. The case of Soap may be taken as an illustration. The soap works in India are developing. The import of soap into India, 80 per cent. of which comes from Britain, has declined in the last 4 years from Rs. 50 lakhs a year to Rs. 28 lakhs a year. If the development of Indian Soap Industry goes on at this rate, it will be able to replace the entire foreign soap in a few years. But the reduction of import duty on British soap may have an adverse reaction on our soap industry. There are many other preferred British articles of the same category.

So the danger of the Agreement impairing the protection to Indian Industries is not unreal.

(iii) *India's freedom to shape her fiscal policies.*—In so far as freedom to give protection to Indian industries, is concerned, it has been dealt with above. Fiscal freedom in another direction will be necessary to work a scheme of preference to the benefit of India. The tariff policy of the Indian Government in relation to the Ottawa Agreement must be so directed as to prevent any injury to Indian interests and to eliminate all avoidable burden to the Indian consumer.

It is now well established that the "reductions of duty under concessional methods have different consequences under varying conditions of supply as regards the article affected." If preference is given to those British articles whose position is very strong in the Indian market relatively to that of the non-Empire countries, the lower duty will govern the general price level of those articles, or in other words, the effect of the concession is that it operates as a general reduction of duty. The Indian consumer does not suffer, but may benefit. Though certain British articles may not now be particularly strong in the Indian market but have a prospect of attaining that position in a reasonably short time, by reason of the advantages which the preference will give to them, there will be only a temporary burden on the Indian consumer till the British article concerned acquires a dominant place in the Indian market.

If there is good prospect of such temporary burden being removed in a short time, the preference may ultimately prove beneficial to the Indian consumer also. In arriving at these conclusions it is of course assumed that the country receiving preference will be able to produce her goods at about the same cost as the non-preferred countries; otherwise the conclusions will not hold. But if the scheme of preference to British articles includes articles whose position is definitely weak and in regard to which there is no reasonable prospect of their soon attaining, even with the aid of the preference, a strong position in the Indian market, the result is not only a loss to the revenues of the Government but also a burden to the consumer. The higher or non-concessional duty levied on the non-Empire articles will govern their general price level and the cost to the consumer becomes greater, while the reduction of duty merely enures to the benefit of the British producers. In this view, schedules F and G of the Agreement, which comprise a large range of British articles to be imported into India under the preferential duties, must be re-examined having regard to the consequences of preferential duties on the cost to the Indian consumer. The following recommendation of the Indian Fiscal Commission was based on the considerations adverted to above and still holds good. "In our view it is clear that if the preference is to be given, it must be confined to a comparatively few commodities and cannot take the form of a general preferential tariff. The commodities selected must be as far as possible those in which British manufacturers already hold an important part of the market and in which the grant of a preference is likely to develop rapidly the portion of the market which they will need, so that the burden on the consumer if any will be removed at an early date."

Judging the Agreement by these principles, it will be found that, in the case of several articles to which preference is given, the position of the United Kingdom is not strong in the Indian market. In the 25 articles, No. 34 to 58, in the list appearing on of page 16, the part which the United Kingdom holds in the Indian market is relatively small. The total value of imports in them into India in 1929-30 was Rs. 28 crores, of which goods worth less than 9½ crores came from the United Kingdom and the rest from other countries. It is not necessary to give a detailed schedule thereof. It is enough for the purpose of illustrating the position to give figures in regard

to a few articles whose inclusion in the list of preferences offends against the test.—

	Total Imports into India Lakhs of Rs.	Imports from the United Kingdom Lakhs of Rs.
Copper ...	301	29
Brass and similar alloys...	223	56
Motor vehicles ...	752	156
Aluminium ...	201	57
Silk Piece Goods ...	222	1
Artificial Silk Piece goods	211	3

In articles like these, the higher duties paid on them, (being, articles mainly imported from the non-Empire countries), will govern their general price level in the Indian market and consequently operate as a burden on the Indian consumer.

There is another potential danger which is associated with the adoption of schemes of preference to which the dissenting minute to the report of the Indian Fiscal Commission draws pointed attention. Its relevancy is enhanced by reason of the greater dependence of India for her overseas trade on the United Kingdom, which will result from the Agreement. It is pointed out therein that even when the supply of an article comes wholly or mainly from the preferred country, it is not unqualifiedly correct to say that the consumer will not suffer. The minute proceeds to show that such a result "is consequential upon there being in the preferred country sufficient internal competition to regulate the price on a competitive basis." By the removal of the foreign competitor from the Indian market, the manufacturers of the preferred country may combine to maintain the prices to the Indian consumer at a high level. The British monopoly in Shipping trade is cited as an instance. The greater the dependence of India for her import trade on the British manufactures, the larger the chances of the danger.

In addition to the danger of such indirect taxation by increasing the cost to the consumer, there is also a very real danger of direct taxation. The margin of preference to the British imports, as already stated, is now sought to be created by a reduction of 5 per cent of the duties on them and by raising those on the non-Empire goods by a similar amount. This will very likely involve a loss of customs revenue to the Government of India both as a result of British goods paying 5 per cent less and of the probable fall in the imports of the non-Empire goods. The fear entertained by the critics of the Agreement that the Finance Member

may approach the Legislative Assembly with proposals for fresh taxation to make good this loss of revenue, are not baseless.

The plea put forward in favour of the Agreement that it leaves India freedom to so shape her tariff policy as to promote her interests cannot therefore be substantiated.

(iv) *Does the Agreement promote Industrial Co-operation?*—It is difficult to predict in what manner the Agreement is likely to promote Industrial Co-operation between India and the Empire countries. It will not repay to speculate on the possibilities which the Indian delegates may have contemplated in arriving at this conclusion. The Agreement itself has implemented one act of such co-operation. The supplementary agreement about steel industry provides for the Indian steel manufacturer making the sheet bar, British ships carrying it to the United Kingdom, the British manufacturer converting it into galvanised sheets, British ships bringing the sheets back to India and the importers selling the sheets to Indian consumers at prices which may be fixed with the aid of a preference of Rs. 53-12-0 a ton, over the sheets imported from countries other than the United Kingdom. The Government of India may, under the Agreement, increase the duty on non-British sheet still further without reference to the Tariff Board. This co-operation introduces into the Indian fiscal policy a novel principle of giving a share to the British manufacturers in the protection afforded to an Indian industry by the Indian Legislature. India imports galvanised sheet of the value of Rs. 6 crores a year and the poor people in the rural parts also use it largely. This abnormal preference will kill Belgian competition and increase the cost of the galvanised sheet to the Indian consumer. So low a duty as Rs. 30 on British sheets manufactured with Indian sheet bar may have an adverse effect on Tata's trade in sheets. If more of such co-operation is intended to result from the Agreement, it will not tell in favour of its acceptance.

(v) *The Agreement and the International Trade*:—The Indian delegates foresee for the Agreement international benefits as well. In their view the reciprocal preference regime will usher in an era of World Trade revival. The manner in which Ottawa's contribution to international well-being is made is indicated in the following resolution of the Conference:—

“That by the lowering or removal of barriers among themselves, provided for in these Agreements, the flow of trade between the various countries of the empire will be facilitated and that, by the consequent increase of the purchasing power of their peoples, the trade of the world will also be stimulated and increased.”

It is well known that even in the United Kingdom there is a large volume of influential opinion that the attainment of these objects is highly problematical, if not impossible. The aim of the United Kingdom to secure a stable market for her manufactures in the Dominions and in India by keeping out other competitors is not in any event easy of accomplishment. The Dominions and India themselves are no longer content to be producers of raw materials and importers of manufactured goods from the United Kingdom. They are becoming more and more industrialised and are aiming at becoming able to supply the needs of their home markets as far as possible. The report, incidentally it may be, discloses the fears entertained by the United Kingdom in this behalf. In dealing with the obstacles to developing trade within the commonwealth, with the help of the Agreement, the following resolution of the Conference is referred to in the Report:—

“This Conference recognising that export bounties and exchange depreciation adversely affect the rate of tariff preferences within the commonwealth, expresses the hope that with a rise in the level of commodities prices and stabilised exchanges such bounties and special duties which have been adopted as a means of adjusting the situation so created may be withdrawn.”

It remains to be seen how far this expectation is well founded. We hear that New Zealand has by currency manipulation already committed a breach of the Agreement. The Irish Free State has not yet come under the scheme and the prospects of its doing so are not bright. It is said that Canada is negotiating with America some trade Agreement which will not be quite consistent with the Ottawa pacts. In the case of certain articles, (wheat, copper, zinc, and lead) the Agreements with the Dominions provide that Britain may remove duty on foreign imports of those articles if the Dominions fail to give adequate supply at world prices. This shows what dangers are lurking in these compacts. Incidentally it may be asked why India should not have the freedom to withdraw the preference to British steel and cotton goods if Britain fails to supply them to India at world prices.

Again Britain's trade with the Empire countries forms but a small part of her total overseas trade. Her exports to the Dominions and India form only 33·63 per cent. of her total export trade and imports into her from the Dominions and India are still less and form 23·51 per cent. of the United

Kingdom's total import trade.* It has been diminishing from 1927 (See Ottawa Supplement to 'The Economist' of October 1932, page 2.) In the case of India, the import trade which was in Britain's hands before the war, was nearly 67 per cent. of India's total imports. It is now about 35½ per cent. While in 1904, India supplied no more than 22 per cent. of the cotton textiles needed by her people, in 1930-31, she supplied the needs of her population to the extent of 74 per cent. In these circumstances, how the Agreement will affect Britain herself in her trade with her important foreign customers like South America, Scandinavia and Denmark remains to be seen. An impartial and informed writer like Sir Arthur Salter thinks that the tariff walls raised against other countries by means of compacts between some countries will not help the revival of world trade. (See his book 'Recovery,' page 171 as regards effects of tariff barriers.) Just as it is said by militant militarist nations that augmentation of armaments is intended to minimise chances of war, the erection of higher and more extensive tariff barriers by aggressively industrial countries is said to be intended to demolish tariff barriers altogether by international action in future. At the Imperial Economic Conference of 1927, it was said that "the time has come to put an end to increase in tariffs and to move in the opposite direction." But in which direction are we moving under the Ottawa Agreement? After tabulating the British Imports from foreign countries showing the extent to which various countries are affected by the post-Ottawa British Tariff, the Ottawa Supplement to 'the Economist' exclaims, "A curious commentary on our pretensions to be desirous of assisting recovery of the hardest hit areas of Europe." We may therefore leave the hope of revival of world trade by the Ottawa Agreement at that. It is at any rate not a factor which ought to enter into India's judgment in the matter of accepting or rejecting the Agreement.

Countries,	Imports into the United Kingdom.	Exports from the United Kingdom.
1 Australia ...	5'30 per cent.	3'74 per cent.
2 Canada ...	3'81 "	5'30 "
3 India ...	4'26 "	8'30 "
4 South Africa ...	1'52 "	5'61 "
5 New Zealand ...	4'37 "	2'88 "
6 Irish Free State ...	4'25 "	7'80 "
	<u>23'51</u> "	<u>33'63</u> "

A Constructive Proposal.—If the Ottawa Agreement is unacceptable and if it rests on India to propose another Agreement in its place, what shape should it take? It is a task which leading representatives of Indian Trade, Commerce and Industries and leading Indian economists must collaborate in accomplishing after a thorough investigation of facts and the numerous complicated issues necessarily involved in the process of concluding a trade agreement or a commercial treaty. All that one may *prima facie* suggest as a possible line of improvement of the Agreement is to curtail the range of the commodities to which India agrees to give preference to Britain. If one keeps Schedules F and G to the Agreement and the Directory of a Swadeshi Exhibition side by side, and study them one will be struck with the identity of classes of numerous articles in regard to which India is trying to supply her home needs by Swadeshi enterprises. Many such articles should be omitted from the scope of the Agreement, to allow Indian industries to develop and also for the reason already stated that the United Kingdom not being strong in some of them the burden on the Indian consumer by direct and indirect taxation will increase, by higher duties on non-British imports. In the interests of India therefore metals like, copper, brass and aluminium, and goods like silk, and artificial silk piece goods, building and domestic hard ware, enamelled, ironware, earthenware, porcelainware, boots and shoes, toys and requisities for games, paper, heavy chemicals, drugs and medicines, stationery, toilet requisites, soaps and rubber manufactures, motor vehicles, electric bulbs, paints and varnishes, buttons and brushes will have to be removed from the list of preferred articles. The list is by no means exhaustive and may also be found on examination to require modification. The list is put forward for investigation and not for adoption.

Conclusions.

The main conclusions that emerge from the detailed as well as a general survey of the Agreement are :

(i) That the preferences given to Indian products are not likely to help the Indian farmer or producer; they will not help to increase his production, or raise the price level of the staples produced by him or enhance his purchasing power.

(ii) That the scheme is such that while the burden on the British consumer is, generally speaking, not increased by the preferences he gives to imports from India into the United Kingdom, as they will mostly enter free or on the present level of duties (with few exceptions) the burden on the Indian consumer

is appreciably increased by the preference which India gives to British Imports as such preference has to be given by substantial increase of the present level of duties on non-Empire goods.

(iii) India being an exporter chiefly of raw products or semi-finished materials, her preferred imports into Britain will have no adverse effect on British industries. But British imports into India being manufactured goods, a preference given to them will have an adverse effect on the development of Indian industries, generally speaking.

(iv) As Britain requires the products which India can export to her either for food, or industries and Britain having already taxed heavily, for revenue or protective purposes, many necessities of her peoples food and requirements of her industries it is unlikely that she would tax Indian imports, even if India does not ratify the Agreement. It is really to Britain's interest that such Indian products should be admitted on the same terms as the Dominion goods.

(v) Assuming that Britain would carry out her threat to put the Import Duties Act into force if the Agreement is not concluded, the Indian Export trade in the concerned commodities would nevertheless not suffer seriously. India has a large internal market and also non-Empire markets, which need her products.

(vi) The denunciation clause is a futile one and it will be almost impossible for India to avail herself of it. Termination or modification of the Agreement by India can follow only a notice of denunciation to Britain and a disagreement between the two countries in regard to the matter notified. When Britain disagrees, the Indian Legislature and the Indian Executive Government will scarcely be able to overcome her opposition to the termination or modification of the Agreement. If the Agreement is once ratified either unconditionally or for a period, it will create so many new vested interests of British trade, commerce and industries that it will become almost impossible to dislodge them and terminate the Agreement.

Verdict on the work of the Indian Delegates.

The Indian Delegates assure their fellow countrymen in India that they did their best at Ottawa, in these words: "Throughout our negotiations we have been striving to secure for India every advantage which the circumstances in which we were placed enabled us to claim, but without making any sacrifice where India's interests were vitally concerned." No one doubts the sincerity or the patriotism of the Indian delegates. It is probably true that they could

~~no~~ have got more out of the negotiations "in the circumstances in which they were placed" to quote their own pregnant phrase. It is precisely India's complaint. But it does not mean that the Indian delegates were right in affixing their signatures to the Agreement. If they were unable to get more out of the negotiations, it may not have been their fault. When however what they got was, as events have turned out, so disproportionate to what was got out of India and if it became reasonably certain that India did not stand to gain by the Agreement, there was no obligation on their part to put their seal of approval to the particular document. If they felt that an Agreement was necessary they might well have said that India would propose one after due deliberation. In this connection I must mention an interesting revelation made by the Indian delegates, of the use to which they put at Ottawa, the advantage which Britain now enjoys in India by differential duties on British steel and cotton goods. They say "We desire to add that it should not be forgotten that except by way of Trade agreement there was no way by which India could obtain a return for the advantages conferred by differential duties. Their existence enabled us to conclude an agreement on much more favourable terms than would otherwise have been possible." To unsophisticated minds, it looks like arguing in a circle. Moreover, in more than one place in the Report, it was prominently declared that the preferences given to British steel and cotton goods by India were really in India's interests. If so, why should they have been made a lever for exacting further concessions from Britain? To Indians who have given their serious thought to the question in a non-Ottawa atmosphere, it strikes that if the Indian delegates had really the freedom to notify to Britain that the preference to British steel and cotton goods, the two most important of the United Kingdom's industries, would be withdrawn if better terms were not offered to India, such a situation might have been used to obtain a far more satisfactory Agreement. The verdict of India on the whole is that the Indian delegates committed a serious error of judgment in signing the Agreement, that they conceded to the United Kingdom far more than India got in return and that India has little to gain and much to lose by the Agreement on a balance, India cannot and will not therefore ratify the Agreement.