

THE OTTAWA AGREEMENT  
AND INDIA.

BY

NALINI RANJAN SARKER.

# THE OTTAWA AGREEMENT AND INDIA

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## INTRODUCTION

For a long period of years the idea of an Empire Zollverein has made a strong appeal to certain elements within the British Empire. During the prosperous pre-war period, however, the movement made very little headway. The ravages of war and subsequent dislocation of trade, followed by the great depression, brought the subject once again into prominence. Industries were declining, trade was languishing and unemployment was increasing. Something had to be done. Neither the Mackenna Duties, the Safeguarding of Industries Act, nor even the abandonment of the Gold Standard has been of much avail in resisting the tide of foreign competition and in maintaining the economic position of England. The need for protecting the existing markets for British goods, if not extending them, was so pressing that the National Government of Great Britain called the Imperial Economic Conference at Ottawa as almost a last despairing effort. One cannot therefore accept without hesitation the sacrifices that England is supposed to have made in the cause of Empire Preference and unity. The results of the Conference are well known, but they could not have been achieved if England had persisted in maintaining her traditional policy of Free Trade. It was not without considerable surprise that the world saw the land of John Stuart Mill and Bright and the ancient protagonist and champion of Free Trade turn protectionist.

The Dominions were faced by an almost similar crisis, though not of the same intensity, and therefore it was not difficult to evolve a reciprocal formula. The complexity of the Agreements and the strong protectionist attitude of the Dominions affected will in the end defeat the hopes so fondly

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cherished. In any case we cannot conceive how the proposed fiscal restrictions can, apart from causing a diversion of trade, increase the volume of Empire trade. As for increasing the volume of world trade such a claim overlooks the fundamental difficulties with which the world is faced. The imposition of fresh fiscal barriers is but another nail in the coffin of world trade revival. The world is convinced that trade restrictions are the cause of the unhealthy conditions in world trade and the economists of the League of Nations were severe in their condemnation of these destructive barriers. Can it do any good to add to these hindrances?

As far as it relates to India, the real question to ask is what advantage does the Ottawa Agreement hold out to India? It can not be answered off-hand, and we must utter a word of warning against the too easy acceptance of official claims. The question calls for intensive study, for the implications to India are wide and far-reaching. Those with whom rests the acceptance or rejection of the Ottawa Agreement on behalf of India, require to be fully warned of the dangers ahead. The Indian public also needs to be instructed in order that the force of informed public opinion may be brought to bear upon the issue.

Before we examine the Agreement as it affects India a few further preliminary remarks will not be out of place. It is a fact of great significance that whereas England and the Dominions made long and special preparations for the Conference, the Government of India appear to have made none at all. Their Delegates were chosen in haste at the last moment, one of them being at Geneva at the time. Though the majority were Indians, can it be said, even ignoring the question of their representative capacity, that they were entirely free and unfettered in their views? As nominees of the Government of India it would seem they had a mandate to plump for Imperial Preference. Their obsession with the fact that unless they

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agreed, Britain would put Indian commodities out of the free list on the 15th of November, proves how ill-prepared they were to meet the situation presented at Ottawa. The British Delegates seem to have pointed the big gun and the Indian Delegates immediately threw up their hands. Anybody with an intimate knowledge of India's trade with England would have been able to call off the bluff. When it comes to a tariff war India would hold the whip hand. The Indian Delegates seem, on the other hand, to have been frightened even to argue. "It was no longer a question of what India stood to gain, but what she stood to lose." It discloses a mentality of abject fiscal surrender.

So much seems to have been made of the reciprocal nature of the Agreement that one's attention is compelled to the political aspect of it. India admittedly occupies a different and inferior status to that occupied by the Dominions. Their freedom is real. That of India is merely seeming. She has not responsible government and her spokesmen were not her own. True reciprocity cannot occur where there is no equality of status and where one party is fettered or dominated by another, as is the case with India. It is, therefore, merely humorous to describe the Indian Legislature being "invited" to accept the Agreement on behalf of India.

The constitutional aspect of the issue is likely to prove a double-edged sword. On the one hand it is likely to be held out as a sop to cerebus and a greater measure of political advancement may be promised as the reward of its ratification. But ratification itself would tie India stronger to the chariot wheels of England politically and economically. Besides, the moral of having all one's eggs in one basket should not be forgotten. On the other hand, refusal to ratify is bound to be interpreted in influential British quarters as an unfriendly act on India's part and a disqualification for liberal constitutional measures. The elected Indian representatives will, therefore,

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be on the horns of a dilemma; but, whatever the price, their duty is clear.

### HISTORY OF IMPERIAL PREFERENCE.

The subject of Imperial Preference came up before the Colonial Conference of 1902, which recognised the principle as one of general application. India was not represented. The Government of India, who were consulted in 1903, decided after a thorough and careful review of the position that ("from an economic standpoint India has something, but not perhaps very much, to offer to the Empire, that she had very little to gain in return, and that she has a great deal to lose or to risk.") The question lay buried till the War which gave a political and military impetus to it. Exigencies of the War drew the attention of British statesmen to the question of making the Empire economically self-contained.

The Imperial War Conference, 1917, resolved to give "specially favourable treatment and facilities to the produce and manufactures of other parts of the Empire." (Great Britain and certain other Dominions have accordingly granted mutual preferential tariff rates to a limited extent.) India for a time stood aloof, but in 1920 the Fiscal Commission was appointed to examine the tariff policy of India and "the question of the desirability of adopting the principle of Imperial Preference." Almost simultaneously the British Government accepted the principle of fiscal autonomy for India.

(But actually India gave no preference to Empire goods except in iron and steel, and recently in cotton goods) In both cases it was granted against the protest of the whole of India and in contravention of the fiscal autonomy convention. In both cases the industries concerned were compelled to accept it by force of circumstances.

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### DIRECTION OF INDIA'S FOREIGN TRADE.

The Indian Fiscal Commission made a fairly exhaustive inquiry into the question and in general agreed with the views expressed by the Government of India in 1903. The Commission said that "in its general features the analysis of the situation then made holds good." In 1903, India's imports from the Empire were about 75 per cent., in the pre-war quinquennium it dropped to 69.8 per cent. and in 1921-22 it stood at 66.6 per cent. The percentage of India's exports going to the Empire has followed a similar course of gradual diminution. It declined from 47 per cent. in 1903 to 41.9 per cent in the pre-war quinquennium and to 37.3 per cent in 1921-22. As regards exports from India to the United Kingdom, they were about 25 per cent. of the total exports in 1903 and in the pre-war quinquennium it was the same. By 1921-22 it had fallen to 19.7 per cent. Since these dates India's trade with the Empire has on the whole suffered relative decline. In 1930-31 the share of the British Empire in our export trade was only 40 per cent., or 7 per cent. less than in 1903 and nearly the same as it was in 1921-22. The particular share of the United Kingdom in 1931-32 was about 3 per cent. better than in 1903.

In the import trade the share of the Empire in 1931-32 deteriorated by nearly 30 per cent. as compared with 1903. The present position is that India receives less than one-half of her total import from the Empire and just over one-third from the U. K., and sends 2/5ths of her exports (deducting exports to Hongkong and Strait Settlement which are destined for China and Japan) to the Empire and a little more than one-quarter to the U. K.

In the total trade of India (imports and exports) the most significantly characteristic fact is the diminishing importance of the United Kingdom and the Empire and the increasing importance of non-Empire foreign countries. Our trade relations with the Empire have been declining and those with other foreign countries have been growing.

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### *Percentage share of the Principal Countries in India's Total Trade (Merchandise only)*

		Pre-War average	War average	Post-War average	1931-32
U. K. ...	...	40	41'2	39'5	31'4
British Empire ...	...	52'3	57'1	52'3	44'7
Total of Other Foreign Countries ...	...	47'7	42'9	47'7	55'3

Economically, therefore, the United Kingdom and the Empire count for less from the standpoint of India's trade than they did in 1903; and if in that year the Government honestly believed that India "had very little to gain in return", the position to-day ought to provide a stronger justification of that attitude.

### *Imports : Private Merchandise.*

(Value in Crores of Rupees)

	1913-14		1929-30		1930-31		1931-32	
	Value.	Per- centage.	Value.	Per- centage.	Value.	Per- centage.	Value.	Per- centage.
U. K. ...	117	64	103	42'8	61	37'2	45	35'5
British Empire ...	128	70	124	51'7	76	46'1	57	44'8
Other Foreign Countries ...	55	30	117	48'3	89	53'9	69	55'2
Grand Total ...	183		241		165		126	

Compared with the pre-war year 1913-14, imports from Britain declined by about 29 per cent. in 1931-32, in spite of the fact that India has granted her substantial preferential duties in iron and steel after that date.

### *Exports : Private Merchandise.*

(Value in Crores of Rupees)

	1913-14		1929-30		1930-31		1931-32	
	Value.	Per- centage.	Value.	Per- centage.	Value.	Per- centage.	Value.	Per- centage.
U. K. ...	58	23'4	69	21'8	54	24'0	45	28'2
British Empire ...	94	38	114	36	90	40	72	44'5
Other Foreign Countries ...	155	62	204	64	136	60	89	55'5
Grand Total ...	249		318		226		161	

Exports to the U. K. and the Empire has been practically stationary as compared with the pre-war year 1913-14.

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### QUALITATIVE ANALYSIS OF INDIA'S FOREIGN TRADE.

Let us examine the nature of India's foreign trade in order to see the extent to which it can benefit by the preference that Britain is willing to grant.

#### *India's Foreign Trade in 1931-32.*

	(Value in Crores of Rupees)			
	Imports.		Exports.	
	Value.	Percentage.	Value.	Percentage.
1. Food, Drink & Tobacco ...	18·2	14	44·3	30
2. Raw Materials, Produce & Articles mainly unmanufactured ...	20·9	16	67	43
3. Articles wholly or mainly manufactured ...	83·9	65	43	28
Grand Total ...	126		156	

Sixty-five per cent. of the imports into India in 1931-32 were wholly or mainly manufactured goods, whereas only 28 per cent. of our exports fell into that classification. Quite 43 per cent. of exports were raw materials and the balance came under the head of "food, drink and tobacco". Broadly speaking, therefore, India may be said to import manufactures and export raw materials and foodstuffs. In weighing up the probable benefits of a system of preference this fact is of great significance. The economic advantages derived from preference tend to be more valuable in the case of manufactured goods than in the case of raw materials, because there is keen competition in manufactures in foreign markets. The position in regard to food and raw materials is different. They are nearly everywhere admitted free and the necessity for preference usually does not arise. Moreover, markets for raw materials are easily found and developed whereas markets for manufactures need careful cultivation. The degree of competition met with by our exports which will receive preference is far less than that experienced by the goods of the United Kingdom, or for that matter of any



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other country which may seek preference from us. Indian exports are not of a nature capable of benefitting appreciably from preferential rates, particularly such as have been granted by the United Kingdom. (They are not in danger of Tariff discrimination from any country nor, generally speaking, are they in need of tariff preference from any other country.) The Fiscal Commission examined the question and reported that even if the tariff policy of Great Britain were to be modified they "did not think that the gain to India would be great." India's trade position remains fundamentally the same as when the Commission made the enquiry and there can be no justification for reversing their findings. British imports of Indian raw products (themselves not the most important part of our exports and diminishing in importance) are necessary for her industries, and, therefore, India need not offer her any special consideration to induce her to buy from us. On the contrary, India is asked to grant preference to British goods that are to-day losing hold on world markets and which would therefore benefit immensely from an Indian preferential tariff. The U. K. may be expected to go as far as she can, consistently with her own interests, but unfortunately, the mutual advantages to the two countries from a tariff bargain are likely to be disproportionately unequal. India would have to give more than she can take. (Britain will receive more than she can give.)

Further, the adoption by India of a policy of protection for her industries has had the effect of diminishing the facility with which she can enter into a preferential tariff arrangement with any country without disturbance to her own economic policy. If the preferential duty on the products of a protected industry takes the form of an increased rate against non-preferred countries it will enhance the burden on the consumer and give the industry a greater measure of protection than it needs. The mass of Indian people (the consumers of Imperially preferred goods) is poor. They are already bearing the burden of a policy of protection, largely inevitable in the pursuit of a

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policy of industrial development. But they should not be called upon to bear an additional burden, especially in these times, in furtherance of a policy whose benefits to India, immediate or even remote, are so demonstrably problematic.

The probable benefits that India may derive from preference must be tested by facts before we can accept the assurances of some of our more generous-minded imperial economists. In all their writings, figures are somehow conspicuous by their absence. An analysis of the figures of India's export trade reveals that the assurances are not well founded,

### THE FISCAL COMMISSION AND THE DELEGATION.

An astonishing feature of the Delegation's report is their reference to the Fiscal Commission, which cannot be allowed to pass unchallenged. In para 12, the report says that the "Commission decided that this question (of Imperial Preference) was one which could only be determined in accordance with Indian Legislature." The Report has conveniently omitted to mention the important fact that the Fiscal Commission considered the question of Imperial Preference and did not report in favour of it. Para 12 of the Report of the Delegation would give one the impression that the Fiscal Commission did not form any opinion on the matter but left it entirely to the Legislature. On the contrary, the Fiscal Commission laid down the general proposition that Indian exports on the whole are not of a nature that are capable of benefiting to any great extent by preferential rates, particularly such as can be granted by the United Kingdom. The nature of the exports has not altered much since then. "Even if the tariff policy of Great Britain were to be modified with a view to extending the field of preference we do not think that the gain to India would be great." Nothing could be more definite and explicit than that. The question of preference to imports was also examined and the Fiscal Commission "did not think that India could

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grant anything of great value without imposing a serious burden on herself and it would not be reasonable for India to incur such a burden." ) The Fiscal Commission did not recommend the acceptance of Imperial Preference as a general tariff policy for India, but merely said that individual commodities should be considered on their own merits, remarking that "if preference is to be given it must be confined to comparatively few commodities." But the recommendations of the Delegation, however, contemplate a general preferential tariff over a very wide range of our imports. Again, the Delegation's Report states that the "Commission decided that this question was one which should only be determined in accordance with Indian opinion as voiced by the Indian Legislature." But the Commission also stated (para 263) that, "it is evident that the Legislature can hardly be asked to pronounce an opinion on the policy until it has some idea of the extent to which its application is feasible", and for that purpose recommended a preliminary inquiry by the Tariff Board. The Delegation gives a twist to this important recommendation of the Fiscal Commission and says that, "they suggested that the Tariff Board might be charged with the task of determining whether there were any commodities on which Preference might be given . . . ." But the actual recommendation was that, "as a preliminary to the consideration of the desirability of India adopting the policy of Imperial Preference, an examination should be made by the Tariff Board to determine whether there were any commodities . . . . ." There is the actual suggestion of an examination before other action, and it is unfair that the Legislature should be asked to give a decision on so important a matter without the benefit of such an examination, as was obviously intended by the Fiscal Commission.

### MAIN ITEMS OF EXPORT & IMPORT.

Let us proceed to examine some of the main commodities affected by the Ottawa Agreement.

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### *Raw Cotton.*

The underlying assumption of Imperial Preference, that Empire products, both primary and secondary, could in fact be deflected from their present foreign market to Empire without any economic loss being entailed, ignores many important factors.

In the first place, Indian cotton being of very short staple is unsuitable for Lancashire. The change of organisation that would be necessary in order to utilise it would involve heavy expenditure and would also create considerable difficulties in Britain's export market for cotton goods. The inferior cotton goods that would have to be manufactured out of Indian short-stapled raw cotton would have to be sold exclusively in markets like India and China. By selling to Lancashire and encouraging her to use cheaper Indian and inferior staple cotton, we would really be also encouraging her to weave lower counts and compete more largely with Indian cotton mills. It would in effect widen the range of competition between British and Indian cotton goods. It would be suicidal. Japanese competition with India is largely made possible by the very use of cheaper Indian raw cotton of shorter staple. At present, in the lower counts and in coarser goods competition from British is not very keen; but if, by a tariff preference, she were encouraged to use inferior cotton and make a larger proportion of coarser goods we shall soon be witnessing increased competition from that direction.

Another important question is whether Indian raw cotton is in need of a larger market in Britain. It is not. Of the total Indian production of raw cotton an increasing proportion is being used by Indian mills, and the likelihood is that this tendency would gather additional strength as time goes on.

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### *Consumption of Indian Raw Cotton in Indian Mills.*

(In bales of 400 lbs.)

1928-29	...	...	1'764	million
1929-30	...	...	2'248	„
1930-31	...	...	2'266	„
1931-32	...	...	2'341	„

No doubt for long years to come Indian raw cotton would have to depend largely upon export markets. In 1930-31, nearly twice as much Indian cotton was exported as was used in the Indian mills. But the possibility of Britain taking in the immediate future anything more than a very small proportion of our exports of raw cotton should be heavily discounted. The following figures are impressive :

### *Indian Exports of Raw Cotton.*

(In thousands of Bales of 400 lbs.)

	1929-30	1930-31	1931-32
U. K.	... 270	281	164
Japan	... 1,640	1,686	1,080
Total	... 4,070	3,926	2,369

In 1930-31 and 1931-32 Britain purchased the negligible proportion of 7 per cent. of our exports of raw cotton. It is clear from these figures that an appreciable rise in British import of Indian raw cotton would at best be a matter of very slow progress, the more so, when we consider the peculiar organisation of Lancashire Cotton Industry. Therefore British preference for Empire cotton would not be of much benefit to India, at least for many years to come.

There is another danger in relying on Britain for a market for our raw cotton. The purchase by her of Indian cotton since 1914 have shown remarkable fluctuations, as is demonstrated by the following table showing the amount of cotton from India delivered to spinners in Great Britain.

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1918-19	...	62,000 Bales.	1925-26	...	211,000 Bales.
1919-20	...	107,000 „	1926-27	...	91,000 „ —
1920-21	...	73,000 „	1927-28	...	168,000 „
1921-22	...	67,000 „	1928-29	...	212,000 „
1922-23	...	176,000 „	*1929-30	...	270,000 „
1923-24	...	268,000 „	*1930-31	...	281,000 „
1924-25	...	217,000 „	*1931-32	...	166,000 „ —

So spasmodic a demand should be a warning against inducing the Indian grower to rely on the British market, or against making special efforts to cater for its requirements.

Further, the kind of cotton that India is likely to export to Britain will meet with increasing competition from the Soudan, Uganda, East Africa and other British colonies and protectorates, where special efforts are being made to increase the cultivation of cotton. These competitors will be enjoying the same preference. The fact that British capital and the powerful Empire Cotton Growers' Association are interested in the development of cotton in these regions will be an added impetus for Britain to buy from them and will constitute for them a distinct advantage over India.

But the greatest factor that minimises the benefit that may be derived from this particular preference is that Indian raw cotton is not so desparately in need of new markets. An increasingly larger proportion of Indian production will be consumed in India itself and the remainder can be sold without any difficulty to Japan and China, and then to European countries like Italy, France, Belgium and Germany. One might go as far as to say that even if Britain did not buy a single bale of our raw cotton it would not make much difference to our total export trade. Her readiness to buy more from us would not confer any considerable advantage; her refusal to buy anything at all would not inflict any serious injury. Britain's preference for Empire cotton would not be of much economic value to India.

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\* Exports.

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### *Wheat.*

Wheat is one commodity to which Britain has agreed to grant preferential tariff treatment. The report of the Delegation contemplates that our wheat is in serious danger if India does not enter into preferential tariff relation with Britain. The first question we should ask is: whether India requires a preference in that commodity and whether she is likely to derive much benefit therefrom.

India has certainly been exporting some wheat to England, but a study of the problem of our wheat trade would easily convince one that an export trade in wheat is not necessary to-day for the prosperity of that branch of our agriculture.

### *Production, Exports and Imports of Wheat.*

(In thousands of tons.)

	<i>Production.</i>	<i>Export.</i>	<i>Import.</i>
1927-28	... 7,791	300	69
1928-29	... 8,591	115	56
1929-30	... 10,469	13	357
1930-31	... 9,302	197	232
1931-32	... 9,026	20	111

During the last three years India has been a net importer of wheat; in other words, the production of wheat in the country can not meet the total demand. During the years 1928-32 while Punjab wheat was being exported to England through Karachi, Australian wheat was being imported in larger quantities through Bombay and Calcutta. These figures prove, if anything, that Indian wheat is not in need of an export market.

The apparent anomaly of India importing and exporting wheat in the same year is explained by the cost of transportation. The Punjab is our chief producing field. But the freight from the Punjab to such consuming centres as Bombay and Bengal was so high that Punjab wheat could not compete with Australian wheat. In other words, ocean freight from Australia to the ports of Calcutta and Bombay was cheaper than

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railway freight from the Punjab. Therefore, in the year 1930-31 while 197,000 tons of Punjab wheat were exported (mainly through Karachi) to foreign countries (about 87% of which went to the United Kingdom), as much as 232,000 tons were imported (mostly from Australia). In 1931-32, 20,000 tons were exported (mainly to the U. K.); 111,000 tons were imported almost exclusively from Australia.

The solution of the problem of India's wheat production lies not in seeking an export, but in so regulating internal freight rates that the Indian market may be preserved for the indigenous production. The solution lies in India, not at Ottawa or anywhere else. The key to the question is freight preference in India, not tariff preference from Britain. To seek the latter before trying the former is lopsided economics. To go out and seek an export market for wheat, when the production of Indian wheat during the last 3 years has been less than the consumption of that commodity betrays a tragic lack of appreciation of the real situation with regard to the trade.

Even granting that a stimulation of the export of wheat is feasible, it is pertinent to ask whether in the interest of national economic policy it is desirable to encourage the export of Indian wheat. As the standard of living improves in India, the local demand for wheat will also increase and paying due regard to that consideration, it is necessary that the Indian wheat should be retained as much as possible for local consumption. Any artificial encouragement of wheat exports in the absence of a pronounced net exportable surplus would be economically unwise and cannot be too strongly condemned from the point of view of higher national policy.

In fact, the Government themselves have realised the situation having already allowed certain reduced railway freights and imposed an import duty of Rs. 30/- per ton on foreign wheat. If these measures succeed in restricting imports of



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wheat (and figures prove they have) they will effectually widen the home market for Indian wheat and proportionately reduce the export of wheat and obviate the necessity for an export market for that commodity.

Even if an export market for wheat is considered necessary and desirable, the third question is whether the proposed tariff preference from Britain can bestow upon our export trade in wheat any appreciable benefit. In the first place, the proportion that exports of wheat bears to our total production is so negligible that an export trade appears rather too unimportant for consideration. The post-war average percentage of wheat exports to total production was only 3 per cent. In 1929-30, it was only 1 per cent. and in 1930-31 it was again 3 per cent., and in 1931-32 it was less than a quarter per cent. This shows how utterly inconsiderable the export trade in wheat really is.

Secondly, in England's imports of wheat, competition from other parts of the Empire is so keen that the preference is rendered practically valueless. During the four years 1925-1928 the average annual imports of wheat into the United Kingdom amounted to 101·8 million cwts. Out of this as much as 50·6 per cent or 51·5 million cwts came from the Empire. Canada supplied annually as much as 34·6 million cwts. and Australia 12·6 million cwts. on the average, while Indian supplies amounted to 4 million cwts. only. In other words, out of the total average annual imports of Empire wheat into the United Kingdom during 1925-1928, Canada supplied 69 per cent., Australia 23 per cent. and India the meagre figure of 8 per cent. With such formidable competitors within the Empire itself, who would be enjoying the same preference, the advantage to Indian wheat growers is not likely to be of much consequence. Further more, Canada, who supplies nearly 2/3rds. of Britain's imports of Empire wheat, is far more advantageously placed from the point of view of freight.

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The preference for Empire wheat is, therefore, a dud preference as far as India is concerned, because :

(1) in the present circumstances an export trade in wheat is not necessary for the industry,

(2) even if it were feasible to extend such trade, it is at present highly undesirable,

(3) even granting that it is necessary and desirable, the benefit to India from Britain's preference for Empire wheat is highly problematic, if not demonstrably inconsiderable.

### *Tea.*

This forms the most important article among those in which India is the chief supplier to the United Kingdom. The benefit to India from preference for tea requires two qualifications. In the first place, about 85% of the capital invested in the industry is reported to be British and therefore it would not be correct to say that India will enjoy the full benefit of preference for this commodity. We do not deny that quite a large number of Indian coolies and clerks find employment thereby, but the ownership and control of the industry is preponderating in the hands of the Britisher. Therefore the larger proportion of the benefit would go to Britain herself in the form of dividends. In the second place, the next great producer of tea and a strong competitor of India—Ceylon—is within the Empire. In 1931 Ceylon's share of U. K. imports of tea was quite 30% against India's 52%. With such a competitor within the tariff ring, it should be obvious that the actual benefit to India of U. K.'s preference for Empire tea is not as great as the export figures suggest. It must be valued at a smaller figure. The preference already granted to Empire Tea has not proved the boon to the Indian Industry, as it was previously expected, and there is more and more talk of

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restricting production. The opinion is gaining ground among informed circles that the Indian market for tea requires to be further developed, before any other to secure better prospects for the industry.

### *Oil Seeds.*

British preference for Indian oil seeds has been prominently mentioned by official apologists, who are naturally inclined to exaggerate the advantages.

In 1931-32, out of a total export of 988,000 tons, the share of the United Kingdom amounted to about 139,000 tons only, that is, 13% as against 15% in the preceding year. Other foreign countries purchased 849,000 tons or 87% of our total export. These figures would give us an idea of the insignificant position Britain occupies as a customer of India's oil seeds and of the real economic value to India of the preference offered. The principal customers of our oil seeds are France, Italy and Germany.

The *press communique* issued by the Government of India explaining the benefits of British preference set a rather exxagerated valuation upon the one accorded to linseed. While we do not deny that Britain probably made a real sacrifice when she agreed to discriminate against Argentine linseed in order to give advantage to India (especially when we consider that Argentina is a close economic ally of Britain), its actual value to the Indian trade in oil seeds is not so considerable. Linseed occupies but a comparatively minor place in the oil seed crop of India. In the year 1930-31 out of a total oil seed crop of nearly 5 million tons, linseed accounted for 377,000 tons only. In the total export trade of oil seeds from India the share of linseed was only 12%. These figures ought to dispel any misunderstanding engendered by the *Government communique.*

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### Export of Oil Seeds—1931-32.

(In thousands of tons.)

	United Kingdom.		Other Countries.		Total
	Quantity	Percentage	Quantity	Percentage	Quantity.
Groundnut	... 78	12	594	88	672
Linseed	... 14	12	106	88	120
Castor	... 23	12	81	88	104
Rapeseed	... 14	26	40	74	54
Others	... 10	26	28	74	38
Total	... 139	13	849	87	988

On the other hand, by tariff discrimination against non-British foreign countries, there is a real danger to our groundnut trade, by far the most important part of our oil seeds exports. Out of the total value of oil seeds export (14.6 crores) groundnuts accounted for 10.1 crores or 2/3rds of the quantity. The best market for our groundnuts is France, who consumed in 1931-32 quite one-third of our exports. Indian groundnut is meeting with keen competition from West Africa, and if France by way of retaliation gave preference to West African groundnuts our trade would be seriously endangered. No possible benefit, that Britain can bestow on us, can repair our loss in that event. Persistent reports of France's intention to do so have reached India. To damage the prospect of the vastly more valuable trade in groundnuts for the sake of the problematic benefits to linseed illustrates beyond all doubts the warped economics of Imperial Preference.

If India wishes to develop her export trade in oil seeds, the natural course would be to look to Continental Europe, which has always taken a preponderatingly larger proportion of India's exports. The United Kingdom has not the capacity to buy more than a small proportion of our oil seeds. Therefore, alienating better customers like France, Italy and Germany would be the surest way of endangering our export trade and injuring the prosperity of Indian agriculturists.

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### *Share of Principal Countries in the Total Value of Export of Oil Seeds.*

			1931-32
France	...	...	4'5 crores.
Italy	...	...	2'02 "
Germany	...	...	1'99 "
Other non-British Foreign countries	...	...	3'80 "
United Kingdom	...	...	1'90 "
Total	...	...	14'59 "

What actual benefit can India derive by preference from a country, which buys so little of our oil seeds? To what danger are we exposing our trade in oil seeds by fiscal discrimination against a host of other countries who buy so much?

If the proposed fiscal arrangement can develop our export trade, the exporters of oil seeds should take the first opportunity to support the Government. On the contrary, the Committee of the Seeds Trade Association, Bombay, who ought to know their interests better than the Government of India and their generous Delegates, stated that "*so far as the export trade in oil seeds is concerned, the Agreement if carried into effect is bound not only to adversely affect the volume of trade but will lead India into further trouble with the other countries of the world.*"

### *Myrobalams.*

This commodity is cited by the Delegation as one exposed to the danger of competition from synthetic or other alternative articles, but it does not appear that the danger if at all real, would be considerable. The Delegation advance no proofs and the following figures show a gradual rise in the export of Myrobalams to the United Kingdom.

### *Exports.*

	Total	U. K.
1929-30	... 1,236,000 Cwts.	514,000 Cwts.
1930-31	... 1,304,000 "	637,000 "
1931-32	... 1,272,000 "	691,000 "

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The Delegation themselves state that the U. K. obtain 99% of their Myrobalams from India. Obviously, price is the deciding factor here, so that the U. K. would hardly contemplate a duty on Indian Myrobalams that would lay it open to the competition of synthetic or other possible substitutes. Moreover, as stated in a later paragraph, so far as the competition of synthetic substitutes is concerned, Britain herself would manufacture the synthetic article, so that the "preference" to myrobalams would be of no avail.

### *Manganese.*

Competition from low grade Russian ore is admitted, but the Delegation is satisfied with "assurances" that it was unlikely that British steel industry would use more low grade ore. They will take the matter up again if the U. K. market were threatened. In the meantime they merely propose that imports of foreign ore into Britain should be kept under observation. The U. K. has already reduced her purchases of Indian manganese from 114,000 tons in 1930-31 to only 54,000 tons in 1931-32. The trade has already suffered and to avoid further loss the Indian Delegates ought to have secured immediate preference, but they were satisfied with assurance of a kind that leave us unconvinced. Apart from the total exclusion of the Russian ore, it is difficult to see how the Indian product could compete with it. It is highly significant that while Canada forced Britain to denounce the trade agreement with Russia in order to secure preference for wheat and timber, the Indian Delegates could not obtain so much as a moderate preference for Indian manganese against the severe competition from Russia. They obtained some "assurances" instead.

### EFFECT ON INDIA'S IMPORT TRADE.

We will now examine the effects of Imperial Preference upon certain items of India's import trade and their reaction upon the corresponding Indian industries and upon the economic well-being of India as a whole.

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### *Building and Engineering Materials (Cement).*

Nearly 50% of the quantity and 62% of the value of cement imported in India in 1931-32 came from U. K. and 50% of the quantity and 38% of the value from outside the Empire.

#### *Imports of Cement—1931-32.*

		Quantity (tons)	Value (lakhs)
United Kingdom	...	45,000	25
Other Foreign countries	...	43,000	16
		<hr/>	<hr/>
Total		88,000	41

It is evident that the other foreign countries were supplying cement of cheaper value. If therefore the proposed preference took the form of increased duties on non-British cement the effect would be to raise the price to the consumer for the benefit of Britain. If the preference took the form of a reduction in the duty on British cement, the degree of protection enjoyed by the Indian cement industry would be seriously diminished and the future of the industry endangered. The present duty is 15 per cent. (not taking into consideration the temporary surcharge). A preference of 10 per cent. off this for British cement would almost make it duty-free. Even if 10 per cent. preference were given by increasing duty on non-British by 5 per cent., and reducing the duty on British cement by 5 per cent., the margin of protection of 10 per cent. between Indian and British cement would be inadequate. We must consider that cement factories are mostly situated in the interior of India. Freight rates to important consuming centres are very high. In selling at the big ports like Madras, Calcutta and Karachi foreign cement is quite advantageously placed as regards freight. Further, if the duty on British cement were reduced by 10%, the loss of customs revenue will amount to no less than 3¾ lakhs on the basis of imports for the year 1931-32.

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### *Metals.*

Out of the total import of the metal (aluminium, brass, copper, lead, etc.) valued in 1931-32 at about  $3\frac{1}{2}$  crores, proposed to be brought under the new fiscal scheme, the share of Great Britain was about  $\frac{2}{3}$  of a crore. It is surprising that Britain should ask for preference in these metals, *not one of which she produces herself*. All that she does is to import the metals in the raw or semi-finished state and export it after changing its shape or form. Copper, brass and aluminium are universally used in this country, especially by the poorer classes, and any tariff changes resulting in increased prices to the consumer would be an additional burden upon the large mass of poor Indian peasants. As the present rate of duty (excluding surcharge) is 15 per cent. *ad valorem* it is difficult to conceive that a 10 per cent. preference to Britain can be granted except by raising to some, if not the full, extent the duty on non-British goods. With almost every commodity needed by the poor man coming under some form of indirect taxation and with the burden of even some of the direct taxes being shifted on to his weak shoulders by those upon whom these were primarily levied, any additional burden imposed upon him would be an act of unmistakable economic injustice.

### *Paper and Stationery.*

Out of a total import in 1931-32 of paper and pasteboard valued at 2,50 lakhs, Britain's share amounted to 30.2 per cent only. Her trade in this particular direction has been declining more or less steadily after the War, especially after 1924-25.

#### *Percentage shares of the U. K. and other countries in the total Imports of Paper and Pasteboards.*

	U. K.	Other countries.
1924-25	42.9	57.1
1925-26	41.5	58.5
1926-27	35.5	64.5
1927-28	36.4	63.6
1928-29	37.3	62.7
1929-30	32.8	67.2
1930-31	31.2	68.8
1931-32	30.2	69.8



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Whatever the method of preference that may be adopted, an increase in the price to the consumer is inevitable, unless the existing duty is actually reduced in favour of Britain. As, however, paper making is a protected industry, the only way of offering preference to Britain is by increasing the duty on non-British imports. In other words, we will be asked to levy an extra duty on nearly 70% of our imports of paper and paste-board. Protection granted to the industry has already inflicted a burden upon the consumers. They may be willing to bear it for the ultimate benefit of the country. To impose upon them additional burden for the sake of helping a foreign industry is unthinkable. There cannot be any justification for it, and this country should certainly not be expected to make such tremendous sacrifices to help the paper industry of another country. While the consumers in India are already paying for a protected home industry, to demand additional sacrifice from them for the sake of Imperial Preference is a vicious principle and must be unhesitatingly condemned.

There is yet another strong reason why a preferential tariff on British paper should not be contemplated. An additional tax upon printing and writing paper is virtually a tax on the spread of knowledge, an indirect tax on education. In view of the poverty and the terrible educational backwardness of the country, such action must unhesitatingly be regarded as a retrograde step.

### *Motor Vehicles.*

It is not clear to us as to what classes of motor vehicles are covered by the proposed 7½ per cent. preference. As there is no motor industry in India, preference would probably take the form of a lowering of duty on British vehicles and not of raising the duty on non-British. If so, Indian revenues would suffer. On the other hand, if the duty on non-British vehicles were increased it would raise prices far too high. It would increase the cost of transportation. In 1931-32, it should

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be noted, Britain's share in India's imports of motor vehicles was only 30 per cent. in the case of motor cars, and only 10 per cent. in the case of buses, vans and lorries. Road transport in India is still in the infancy of development. Considering India's backwardness in communications any tariff rearrangement which may have the effect of raising the cost of transportation would hinder our economic development. The motor truck has an increasingly important part to play in rural development. In the larger cities motor transport is indispensable for commercial and industrial progress. Any rise in its cost would be an added burden upon industry. Road transportation has a big future in India. Railways are not well developed in many parts of the country and road transport is the only hope the people have of linking themselves to the other parts of the country.

### *Toilet Soaps and Toilet Requisites.*

The present revenue duty is 15 per cent. *ad valorem*, excluding surcharge. This duty also gives Indian soap and toilet industry a certain measure of protection, under which it has made great advancement. To maintain it the duty will have to be kept at that level. The industry has not yet attained enough solidarity and is, in fact, continuously threatened by foreign competition. If the proposed preference to Britain were to take the form of a reduction in the existing level of duties, the future of the infant but promising Indian industry would be seriously jeopardised and it will be forced to seek the help of tariff protection. The only alternative method of granting preference to British goods is again the raising of duties upon non-British products, the economic implications of which have been already exposed.

### *Chemicals.*

In 1931-32 chemicals valued at 2,57 lakhs were imported into India. The U. K. supplied' about 1,43 lakhs or about 55 per cent. and the other foreign countries 1,14 lakhs or about 45 per cent. England has been more or less steadily

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losing ground in this trade because other foreign countries have been selling chemicals of the same quality at cheaper prices. In many cases, Germany has been supplying admittedly finer chemicals at cheaper prices. If duty on non-British chemicals were raised by 10 per cent., there would be a rise in prices and India may be deprived of the use of the fine chemicals of Germany. (In effect, the Indian consumer is being asked to pay higher prices in order to benefit British industry) If, on the other hand, the duty was reduced in favour of Britain, it will seriously hit the infant chemical industry of India, which requires to be fostered with national care.

India's industrial development will require increasingly larger supplies of chemicals, and under the existing conditions a preponderating proportion of India's requirements will have to be imported. A discriminatory tariff against imports of non-British origin would raise the price and increase the cost of production of many new industries using these chemicals. Further, any increase in the cost of imported chemicals would hamper scientific advancement—an eventuality, too serious to be lost sight of.

### IRON AND STEEL AGREEMENT.

The part of the Report relating to Steel is the most highly involved and complicated portion of the whole scheme of Imperial Preference. It is impossible for us to examine the scheme without fuller information. It is not merely a scheme of preference but also ultimately one of industrial co-operation and division of markets. Hereafter we shall be having three kinds of duties in galvanized sheets. The Government have also virtually undertaken the duty of regulating the price. In fact they have fixed it at Rs. 215 per ton at ports. The Government have also undertaken the difficult and delicate task of seeing that the agreement is worked successfully. Price cutting by continental manufacturers and by British manufacturers, and combination between Indian and British makers to raise

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prices above the reasonable fixed port base are all dangers which Government have decided to watch closely. It is impossible to say how far they will succeed, because the Government rely upon one remedy to achieve everything—the regulation of the duty. The real difficulty of abolishing the existence of unhealthy competition, getting evidence thereof and taking prompt steps to stop it is hardly realised. Paper prices, secret rebates, fictitious sales are all very difficult to discover and even more difficult to eradicate. The scheme is such that non-British makers, and perhaps also some British makers, are provided with all the inducement necessary to exercise their ingenuity in devising methods of evading the tariffs. For one thing, how can the Government of India discover if a certain consignment of British sheets is entirely manufactured out of British sheet bars? To find that out, an elaborate system of license and inspection will have to be devised to work in Britain. Who is going to undertake it and who is going to pay for it?

The Government of India propose to be the arbiter between British manufacturers, continental manufacturers, the Indian manufacturer and the Indian consumer. Can anybody assert with confidence that such complicated and not uncommonly conflicting functions can be discharged by a Government situated far away from any of the big ports of India?

A clever combination of continental manufacturers can so disturb the trade as almost to demoralise it. Suppose they keep jerking the price rather violently every month. Will the Government change the duties as often? Suppose they reduce prices secretly after the sheets have been landed in India. How will the menace be combated?

It seems to us that the scheme is far too complicated to work smoothly. Its enforcement will be expensive and may lead to a period of hopeless tariff confusion. If the idea was only to give the Indian manufacturer a larger share in the semi-finished steel imports of Britain and to give the British manu-

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facturers a bigger proportion of the galvanized sheets imports of India, a much simpler and more direct method should have been adopted instead of this involved and combrous system.

We are not in a position to estimate the real benefit of the Agreement to the Indian industry. It would seem to depend upon the cost of converting Indian sheet bars into Galvanized sheets in England. As the landed price in India is practically fixed, the cost of conversion would decide the price that India will get for her sheet bars. In the absence of further information it is impossible to express any opinion.

### MISLEADING FIGURES.

In para 52 the Delegation have attempted to estimate the total value of goods imported from India into U. K. which would be receiving preference under the Agreement and put it down at £41.8 million. As a gross figure this may be correct, but as an accurate measure of trade benefit it is entirely misleading. Quite £20 million or about (50 per cent. of the figure is accounted for by one commodity—Tea—in which the benefits go mainly to British capital) If, therefore, we omit Tea, the preference relates to only about £21.8 million.

There is again wheat, the preference on which cannot be considered as an effectively valuable commercial asset, as we have seen. The Delegation themselves have stated that, "when preference is accorded to several countries and their aggregate exports to the importing country already constitute a large proportion of its requirements, the preference cannot do much to extend the market. . . ." Wheat is just such a commodity. Castor seed and oil are practically commercial monopolies of India and in regard to these again the British preference cannot be considered as a valuable tariff concession.

The important group of commodities in Schedule "D" will be admitted free of duty from all sources. In the case of lac and myrabolams competing synthetic substitutes will be

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dutiable. But when such synthetic substitutes become a menace to our trade it is very likely that Britain will be making them herself and the tariff agreement between Britain and India will be powerless to help the Indian commodities. Such methods of preferences are highly delusive and confer no benefit. It is a mere fiscal eyewash.

The exports of Indian commodities coming under British preferential tariff according to the trade figures of 1931-1932 may be valued at the gross figure of about 35 crores of rupees. The Delegation have calculated it at 41.9 million on the basis of goods imported from India into U. K. in 1929. In the first place, it is necessary to protest against such important calculations being made in a foreign currency. They serve to make the subject less intelligible in India and render comparative study difficult, if not futile. Even the value of Indian exports of goods specified in the preferential schedules has been calculated in sterling as imports into the U. K. No Government in the world (except our Government) will publish such important documents as international trade agreements with their estimated values calculated in the currency of the country with which they are concluded.

In the present case the method of calculation is actually deceptive. Let us take exports first. If their value after their arrival in Britain is taken, it will include freight, insurance and other incidental charges which are really not received by the exporting country. As nearly all our exports to England are carried in British vessels and insured with British insurance companies, their value F. O. B. Indian ports is all that really concerns India. Their value landed in Britain or C. I. F. British ports is an artificially swollen figure and thoroughly misleading. The effect is to overestimate the benefit to India. On the contrary, however, in the case of imports into India Britain's benefits include not only their value but also their freight and insurance. Therefore in assessing the value to

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Britain of preference offered by India the value of imports C. I. F. Indian ports require to be taken into consideration. Here again, the Delegation have taken into consideration their value in sterling F. O. B. British ports. The effect is to underestimate the benefit to Britain.

Thus the calculations of the Delegation are greatly vitiated and largely worthless. How some of the Indian members of the Delegation could be satisfied with a study of the question based on such obviously misleading and erroneous figures is simply incredible.

Nor is this all! The figures are based upon the year 1929-30, whereas figures for the two later years should have been available. The ostensible plea is that it is the last year before the depression. As Britain's share in India's total trade has declined in the two succeeding years, and as quite a large part of the decline is a permanent loss of trade to Britain, calculation based upon 1929-30 figures must necessarily be defective. They should be accepted with extreme caution.

### UNEQUAL ADVANTAGES.

It is clear from the foregoing analysis that the benefits of Imperial Preference would not be commensurate with the sacrifices India will be called upon to make. If equality of sacrifice and equality of advantage are the basis of mutual preferential tariff between two countries, the United Kingdom and India are eminently unsuited, considering the nature and direction of their foreign trade, to enter into such a relationship. By this we do not mean that no item of India's foreign trade can benefit by a British preference, neither do we contend that Britain would be reluctant to make the sacrifices necessary to extend preference to some Indian goods. What we say is that an examination of actual trade figures reveals that the advantages of such a policy would be so small and one-sided that anything approaching a general revision of our tariff policy

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should not be contemplated under the existing circumstances. The question is not whether a "reciprocal preferential regime" will "benefit the trade of both countries", as the Government of India's letter puts it, but whether it will benefit the trade of both countries to the same extent.

### BRITAIN'S UNDUE PROMINENCE.

The adoption of a policy of Imperial Preference is open to serious objection from another point of view. One of the weakest features of India's economic position is the exaggerated importance, the undue prominence, that Britain assumes in it. Already in various ways Britain has a hold on the trade of this country and certain advantages, which serve to smother or curb the enterprise of Indians in commerce, industry, banking etc. The Ottawa Agreement would only increase our economic dependence and strengthen our political subjection. The British hold has until recently prevented the development of extensive trade relationship with other advanced countries. But the greatest economic lesson taught us by the War was the undesirability and the positive danger of too great a dependence upon any one country as a market for our goods or as the source of our imports. India would do well not to forget that lesson.

### INTERFERENCE WITH FREEDOM OF INDIA'S TRADE.

Imperial Preference will be a violent attempt to interfere with the free and smooth flow of India's foreign trade. The natural tendency has been to develop more extensive and profitable trade relationships with countries other than Britain. Any attempt to divert this by artificial means would be disastrous to our foreign trade. It would be risky and economically unhealthy to check the growing diversity of our trade relationship and to encourage too great dependence upon any one country or group of countries either as sources of our imports or as markets for our exports. India requires a more balanced



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distribution of international trade. Restriction of markets to Empire countries therefore introduces a new danger. India is a producer of primary products which are subject to wide variations in volume from year to year. A heavy crop in any particular year might so overburden Empire markets that prices would collapse more seriously than if foreign markets were available to absorb at least some of the surplus production. The weight of economic evidence points to the fact that crises are more likely to arise and to be of greater intensity in restricted markets than in extensive ones.

### WIDER FOREIGN TRADE RELATIONSHIP.

At the present time a better and diversified economic relationship and more extensive and widespread economic contracts are more necessary to India than small advantages to particular industries. In her present stage of development India requires the stimulation of new economic ideas, new industrial techniques, new commercial lessons, from as many countries as possible, especially from those new and virile industrial countries like U. S. A., Germany and Japan. Tariff discrimination against their goods would hinder it and bring about a partial economic isolation and delay our full economic development. The danger will become more evident when we realise that the country with which India is expected to develop a closer economic relationship is declining in industrial stature and economic importance. Britain's share of the total export trade today is less than it was before the War. She has less surplus capital available for investment abroad, she is carrying less of the world's trade, she is manufacturing less of the world's requirements. As an economic unit, Britain counts far less today than before the War. Should we run after this waning star periously alone?

✓ The advantages to India from a preferential tariff arrangement with the other parts of the Empire are even less obvious. They are nearly all predominantly growers of food and raw

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materials like ourselves. India cannot confer much benefit upon them. She does not want their wheat, meat, wool or dairy products. Neither can they offer much valuable advantage to India. They do not need our cotton, jute, oil seeds or fibres. So far as Ceylon and Malaya are concerned, close trade relationship with these neighbours is inevitable and the need for Imperial Preference hardly arises. Both countries would find it too costly to discriminate against India in favour of any other part of this Empire. Malaya's concession in the case of rice is really of little advantage to India, for one of India's chief competitors in the export of rice to Malaya is Burma, who being within the preference ring will receive the same treatment as India. It would not have mattered much if Burma would decide to stay with India; but Britain has been openly encouraging her to break away from India.

### DANGER OF RETALIATION.

There is again the danger of retaliation. The danger is <sup>3.</sup> real. If India is going to discriminate against friendly countries like Japan, Germany, America, France and Italy they are bound to hit back. Japan, for instance, can penalise our export of raw cotton and pig iron, Germany can hit our oil seeds (especially groundnuts) and hides, United States can strike at our hides and skins, France and Italy can injure our trade in oil seeds and raw cotton. This danger is real and more than a mere possibility.

The most curious feature of the new fiscal proposals is that it would discriminate against a large group of countries which together not only buy the larger proportion of our exports but have also always bought from India more than they have sold to India. We are asked to discriminate against this large group of customers, who return to us more than they receive, in favour of a country that has until 1931-32 sold to India more than she bought from India. To call this process a method of extending India's export trade is a gross perversion of economic facts.

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### *Balance of Indian Merchandise Trade with Various Countries.*

	Imports from		Exports to		Net Balance.	
	1930-31	1931-32	1930-31	1931-32	1930-31	1931-32
U. K. ...	61'29	44'81	54'23	45'33	-7'06	'52
Germany ...	12'38	10'20	14'23	10'09	1'85	-11
Japan ...	14'51	13'34	23'87	14'03	9'36	'69
U. S. A. ...	15'12	12'84	21'14	14'29	6'02	1'45
Italy ...	4'51	3'59	7'93	5'50	3'42	1'91
Belgium ...	4'67	3'02	7'57	4'47	2'90	1'45
France ...	2'89	2'17	11'17	7'72	8'28	5'55

In 1930-31 among this group of India's trade connections, the United Kingdom was the only country that bought from India less than she sold to India. In 1931-32 for the first time she purchased from us rather more than she sold to us. This was entirely due to the boycott. If that were relaxed Britain's sales to India would again exceed her purchases. Even in 1931-32 the net favourable balance in the case of France, Italy, U. S. A., Belgium and Japan—in fact, all except Germany—was more than in the case of the United Kingdom.

To select, for the purpose of adverse discrimination, those who buy from us more than they sell is hardly economic wisdom. To do it in the name of trade expansion is mere cant. In the long run such a policy will involve loss of markets and trade. The proposed tariffs would drive these friendly countries away from us; and they are bound to cultivate other markets who will buy from them as well as sell to them. If we decline to buy from them and shut out their goods by fiscal discrimination they will decline to buy from us. Looked at from this angle of our foreign trade, the objections against preference for British goods become unanswerable. It would be fiscal folly, tariff discrimination run mad.

### DEVELOPMENT OF INDIA'S EXPORT.

One of the main principles that the Delegation are supposed to have kept before them is "the extension and development of the export trade of India." We will see first in what direction India's export trade has developed and how it is actually distributed today.

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### Value of Merchandise Export Trade.

		(In Crores of Rs.)				
	Pre-War average,	Post-War average.	1928-29	1929-30	1930-31	1931-32
U. K. ...	56'3	73'04	72'4	69'6	54'2	45'3
British Empire ...	92'1	125' 1	119'9	114'6	89'5	71'5
Other Foreign Countries ...	132'0	176' 9	218'0	203'3	136'2	89'1
<b>Grand Total</b> ...	<b>224'1</b>	<b>302' 0</b>	<b>337'9</b>	<b>317'9</b>	<b>225'7</b>	<b>160'5</b>

### Value of Merchandise Imports Trade.

		(In Crores of Rs.)				
	Pre-War average,	Post-War average.	1928-29	1929-30	1930-31	1931-32
U. K. ...	91'6	146'4	113'2	103'1	61'3	44'8
British Empire ...	101'5	165'5	136'6	124'5	76'0	56'7
Other Foreign Countries ...	44'3	88'5	116'7	116'3	88'8	69'7
<b>Grand Total</b> ...	<b>145'8</b>	<b>254'0</b>	<b>253'3</b>	<b>240'8</b>	<b>164'8</b>	<b>126'4</b>

### Percentage Shares in India's Trade.

		Exports.				
	Pre-War average.	Post-War average.	1928-29	1929-30	1930-31	1931-32
U. K. ...	25'1	24'2	21'4	21'8	24'0	28'2
British Empire ...	41'1	41'4	35'5	36'0	39'6	44'5
Other Foreign Countries ...	58'9	58'6	64'5	64'0	60'4	55'5
<b>Grand Total</b> ...	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>

		IMPORTS.				
	Pre-War average,	Post-War average,	1928-29	1929-30	1930-31	1931-32
U. K. ...	62'8	57'6	44'7	42'8	37'2	35'5
British Empire ...	69'7	65'2	54'1	51'7	46'1	44'8
Other Foreign Countries ...	30'3	34'8	45'9	48'3	53'9	55'2
<b>Grand Total</b> ...	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>	<b>100'0</b>

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A feature of India's foreign trade has been a tendency to import a large proportion from and export a large proportion to other foreign countries, while the tendency is just the other way in regard to the United Kingdom. The general trend of India's foreign trade is towards more extensive relations with countries outside the Empire. India's exports of merchandise to the United Kingdom has been steadily declining after the War, especially during the three years 1928-31. The United Kingdom purchased in 1930-31, as the Government valued it, 54.2 crores of rupees worth of goods, whereas other foreign countries outside the Empire purchased goods valued at as much as 136.2 crores of rupees. In other words, whereas the U. K. purchased 24.0 per cent. of our total exports and these other countries bought 60.4 per cent., so that once again these figures show the unwisdom of discrimination against the latter.

The following table of the percentage share of the principal countries in the total merchandise trade of India forcibly illustrates how unnatural the Delegations' proposals are.

	Pre-War average.	Post-War average.	1928-29	1929-30	1930-31	1931-32
United Kingdom	40'0	39'5	31'4	30'9	29'6	31'4
British Empire ...	52'3	52'3	43'4	42'5	42'4	44'7
Other Foreign Countries ...	47'7	47'7	56'6	57'5	57'6	55'3

The share of the United Kingdom in the total trade of India has been declining after the War, whereas the share of other foreign countries has been increasing. Accordingly, therefore, there cannot be any economic justification for preferring goods from the U. K., whereas a much stronger case can be made out for granting fiscal advantages to other foreign countries. No impartial examiner of India's Trade figures can contradict it, for it indicates a contraction (much of it appearing permanent) in the consumption capacity of the U. K. for Indian goods and an expansion of that capacity on the part of these other countries.

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### CASE FOR TRADE EXPANSION IN OTHER COUNTRIES.

As far as the development of India's export trade is concerned, we have seen after a critical examination of the proposals that the actual benefit has been rather exaggerated. But what surprises us more is as to why the Delegation have not made any provision for the expansion of India's trade in other directions as well, if such were possible. If the expansion of India's export trade were their only concern, the right thing to have done was to have secured for India freedom to negotiate tariff agreements with any country in the world for the benefit of that trade. To put a plain question—assuming that our export trade in two important commodities stands to gain considerably by a tariff preference from 2 non-British foreign countries—will the Delegates approve of establishing mutual preferential tariff relations with those countries? Will not the Ottawa Agreement serve directly or indirectly to hinder our entering into such a relationship? If the expansion of India's trade was the main consideration, the Delegation and the Government would be bound to take every step to effect such an arrangement, but with the ratification of the Ottawa Agreement, their hands would be tied and their action restricted. Perhaps their enthusiasm even would fade away. They would argue thus, "However much we would care to enter into an agreement of mutual preference in these commodities with such and such a country, with a view to develop India's exports, we find that to do so would be to contravene the letter or spirit of the Ottawa Agreement." Or alternatively, "while maintaining the preference under the Ottawa Agreement, we are prepared to concede a preference in respect of so and so to such and such a country." The direct negative of the former would only be equalled by the practical futility of the latter, and the extension of India's export trade would be sacrificed to the cause of Imperial Preference.

Nobody, not even our Delegates, can deny that India can benefit also by reciprocal tariff preferences with countries other

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than Britain. Yet, their Report is entirely silent about it, though be it said in justice to them that this was not their concern. Britain has already commenced negotiations with countries like Argentine, Scandinavia, Denmark, etc. But the Government of India have not given the matter any thought. The point we wish to make is that if the expansion of our export trade is the only consideration, the Government of India are under moral obligation to negotiate tariff relations with any country so willing, and not with the U. K. or Empire countries alone. Otherwise we must refuse to believe that India's interests were the paramount concern of the Delegates or the Government of India. If the Government honestly believe that they have granted preference to Britain because it would also benefit India, they must not hesitate to grant preferences to countries like Japan or U. S. A., Germany or France, if such a step were also proved to be of real advantage to India's trade.

We cannot follow the lead of the Dominions in matters of fiscal preference for Britain. Apart from the absence of similar sentiments, our trade position is fundamentally different. In the case nearly of all the Dominions, Britain is overwhelmingly their pre-eminent customer. This is not the case with India. In 1931, Britain purchased 44.6 per cent. of Australia's total exports, 52.7 of South Africa's exports, 89 per cent. of New Zealand's exports and 28.5 per cent. of Canada's exports. But only 24 per cent. of total Indian exports were bought by Britain in 1930-31. Britain's claim for preference from countries like Canada and New Zealand was based upon the fact that she purchased so largely from them. If that were considered a strong argument, India's reply to Britain's claims for preference is just as strongly based, which is that Britain does not buy from India as much as India buys from her.

Although the Ottawa Agreement does not expressly rule out the possibility or the desirability of preferential tariff arrangement with India's other great customers, in practice,

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such arrangements would be impossible of realisation. Even if India stood to benefit from an offer of tariff preference from a foreign country, it would become practically impossible for her to accept it or take advantage of it because she would not be able to offer anything in return unless she breaks the Agreement with Britain. The Ottawa Agreement, if accepted, will destroy for ever the possibility of entering into closer trade relationship with other foreign countries; it will mean the fiscal and commercial isolation of India from her friendly customers like Japan, U. S. A., Germany, Belgium, etc.

### POLITICAL CONSIDERATION.

There is a higher political objection which cannot be entirely excluded from these discussions, and a brief reference to it is necessary. The Fiscal Commission admitted (Report—Para 264) “that political considerations could not be excluded in determining whether it was desirable for India to enter into an economic agreement or not.” Tariff reciprocity presupposes political reciprocity, which is entirely absent as between Britain and India. How can India be expected to enter into preferential tariff relationship with Britain, when the latter is not prepared to grant her political equality? It is illogical. Tariff reciprocity and political subjection are contradictory. The political objection is stronger in regard to the Dominions. India would lower herself in the world’s estimation if she were to seek preference for Indian goods from countries where the citizens of India herself are discriminated against, and in some cases insulted and humiliated. The honour of a nation is infinitely greater than some petty economic advantages. The sentiment of the country was correctly and fully expressed in the Minute of Dissent of the Fiscal Commission Report in the following words: “To the Indian people their self-respect is of far more importance than any economic advantage which any Dominion may choose to confer by means of preferential treatment. We may confidently state that the people of India would



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much prefer the withdrawal of such preference as they will not care to be economically indebted to any Dominion, which will not treat them as equal members of the British Empire having equal rights of citizenship.”

### FISCAL COMMISSION'S CONDITIONS.

In regard to the possibility of India's adoption of a policy of Imperial Preference, at a later period, the Fiscal Commission laid down three important governing principles: (1) No preference should be granted on any article without the approval of the Indian Legislature. (2) No preference given should in any way diminish the protection required by Indian industries. (3) On balance, there should be no economic loss to India after taking into account the economic gain.

The first principle has since been confirmed and strengthened in actual practice. The fiscal autonomy convention has been accepted by the Government of India and the Imperial Government. But the time and method of securing the approval of the Legislature is important. The Minute of Dissent has gone further (Para 31) and emphasised that “India cannot accept the principle of Imperial Preference until she has attained responsible government, and is able to regulate her fiscal policy by the vote of a wholly elected legislature.” The unexpressed fear of the authors of the Minute seems to have been justified by the way in which the Government forced the Legislature to give preference to British cotton goods in 1930. The Fiscal Commission has clearly stated (Para 262) that the question of Imperial Preference should “be determined in accordance with Indian opinion.” And yet the Government forced the country to accept it in the case of British cotton goods although Indian opinion was unanimously against it. Indian minds will not easily forget the manner in which its acceptance was secured. The Fiscal Commission has further stated that no such policy should be adopted without the “free consent”

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of the Assembly. The Assembly certainly was not "free" when it gave its consent. The Government virtually told the Assembly, "You accept Imperial Preference with protection, or you get no protection at all." The Indian cotton industry was in such a bad way that it had no choice.

The second principle does not require elaboration. Any preference that might diminish the measure of protection actually enjoyed by Indian industries or such protection as may be necessary in future for their development must be stoutly resisted.

### NEED FOR A PRELIMINARY ENQUIRY.

That Preference should not involve any economic loss to India is so obviously right. India should not be expected to play the part of an economic benefactor or god-father to any other part of the Empire. She is far too poor herself. The Fiscal Commission recommended (Para 263) that before even considering the desirability of adopting Imperial Preference "an examination should be made by the Tariff Board to determine whether there are any commodities on which preference might be given in accordance with the principles" already enunciated. We would go further and say that the whole subject of Imperial Preference should be re-examined in detail by the Tariff Board. The recommendations and opinions of the Fiscal Commission have in many respects become out of date with the change in circumstances due to lapse of time which should more strongly confirm the disapproval of an Empire Preference Scheme, and it is necessary to review the question in the light of the extensive and important changes that have taken place in India's trade relations since the Fiscal Commission reported, before this country is committed to any policy. The Government's decisions on the Ottawa Conference have been hasty and their anxiety to rush it through the Assembly without giving the country sufficient time to consider the question is, to say the least, grossly unfair.

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India has adopted a definite procedural method in regard to changes in fiscal policy. When the question of protecting Indian industries was proposed, a Fiscal Commission was appointed to examine the whole question, and it was on the strength of its recommendations that a policy of protection was adopted. The Agreement between the Government Delegation and Britain is an equally fundamental change in our fiscal policy, and as such can only be accepted after an examination by either a Fiscal Commission or at least the Tariff Board. The country must be afforded full and complete opportunity to express its views. If the question of imposing additional duties to meet the dumping of particular foreign goods could be referred to the Tariff Board, how much greater is the necessity for referring to it the question of Imperial Preference involving a fundamental departure in the fiscal policy of India.

### INTRODUCING INFLEXIBILITY IN OUR FISCAL SYSTEM.

The Ottawa Agreement is more far-reaching in its effects than what is conveyed by the mere enumeration of commodities and preferential rates of duty. The Agreement will definitely restrict the ability of this country to revise its taxes on a number of foreign goods. It would, for instance, be impossible to lower certain duties on foreign goods below the level which would leave a preference on existing rates to the U. K. or (as indicated before) to make any agreement with other foreign countries for mutual preferential tariff treatments. It will add to our fiscal system a degree of inflexibility which would be seriously detrimental to our trade interests.

The fiscal changes that would result from the Ottawa Agreement have an important bearing upon ~~India's budget~~. Customs duties form the largest single item of revenue to the Central Government. The interests of Government revenue, the safe-guarding of protected industries and burden on consumers—these three conflicting factors will have to be faced when Government come to decide the form and method of giving

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preference to British goods. If they decide to increase the duty on non-British goods fully or even partly, a rise in prices is unavoidable and the Indian customer will be paying to benefit British industries. If, on the contrary, preference took the form of reduction in duty on British goods, there would be, in the first place, a shrinkage of the margin of protection necessary for Indian industries (in the case of those receiving protection), and secondly, the customs revenue of the Government will be seriously reduced. It may, therefore, be presumed that the former method (*viz.*, increasing the duty on non-British goods) will be adopted. In this connection the law of diminishing return would come into play at a certain point, so that budget adjustments would be inevitable and fresh taxation, direct or indirect, necessary. This is an important point and one that needs to be kept in view, as otherwise the actual sacrifice India is likely to be called to make at the altar of Imperial Preference would remain concealed.

The consequence of such a course would be an inevitable rise in prices. The consumer will have to pay more. The incidence of such a rise in prices requires to be seriously investigated. If it presses unduly harshly upon any section of the people, it would be an economic injustice. India is a poor country and is already willingly bearing the burden of a policy of protection to lessen the degree of her alarming dependence on agriculture. The addition of the burden of Imperial Preference, (involving a sacrifice for the benefit not of her own but of British industries) would cause too sudden an alteration in and disturbance to the distribution of wealth. The likelihood is that the rise in prices would press disproportionately heavily upon the poorer sections of the population. The dangers of such a policy are obvious. It will open the floodgates of economic discontent with all its attendant evil consequences. It seems to us that this grave aspect of the question has been entirely overlooked.

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### A BALANCE SHEET OF GAINS AND LOSSES.

Taking a narrow view, if we strike a balance sheet (working on generous estimates), we maintain that the adoption of the Ottawa Agreement by India would result in little advantage to India and infinitely greater advantage to England. On the other hand, by India not adopting the Agreement she stands to lose little or nothing. In coming to this conclusion, we find, we are at one with Messrs. C. N. Vakil, University Professor of Economics, Bombay and M. C. Munshi, who have worked out the figures very closely. According to them India would be likely to score an advantage of about 13 crores, or stand to lose, by rejection of the Agreement, 8 crores. The former, however, would not be an actual gain, as it would only be caused by a displacement of trade with non-British countries and would not mean an addition to the total volume of India's foreign trade. The estimated loss of 8 crores, on the other hand, is small. It would easily be compensated for in other directions and in any case be worth the sacrifice if political re-actions are to be avoided.

A point that requires to be noted is that the deciding factor in international trade is 'demand', and it is this fundamental factor that will decide the volume and extent of India's trade and not any artificial devices, such as Imperial Preference, which involves restriction and not expansion in its implications and practice. From the point of view of demand, it is also certain that Great Britain could not, in her own interests, afford to raise a tariff wall against many Indian commodities of export to the United Kingdom, and if our delegates were fully awake to this situation we wonder why they allowed themselves to be stampeded by Great Britain's threats at Ottawa or allow themselves to be hoodwinked by a threatened loss of trade to India if she is kept out of the Agreement.

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### CONCLUSION.

In drawing our remarks to a close, we feel compelled to express our regret at the incompleteness of the Delegation's report, as published. Apart from the scantiness of figures in substantiation of statements, the report is noteworthy for the amount of its special pleading and many omissions. They omitted, for instance, to touch on such questions as the possible reactions of Imperial Preference upon India's non-Empire trade, the likely attitude of foreign countries and the possibility of retaliation. Our vastly more important export trade with Japan, Germany, U. S. A., France and Belgium was left out of their attention. Then again, the Delegation did not think it necessary to consider or compute the effects of the Agreement upon the level of prices in India, nor upon the Revenue Budget of the Central Government. So far as enhancing the burden on the Indian consumer is concerned the question was entirely ignored. The mere statement and expression of a pious hope that everything in the Agreement is intended for the benefit of India's export trade, unsupported by facts, figures or estimates, leave one wholly unconvinced. The one stroke of wisdom that assailed the Delegation manifested itself in the inclusion of a clause providing for the denouncement of the Agreement at six months' notice. The design latent in this is that it may be taken as giving an easy and quick means of divesting ourselves of the responsibilities arising out of this Agreement. In the event of experience fulfilling our fears, it is likely to be used as a strong argument by the Government benches in favour of the acceptance of the Agreement; but we need to be warned by past experience. It is a very difficult thing to alter an established fact. Once the Agreement is ratified all sorts of interests will arise to make its abrogation difficult, if not impossible, and the Britisher must be credited with the alertness to bring about such a situation, if necessary in their interest.

This important question will shortly be placed before the Assembly for ratification or rejection. It behoves every non-

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Official member to study the question seriously and to act in the national and economic interest of India and her people. Mr. Baldwin and others have sought to pay the Indian delegates at the Ottawa Conference a compliment reflecting at the same time on India, but neither fulsome praise nor cajoling nor threats should be allowed to sway the Assembly members from their duty.

### SUMMARY.

The following summary of conclusions will perhaps be helpful.

The proposed preferential tariff arrangement with Great Britain should not be entertained for the following reasons:—

- (1) The Agreement is restrictive in principle and practice.
- (2) India stands to gain little and to sacrifice much more.
- (3) The benefits to India are inconsiderable and ✓problematic.
- (4) The benefit to Great Britain is much more ✓definite and considerable.
- (5) It will affect adversely India's trade with other foreign countries, which form its largest group of customers.
- (6) It is likely to provoke retaliation ✓by countries which are hit by preference to Great Britain or the other Empire Countries.
- (7) For these reasons, it will only cause a ✓redistribution of Indian trade and not increase the total volume of trade; in fact, India's exports (in view of 5 & 6) are likely to be reduced.
- (8) It will either reduce the margin of protection required

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for Indian industries, retarding the industrial development of the Country or else,

- (9) It will impose an additional burden on Indian consumers by raising the prices of important articles for the benefit of British industries.
- (10) It will render our fiscal system inflexible, virtually destroying our fiscal freedom.
- (11) It will render it difficult, if not impossible, for India to negotiate mutually advantageous trade agreements or preferences with other countries.
- (12) It will make the Central Budget more difficult to adjust and result in more taxation.
- (13) It will isolate India economically, which is economically and culturally unsound. This is detrimental to our economic development and fraught with danger to our future economic stability.
- (14) It will greatly increase India's economic dependence upon Great Britain and confirm her political subjection to that country.
- (15) It is likely to be used as a sop or threat in political concessions. (It should be noted that in neither case is there any great economic loss involved. Our exports to U. K. are not likely to be restricted as she can not well do without most of them—moreover “being instrumental in sending large quantities of imports to us, she would be compelled to take adequate quantities of our exports.”)



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