

# THE INDO-JAPANESE COMMERCIAL AGREEMENT

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## INTRODUCTION

In this pamphlet the author has tried to explain as briefly as possible the implications and consequences of the Indo-Japanese Commercial Agreement in the light of facts revealed by statistics. He feels that public opinion on this question has been confused by propaganda carried on by vested interests. A commercial policy based on reciprocity involves both gains and losses, and it is easy to underestimate the former and exaggerate the latter. As a dispassionate study of this question requires a knowledge of facts the author has ventured to place before the readers a summary of relevant facts bearing on it as well as possible inferences following from them with a view to helping the formation of a sound public opinion on an important economic issue.

HINDU COLLEGE, DELHI

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The Quota System, properly so called, is recognised as an alternative system of protecting the domestic industries more effectively and with the least possible danger of a monopolistic exploitation of consumers by organised industries enjoying protection. Under this system the state restricts "The importation of a particular commodity to the amount which is necessary in order to supplement the home supply, but leaves itself free at any moment to permit additional imports if it appears that home producers are taking advantage of their privileged position to raise prices to beyond a reasonable level."\*

Protection is more certain under the Quota System than under the system of tariff protection. Under the Quota System manufacturers in the protected industry know that only that amount of foreign imports will be allowed which is necessary to supplement the domestic supply. Competition is cut off at the source. On the other hand, when there is tariff protection they may have to face cut-throat competition if the price in the home market does not rise by the full amount of the duty or when there is a change in the conditions governing relative costs at home and abroad, with the result that the tariff does not give adequate protection. And such possibilities become real when depreciation of foreign currency gives an artificial stimulus to foreign imports so long as exchanges are not adjusted to internal prices.† But under the Quota System the manufacturer in the protected industry knows the exact amount of protection

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\* G. D. H. Cole : *The Intelligent Man's Guide Through World Chaos*, pp. 412-13.

† See Appendix B.

which he will obtain. Foreign imports are adjusted to the amount necessary to supplement the domestic supply. He gets a wider home market in proportion to the gradual increase of output, and in this sheltered market, which is assured to him, the wastes of competition are eliminated. Another advantage of this system is that the consumer is protected against exploitation, because the threat of free foreign imports induces the manufacturer to keep prices at a reasonable level. On the whole, the system has flexibility, and there is greater stimulation of production and regulation of domestic prices.

But the success of the Quota System requires an elaborate organisation. For example, under the system of import restriction in Great Britain in the case of dye-stuffs there is a special committee on which both producers and consumers are represented and both have a hand in fixing prices. The quota is imported under a special licence. The consumers can ask that foreign imports should be allowed on the ground that adequate supplies of good quality are not available at home or that home producers are charging too high a price. Questions of quality, cost, price and amount and the amount of protection needed must require elaborate study and discussion through some regular organisation. Hence the Labour Party in England have suggested that the state should control the entire wholesale market through an Import Board which would purchase abroad in bulk more cheaply and buy or regulate the sales in the home market too. But obviously such state control is possible only in the case of commodities which are standardised and are imported in bulk, like wool, wheat or meat.

The Quota System has another great advantage the importance of which has considerably increased in the post-war period. This system may easily "Serve as a basis for large reciprocal contracts across international frontiers on a basis of reciprocal barter. There have been large transactions practically in the nature of barter between the

co-operative organisations of Great Britain and Russia.”\* In fact the system of linked quotas based on a reciprocal exchange of markets has become a familiar feature of commercial agreements between nations, and it constitutes a crude mechanism of international trade in a world in which the normal mechanism of financing foreign trade has broken down and the race of currency depreciation has led to prohibition of foreign imports and high tariff protection.

The Quota System has worked best when there is state control of marketing as in Russia. But it can work also when there is private trading although in this case state control is exercised, because the Quota Treaties are always political treaties. Thus under these treaties “The treaty states do not pledge themselves to the delivery of goods against goods but merely agree to the issue of export licences for specified quotas of goods for which it was also necessary that an import licence should be granted by the receiving state, but whose delivery, where the goods were not still subject to state control, remained in the hands of private traders.”†

It is interesting to notice the differences, from the point of view of principle as well as practice, between the Quota System, properly so called, and the system of Linked Quotas embodied in the Indo-Japanese Commercial Agreement. Under a properly devised Quota System or the Import Board System the object is to control foreign imports in a rational manner so as to protect the home industry and safeguard the interests of the consumer at the same time. Under this system tariff protection is avoided altogether. But under the Indo-Japanese Commercial Agreement protection by tariff is combined with protection by means of import restriction. The volume of Japanese imports has been restricted by specifying a maximum limit to

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\* *Ibid.*, p. 414.

† *Encyclopaedia Britannica*, 14th Edition, Vol. VI, p. 118.

ensure the safety of the domestic industry, and at the same time variations of imports above the basic quota are made to depend on Japanese consumption of Indian cotton. The object is to protect the cotton-grower consistently with due protection given to the Cotton Industry, and also to safeguard the interests of the consumer at a time when the particularly low purchasing power of the masses due to more intense depression in agriculture has created a desperate economic situation. At the same time the Government have avoided setting up complicated machinery to settle questions of quality, cost, price and amount which becomes absolutely necessary for working a properly devised Quota System. But it is obvious that whenever any kind of quota system has to be introduced some control of marketing by the state becomes inevitable. The Quota System no doubt works most effectively when there is a rigid and thorough control of marketing as in Russia. But even when private trading is allowed and the state does not actively participate in marketing some kind of state control has to be exercised. As already said, under the Quota Treaties of the post-War period the Treaty States do not pledge themselves to the delivery of goods against goods but merely agree to issue export licences to private traders for specified quotas of goods for which it is also necessary that import licences should be granted by the importing state to the private traders concerned.. In the text of the Indo-Japanese Commercial Agreement published in the newspapers one would search in vain for any agreement as regards the machinery for the regulation of imports and exports through the system of licences. One may hope that when the details are worked out a system of licences will be introduced and the trade will be controlled in such a way that there will be no diversion of trade from Indian to Japanese hands. As suggested recently it may be arranged that Japan will control the import of Indian Cotton while India will control the import of Japanese Cotton goods. But a rational control would imply the practice of granting

export licences in the exporting country and that of granting import licences in the importing country in the case of both raw cotton and cotton goods, and the distribution of licences should be based on the relative shares of Indians and the Japanese in the export and the import trade in both raw cotton and cotton piece-goods.\*

Let us now turn to the terms of the Indo-Japanese Commercial Agreement. A bare summary of these terms is necessary at this stage. Under the Agreement the basic quota of one million bales of cotton has been linked to a quota of 325 million yards of piece-goods. When exports of raw cotton are below one million bales variations in the imports of piece-goods will be in the ratio of 200 : 1. On the other hand, when exports of cotton exceed one million bales variations in the imports of piece-goods will be in the ratio of 150 : 1. Thus the restriction of Japanese imports of piece-goods will be at a higher rate when Japan takes less than one million bales, while the increase between 325 and 400 million yards, which is the maximum, will be at a lower rate. This arrangement clearly supplies an incentive to Japan at least

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\* The vigilance of the licensing authorities is also specially required for giving effect to clause (5) (b) (v) of the Indo-Japanese Commercial Agreement in which it is stipulated that "In respect of both cotton piece-goods and raw cotton re-exported quantity shall be deducted from the imported quantity." It is a well-known fact that there is re-exportation of Indian Cotton from Japan to China and if the re-exported quantity is not properly taken into account Japan would get a higher quota than she really deserves.

It is interesting to note in this connection that the Indian Merchants' Association at Kobe, Japan, sent the following cable to several members of the Assembly on Monday the 19th of March: "From March 2 the Indian exporters are not getting permit to export piece-goods which is causing accumulation of stocks, heavy loss, blocking of investments and non-fulfilment of sales contracts in India. The Japanese Exporters' Association which has been authorized here by the Japanese Government for controlling such permit has decided to levy tax on piece-goods amounting yearly to nine lakhs of yen to be utilized in future for dumping. Indian merchants here, therefore, request the Indian Government to take control through customs collector at each port or Chamber of Commerce or other suitable manner failing which Indian shippers and importers will be heavy losers. They suggest control of regulation in the ratio of 80 per cent of 40 crore yards, allotting to importers in India in proportion to their imports during one year ending in February, 1933, reserving 20 per cent for new importers."

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to purchase one million bales, while the rate of increase above the basic figure will be comparatively low. The distribution of the quota amongst different classes of piece-goods, the permissible increase in each class, and the quantity transferable from each class are given in the following table :

Class.	Maxima (Million Yards).	Quantity Transferable.	Permissible Increase.
Plain greys.	180	10%	10%
Bordered greys.	52	20%	20%
Bleached.	32	20%	20%
Coloured and others.	136	10%	10%

Before we discuss the consequences of the Agreement it is necessary to have a retrospective survey of the circumstances leading to Japanese negotiations. In recent years Japan's share in the import trade in cotton piece-goods had been increasing continuously.\* But the situation became alarming in 1932-33 owing to a fall in the declared values of Japanese imports due mainly to the depreciation of the yen. In the beginning of 1932-33 "The difference in the declared values for grey goods from the United Kingdom and Japan was 2 points only."† But after October 1932-33 the difference ranged about 30 points. This difference was remarkable in view of the fact that the rate of duty on non-British plain grey goods imported from Japan had been increased from 31½ per cent *Ad Valorem*, or 4½ annas per lb. to 50 per cent, or 5½ annas per lb., whichever was greater, with effect from September 1932 on the ground that Japanese exchange had fallen 50 per cent below gold

\* In grey piece-goods her share increased from 42.5 per cent in 1929-30 to 59.8 per cent in 1930-31, 74.3 per cent in 1931-32 and 68.5 per cent in 1932-33. In white piece-goods her share increased from 2.9 per cent in 1929-30 to 11.3 per cent in 1930-31, 21.4 per cent in 1931-32 and 29.2 per cent in 1932-33. In coloured goods there was a similar increase from 31.9 per cent in 1929-30 to 30.2 per cent in 1930-31, 42.4 per cent in 1931-32 and 50.4 per cent in 1932-33 (*Review of the Trade of India, 1932-33, p. 43*).

† *Review of the Trade of India, 1932-33, p. 29.*

par rate. India being specially a price market the low prices of Japanese imports led to a remarkable increase in Japan's share of the import trade. The expansion of Japanese trade had its unfavourable reaction on the Indian cotton industry, and Indian mills began to complain of a good deal of unfair competition.\* As usual the Government came to the rescue of Indian Mills, and the import duty on non-British cotton piece-goods was raised to 75 per cent *Ad Valorem* or 6½ annas per lb., whichever was greater, with effect from the 7th of June, 1933, to counteract the effects of Japanese dumping. The Japanese Government considered the new duties to be prohibitory and opened negotiations with the Government of India for reciprocal commercial concessions on the basis of the Most Favoured Nation treatment. To deal with the situation the Government of India had already a weapon in the shape of the Safeguarding of Industries Act, 1933, by which the Governor-General-in-Council was empowered to impose, by a notification in the *Gazette of India*, a duty of such amount as he considered necessary to safeguard an industry, the existence of which was endangered by the sale or importation of goods, of any country outside India at abnormally low prices. But this weapon could not be used till October 1933 when the Indo-Japanese Trade Convention was to expire. When, however, the time came for the application of the Act the Japanese Government opened negotiations with the Government of India. The basis of the Agreement was to be the Most Favoured Nation clause which ruled out a discriminatory tariff on Japanese goods, any tariff concession granted to a foreign country being automatically extended to Japan. The Government of India were faced with two alternatives—either a rupture of

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\* The declared value of grey goods fell from -/3/7 per yard in 1929-30 to -/2/3 per yard in 1932-33, that of white goods fell from -/4/6 per yard to -/2/11 per yard and that of coloured goods from -/5/- a yard to -/3/2 a yard. (*Review of the Trade of India, 1932-33, p. 41.*)

See also Appendix B.

commercial relations with Japan and open trade hostility and consequently the imposition of a high graduated scale of anti-dumping duty under the Safeguarding of Industries Act, or conciliating Japan through a mutual exchange of concessions as consistently as possible with the necessity of giving adequate protection to the Indian industries in general and the cotton industry in particular. The Government have chosen the second alternative and they believe that protection to the cotton industry has been given by the restriction of Japanese imports to a limited quota, while a valuable concession in the shape of a sure market for a portion of the large exportable surplus of cotton has been obtained in exchange. It may be asked, if the Most Favour- ed Nation clause precludes the possibility of imposing anti-dumping duties against Japanese goods in general what is the safeguard against future depreciation of Yen? But it must be remembered that the Agreement includes a clause which provides for countervailing duties against exchange dumping. At the same time the Government of India have undertaken to "Give full consideration to relevant factors which tend to raise export prices of Japanese goods, such as the purchase by Japan of raw materials in markets outside India and the adjustment of internal Japanese prices and to limit such rates to what is necessary to correct the effects of the depreciation of the exchange value of the yen relative to the rupee on the duty-paid value of Japanese goods imported into India."\*

A great controversy has arisen as regards the real value of the concession which India has obtained in respect of a sure market for raw cotton, and diametrically opposite views have been expressed on this question. Mr. Chimanlal Parekh, President of the Ahmedabad Millowners' Association, in condemning the hesitancy of the Government in

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\* Appendix A.

The Text of the Indo-Japanese Commercial Agreement, Clause (3).

taking action against Japanese dumping said, "The bogey of the Japanese boycotting Indian cotton and thereby adversely affecting Indian cotton producers needs no argument. If Japan refuses to take Indian cotton it will be playing into the hands of its competitors by allowing them cheap supplies of cotton." On the other hand, Mr. Rameswar Prasad Bagla, M.L.A., said, in the course of a press statement, "It is generally believed that the threatened boycott of Indian cotton by Japan is pure bluff. Facts and statistics do not seem entirely to support that view. In recent years Japan has taken the bulk of her supplies of raw cotton from America and imports from India have declined. It should not be impossible largely, if not completely, to replace Indian cotton by lower grades of American cotton and by cheaper cotton from China, Turkey and some other countries."

A balanced judgment on this controversy requires an examination of the statistical position as regards exports of raw cotton and the position of Japan as a consumer of Indian cotton. Recently in the course of a protest against the Indo-Japanese Commercial Agreement it was pointed out on behalf of Lancashire Cotton interests that India has been thinking in terms of cotton. But it is very often not realised that cotton forms the most important article of Indian export next to jute. The value of raw cotton exported from India was 20 per cent of the total value of merchandise exports in 1930-31, 14.3 per cent in 1931-32 and 15.63 per cent in 1932-33. In 1932-33 the total value of raw cotton exported was Rs. 20,37 lakhs. After meeting her home demand India is left with a large surplus of short staple cotton which she has been exporting to Japan, China, Germany, Italy, Belgium, Austria-Hungary and France. The relative position of Japan and the British Empire as consumers of Indian cotton and the comparative percentage of the total Indian production of cotton consumed by Indian cotton mills and Japan respectively are shown in the following comparative tables.

**Consumption of Indian Cotton by Japan and the  
British Empire (in thousands of bales of 400 lbs.)**

	Pre-war average	War average	Post-war average.	1931-32	1932-33
<b>Total British Empire.</b>	152 (6'3%)	233 (10'6%)	165 (5'7%)	172 (7%)	174 (8'4%)
<b>Japan</b>	1012 (42%)	1373 (62'7%)	1540 (52'8%)	1084 (45'0%)	
	1085 (52'5%)				

**Consumption of Indian Cotton by Indian Mills and Japan  
(Percentage of total supply consumed)**

	1931-32	1932-33
<b>Indian Mills</b>	59'1	52'6
<b>Japan</b>	26'8	24

First, let us consider the relative position of Japan and the British Empire as consumers of Indian cotton. When we consider the post-War average of foreign consumption we find that Japan imports more than 50 per cent of cotton exports which were valued at as much as Rs. 20,37 lakhs in 1932-33. Considering the British Empire we find that while cotton exports to the British Empire had been 10'6 per cent during the war period and 6'3 per cent in the pre-War period, they were only 5'7 per cent in post-War period and 8'4 per cent in 1932-33. As a result of negotiations between the Indian Central Cotton Committee and the Liverpool Cotton Association the basis of the Empire Futures contract on the Liverpool Exchange has been lowered from "Strict Low Middling" to "Low Middling" with effect from July 1929. This measure as well as recent attempts to increase the use of short staple Indian cotton may result in increased consumption of Indian cotton in the United Kingdom.\* But it is obvious that the technique of production in Lancashire cannot be adapted

\* The depreciation of the dollar has made this possibility more remote. See pages 13, footnote.

to the use of short staple cotton to such an extent that Lancashire can import Indian cotton on an extensive scale.

Next it is essential to examine the relative position of Japan and Indian Mills as consumers of Indian cotton. It will be seen in the comparative table that in 1932-33 Indian mills consumed a little more than one-half of the total production, while Japan consumed a little less than one-fourth. Comparing relative consumption in 1931-32 and in 1932-33 we find that while Japanese consumption has fallen by 2·8 per cent consumption by Indian Mills has fallen by 6·5 per cent. It is important to know the circumstances which governed the cotton market in 1932-33. The difficulty of the cotton-grower in 1932-33 was the higher parity for Indian staple cotton when compared with American cotton—a factor which has been ascribed by many to the over-valuation of the rupee. “The comparatively high parity of Indian cotton led to its gradual replacement by American Cotton in Japan and in the Orient in general. The world consumption of Indian cotton for the twelve months ending January 31, 1933, amounted to just over four million bales and was far short of the normal annual consumption of 5½ million bales. The high parity thus discouraged the consumption of Indian cotton abroad.”\* The high parity of Indian cotton thus explains the decrease in the Japanese consumption in 1932-33. As depreciation of yen has increased yen prices of raw cotton it ought to have been considered economical for Japan to purchase cheap Indian cotton but it was the high parity of Indian cotton which prevented Japan from purchasing the usual quantity. The Indian cotton mills, which represent another important source of demand for Indian cotton, diminished their consumption of cotton by as much as 6·5 per cent between 1931-32 and 1932-33. In fact a remarkable feature of the cotton trade during 1930—33 was a continuous increase in the imports of raw cotton into India. This was “Due to the policy of Indian mills to spin finer yarn in order

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\* *Review of the Trade of India, 1932-33*, p. 88.

to replace imports of higher counts and of finer cotton from abroad. Imports of raw cotton into India amounted to 85,000 tons, valued at Rs. 726 lakhs in 1932-33, as compared with 79,000 tons, valued at Rs. 703 lakhs in 1931-32. This increase was due to larger imports from the U. S. A. which sent 46,000 tons valued at Rs. 385 lakhs in 1932-33, as compared with 29,000 tons, valued at Rs. 224 lakhs in the preceding year.”\*

These recent tendencies suggest some important considerations. It is clear that we cannot expect a considerable expansion in the demand for short staple cotton by Indian Mills so long as the high parity of Indian cotton continues, and so long as the tendency to spinning and weaving of finer counts becomes more and more widespread. Even if we suppose that the future development of the Indian cotton industry will mean concentration on the production of coarser goods only our mills cannot be expected in the near future to consume all the cotton produced. On the other hand, the demand of the United Kingdom for Indian cotton is comparatively insignificant and more or less inelastic. In these circumstances it is a distinct benefit to the cotton-grower to have obtained a sure market for a large portion of the exportable surplus in a country which is the most important foreign consumer of Indian cotton. Moreover, this problem has to be viewed from another important side. Indian protectionists, obsessed with the idea of national self-sufficiency, seem to think that the gradually expanding cotton industry may absorb the Indian supply of raw cotton, and it is not necessary to trouble ourselves with the state of the export market. But raw cotton is a valuable commercial crop the area under which has considerably increased in recent times with the gradual development of demand. There has been a tendency to grow cotton also in tracts which are situated outside the cotton-growing areas, and this has increased agricultural

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\* *Review of the Trade of India, 1932-33, p. 89.*

security in regions which are liable to suffer most from the failure of rainfall. In the case of such a valuable money crop the increase in supply should not be made to depend on the slow development of the Indian Cotton Industry. Rather attempts should be made to improve the varieties of cotton, broaden the basis of demand and develop the export market as much as possible. This is specially necessary when we find that Indian mills have been importing increasing quantities of foreign cotton rather than making attempts to grow improved varieties of cotton in cotton-growing areas—a policy which is pursued by the cotton industry in other parts of the world with as much profit to itself as to the primary producer.

There is yet another aspect of this question. The system of linked quotas will prevent Japan from taking advantage of further depreciation of yen. She may gain on cotton goods sold in India in a sheltered, protected market, but she will lose on raw cotton imported.\* She may gain only on the supposition that she gains more on cotton goods than what she loses on the purchase of Indian cotton. Moreover, we must also take into account the recent devaluation of the dollar which has a great significance for the Indian export trade in raw cotton. An important consequence of the devaluation of the Dollar would be that the high parity of Indian cotton will become still higher, and there would be a greater tendency to substitute American for Indian cotton in the world market. In a situation like this the Japanese offer of a sure market for a considerable part of the exportable surplus of cotton will be a real boon to the cotton-grower.†

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\* Economists doubt the value of depreciation as a combined tariff on imports and subsidy on exports. This aspect of the question is ignored in all discussions on the Japanese exchange-dumping.

† In a speech delivered recently by Mr. Neville Chamberlain, the Chancellor of Exchequer in the House of Commons, it was explicitly stated that the depreciation of the dollar "Has in fact been a boon to the textile manufacturers of England, for they have purchased their raw cotton in the United States at bargain prices." (*Current History*, February, 1934, p. 579.) This demonstrates conclusively that it is too much to expect the Lancashire Cotton Industry to consume more of Indian cotton at any rate at the present time.

We shall now examine the value and nature of the concessions won by Japan particularly in relation to their effects on the competitive position of the Indian Cotton Industry. We give in the following table the maximum quota of Japanese imports under each of the categories of cotton piece-goods, the average imports for the last three years under each head, and the actual imports under each head in 1932—33.

Categories	Maxima (In million yards.)	Average for 1930—33 (In million yards.)	Average for 1932-33 (In million yards.)
Plain grey ...	180	} 216	} 244
Bordered grey ...	52		
Bleached ...	32	67	120
Coloured and others ...	136	128	214
<b>Total</b> ...	<u>400</u>	<u>411</u>	<u>578</u>

The first important fact which emerges from these statistics is that the total maximum quota, *viz.*, 400 million yards, is 69 per cent of Japanese imports in 1932-33, and as much as 97 per cent of the average Japanese imports for the last three years. It may be contended that when the protective import duty under the Agreement is 50 per cent *Ad Valorem*, or 5½ as. per pound on plain greys, and 50 per cent *Ad Valorem* on other classes of piece-goods, there is bound to be a restrictive effect on imports. But, as the Tariff Board have demonstrated conclusively, an *Ad Valorem* duty has had little protective effect as compared with a specific duty in the case of Japanese piece-goods.\* During the last three years the

\* See Appendix C.

reductions of Japanese imports of Plain Grey and Coloured Woven piece-goods, on which the maximum specific duty was imposed, were 60 per cent and 76 per cent respectively. on the other hand, the *Ad Valorem* duty imposed on other classes of goods had comparatively little restrictive effect. There was a reduction of only 9 per cent in the imports of Bordered Grey goods and of 8 per cent only in the imports of Printed goods, while there was an *increase* of 330 per cent in the imports of White Bleached goods and of 4 per cent in the imports of Printed goods.\* Hence when we find that, with the exception of Plain Greys the protective duty on all other classes of goods is an *Ad Valorem* duty, it becomes clear that it will be possible for Japan to export to India the full quota granted to her. Assuming then that Japanese imports are bound to reach the maximum quota let us proceed to consider the nature and extent of Japanese competition in each class of piece-goods.

I. GREY GOODS (Plain and Bordered).—Grey goods may be classified into four main categories, *viz.*—(a) Dhoties, Saries, Scarves and Chadar; (b) Longcloth and Shirtings; (c) T-Cloth, Domestics and Sheetings; and (d) Drills and Jeans. As regards T-Cloth, Domestics and Sheetings the position of Indian mills seems to be strong. Japan's share in imports in this line has decreased from 13 million yards in 1929-30 to barely three million yards in 1931-32, while during the same period Indian production has increased from 91 million yards to 154 million yards. In 1932-33 there was no doubt a set-back, so that total production was 143.7 million yards. But, on the whole, it seems that Indian mills can hold their own against foreign competition in this line. The situation is similar as regards Drills and Jeans. Japanese imports in this line have remained stationary at two million yards between 1929 and 1932, while mill production in India has

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\* Report of the Indian Tariff Board Regarding the Grant of Protection to the Cotton Textile Industry, 1932, Chapter VII, pp. 129-30.

increased from 76 million yards in 1928-29 to 100 million yards in 1929-30 and to 103 million yards in 1931-32. As regards Dhories, Saries, Scarves and Chadars, which comprise the variety of piece-goods classed as Bordered Grey, we find an increase in mill production side by side with a decrease in foreign imports. Thus British imports declined from 443 million yards in 1929-30 to 30 million yards in 1931-32, while the share of Japan diminished from 58 million yards to 53 million yards. At the same time there was an increase in Indian production from 842 million yards to 1020 million yards. But in 1932-33 foreign imports increased from 83 million yards to 138'8 million yards, and Indian mills had to face increased foreign competition particularly from Japan. In the trade in Longcloth and Shirtings the United Kingdom had lost practically the whole trade to Japan. Japanese imports in this line, were, however, checked between 1930 and 1932, owing to the operation of the specific protective duties imposed on this class of goods, there being a reduction in the imports from Japan from 310 million yards to 127 million yards. But in 1932-33 imports of Longcloth and Shirtings increased from 133'8 million yards to 182'8 million yards, most of which represented imports from Japan, and Indian production declined from 790'9 million yards to 748 million yards. This means that Indian mills had to face a more serious competition than before. On the whole, therefore, it seems that in the trade in Dhories, Saries, Scarves and Chadars, which include the category of Bordered Grey goods, and particularly in the trade in Longcloth and Shirtings Indian mills were exposed to fierce Japanese competition on which protective duties had little counteracting effect. In fact Japan's bid for the trade in Longcloth and Shirtings in 1932-33, in spite of the high specific duty, must be considered as a remarkable phenomenon.

Now let us consider the position of Indian mills in relation to the Japanese competition permitted under the Indo-Japanese Commercial Agreement. Under the Agreement

the quota for Bordered Grey goods has been fixed at 52 million yards, with a permissible increase of 10 per cent. On the other hand, the actual Japanese imports of Grey Dhories, Saries and Scarves in 1929-30, the year in which Japanese imports in this line reached their maximum, were 58 million yards. Now this class of piece-goods represents mostly piece-goods included in the category of Bordered Grey goods. This means that under the Agreement Japan gets a quota nearly equal to the maximum amount of imports which she had sent so far up to 1931-32. But still when we remember that Japanese imports in this line in 1931-32 formed only 5 per cent of Indian production it is not reasonable to expect that Indian mills will have grounds for complaining, even in the near future, of cut-throat Japanese competition. But the situation seems to be less comfortable as regards Plain Grey goods, particularly Longcloth and Shirtings. As already said, Japan has made a bid for the trade in this line; she has ousted the United Kingdom from the market and has been competing successfully with Indian mills in spite of the specific protective duty. Under the Trade Agreement Japan has obtained a maximum quota of 180 million yards for Plain Grey goods, which include Longcloth and Shirtings as the most important item in this category. Now even if we suppose that Japan will concentrate on exports of only Longcloth and Shirtings, Japanese imports will constitute only about 24 per cent of Indian production of Longcloth and Shirtings in 1932-33. The conclusion, therefore, seems to be that although there will be more intense Japanese competition, particularly in coarser varieties of these goods, yet the danger of Japanese competition should not be exaggerated.

II. WHITE GOODS.—According to Mr. Hardy's findings there was no danger of foreign competition as regards Bleached goods because his calculations showed that the Indian output of Bleached goods was only 1 per cent of the total production of goods classified as "Grey or

Bleached." The Tariff Board regard this figure as an underestimate. They found that in Bombay this class of goods formed 10 per cent in 1931. In Ahmedabad the proportion was found to be higher. There the average for 32 mills showed that the proportion was 39 per cent, while 11 mills showed as high an average as 60 per cent. Indeed it is an undoubted fact that particularly in recent years there has been an increasing tendency to produce more of bleached goods in India.\* For example, the production of Cambries and Lawns in Indian mills has increased from 3'6 million yards in 1929-30 to 43'3 million yards in 1931-32.

The finer varieties of white goods, such as Mulls and Nainsooks, which form a considerable part of foreign imports may not compete largely with Indian products. Again, as the Tariff Board have pointed out, in the production of white Drills and Jeans the Indian mills can hold their own against foreign production. In fact the total mill production of white Drills and Jeans amounted to 103 million yards in 1931-32, while total imports were only seven million yards of which Japan's share was only two million yards. But there is one class of white piece-goods, *viz.*, Longcloth and Shirtings, in regard to which there is intense foreign competition in spite of protection which is given. The imports of this class of goods amounted to 104 million yards in 1929-30. In 1930-31 the imports dropped to 72 million yards as a result of the operation of protective duties. But in 1931-32 the imports increased to 80 million yards. As the Tariff Board have remarked, "Japan's bid for the trade in white Shirtings is remarkable, : in about three years she has caught up and just passed the United Kingdom."† In 1929-30 Japanese imports of white Longcloth and Shirtings amounted to nine million yards. Next year they increased to 18 million yards, and in 1931-32 they were 39 million yards. So far as the statistics go it seems as if

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\* The Report of the Tariff Board regarding protection to the Textile Industry, 1932. Ch. VII, pp. 143-44.

† *Ibid.*, Ch. II, p. 41.

Japan has concentrated on the export of this class of piece-goods, and Indian mills have obviously to face the menace of Japanese competition in spite of protective duties.

Now let us examine the situation created by the Indo-Japanese Commercial Agreement. Under the Agreement Japan has been allotted a quota of 32 million yards of white goods, although she exported to India 120 million yards of white goods in 1932-33 and 67 million yards on the average between 1930-31 and 1932-33. Now when we remember Japan's bid for trade in white Longcloth and Shirtings, and specially when we bear in mind that Japanese imports in this line have increased from barely one million yards in 1926-27 to as much as 39 million yards in 1931-32, it is reasonable to expect that the quota of 32 million yards, which becomes 38·4 million yards with a permissible increase of 20 per cent, will enable Japan simply to maintain the *status quo* as regards white Longcloth and Shirtings, if we base our estimate on the figures for 1931-32 and also assume that bleached goods imported from Japan will consist only of white Longcloth and Shirtings. But obviously Japanese imports of white goods will not consist merely of Longcloth and Shirtings and, therefore, Japanese competition in the trade in Longcloth and Shirtings is likely to be so effectively checkmated that the increase of Japanese imports in this line, at any rate above the level of 1931-32, will become an impossibility.

III. COLOURED GOODS.—First, let us examine the position of the Indian Mills in relation to Japan. It appears from statistics that the Indian output of coloured goods had decreased by 18 per cent in 1930-31 as compared with 1926-27. In 1931-32 production recovered to within three million yards of the level of production reached in 1927-28. At the same time we find that in coloured goods Japan was fast capturing the Indian market from the United Kingdom.\* In 1932-33 she ousted her from the

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\* *Review of the Trade of India, 1932-33, p. 44.*

position of the largest supplier of these goods, and it is Japanese competition which also explains the arrested growth of Indian production since 1927-28. The protective duties of 1930 had less effect on the imports of Japanese Printed and Dyed goods on which *Ad Valorem* duties were levied than on the imports of Woven goods on which specific duties were imposed. For example, between 1929-30 and 1931-32 there was a reduction of 76 per cent in the imports of woven goods, while there was a reduction of only 8 per cent in the imports of Printed goods and an actual *increase* of 4 per cent in the imports of dyed goods. In 1932-33, in spite of the protective duties, the imports of Printed goods increased from 105 million yards to 237 million yards and the imports of Dyed goods increased from 93 million yards to as much as 148 million yards.\* The fact remains that owing to depreciating yen exchange the *Ad Valorem* duty was ineffective as a protective duty. Another difficulty in the way of Indian mills was the increasing severity of the competition of artificial silk goods imported from Japan. Statistics show that foreign imports of coloured piece-goods had declined by 50 per cent between 1926-27 and 1931-32, but the Indian production of coloured goods in 1931-32 was practically stationary at the level of 1926-27. This clearly points to the fact that coloured cotton goods were, to a large extent, substituted by artificial silk goods and goods made of cotton mixed with silk. In 1932-33 the imports of goods of silk mixed with other materials amounted to 10·1 million yards as compared with three million yards in 1929-30. Japan was the largest supplier of these goods. She had reduced her prices considerably because while the quantity imported from Japan had more than quadrupled as compared with 1929-30, the total declared value had gone up by only 50 per cent. But the most phenomenal increase in Japanese imports has been as regards piece-goods made of cotton and artificial silk. In 1930-31 Japan supplied only 38 million yards; in 1931-32

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\* The Report of the Tariff Board regarding protection to the Cotton Textile Industry. pp. 129-30.

Japan's share was 75 million yards, and in 1932-33 it was 115 million yards, or 92 per cent of total imports. "Japan was exporting to India cloth made entirely of artificial silk in bright colours and attractive designs at prices as low as 3 as. to 4 as. per yard."\* While the declared value of imports of such goods in 1932-33 was 7 as. 7 p. per yard in the case of the United Kingdom, and 7 as. 9 p. per yard in the case of Italy, it was 3 as. 6 p. per yard in the case of Japan. Thus it is easy to see how it was possible for Japan to oust other competitors in the Indian market. But when we remember that the declared value of coloured piece-goods in 1932-33 was  $\frac{1}{3}$  per yard, while artificial silk goods were selling at only  $\frac{1}{6}$  per yard, it is not difficult to realise how silk goods were replacing at least the better varieties of printed and dyed cotton goods. This substitution is really a menace to Indian production of coloured cotton goods which seems to be a progressive line of manufacture in Indian mills. Now in view of the virtual monopoly which Japan has acquired in regard to the supply of cheap artificial silk goods during the last few years it is quite reasonable to expect that when she finds the market for cotton piece-goods restricted she will concentrate on the export of amazingly cheap artificial silk goods. But it should not be supposed that the Government of India have been caught napping. When the text of the Indo-Japanese Commercial Agreement was first published it seemed as if they were not sufficiently alive to this new menace. But apparently it has become abundantly clear to them that an *Ad Valorem* duty on artificial silk goods has very little protective effect when Japanese exchange is depreciating. An increase in the imports of artificial silk goods from Japan, in spite of a duty of 50 per cent introduced in September 1931, is a convincing evidence of the failure of an *Ad Valorem* duty as an instrument of protection. Hence in the Indian Tariff (Textile Protection) Amendment Bill, introduced in the Legislative Assembly on the

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\* *Review of the Trade of India, 1932-33, p. 46.*

5th of February, 1934, specific duties have been proposed on a large range of silk goods according to differences in weight, texture and quality, together with an alternative *Ad Valorem* duty of 50 per cent on goods of non-British manufacture, whichever is higher. These specific duties are obviously intended to restrict effectively the imports of cheap artificial silk goods made of a mixture of silk and cotton produced by Japan, and let us hope that Japan will now find herself in a tight corner.\* But as far as coloured cotton goods are concerned the Indo-Japanese Commercial Agreement provides merely for an *Ad Valorem* duty. This would mean that Woven goods, which had formerly been subject to a specific duty, will now be subject to an *Ad Valorem* duty, just like Printed and Dyed goods. The result would be that the imports of Woven goods will no longer be effectively restricted and will intensify Japanese competition in the miscellaneous classes of coloured Woven goods, such as Saries, Scarves, Coatings, Trouserings, Woven Drills and Jeans, Woven Shirtings, Woven Flannels and Flannelettes and Prints and Chintz. Moreover, it should also be borne in mind that the quota allotted to Japan under the Agreement

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\* Since the above was written and sent to the press the author finds a confirmation of the truth of this statement in the sentiments recently expressed by the Japanese Delegation in Delhi in a memorandum, sent to the Government of India under instructions from Tokio, on the subject of specific duties on Japanese artificial silk goods which are being considered by the Select Committee of the Assembly. The Delegation are reported to have said, "If the Government of India should increase duties on silk and artificial silk goods at this moment, it is feared that the Japanese people might be driven to the conclusion that the Government of India are determined to impose prohibitive duties on all Japanese goods other than cotton piece-goods. It is obvious that such an eventuality will have extremely injurious effects upon the trade relations between the two countries in the future." In fact the Delegation have threatened the Government of India by saying that the measures proposing specific duties on silk and artificial silk goods have led Japanese manufacturers and exporters to doubt the possibility of their future trade with India and they are not sure whether it will be inevitable that the new agreement on the principle of the most-favoured-nation treatment will remain only on paper. They regret particularly that such an unfavourable impression has been created when the Japanese and Indian delegations are about to sign the agreement.

is comparatively high in the case of coloured piece-goods. She has been allotted 136 million yards, which is considerably less no doubt than what she exported to India in 1932-33, but is *more* than the average imports for the last three years. This fact which is revealed by statistics, is significant particularly when we find that the maximum quota is less than the average for the last three years in the case of both Grey and White piece-goods, the quota being considerably less than the average in the case of White goods. In fact, the bargain in the case of coloured goods seems to be very unfavourable to India on the following grounds :

(1) That Indian production in this line has remained unprogressive mainly due to Japanese competition.

(2) That Japan will take full advantage of the *Ad Valorem* duty in the case of Woven goods.

(3) That Indian exports of piece-goods by sea which consisted mostly of coloured piece-goods have declined from 176 million yards in 1926-27 to only 96 million yards in 1931-32 owing to Japanese competition in the overseas market, and Indian mills can fairly claim some compensating advantage as against Japan in the home market.\*

Let us consider another interesting loophole in the Agreement the importance of which cannot be safely ignored. The Agreement deals with piece-goods which exclude what are known as Fents. Fents are short damaged lengths of cloth or short lengths cut from piece-ends. The total quantity of Fents imported into India increased from 23 million yards in 1931-32 to a little less than 32 million yards in 1932-33. The total value of Fents in 1932-33 amounted to Rs. 52 lakhs as compared with Rs. 37 lakhs in the preceding year. The United Kingdom supplied about 1/3 of the total imports, whereas the U. S. A. supplied a little under 2/3 of the total imports. Now it is feared that when Japan

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\* The nature of Japanese competition is revealed by the fact that the declared value of imported coloured goods was 3 as. 2 p. per yard in 1932-33, while that of exported Indian goods was 5 as. 1 p. per yard.

finds the market for piece-goods restricted she will make inroads into the Indian market by exporting increasing quantities of Fents which are very popular on account of their low prices and the market for which is wide. It is not unlikely that she will oust the United Kingdom and the U. S. A. in this line and will be a menace to the Indian mill industry by producing amazingly cheap substitutes for certain classes of piece-goods in a market in which demand has been restricted by an abnormally low purchasing power.

In conclusion attention may be drawn to the wording of the clause (3) in the text of the Agreement as published in the newspapers. The clause runs thus: "Notwithstanding all other agreements that have been entered into, the Government of India shall have the right of *imposing* or *varying* from time to time *special rates* of customs duty on articles, the produce or manufacture of Japan, other or higher than those levied on similar articles, the produce or manufacture of any other country at such rates as the Government of India may consider to be necessary to correct the effects of any *variation* of the exchange value of the yen relative to the rupee subsequent to the 31st December, 1933." This clause is obviously intended to make it possible for the Government of India to impose and vary countervailing duties against exchange dumping. But it must be noted that the clause also covers the case of countervailing "variation" of duty in favour of Japan when the "variation of the exchange value of the yen relative to the rupee" takes the form of a rise in the value of the yen in terms of rupees due to the depreciation of the rupee, or the appreciation of the yen, or both.

## APPENDIX A

### INDO-JAPANESE COMMERCIAL AGREEMENT

(1) *Most Favoured Nation Treatment.*—In respect of customs duties Japan and India shall reciprocally accord the Most Favoured Nation Treatment to any article, the produce or manufacture of the other country.

(2) *Negotiations to be held concerning the modification of Customs Tariff.*—Subject to the reservation by both countries of the right to make such changes in their customs tariffs as may be necessary for the protection of their own interests, Japan and India agree that, should any modification of the customs tariff by either country result in the trade interests of the other being adversely affected in any appreciable measure, they shall, upon the request of the country so affected, enter into negotiations with the object of reconciling, as far as possible, the trade interests of the two countries.

### EXCHANGE FLUCTUATIONS

(3) *Measures to correct the effect of exchange fluctuation.*—Notwithstanding all other agreements that have been entered into the Government of India shall have the right of imposing or varying from time to time special rates of customs duty on articles, the produce or manufacture of Japan, other or higher than those levied on similar articles, the produce or manufacture of any other country, at such rates as the Government of India may consider to be necessary to correct the effects of any variation of the exchange value of the yen relative to the rupee subsequent to the 31st December, 1933.

In imposing or varying or on being requested by the Government of Japan to vary, such special rates of customs duty, the Government of India undertake to give full consideration to relevant factors which tend to raise export prices of Japanese goods, such as the purchase by Japan of raw materials in markets outside Japan and the adjustment of internal Japanese prices, and to limit such rates to what is necessary to correct the effects of the depreciation of the exchange value of the yen relative to the rupee on the duty-paid value of Japanese goods imported into India. The Government of India further undertake that no change in any such rate shall be made until it has been in force for at least five weeks.

#### SPECIAL CUSTOMS DUTIES

Reciprocally, the Government of Japan shall have the right of imposing or varying special rates of customs duties similar to those to which reference has just been made, on articles, the produce or manufacture of India, under similar circumstances and subject to similar conditions, provided that such right should not accrue to the Government of Japan unless the exchange value of the rupee relative to the yen shall be depreciated below the value of '732 yen.

(4) *Customs duties on Japanese cotton piece-goods imported into India.*—Without prejudice to the agreement concerning the Most Favoured Nation treatment and the measures to correct the effects of exchange fluctuation, customs duties to be imposed by the Government of India on Japanese cotton piece-goods should not exceed the following rates :

Duty on plain greys	50 per cent <i>ad valorem</i> or 5½ annas per pound.
Duty on others . . . .	50 per cent <i>ad valorem</i> .

It is understood that the Government of India shall not impose on Japanese cotton piece-goods other than plain greys

specific duty exceeding  $5\frac{1}{4}$  annas per pound, subject to the agreement concerning the most Favoured Nation treatment.

#### JAPANESE IMPORTS

(5) *Importation of Japanese Piece-goods into India.*—

(a) *Calculation of the quota of Japanese cotton piece-goods.*

The quantity of Japanese cotton piece-goods to be exported to India in the period of one year beginning the 1st April shall be limited within a quota which shall be fixed in accordance with the quantity of Indian raw cotton exported to Japan in the period of one year beginning the 1st January of the same year.

#### FIXATION OF QUOTA

It is to be noted that the period of one year for the purpose of fixing the quota of Japanese cotton piece-goods (or Piece-goods Year) shall be from the 1st April to the 31st March of the following year, while the period of one year for the purpose of calculating the quantity of Indian raw cotton exported to Japan (or Cotton Year) shall be from the 1st January to 31st December.

(b) *The Basic Quota and the Modification of the Basic Quota.*

(i) The basic quota of Japanese cotton piece-goods to be exported to India in a Piece-goods Year shall be three hundred and twenty-five million (325,000,000) yards and it shall be linked with one million (1,000,000) bales of Indian raw cotton exported to Japan in the corresponding Cotton Year.

(ii) In case the export of Indian raw cotton to Japan in any Cotton Year should fall below one million (1,000,000) bales the quota of Japanese cotton piece-goods for the corresponding Piece-goods Year shall be determined by reducing the above basic quota at the rate of two million (2,000,000) yards for every ten thousand (10,000) bales of deficit.

(iii) In case, however, such export in any Cotton Year should exceed one million (1,000,000) bales the quota of Japanese cotton piece-goods for the corresponding Piece-goods Year shall be determined by increasing the above basic quota at the rate of one million and five hundred thousand (1,500,000) yards for every addition of ten thousand (10,000) bales provided that the quota should in no case exceed four hundred million (400,000,000) yards.

#### INDIAN COTTON EXPORTS

(iv) In case the export of Indian raw cotton to Japan in any Cotton Year should exceed one million and five hundred thousand (1,500,000) bales, the quantity thus exported in excess of one million and five hundred thousand (1,500,000) bales shall be, for the purpose of determining the relevant quota of Japanese cotton piece-goods, added to the quantity of raw cotton exported to Japan in the following Cotton Year.

(v) In respect of both cotton piece-goods and raw cotton, re-exported quantity shall be deducted from the imported quantity.

(c) *Two half-yearly instalments of the quota.*

(i) A Piece-goods Year shall be divided into two half yearly periods, the first half-yearly period running from the 1st April to the 30th September and the second half-yearly period from the 1st October to the 31st March of the following year.

(ii) The quota for the first half-yearly period shall be two hundred million (200,000,000) yards.

(iii) The quota for the second half-yearly period shall be provisionally fixed at the quantity which will be derived by deducting two hundred million (200,000,000) yards from the yearly quota calculated on the basis of the estimated export of Indian raw cotton to Japan in the corresponding Cotton Year. The adjustment of the

export of Japanese cotton piece-goods to India shall be made by the end of the said period on the basis of the exact quantity of Indian raw cotton exported to Japan in the corresponding Cotton Year, subject to the rules of the allowances between periods.

(iv) A transfer from the quota of the first half-yearly period to the quota of the second half-yearly period shall be permitted up to a maximum of twenty million (20,000,000) yards.

From the second half-yearly period to the first half-yearly period of the succeeding Piece-goods Year and *vice versa*, a transfer up to a maximum of twenty million (20,000,000) yards shall be permitted.

(d) *Classification of the quota into categories.*

#### QUOTA OF COTTON PIECE-GOODS.

The quota of cotton piece-goods shall be classified into the following percentages :

*Plain Greys.*—Forty-five per cent.

*Bordered Greys.*—Thirteen per cent.

*Bleached.*—Eight per cent.

*Coloured and other.*—Thirty-four per cent.

The percentage allotted to each of the above categories may be modified subject to the following conditions :

(i) The increase in the category either of Bordered Greys or Bleached shall not exceed twenty per cent (20%) of the quantity allotted to that category and the increase in any other category shall not exceed ten per cent (10%) of the quantity allotted to that category ;

(ii) The quantity transferable from the category either of Bordered Greys or Bleached shall not exceed twenty per cent (20%) of the quantity allotted to that category, and the quantity transferable from any other category shall not exceed ten per cent (10%) of the quantity allotted to that category ; and

(iii) The total quota of cotton piece-goods for any Piece-goods Year shall not be increased by the above modification of the quantity allotted to each category.

(e) *The quota for the period intervening between the enforcement of the arrangement and the commencement of the first Piece-goods Year.*

(i) The quota of cotton piece-goods for the period between the date on which the present Indian customs duty on cotton piecegoods will be reduced to 50 per cent and the 1st April on which the first Piece-goods Year begins to run shall be the proportionate fraction of the quantity that would have been allotted to the whole Piece-goods Year from the 1st April, 1933, to the 31st March, 1934, on the basis of the quantity of Indian Raw Cotton imported into Japan in the Cotton Year of 1933 (from the 1st January to the 31st December).

(ii) The quota for this period and the first half-yearly instalment of the first Piece-goods Year quota shall be consolidated into one for the period of approximately nine months ending at the end of September, 1934.

#### BURMA SEPARATION IMMATERIAL

(6) *Enforcement of the new agreements.*

(a) *Separation of Burma.*—It has been agreed upon that the terms of the new treaty shall remain in force throughout its full term whether or not Burma is separated.

(b) *Duration of the new treaty.*—It has been understood that the new treaty shall be signed as soon as possible at London by the respective representatives of the Japanese Government and the British Government. The treaty shall come into effect immediately after the exchange of ratifications and shall remain in force until the 31st March, 1937.

#### FIRST YEAR'S ALLOTMENTS

As regards the provision that the allotment for the first part of the Cotton Piece-goods Year shall be 200 million

yards, it is understood that in the event of the purchase of raw cotton by Japan being less than the quantity which would justify a total yearly quota of this amount, the necessary adjustment would be made from the next year's quota.

#### WITHDRAWAL OF BOYCOTT

In view of the withdrawal of the boycott resolution by the Japanese Cotton Spinners' Association the Government of India will reduce the customs duties on Japanese cotton piece-goods imported into India to the rates which have been agreed upon from the 8th of January, the date from which the resolution of the Cotton Spinners' Association of Japan concerning the suspension of the purchase of Indian raw cotton is withdrawn, and will accord Most-Favoured-Nation treatment in respect of customs duties on Japanese cotton piece-goods imported into India. From the same date such conditions as have been agreed upon between the two delegations will be applied to imports of Japanese piece-goods into India.

## APPENDIX B

### JAPANESE EXCHANGE DUMPING

An opinion which is commonly held at the present time is that Japanese dumping is directly caused by the depreciation of yen in relation to the rupee. This phenomenon is usually called Exchange Dumping. But it is important to estimate the nature and extent of the competitive advantage in export markets obtained by a country whose currency is steadily and continuously depreciating. A common feature of depreciating currency is that the external value of the currency falls more rapidly than its internal value. This means that export prices measured in terms of this currency are higher than internal prices and there is a bounty on exports to the extent of the difference between the internal and the external purchasing powers of the currency. But obviously when there is adjustment between internal prices and the rate of foreign exchange (external purchasing power) the stimulation to exports disappears. And it must be remembered that internal costs become higher, at any rate, due to the increasing cost of obtaining supplies of imported raw materials, a phenomenon which is very often ignored in the case of the Japanese Cotton Industry which has to depend on imported cotton. Moreover, it is not commonly recognised that Exchange Dumping is probably a misnomer.\* Dumping implies charging a lower price in the export markets and a higher price in the home market. But when there is so-called Exchange Dumping manufacturers in the exporting country charge much higher prices in their own currency for the goods for export than they do for sale in the home market.

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\* Tariffs: The Case Examined. By a Committee of Economists under the Chairmanship of Sir William Beveridge, K.C.B., p. 284.

It is interesting to consider the difficulties which the Indian cotton manufacturer had to face in 1932 due to the continued depreciation of yen. In 1932 the par value of the yen stood at Rs. 137 per 100 yen and the duty on cotton piece-goods was  $31\frac{1}{4}$  per cent. When Japan went off the gold standard the par value dropped to Rs. 106 per 100 yens. When the par value of the yen had been Rs. 137 to 100 yens, and the duty at  $31\frac{1}{4}$  per cent a consignment of goods worth 100 yens delivered at an Indian port cost the importer Rs. 137 plus a  $31\frac{1}{4}$  per cent duty of Rs. 43, say, a total of Rs. 180. The same consignment cost Rs. 139, with the par value at Rs. 106 and the duty at  $31\frac{1}{4}$  per cent. This situation was examined by the Tariff Board who suggested a raising of the duty to 50 per cent on the assumption that the yen exchange would remain stable at Rs. 106 to 100 yens. The Government, however, did not take any action before August, 1932. But when the enhanced duty of 50 per cent was imposed it was found that the yen had dropped to Rs. 80 per 100 yens. The net result was that while the yen exchange had dropped by 50 points the duty was raised by only  $18\frac{3}{4}$  per cent. The position thus was that a consignment worth 100 yens delivered at the port cost to the importer Rs. 80 plus a duty of 50 per cent, *i.e.*, Rs. 40, or a total of Rs. 120. In other words the landed price was less by Rs. 60 in spite of an increase of the duty by  $18\frac{3}{4}$  per cent. The position of the Indian cotton manufacturer in a situation like this can easily be imagined. Even when Japan had gone off the gold standard and the par value of the yen had dropped to Rs. 106 per cent he had been feeling the severity of Japanese competition. Hence when the par value dropped to Rs. 80 per 100 yens he was obviously exposed to bitter cut-throat competition.

## APPENDIX C

### AD VALOREM AND SPECIFIC DUTIES

When the value of the commodity is the basis of the duty it is called an *Ad Valorem* duty. But when a duty is levied on some attribute other than the value of the commodity it is called a *specific* duty. *Specific* duties are advantageous from the administrative point of view, because under a system of *specific* duties no complicated valuation is necessary; only the weight or some unvarying physical attribute has to be determined. Another advantage is that it is sometimes easier to make *specific* duties progressive with variations in the quality of the article. But when we are considering a protective tariff we find a *specific* duty more effective as an instrument of protection than an *Ad Valorem* duty particularly when prices are fluctuating. The need for protection is greater when import prices are falling; but the amount of protection afforded by an *Ad Valorem* duty tends to diminish when the prices of imported goods are falling. On the other hand, when import prices are rising an *Ad Valorem* duty increases the amount of protection and places an unnecessary burden on the consumers through undeserved protection. Hence nearly all protectionist countries have discarded *Ad Valorem* duties in favour of *specific* duties. In India, however, the tariff is mainly a revenue tariff and revenue considerations are not ignored even in framing a protective tariff. It is no doubt true that in a period of falling prices under conditions of elastic demand *Ad Valorem* duties yield heavier revenue than specific duties. But if the protective duty is to really serve its purpose it must result in a reduction of imports and a consequent diminution in the yield of revenue. In fact revenue considerations should be regarded as extraneous when the tariff is frankly protective. But it is not impossible to

reconcile effective protection with the least possible diminution of revenue. As the Tariff Board say, "Specific duties result in loss of revenue principally by reason of the fact that, in the class of goods to which a specific duty applies, the more expensive goods might under an *Ad Valorem* rate be chargeable with a duty higher than the specific duty applicable to the class. In such cases the loss in revenue is not justified by any considerations of protection." The Board has met this difficulty by adopting the method of applying the specific duty as a minimum duty combined with an alternative *Ad Valorem* duty at a rate not lower than the normal revenue rate. "This has the effect of providing the industry with the amount of protection required by it while at the same time safeguarding revenues."\*

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\* Report of the Indian Tariff Board Regarding the Grant of Protection to the Cotton Textile Industry. p. 131.