

THE OTTAWA AGREEMENT

A STUDY IN

IMPERIAL PREFERENCE.

BY

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PREFACE

For a full generation India has consistently refused to participate in any scheme of general Imperial Preference. During nearly the same space of time the foreign trade of India left to itself has moved away more and more from the U. K. and the Empire.

The ratification of the Ottawa Agreement would mean a revision of our fiscal attitude and a deliberate twist to the course of our foreign trade. Surely this is justification enough for the publication of the present study.

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PART I.—GENERAL

In 1929 inter-Imperial trade was 11 per cent of world trade and the trade from or to British countries to or from foreign countries, that is Empire-foreign trade was 34 per cent. The total trade of the Empire was thus 45 per cent of world trade.

§ 1. The Ottawa Agreements and World Trade.

In the same year the trade between the United Kingdom and the rest of the Empire was 84 per cent of inter-Imperial trade, while Britain's foreign trade was 52 per cent of Empire-foreign trade.

Finally, "portions of the British Empire lie in all parts of the world and the imports and exports of its various parts cover all articles entering into world trade".

These statements indicate sufficiently the importance of the trade agreements arrived at Ottawa between Britain and the Dominions and India, from the point of view of their probable effect upon world trade.

The position of world trade in recent years is shown by the following table :—

	Annual Average 1925 to 1929	1929	1930	1931
Value of World Trade	100	104.5	85.5	60
Quantum of World Trade	100	110	101.5	74

Value of World Trade in million dollars

January to March 1929	...	...	14,721
" to " 1932	...	...	6,281

These figures tell their own tale. World trade has suffered a heavy decline since 1929, both in value and in volume. At any time the importance of the trade of the British Empire would justify a scrutiny of Empire trade agreements from the point of view of their effect upon world trade. Such a scrutiny is surely most appropriate to-day. What is the contribution that Empire trade agreements are likely to make to the recovery of world

trade from its depressed level to-day? The Empire trade agreements, no doubt, are intended primarily to foster imperial trade. But surely the Empire statesmen who recently met at Ottawa would not congratulate themselves on their achievement, if it leads to a mere diversion rather than an expansion of world commerce.

The agreements outwardly conform to the principle of multilateral commercial treaties which the World Economic Conference of 1927 suggested as a possible method for the expansion of the boundaries of freer international trade. In spirit and substance, however, they are quite different. To compare the Ottawa agreements with an international convention signed at Geneva on July 20 of this year by Belgium, Luxemburg and the Netherlands: The main clause of the convention provides for an immediate reduction of 10 per cent of the existing customs duties upon imports from the countries concerned and further reductions of an equal amount each year up to 50 per cent in the fifth year provided that duties shall not be reduced below a minimum of 4 per cent *ad valorem* on semi-manufactured products and 8 per cent on wholly manufactured products. The agreement is moreover open to the adhesion of all states on a footing of complete equality.

On the other side, the Ottawa Agreements do not impose any obligation upon the contracting parties to lower their present tariff levels, where they are high, or to maintain them, where they are low. Imperial preference is not synonymous with Empire free trade or even with low tariff Empire trade.

Secondly, Imperial preference is a domestic concern of the Empire; its benefits cannot be diffused by the adhesion of non-Empire countries to Empire agreements; its privileges will not reach them through existing or future most favoured nation treaties with British countries.

Finally, the Ottawa Agreements are not likely in practice to lead to a low tariff Empire trade. Two factors, apart from the more or less long standing bias towards high tariff in some Empire countries, militate against such a possibility being realised in the future that matters to-day. They are the difficulties of balancing national budgets and of maintaining the equilibrium of international receipts and payments in a period when money incomes and prices are falling, international loans are becoming

less and less easily available, and the total values of exports and of imports are declining at different rates.

These considerations establish at least a presumption that the Empire trade agreements will not help the cause of freer international commerce. If then the effect of Ottawa agreements upon world trade is not likely to be favourable, the reaction of the conditions of world trade upon the commerce of the Empire cannot be otherwise. The benefits of the Empire agreements, whatever they are, must therefore be sought for largely,—probably wholly—, within the precincts of inter-Imperial trade. But inter-Imperial trade is only one-third as important as the Empire's foreign trade.

Let us now turn to the Indo-British Trade agreement at Ottawa. A summary of the terms of the Agreement will be found in the Appendix. However, before

§ 2. The Indo-British Agreement—History.

we come to the terms of the Agreement, a short history of the events leading to it may be useful. On the Indian side the story is brief. On the several occasions when the idea of India participating in a scheme of Imperial Preference was mooted, it was rejected by the Government of India.* It has been held consistently that India has little to gain on her exports and nothing to give on her imports by way of preference. Two breaches were made in this position in the Iron and Steel and Cotton Protection Bills of 1930. Different rates of duty were imposed upon the imports of British and non-British varieties of these commodities into India, the rates on the former being the lower. In practice this involved preference to British goods. In principle the preference was held to be a by-product of a tariff arrangement made primarily and essentially in the interest of the Indian consumer. Until recently this was the position on the Indian side.

On the English side, for more than ninety years since Sir Robert Peel introduced his budget of 1842, Great Britain had been a free trade country. Temporary war restrictions and controls followed by safe-guarding duties for the protection of key industries immediately after the War were important departures from this tradition.

* See chap. on Imperial Preference in the *Report of the Indian Fiscal Commission, 1921-22.*

But the reversal of general policy in 1931-32 was more thorough-going and complete. The first step in this reversal was the imposition of temporary duties of 50 per cent on a long list of commodities, the importation of which was held to be abnormal in quantity. A further list of agricultural, horticultural and garden imports was met with similar treatment, in this case by the imposition of duties approximately 33½ per cent. These measures imposed in November and December 1931, were followed in the early months of this year by legislation establishing a wheat quota and finally by a general tariff. The latter was entrusted to a specially constituted permanent committee which in April recommended an extensive list of duties. The range of duties recommended was from 10 per cent to 33½ per cent, the main group being at the lower rates. Imports from the British Empire of commodities subject to the new duties were exempted pending negotiations with the Dominions and India. The commodities covered by the new duties represent a substantial proportion—about 40 per cent on the basis of 1930 trade returns—of the total imports of Great Britain (excluding 10 per cent, the produce of the Empire).

Behind this reversal of British tariff policy are a number of factors, most of which have nothing to do with Imperial preference. The fundamental influences were—

(a) The apparent decline in British prosperity—the stationary income per head, the reduction of exports to two-thirds their pre-war level, and the doubling or trebling of the country's average of unemployment. It was felt by some people in the U. K. that these were symptoms of a disease which could not be cured by the traditional remedy of free trade.

(b) The growth of Economic nationalism in other countries, which made the British free trade policy appear extremely one-sided. More and more currency was given to the slogan in the U. K. "The only effective weapon against tariffs is a tariff".

(c) Finally, some people thought it was an injustice to compel British manufacturers to pay minimum wages or observe statutory conditions of work and yet leave them exposed to the competition of manufacturers in other countries where wages were lower and conditions of work less regulated.

These fundamental influences had been preparing the

public mind in the U. K. for the coming change in tariff policy. The final step however was decided by the crisis of last year. It was the difficulty of maintaining the equilibrium between her international payments and receipts which led the U. K. off the gold standard. It was again the need for the restoration and maintenance of this international equilibrium which primarily influenced her in reversing her traditional tariff policy.

Imperial preference is a by-product of this tariff reversal decided upon by the U. K. on quite other considerations. So long as a large proportion of her total imports were on the free list, extension of preference to the imports from the Empire was impracticable. But once the U. K. entered the ranks of high tariff countries, the opportunity for turning that situation to her profit through the adoption of the principle of Imperial preference naturally presented itself. To this fact has been added the increasing dependence of the British manufacturer upon Empire markets, which is indicated by the following table :

Exports of manufactures from the U. K. to the Empire

Year	Per cent of Total Exports of Manufactures	
1901	39.5	
1913	41.3	(av. of 1911-13 : 40.4%)
1925	42.4	
1927	45.8	(av. of 1927-28 : 49.0%.*)

Two things are obvious from this short history of British tariff changes in recent years and of the forces behind that change. First, it was the domestic difficulties of Great Britain which led her to reverse her tariff policy. Realising however that a high import tariff was hardly the proper remedy for the troubles of a country whose prosperity depends mainly upon her export trade, she wanted to utilise the new tariff situation for the benefit of her export industries. Given the nature of the import and export trades of the various parts of the Empire, a large scale adoption of Imperial preference by the Empire overseas makes possible the combination of two desirable ends, *vis.* the restriction of imports into the U. K. from her foreign industrial competitors and the assurance of a large

* Including Irish Free State.

market for her exports in the Empire countries. Imperial preference is thus a by-product of a movement which was in essence directed by considerations of pure self-interest on the part of Great Britain.

Secondly, one of the results of the procedure followed by Great Britain in this connection has been to limit the freedom of choice available to other parts of the Empire. She first installed a range of medium high tariffs and then commenced bargaining with the other members of the Empire. The choice presented to any one Empire country was not between the enjoyment of its old status and that of Imperial preference. It was a choice between having equality with the rest of the Empire and being discriminated against relatively to them. The spirit and procedure of the new movement are not entirely in keeping with the so called high ideal of Imperial Unity through Imperial preference, so often adumbrated by Empire statesmen.

From this short history we pass on to the nature of the Trade Agreement. The essence of the Indo-British Agreement is the extension of mutual preference to each other's exports by India and the United Kingdom. The preference may be given either by raising the existing tariff against the imports from other countries or by lowering them in favour of British or Indian goods, as the case may be, or by some combination of either methods. The effect upon industry and trade will be different according as any one of these methods of extending preference is adopted in practice. The principle involved is however common to all the three methods.

This principle is so little understood even in quarters where an intelligent comprehension is naturally expected that we may be excused a brief digression upon it. Preference is a deliberate interference with the free flow of a country's foreign trade, the objective being to develop it, at a faster rate in the present or to create for it larger possibilities of growth in the long run, by giving it an assured and expanding channel. In this respect preference is distinct from protection with which it is often coupled. The essence of protection is the discouragement of imports; the object of preferential trade is the encouragement of

some imports rather than others with a view to securing a market for exports.*

But there are some significant resemblances between protection and preference. Both protection and preference involve a temporary loss to the country adopting them, so far as the consumption of imported goods affected by them is concerned. In the case of protection there is a reasonable anticipation (of course if protection is scientific) that the present loss to the community as a body of consumers will be offset by their future gain both as consumers and producers. In the case of preference the balancing of the two sides of the account is not so simple even on paper. A preferential agreement may bring in a present gain (or no gain) on the exports of a country to balance, or more or less than balance, the present loss on imports. In the future the loss on the imports may expand into a greater loss, may disappear or even turn into a profit, while the gain (or no gain) on the exports may increase, decrease or even completely disappear.

The balance sheet should therefore be drawn up in two stages. We should first calculate our net loss or gain in the present. We should then strike up the balance for the future. Finally the net gain or loss in the present should be placed against the net gain or loss in the future and the necessary process of adding up the gains or losses or of subtracting the one from the other should be performed. If after this there is a reasonable expectation that the community stands to gain in the long run, the preferential arrangement is justifiable; otherwise it stands condemned.

This discussion has given us the criterion by which we can judge the merits of a trade agreement. That cri-

*This contrast between preference and protection does not however exist in the case of Imperial preference from the point of view of Great Britain. The following table is instructive.

Percentage (value) of manufactures in			
Total Imports		Total Exports	
Canada (1930)	... 69.2	U. K. (1927-28)	... 79.8
Australia (1928-29)	... 76.7		
New Zealand (1929)	... 80.9		
S. Africa (1925-29)	... 78.2		
India	... 80		

For the U. K. Imperial preference means an extension of the protected home market for her manufactures.

terion is very simple, *viz.* whether we stand to gain or lose by the agreement to-day and in future. We are not at all concerned with the barren and irrelevant question whether we gain more or less than the other party to the Agreement, whether the additional market that we secure as a result of the preference is greater or smaller than the additional market which falls to the lot of the other party; for it is obvious to the common sense of everybody except the crude mercantilist that the larger or smaller gain of the other party does not necessarily reduce or expand our gain or loss from the transaction.

However, the circumstances in which a particular country enters into a preferential trade agreement may not offer it a choice between a gain on the one hand and a loss on the other. It may have to choose between two losses, and of course, the alternative involving the smaller loss would be selected.

PART II.—EXPORTS

The Indo-British Trade Agreement should be discussed in the light of these principles of preferential trade.

We shall first calculate the possible gain that we may make on our exports to-day and in future. We shall also estimate as far as practicable the loss that we would suffer if we remained outside the scheme of preference.

§ 1. The Agreement and India's Export Trade.

Under the Agreement the total value of our exports to the U. K. on which we shall receive preference was Rs. 51.39 crores on the basis of the annual average of the five years 1926-27 to 1930-31. Our total exports of these commodities to all countries calculated similarly was Rs. 200.95 crores. The corresponding value of our total export of all commodities during the same period was Rs. 304 crores approximately (excluding exports of treasure and Government stores). The total value of the exports of commodities affected by the preference is about $\frac{30}{100} \times 100$ or 67 per cent of the value of all our exports. The preference is received however only on about a fourth of the total exports of the commodities directly affected by it. That is, for the disposal of nearly three-fourths of the exports of these commodities we shall have to rely upon foreign (including Empire) markets. From this statement we can gauge the proportion of our exports on which we can make a gain as a result of the Agreement and on which also we shall suffer if India refuses to enter into the Agreement.

India will share with the Dominions and the Colonies the benefits of the preference in the British market at the expense of foreign countries. For all the Empire countries taken together the extreme limit of gain in the British market is indicated by the proportion of her total imports of the commodities on which the U. K. extends preference, which she at present secures from foreign countries. For any one Empire country, say India, the boundary is determined by its competitive position vis-a-vis the other members of the Empire in the British market. There are thus two sets of limit to the gain to Empire countries as a result

of the preference in the British market. The one, an outside limit, common to all parts of the oversea Empire and others, inside limits, varying in the case of each member.

An idea of these limits is furnished by the following table :

Values of Imports into U. K. of commodities on which India will receive preference, from all countries, the British Empire and India.

	Value in crores of Rs. Annual Average 1926-30
(a) Total import from all countries ...	205.28
(b) Imports from Empire countries ...	107.99
(c) Imports from India (average 1926-27 to 1930-31)	51.39
(b) as per cent of (a)	52.7
(c) as per cent of (b)	47.6

The U. K. thus imports somewhat more than half the total value of these commodities from Empire countries. To the imports from the oversea Empire India contributes slightly less than a half.

As a result of the preference it is conceivable, though not probable, that the Empire countries taken together may increase their exports to the U. K. by 90 per cent. If India can maintain her present ratio in the total imports from the Empire, she can also increase her exports by about the same percentage. In fact, there is a common reason which suggests that both these expansions will be much less than is indicated by the percentages. Most of the commodities on which preference is given are raw materials and food-stuff whose production is subject to the law of increasing cost. A large extension of the exports of these articles from the British countries is possible only at increasing prices, while a contraction of supply from foreign countries would be associated with falling costs of production and prices. Hence it is very likely, nay almost certain, that Empire exports to the U. K. will not expand to anywhere the limit of 90 per cent and that India will lose her relative position in the Empire group. Exactly how far the total imports from the Empire and from India will expand as the result of a general 10 per cent preference cannot be determined with any approach to even rough approximation.

Confining our attention to the broad totals and to the situation in the British market only, we can also see that if India remained outside the preferential scheme, she could not have lost to the extent of the full value of her present exports to U. K. For a length of time since India supplies half the total Empire contribution, exclusion of Indian exports would not be possible except to a minor extent; for a 10 per cent duty on Indian as well as foreign exports would discriminate against sources supplying about 70 per cent of the total import. Prices would rise by the full value of the duty and help to maintain Indian and foreign imports into the U. K.

It is not often realised that the value of Imperial preference to the U. K. varies directly with the proportionate value of her total import of raw materials and foodstuff that she can secure from the favoured countries. Probably—as far as one can judge from the large totals—it is as much to the interest of the U. K. to bring India inside the preference ring as it seems to have been made out it is to that of India to enter it herself.

But from the suggestion that India cannot lose much by exclusion from Imperial preference it does not follow that she would gain a good deal from her inclusion. In the case of commodities whose production follows the principle of increasing cost, the facility of supply from a number of sources is greater than that from a single source which supplies as much as all the rest taken together. From this it follows that the expansion of Indian exports to the U. K. will be less, probably much less, than the exports from the rest of the Empire. One need only add that while the law of diminishing return reigns supreme in India, the difficulties of increasing cost in the production of agricultural goods have been overcome, to some extent at least, in other parts of the Empire by large scale farming, etc.

From this general consideration of the large totals let us turn to the details of individual items or groups of items of export on which we are to receive preference in the U. K. For the development of our analysis we can divide these exports into three groups.

§ 2. Group I. In this group are included all commodities enumerated in the table overleaf.

Commodity	Total Import into U. K. Annual Average 1926 to 1930	Import into U. K. from Empire: Annual Average 1926 to 1930	Export from India to U.K. Annual Average 1926-27 to 1930-31	Total Export from India: Annual Average 1926-27 to 1930-31
<i>In lakhs of Rupees</i>				
Jute, Raw ...	787.3	786	584	25.97
Jute, Manufactured ...	469.3	360.6	265	49.49
Groundnuts ...	247.3	165.6	85	14.12
Rice ...	246.6	70.3	65	29.93
Shellac ...	177.3	168.6	123	4.96
Mica ...	58	49.6	42	93
Goat-skins ...	212.6	198	22	4.15
Manures ...	29.2	7.6	4	1.25
Myrobalams ...	41.3	41	39	86
	2268.9	1847.3	1229	131.66

In the case of each of these commodities our total export to all countries is much greater than their total import by Great Britain from all countries. Therefore even if, as a result of the preference, all imports from foreign countries into the U. K. were excluded and the whole British market were reserved for India, India would still, in normal years, have to find a market for a part—the largest part—of her products outside Britain. India would still be in competition with foreign countries in neutral markets; she would meet there the supplies excluded from Britain. In these circumstances so long as Indian producers continue to compete among themselves, none of them can get a penny more for their products in Britain, as the result of the preference, than he would get in the world market outside Great Britain. The simple fact that we export much more than Britain imports transforms the situation. Presumably then all that the preference can do is to secure an uneconomic diversion of our export trade and render competition with foreign producers keener in the non-British markets. The value of the non-British markets in these commodities of export is more than nine times the value of the British market, and moreover the non-British markets have been developing faster than the

British market. Shall we weaken our connections in the larger and developing markets for the sake of expansion in another which is both smaller to-day and is tending to contract relatively every decade?

Again, however, from the fact that preference will bring us no immediate gain and probably some loss in the long run to our exports in the first group, we cannot argue that we do not stand to lose much on them if India were outside the scheme of preference. This latter aspect must be discussed on independent lines.

The loss that we can suffer on our exports in the first group, if India does not join the preference ring, is determined by the relative capacity of the other Empire producers to-day and in future to supply the gap created by the exclusion of India and foreign countries. A complete measure of that capacity is hard to obtain. For that purpose we need figures *re*: the total net exports of these commodities by Empire countries to-day as well as some reasonable estimate of the expansion of this net export in future. These figures and the estimate are not available to us. The next best indices are the percentages of total imports into the U. K. from the Empire which are supplied by India and the rest of the Empire respectively. These percentages are 66.5 and 33.5 respectively. Since, the two sets of figures are not exactly comparable, we cannot draw any refined conclusion from them. But certain approximately correct conclusions are deducible. First, the totals are heavily weighted in favour of India by the exports under the headings of jute, raw and manufactured, groundnuts, rice, shellac, mica and myrobalams. If these items are excluded, the only items left are goat-skins and manures. The loss to our export trade in goat-skins and manures would have been unimportant. Only about 5 per cent of our total export of goat-skins and about 3 per cent of our total export of manures are sent to the British market. It is reasonable to suppose that we could easily find sale for these extra small percentages in our other larger foreign markets. The case of manufactured jute requires some attention. The U. K. herself has a large industry in jute manufacture. The imposition of a 10 per cent duty on the import of manufactured jute into the U. K. from India would stimulate the English industry at the expense of the Indian. But the balance could, probably be

redressed by the imposition of an equivalent duty upon the export of raw jute from India.

The first group accounts for 65.5 per cent or about two-thirds of the total value of our exports (to all countries) affected by the preferential arrangement. The value of the exports in this group to the U. K. is about a fourth of our total exports to the U. K. of commodities coming under the preference scheme. By entering into the ring of Imperial preference we are conferring little or no benefit to 66 per cent (approx.) of our total export of articles affected by preference. If India refuses to join the ring of Imperial preference, she can be hardly penalised on this group of exports. In some she happens to be the monopolist supplier; in others she enjoys a semi-monopolist position at least among her rivals from the Empire. Exclusion of India from Imperial preference would seriously curtail the benefit of cheap import of raw materials which still is and always will be the objective of all British tariff arrangements.

We now turn to the second group of exports. This group includes the commodities enumerated in the following table:

	Total Import into U. K. An. Av. 1926 to 1930.	Import into U. K. from Empire. An. Av. 1926 to 1930.	Export from India to U. K. An. Av. 1926 -27 to 1930- 31.	Total Export from India. An. Av. 1925 -27 to 1930- 31.
<i>In lakhs of Rupees</i>				
Coir	172	142	19	102
Hides & Skins (tanned)...	958	748	702	788
Cotton Manufactures ...	1332	36	29	793
Tea	5000.6	4400	2352	2754
Spices	242.3	164.6	23	175
Teak	152	125	84	139
Oil cakes and meal ...	502	370.3	103	294
Oil seeds etc., (excluding Linseed and Ground- nuts)	1532	882	164	523
Linseed	678	140	111	460
Pig lead	892	580.3	118	217
	1144	7588	3705	6245

For this group as a whole total British imports are much larger than total exports by India (*cf.* cols. 2 and 4), the latter being about 56.6 per cent of the former. Of the total import into the U. K., the Empire as a whole supplies 67 per cent and India 33.5 per cent. For the exports of the Empire as a whole (excluding the U. K.), the British market *prima facie* offers a large scope for expansion. And since India contributes about half the Empire total, while she sends about 60 per cent of her total exports to the U. K., there is a large field for expansion for Indian exports in the British market. But unless we can secure figures for the total exports of these commodities from all the Empire countries (other than the U. K.), we are not in a position to say whether this expansion of the exports of the oversea Empire as a whole and of India in particular in the British market would be achieved by a transfer of sales from neutral markets or by an absolute growth of exports. Confining ourselves to the case of India for which we have the relevant data, it seems that the immediate effect of preference in the U. K. would be a transfer of sales from foreign markets to the British. What the ultimate effect would be we cannot, for reasons already given, judge exactly. But the chances are that even the ultimate effect of the preference would be much more a mere transfer of sales to the U. K. from elsewhere than an absolute growth of our exports. Assuming that the capacity of the British market, relatively to that of other markets, to absorb these exports remains constant and also assuming—what is very improbable—that the oversea Empire as a whole sends all its exports of these commodities to the U. K., we can see that if the portion of her total exports now sent by India to foreign countries were transferred to Britain, the British demand would be very nearly satiated. However, in the absence of more relevant data, we do not want to press this point.

From this general consideration let us turn to the items included in the group. The individual items in this group require more detailed attention than those in the first group. When dealing with the latter, we were on surer grounds; the recorded figures of exports and imports told their story in a straightforward fashion. For the second group, judgment based upon the trade figures alone must be supplemented by other data.

Coir :

To turn to the first item in this group, *viz.*, coir, Britain is importing about 18 per cent of her requirements from abroad. The rest of the oversea Empire exports to the U. K. 6½ times as much as India. If, as the result of the preference, the whole of the British market is captured by the oversea Empire countries, the increment that would fall to India's share would be worth about Rs. 4 lakhs. If, as a result of the exclusion of foreign supplies from the British market, India does not lose anything in neutral markets from the increased competition of foreign suppliers, this would represent an increment of 4 per cent on her total export of coir.

Tanned Hides and Skins :

We come to the next item which is far more important, *viz.* tanned hides and skins. From the figures in the table on page 14 we can see that the Empire is already supplying about 78 per cent of the total imports of the U. K., while India's exports to the U. K. are 73 per cent of the total imports by the U. K. and 89 per cent of total Indian exports to all countries. The scope for expansion of Empire or Indian exports is therefore very limited. British preference may help us to maintain our position in the U. K. market but not to improve it appreciably. This conclusion finds support more than once in the Report on Hides and Skins by the Imperial Economic Committee, 1930. On page 11 of the Report the Committee says: "Of those skins (sheep- and goat-skins) and to a lesser degree, of hides, Empire production greatly exceeds the present demands of its tanning industry." Coming to the case of the British market, it says: "It is evident that the Empire produces more than would suffice for the present demands of the tanning industry of the United Kingdom." (p. 11). Again on page 13 ". . . There is no considerable opening for substituting Empire for foreign produce". In the class of light hides to which Indian exports belong in the main, the number available from Empire sources on an average for the years 1927-28 was 18,100 while the number tanned in U. K. was only 10,000. Therefore if we take the Empire as a whole,—its net exports and its consumption of all varieties of hides and skins,—hides and skins would really belong to the first

group of exports. British preference would merely effect a diversion rather than an expansion of the Empire exports.

Let us come to the position of India. Indian exports of tanned hides are of the very light type which are used for making leather goods other than sole leather and strong belting, harness, and upholstery. India exports both raw and partially tanned hides and skins. But between 1912-13 to 1913-14, and 1924-25 to 1928-29, the exports of the latter increased, while that of the former decreased. In 1927 and 1928 the following percentages of total exports of Indian hides and skins, raw and partially tanned, were consigned to the U. K.

<i>Raw :</i>			
Hides	...	...	7
Sheep skins	...	...	6
Goat skins	...	...	5
<i>Partially tanned :</i>			
Hides	...	...	92
Sheep skins	...	...	80
Goat skins	...	...	92

These percentages relating to tanned hides and skins suggest that we are supplying to the U. K. probably as much as we can. Hence preference will not have any appreciable effect in extending our sales in the British market.

It is however the other aspect of the question which is more interesting and important. What is the probable loss we shall suffer on our exports of tanned hides and skins, if India does not join the Imperial Preference group? The value of the British market to us in tanned hides and tanned skins is evident from the table given above. We should also remember that since the pre-war years our export of partially tanned hides and skins has expanded, while our export of raw hides and skins has diminished, which are of course desirable changes.

Of the two classes, partially tanned hides and partially tanned skins, the former are much the more important. The British market is also more valuable in respect of the former. Britain takes 92 per cent of our total exports of the former and 85 per cent of the latter. Secondly, while the duties imposed on tanned hides by foreign countries close in a large measure those markets to us, our partially tanned skins enter foreign markets much more freely. The importance of the British market is thus

evident in the case of our exports of tanned hides and skins.

Other things being equal, the more valuable a market is at present, the larger would our loss be if we were discriminated against in it. But since the discrimination would apply to us only as against the rest of the Empire we need consider our position relatively to other Empire countries.

In the class of hides and skins now supplied to the U. K. by India, she holds a predominant position. This is indicated by the following table :—

Gross Imports into the U. K. (Average 1927-28)
of partially tanned hides and skins. Cwts. (000)

	Hides (excl. sole leather)	Sheep	Goat
Total Imports	338	93	85
Imports from India	305	53	77

The contributions under the different items from the rest of the Empire are insignificant. The rest of the Empire however exports large quantities of raw hides and skins. Since India supplies almost the whole of the British import of tanned hides and skins from the Empire, a 10 per cent duty on Indian export to the U. K. would certainly raise the prices of tanned Indian hides and skins in the British market by about the full amount of the duty. This would prevent any large substitution of Indian tanned hides and skins by similar products from other Empire countries. But this would lead to a gradual replacement of the import of Indian tanned hides and skins into the U. K. by increases in the imports of raw hides and skins from all countries (including India). The net result would be a check to the growth of our export and production of tanned hides and skins, a slight stimulus to the preliminary stages of tanning industry in the U. K. and a slight growth of our export of raw hides and skins to the U. K. It is however extremely difficult, if not impossible, to give quantitative values to these changes and to their net effect on the tanning industry of India.

Cotton Manufactures :

The third item, cotton manufactures, is a relatively unimportant one. Britain herself is one of the chief manufacturers of cotton goods, and though she at present obtains only a very small percentage of her total import from the Empire countries, there is little chance of Empire products replacing the foreign imports under the stimulus of preference. "Cotton manufactures" is a heterogeneous collection of items, the demands for which are independent of one another. The 10 per cent duty against foreign imports may expand to some extent the sale of the British home industry. Its effect upon the sale of Empire countries in the British market would be negligible.

What is true of the exports of the Empire as a whole to the U. K. is true of Indian exports to the same country. The British market absorbs between 3 and 4 per cent of our total export, and the classes of cotton manufactures imported by the U. K. are extremely specialised. It therefore follows that the grant of 10 per cent preference would not expand our sales of cotton manufactures to the U. K. by any significant amount. And also the exclusion of Indian exports from preference would not affect them appreciably.

In the case of cotton manufactures, however, the British preference has been coupled with preference in the colonial markets. The political ethics of this arrangement will not stand a moment's examination. It is not exactly fair that in her negotiations with the other parts of the Empire, Britain should enlist the colonies on her side and throw the weight of their importance as present and prospective markets into the scale in her favour.

However, if the colonial markets are included, the importance of preference on Indian exports of cotton manufactures becomes obvious. Out of Rs. 793 lakhs worth of cotton manufactures exported by India (on an annual average during the years 1926-27 to 1930-31), the British Empire (excluding the U. K.) took as much as Rs. 432 lakhs. Most of our importers within the Empire are situated to our south-west and south-east in the Indian Ocean. In 1929 the Empire countries other than the U. K. took 61 per cent of our total export of cotton manufactures. The principal importers in this group and their percentage shares in the same year were as follows:—

*Percentages of the value of total export of Indian
Cotton manufactures taken by—*

Straits Settlement	...	...	...	21
Ceylon	15
Tanganyika	6
Kenya	4
Aden and Dependencies	3
Anglo-Egyptian Sudan	2

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Our position in some of these colonies and in some others is indicated by the following table:—

*Percentages of their total Imports of cotton piecegoods
from different countries.*

	India	U. K.	Japan
British Malaya†	4	37	34
Ceylon*	33	47	8
Mauritius	17	57	7
Zanzibar*	28	49	8
Kenya and Uganda*	13	28	30
Nyasaland*	33	15	8
S. Rhodesia*	3	55	...
N. Rhodesia*	4	52	4

† During the year ended 31st December 1930.

* During the year ended 31st December 1929.

That India has a valuable market for her cotton manufactures in some of these British colonies is obvious from the two tables. But that market is not likely to expand very much with a 10 per cent preference. In the first place, the 10 per cent preference would extend to one of her chief competitors, *viz.* Great Britain, which supplies, except in the case of Nyasaland, much larger percentages of the total imports of these colonies. At home Indian manufactures require and have received a larger protection against British goods. There is, therefore, little chance that, placed on an equal footing with British manufactures in the colonial markets, Indian exports will expand very much or to any extent at all against British competition. But probably British and Indian exports to the colonies have adjusted themselves relatively to one another, the former covering all of the higher grade and some of the

lower grade goods, the latter being confined to the low grade ones only. Hence colonial preference will not probably affect Indian exports vis-a-vis British exports, if other things were equal. But other things are not equal. In most of these colonial markets India has a serious competitor in Japan. The latter is to-day supplying except in Malaya, Kenya and Uganda smaller percentages of total imports of these colonies. But the rapid development of Japanese exports to these two markets is probably an indication of what would happen in the others; and there are two reasons for fearing this development. First, during the last decade Indian exports of cotton manufactures have on the whole shown a tendency to decline, and the markets that India has lost have gone chiefly to Japan. Secondly, even at home Indian manufactures require in normal times a 31½ per cent protection against Japanese imports. Surely a bare 10 per cent discrimination against Japanese exports to the colonial markets would not help India to maintain, still less to strengthen, her position in these, especially when we remember that by our increasing discrimination against Japan in the Indian market, we are intensifying the competition that we shall have to face from her in other markets.

Our conclusions on this item are, first, that the 10 per cent preference in the British market will not expand Indian exports to it at all, and secondly, that the 10 per cent preference in the colonies will not improve India's position relatively to the British and would not adequately protect it from steady encroachment by Japan.

On the other hand if India stands outside the preference scheme, she would lose very little, if anything, in the British market. But she would very probably be eliminated from the colonial markets in a short time.

Tea :

The next item in the list is tea, the most important of our exports to the U. K. on which we are to receive preference. Of the total value of tea imported into Britain during the years 1926 to 1930, about 88 per cent came from the Empire. In 1929 the British Empire exported 633.7 million lbs. of tea. In the same year Great Britain imported 539.1 million lbs. from all countries and 462.6 million lbs. from the Empire. Thus more than four-fifths of British import of tea comes from the Empire and about

three-fourths of total Empire export find their way to Britain.

During 1926-27 to 1930-31, about 86 per cent of the total export of tea from India was sent to the U. K. During 1926 to 1930 the U. K. received about 47 per cent of her total gross import of tea from India.

The importance of the British market in tea to the Empire and to India is thus obvious. Equally obvious is the fact that the British market is one in which the Empire tea is already well established. From the point of view of all exporters of tea, whether within the Empire or outside it, it is also necessary to note that the British market is very nearly satiated. Of the total of all black and green tea entering world trade more than one half is retained in the U. K., where the consumption per head of population in 1929 was 9.2 lbs. or between 4½ to 5 cups of liquid tea a day, the largest per head consumption of any country in the world. These are quite high figures and very probably per head consumption of tea is approaching its limit in the U. K. The total consumption can therefore increase with an increase of population. But the United Kingdom has been recently reported to be "almost within sight of a stationary population".

The problem before each of the exporters of tea to the U. K. is therefore to maintain its position and, if possible, to improve it at the expense of other suppliers. The British preference to Empire tea should be discussed from this point of view.

Let us first deal with the competition between the Empire countries on the one side and the foreign countries on the other. The chief suppliers from outside the Empire are Java and Sumatra. In 1929, their total export of tea to all countries was 161.3 million lbs. as against 633.7 million lbs. exported by Empire countries. In the same year 16.1 per cent of the total quantity of tea imported and retained in the U. K. was supplied by the two countries, the Empire percentage being 82.1.

More instructive than the various comparative figures for 1929, which of course indicate the competitive position of Empire and non-Empire countries in a static manner, is the following table which summarises the rates of development of Empire and non-Empire supplies for some years before 1929,

Export of tea to all countries.

	By India and Ceylon		Java & Sumatra	
	m. lbs.	Per cent Growth	m. lbs.	Per cent Growth
1924	549.3	100	123.0	100
1929	631.9	116.6	161.3	131.1

Retained Imports of tea into the U. K.

	India and Ceylon			Java & Sumatra		
	m. lb.	Per cent Growth	Per cent of total	m. lbs.	Per cent Growth	Per cent of total
1924	364.8	100	83.9	49.6	100	11.4
1929	378.1	103.8	81.5	75.0	150	16.1

Total Retained Imports from all countries (in million lbs.)

1924	...	434.6
1929	...	464.1

Between 1924 and 1929 the exports from India and Ceylon (which supply 99 per cent of Empire exports) to all countries increased by 17 per cent, while the total exports from Java and Sumatra increased by 31 per cent. Between the same two years the retained imports into the U. K. from India and Ceylon increased by 4 per cent, while the retained imports from Java and Sumatra increased by 50 per cent. The percentage share of the first two countries in the retained imports deteriorated from 84 to 82, while that of the last two countries improved from 11.4 to 16.1. The total of retained imports in the U. K. increased by 29.5 m. lbs. Of this increase the Empire secured 13.3 m. lbs., while Java and Sumatra captured 25.4 m. lbs. (Apparently a part of the increase enjoyed by either or both the sets of countries must have been at the expense of countries not mentioned here).

Of course the percentage rates always tend to exaggerate the progress of a new competitor, and it is likely that Java and Sumatra will not maintain this rate of pro-

gress for ever. But against this we have to set the consideration that during almost the whole of the period 1924 to 1929 and for several years prior to it, Empire tea enjoyed preference not only in the British market but also in the markets of other Empire countries except Australia, and that Empire countries taken together were consuming 60 to 70 per cent of world's tea supply. The preference in the British market was equal to one-sixth of the full rate of duty imposed on imports of tea. The full rate was 4*d.* per lb. between April 4, 1924, and April 22, 1929, and the average wholesale price of all tea during 1924 to 1929 was about 18 pence per lb. Hence the value of the preference was about 3½ per cent. Compared with the present rate of preference of 50 per cent (2*d.* per lb. on Empire tea and 4*d.* per lb. on other tea) the preference during the period 1924 to 1929 was low, and it is likely that the protection afforded to Empire tea by this preference was inadequate. But between June 2, 1919 and May 1, 1924, the preference during the first three years was 2*d.* per lb. and 1½*d.* per lb. during the last two years. Yet during these years the retained import of tea in the U. K. from India and Ceylon fell from 405 m. lbs. in 1919 to 365 m. lbs. in 1924, while the retained imports from Java and Sumatra increased from 34 m. lbs. in 1919 to 50 m. lbs. in 1924.

The future, of course, is uncertain. But from all signs the outlook is gloomy. Whether a 2*d.* preference in future will sufficiently buttress the position secured by Empire tea in the British market is a question which cannot be answered definitely either way. But that all Empire tea requires a substantial preference in the British market is obvious.

We now come to the competitive position of Indian exports vis-a-vis the exports from other Empire countries to the U. K. The Empire country which we need consider seriously to-day is Ceylon. The total export of tea to all countries in 1929 from India and Ceylon were 380.4 million lbs. and 251.5 million lbs. respectively. Exports from Ceylon were thus about two-thirds of the export from India. In the same year the retained imports into the U. K. of Indian and Ceylonese teas were 251.9 million lbs. and 126.2 lbs. respectively. India thus relies upon the British market for the disposal of about two-thirds of her total ex-

port, while Ceylon's dependence is to the extent of about half of her total export. These percentages and fractions indicate the position of the two countries statically.

More interesting are the figures of growth in recent years. Between 1924 and 1929, the total export of tea from India increased from 344.4 m. lbs. to 380.4 m. lbs. or by 10 per cent, while the total exports from Ceylon increased from 204.9 million lbs. to 251.5 million lbs. or by 23 per cent. Between the same two years the retained import of Indian tea in the U. K. decreased from 253.5 million lbs. to 251.9 million lbs., while the retained import of Ceylon tea increased from 111.3 m. lbs. to 126.2 m. lbs. India's percentage share in the total retained import of tea in the U. K. declined from 58.3 to 54.3, while that of Ceylon improved from 25.6 to 27.2.

From the considerations outlined above, we can draw several important conclusions :—

(a) All Empire tea requires a substantial preference in the British market to maintain its position against Java and Sumatra tea.

(b) But this preference is not likely to improve the sales of Empire tea very much, unless the preference is much higher than it was in the past or it is to-day.

(c) Since India will enjoy the same preference as Ceylon, India will not be able to improve her position vis-a-vis the latter country.

(d) But if India stands outside the preference scheme, her sales in the British market are likely to diminish very considerably in the long run. In the short period, however, since the exclusion of India from preference would discriminate against more than 70 per cent of the total import into the U. K., the price of tea in the U. K. will rise by a substantial portion, possibly by the full amount, of the higher duty. Indian and foreign exports of tea to Britain will not therefore suffer very much for some time, though the preference enjoyed by Ceylon will extend her sales. This state of affairs may continue for a fairly long period. The total export of tea from Ceylon in 1929 was only about 27 per cent of the retained import of tea into Great Britain. It will, therefore, be some time before Ceylon can, even under preference, capture the major portion of the British market and before the price of Ceylon tea will determine the prices of other tea in the U. K.

There is a further consideration from the Indian point of view. As we have shown before, of the three chief exporters of tea to the U. K., *viz.* India, Ceylon and the Dutch East Indies, India has made the least progress in recent years and Java and Sumatra the most. India therefore requires preference against Java and Sumatra more urgently than Ceylon or Empire tea as a whole. It also follows from the same fact that exclusion of India from Imperial preference would expose Indian tea to the full force of competition from Java and Sumatra in neutral markets. Exclusion of India from Imperial preference may thus lead to a loss of our tea export to the U. K. as well as to neutral markets,—in the former to Ceylon, and in the latter to Java and Sumatra.

Spices :

The fourth number in the second group, *viz.* spices, does not require long consideration. It is a heterogeneous collection of different varieties of spices, some of which may be competitive and others non-competitive. Total British import of spices on an annual average during 1926 to 1930 was Rs. 242 lakhs of which the import from the Empire was Rs. 164.6 lakhs. The yearly average export from India to the U. K. during 1926-27 to 1930-31 was worth Rs. 23 lakhs. With preference the Empire countries may gradually oust foreigners from the British market. If India just maintained her position among Empire suppliers, Indian exports may increase from Rs. 23 lakhs to about Rs. 34 lakhs. How far these possibilities are realisable we cannot determine until we know the details of the various types of spices included under the general heading of that description. Similarly we cannot say what will be the effect on Indian exports of exclusion from preference.

Hardwood—Teak :

The item, hardwood, includes a variety of hardwood. Indian exports are classed under teak and other sorts. The British import classification is different. A direct comparison can be made only with regard to teak. Teak, however, is by far the most important type of hardwood exported from India.

Of the total import of teak into the U. K. about 82 per cent came from Empire countries. A 10 per cent

preference will very probably enable Empire countries to eliminate foreigners from the British market in a short time. India supplies 55 per cent of total British imports. If India maintains her position in the Empire group, as she is very likely to do, Indian export of teak to the U. K. may improve to the extent of Rs. 21 crores. Since the total export of Indian teak is about 91 per cent of the total British import, it is very likely that British preference will lead to a diversion rather than to an expansion of Indian exports.

The position of teak has been considered in isolation. But teak is only one among a number of other hardwood which may compete with teak in various ways. In 1926 the total value of the imports of all types of hardwood into the U. K. was £. 7,496,000. The value of the import of teak in the same year was £. 1,069,000. Import of teak was thus only a sixth (in value) of the import of other varieties of hardwood. In view of these relative proportions of the supplies of teak and other hardwood in the British market, the effect of preference to Empire hardwood upon Indian export of teak cannot be even roughly guessed, unless we know to what extent teak competes with other varieties of hardwood.

For the same reasons it is impossible to estimate the effect of the exclusion of India from Imperial preference upon the Indian export of teak. If the other varieties of hardwood did not compete with teak, we could easily say that since India enjoys something approaching a monopoly in the supply of teak to the British market, the exclusion of Indian exports could not have been effective. Prices would have risen sufficiently to enable Indian exports to the U. K. to continue at or near their present level.

Linseed :

In the class of oil seeds the case of groundnuts has been already dealt with. The next important variety of oilseed exported to the U. K. is linseed. The yearly average import of linseed into the U. K. during 1926 to 1930 was Rs. 678 lakhs. The Empire's contribution was to the extent of Rs. 140 lakhs. The Empire thus supplied slightly more than a fifth of the total import of linseed into the U. K.

Since foreign countries are to-day supplying nearly four-fifths of British requirements, the 10 per cent duty on foreign imports will naturally raise the price of all linseed in the British market. For a time, which may be short or long according to the capacity of Empire sources to expand, foreign supplies would not be substantially reduced. But the bonus to Empire linseed will naturally tend, other things being equal, to expand the supply from Imperial countries.

How strongly this tendency for Empire supplies to replace foreign supplies will operate depends on the one hand upon the capacity of the Imperial countries to expand their production and export of linseed and on the other upon the ability of foreign countries to meet the impediment of a 10 per cent discrimination against their exports.

In 1929 only two Empire countries, *viz.* India and Cyprus, had net exports of linseed. The export from Cyprus was insignificant being only 6000 quintals, while Indian export was 2,541,000 quintals. In that year total British import of linseed was 2,896,000 quintals. Total net export of linseed by Empire countries thus amounted to 91 per cent of the total import of that commodity by Britain from all sources. If the 10 per cent preference in favour of Empire imports were effective, it may lead to a concentration of all Empire export in the British market and also a possible expansion of it by 10 per cent. During the five years 1926-27 to 1930-31 India, the chief, practically the sole, Empire exporter of linseed exported on an annual average Rs. 460 lakhs worth of linseed to all countries. Out of this Rs. 111 lakhs went to the U. K. Hence the effect of Imperial preference upon Indian export of linseed will be in the main a transfer of its sale from other countries to Britain and only to a small extent an expansion of total export.

These conclusions, however, rest upon the assumption that a 10 per cent preference to Empire linseed is effective against foreign competition in the British market. The chief foreign exporter is Argentine, and the sole Empire exporter is India. Hence we need consider the position of India vis-a-vis Argentine to examine this assumption. The following table gives us some idea of the progress of the two countries in the past.

—	Production Quintals (000)		Net Export Quintals (000)	
	India	Argentine	India	Argentine
1909-13 (Average)...	5048	7,904	3736	6880
1929 ...	3271	13,273	2541	16175
Increase (+) or Decrease (-)	-35	+69	-32	+136

While Indian production and export declined by about a third, Argentine production increased by two-thirds and Argentine export to more than double. These changes in the relative positions of India and Argentine took place during a period when India and Argentine enjoyed the same privileges in their export trade. Imperial preference will of course make a difference in favour of India. But though one cannot be dogmatic on such a point, the relative rates of change in the cases of the two countries are so much in contrast that one can conclude almost as a certainty that a 10 per cent preference is quite inadequate to protect Indian exports to the U. K. from the competition of export from Argentine. The value of the Imperial preference is therefore probably nil in the case of export of linseed from India.

If inclusion within Imperial preference means little or nothing in the case of Indian export of linseed, exclusion from that privilege or concession would have meant equally little. India holds almost a monopoly position among Empire suppliers. Exclusion of India from Imperial preference would have meant that the 10 per cent duty would have applied to almost the whole of British import. British price of linseed would have gone up by 10 per cent and Indian exports to U. K. would have been unaffected so far as the effect of Imperial preference is concerned.

We now come to the final group of exports on which under the agreement India will receive preference from the U. K. This group consists of commodities enumerated in the table overleaf.

§ 4. Group III

	Total Import into U. K. Annual Av. 1926-30	Import into U. K. from Empire Annual Av. 1926-30	Export to U. K. from India. Annual Av. 1926-27 to 1930-31	Total Export from India. Annual Av. 1926-27 to 1930-31
<i>In lakhs of Rupees</i>				
Coffee	566	244	51	175
Tobacco	2194	319	38	110
Hemp	539	102	11	172
Vegetable Oils (Non- Essential)	1241	274	8	31
Barley	825	118	16	52
Carpets (Woollen) ...	467	86	41	82
Mahogany... ..	145	49	Not specified	
Other Hardwood... ..	398	148	Not specified	
Pulses	331	71	40	162
Magnesite	23	3	Not specified	
Magnesium chloride ...	15	3	Not specified	
	6798	1414	205 (?)	684 (?)

This third group consists of commodities which are imported by the U. K. largely from non-Empire countries. During the years 1926 to 1930 the imports from the Empire were slightly over a fifth of the total import of these commodities into Britain.

The general effect of the British preference in the case of these commodities is likely to be a rise of their prices in the British market, a bonus to Empire suppliers and hence an increase in the export of Empire countries to the U. K.

Indian export of these commodities to the U. K. is about one-seventh of the total export from all Empire countries. Total export from India to all countries is about 9½ per cent of the total import by Great Britain.

From these statements it follows that in this group of exports even if all foreign countries were excluded as a result of Imperial preference, India will have to face very serious competition from other Empire countries. Again

for the same reason, if India does not join the Imperial preference group, she would very probably be supplanted in the British market by other Empire countries. In the absence of data relating to the total export capacity of all Empire countries, however, we cannot determine definitely either the probable gain to India under Imperial preference or her probable loss in case she stands outside it.

Coffee :

From the group as a whole we turn to its individual members. The first item in this group is coffee. The annual average of gross imports of coffee into the U. K. during 1926 to 1930 from all countries, the Empire oversea (including India), and India were as follows:—

	Value (Rs. lakhs)	Percentage Share	Quantity (cwts. 000)	Percentage Share
Total Import	566	100	638	100
Import from Empire	244	43.1	287	45
.. India	49	8.6	54	8.5

The Empire thus supplied about 45 per cent of the gross import of coffee into the U. K. Since a very large proportion of the coffee imported into the U. K. is re-exported to foreign countries, we have to find out the figures for retained imports into the U. K. to get a more accurate idea of British consumption. During 1927 to 1930 the yearly average amount of coffee imported from all countries and from the Empire and retained in the U. K. were 356,000 cwts. and 148,000 cwts. respectively. Canada is the only other important country within the Empire which extends preference to Empire coffee. The gross imports of coffee into Canada on a yearly average during 1927 to 1930 were 246,000 cwts. from all countries and 86,000 cwts. from the Empire respectively. Adding up the figures for British retained import and the Canadian gross import (figures for Canadian retained imports are not available), we get the total demand of the markets where Empire coffee enjoys preference at 602,000 cwts. annually. Against this we have a total export by all Empire countries of 765,000 cwts. (yearly average for 1927 to 1930).

The Empire as a whole is thus in a position to-day fully to satisfy the total demand for coffee from Empire

countries in which Empire coffee enjoys or will enjoy preference. The grant of British preference to Empire coffee may therefore lead largely to a mere transference of the sale of Empire coffee from other markets to the U. K.

Imperial preference is, therefore, not likely either to enable the Empire exporters to charge higher price for their product or to expand its total sale appreciably. It will lead to a gradual elimination from the British market of non-Empire coffee which will compete more severely with Empire coffee in the neutral markets.

The possibility of this transfer or redistribution of Empire coffee exports, however, depends upon the present preference proving effective against the competition of non-Empire coffee in the British market. We shall examine this possibility now. The first feature of the British market to note from this point of view is the fact that since 1922 there has been practically no progress in either the total consumption of coffee or in the consumption per head in the U. K.* Empire and non-Empire coffee will have therefore to compete in a market which has ceased to expand. Hence the improvement of Empire coffee sales can be at the expense of non-Empire coffee not only relatively but also absolutely. This, of course, makes the competition keener and more ruthless, especially where the total capacity to export of the exporters is much greater than the capacity to absorb of the protected market.

The U. K., however, has a large and expanding re-export trade in coffee. But very probably the Empire preference will not affect imports of coffee that are re-exported afterwards, so that we now confine ourselves only to the retained imports.

Empire grown coffee is in the main of the mild type, and a large proportion of it is of high quality. Most of the coffee retained for consumption in the U. K. is again of high quality and of the mild variety. Empire coffee therefore has to meet with direct competition only from the high quality non-Empire coffee of the mild type. The chief foreign supplier of this variety of coffee to the British market is Costa Rica. In recent years the position of Costa Rica and Empire in respect of total exports and exports to the British market have been as follows:—

* In any case Empire producers should not expect the Britisher to drink more of both coffee and tea.

Year	Total Exports in (000) bags*		Total Exports as Per cent of world export		Per cent of Total Retained Import into the U. K.	
	Costa Rica	Empire	Costa Rica	Empire	Costa Rica	Empire
1924	304	488	3.4	5.6	36.0	53.0
1928	315	683	3.1	6.7	37.5	43.0
1929	355	450	3.5	4.4	38.5	48.1

The relative positions of Costa Rica and Empire as exporters to the world as a whole and to the U. K. have not changed much in recent years. It is probable, therefore, that the present preference may improve Empire sales to the U. K. at the expense of non-Empire imports. But Costa Rica has a decided advantage in quality over the average Empire coffee. This accounts for the big gap between the price of Costa Rica coffee and the coffee from India which seems to fetch the highest average price among Empire coffees. The following table is interesting :

Average wholesale Price in London
(Shillings. per cwt.)

	1925	1929	1930
Costa Rica ...	161	139	115
India ...	130	127	86

In normal years and still more in years of depression Costa Rica coffee has a decided advantage over the best Empire coffee which expresses itself in the form of a substantially higher price for the former. Since Costa Rica depends upon the British market for the disposal of more than 70 per cent of her total export of coffee (72 per cent in 1929), she may meet the discrimination against her in the British market by a partial reduction of the price of her coffee, while the less elastic demand for Costa Rica coffee compared to the demand for Empire coffee may do the rest. We feel that, looking to the qualities and nature of demand of Empire and non-Empire coffees retained for consumption in the U. K., the present

* Of 132 lbs. each.

Empire preference will not have any appreciable effect in substituting Empire for non-Empire coffee in the British market.

We now come to the position of India within the Empire group. The annual total import of coffee into the U. K. from Empire countries during 1926 to 1930 was worth Rs. 244 lakhs; of this the import from India was Rs. 49 lakhs. The yearly average quantities imported during the same period were 287,000 cwts. and 54,000 cwts. from the Empire and India respectively. India thus supplied 20 per cent of total Empire contribution in value and 19 per cent in quantity. During these years, India exported 212,000 cwts. on an annual average to all countries. Therefore, only 25 per cent of her total export during these years was taken by Great Britain.

These percentages indicate that even within the preference ring India will have to meet with serious competition from other Empire exporters to the U. K. The extent of this competition is rendered more evident by the following table:—

Gross Imports of Coffee into the U. K. in (000) cwts.

	1924	1925	1926	1927	1928	1929	1930
British East Africa*	173.3	177.0	152.5	234.9	250.2	177.6	323.8
British India	32.4	93.0	26.0	80.1	53.9	23.5	88.6
Total from all countries ...	571.7	655.8	477.9	681.6	656.2	559.2	815

The total gross import of coffee into the U. K. from 1924 to 1930 fluctuated from year to year. But at each revival the level attained was higher than at the previous revival. There was therefore a trend towards expansion. The gross imports from British East Africa and India fluctuated along with the fluctuations in the total gross imports. But while the gross imports from India fluctuated widely, the gross imports from East Africa fluctuated much less. In the case of India there is no tendency for gross imports to increase on the whole. The level reached in 1925 had not been reached upto 1930. But in the case of the imports from East Africa the level reached at each revival was definitely higher than the level attained at any

*British East Africa includes Kenya, Uganda, Tanganyika and Nyasaland.

previous revival. While India was thus barely, if at all, maintaining her exports of coffee to the U. K., British Africa was making a steady progress there; and since the British East Africa contributed more than three times as much as India to the gross imports, this means that it is only a question of time before Indian exports to the U. K. are reduced to a humble percentage of the total supply from the Empire.

These considerations also indicate that if India were excluded from Imperial preference, she would rapidly lose her present position. How far that loss can extend it is difficult to say. Indian coffee is largely of the superior variety, while a good deal of East African coffee is of inferior quality. This fact sets a limit to the competition between East African and Indian coffees in the British market. But there are no insuperable obstacles to British East Africa raising the average quality of its coffee to that of the Indian coffee.

What will this loss of the British market mean to our coffee industry? The following table is instructive.

	1925	1926	1927	1928	1929	1930
<i>Indian :—</i>						
Production (000 cwts.) (a)	272.1	...	...	317.5	247.8	352.0
Export (000 cwts.) (a)	251.9	...	...	260.9	142.6	243.0
Surplus for home consumption (000 cwts.) (a)	20.2	...	...	56.5	105.2	109.0
Percentage of Exports sent to the U. K. (b)	41.8	27.5	31.0	23.2	26.5	31.0

This table shows that while our total production has on the whole increased, our total exports do not show any such change, so that the surplus available for home consumption has increased very rapidly. Our percentage export to the U. K. also has shown no improvement, probably some deterioration. We are therefore relying or have been obliged to rely less and less upon the export markets and more and more upon our domestic market for the disposal of our output of coffee. Our reliance upon Britain as an export market has also tended to be less. These facts will render the loss of British market to India much less serious than would seem at first sight.

(a) During 12 months ending 30th June. (b) Calendar year.

Tobacco :

The next item in the list is tobacco. The average annual value of unmanufactured tobacco imported into the U. K. during 1926 to 1930 was Rs. 2194 lakhs. The import from the Empire was worth Rs. 319 lakhs. The Empire therefore at present supplies a small percentage of the total British requirement. In 1927 the quantity of tobacco leaf manufactured in the U. K. into smokable products for local consumption was estimated at 152 million lbs. The total exportable surplus from the crop sown in that year in the chief tobacco producing countries of the Empire was only 75 million lbs. The local consumption in Great Britain was thus twice as much as the total export surplus of the principal Empire growers. The British market therefore offers a large scope for the expansion of Empire export of tobacco under the shelter of Imperial preference. For a long period Empire producers may also expect to make a gain in the form of higher prices for their products in the British market.

However, no one can say definitely at what pace Empire products will displace non-Empire products, nor what bonus the former will get in the British market. Empire tobacco has been receiving preference in the British market since 1919. From September 1919 to June 1925 the preference was equivalent to one-sixth of the full rate of import duty. From July 1925 it has been increased to one-fourth of the full rate. In recent years the preference has represented more than the value of the leaf itself. The effect of this preference upon Empire exports is shown by the following table.

*Gross Imports of unmanufactured tobacco into the U. K.
in million lbs.*

From	1919	1920	1921	1922	1923	1924	1925	1926	1927
Empire ...	14	18	7	13	13	19	19	30	41
All countries ...	349	219	228	185	173	182	189	197	222
Imports from Empire as percentages of total imports.	4	8.3	3.3	6.8	7.5	10.6	10.0	15.1	18.4

The total imports were abnormally heavy in 1919 to 1921 to replace stocks depleted during the war years. The lowest level was reached in 1923. After that there was a steady recovery. The imports from the Empire increased more rapidly so that there was a steady increase in the Empire share from 1921. If the Empire maintains this rate of progress, then in another decade, the Empire may be supplying more than half the British requirement. This estimate however has not taken account of an important phenomenon which will more and more affect the growth of the Empire's percentage share of the total British import. That phenomenon is the steady change that has been taking place in the smoking habit of the British people, which is indicated by the following table.

Percentage of total consumption of tobacco in the U. K.

in the form of				1907	1924	1928
Cigarettes...	...	...	...	23.8	58.5	63.5 (?)
Pipe tobacco ...	...	...	...	71.1	40.0	35 (?)
Cigars	...	...	...	5.1	1.5	1.5 (?)

The table shows the advance of cigarettes in popular favour. The significance of this table is this that in 1927 out of 20 m. lbs. of Empire tobacco used in the U. K. for the manufacture of products for local consumption, only 2 m. lbs. were cigarette tobacco, while the figures for American tobacco imported into the U. K. were 117 m. lbs. and 86 m. lbs. respectively. More than 90 per cent of the improvement in the percentage share of the Empire between 1919 and 1927 is accounted for by the growth of the Empire share in pipe tobacco. In future, however, and as the Empire's share of total British imports improves, the expansion of Empire's exports to the British market would depend upon the capacity of Empire countries to produce and export good quality cigarette tobacco. At present the imports from Canada, India, the Union of South Africa and about 85 per cent of the tobacco from Nyasaland consist of pipe tobaccos. Some fifteen per cent of the imports from Nyasaland and 75 per cent of those from Rhodesia are of the cigarette type. Production of cigarette tobacco is in its infancy within the Empire and it

is therefore highly risky to speculate about its future under the stimulus of Imperial preference.

We now turn to the effect of Imperial preference upon Indian exports to the U. K. Of the total import into the U. K. from Empire countries valued at Rs. 319 lakhs on a yearly average for 1926 to 1930, the import from India was only Rs. 38 lakhs. India's total export to all countries was worth Rs. 111 lakhs. India's exports to the U. K. were therefore about one-eighth of Britain's total import from the Empire and about one-third of India's total export to all countries.

The relative positions of India and other Empire countries in recent years are shown by the following table:—

Imports into the U. K. (in million lbs.) of unmanufactured tobacco

From	1919	1920	1921	1922	1923	1924	1925	1926	1927
India	3.8	9.6	1.4	3.9	4.6	8.4	7.8	11.9	8.4
Other Empire Countries	10.1	8.6	6.0	8.7	8.3	10.8	11.1	17.9	32.5

No reliable inferences can be drawn from the above table, except probably that during the last two years shown in the table the imports from other Empire countries have increased very greatly.

During these years the Empire countries were enjoying preference in the British market. The effect of this preference upon the production of tobacco in different Empire countries is shown by the following table:—

Crops of 1926 as compared with that of 1918

S. Rhodesia	...	30 times
N. Rhodesia	...	4½ times
Nyasaland	...	4½ times
Canada	...	2 times
Union of S. Africa	...	1½ times

India does not appear in the list. But the Imperial Economic Committee on Tobacco says: "In India the proportion of exportable surplus to total crop grown is so small and the variation in the total crop owing to seasonal and other causes is so considerable that it would be difficult to ascribe any portion of the growth of production to the direct action of the preference given in the U. K." (p. 10)

The preceding tables and the statement about India constitute as good a presentation of India's position within the Empire group, as we can get. If the present decade repeats the story of the years 1919 to 1927, India will probably lose her relative place more and more to other Empire exporters to the U. K. The largest advance will probably be made by Rhodesia and Nyasaland. They were not only making the most rapid progress during the last decade, but they are the only Empire countries which are turning out increasing quantities of cigarette tobacco for export. Hence under the shelter of Imperial preference they will take the greatest advantage of the change in the British smoking habit, which has been already noted. India at present produces little cigarette tobacco, and what little she produces to-day or will produce in the near future, will probably be taken up by the native cigarette manufacturing industry.

India exports, besides unmanufactured tobacco, manufactured tobacco in the form of cigars. In 1927, 10 per cent of the British import of cigars came from Empire countries; India supplied about 9 per cent. But this semi-monopoly enjoyed by India within the Empire group is of little value. In the first place, as already noted, the consumption of cigar in the U. K. has fallen steadily ever since 1907, and especially since the war years. The Imperial Economic Committee believes that the fall in consumption has probably reached its limit. But nothing more than a limited revival can be expected.

Secondly, even in this shrinking or stationary market, India has little chance of expanding the sale of cigars at the expense of foreign cigars, eighty to ninety per cent of which is supplied by Cuba. For, the direct competition between Indian and Cuban cigars in the British market is only to a limited extent, and the difference between the prices of the two, caused by Imperial preference, will not materially help Indian cigars to oust the Cuban from the British market.

If India does not stand to gain much from the British preference for Empire tobacco, she is not likely to lose very much by her exclusion from such preference. The total production of tobacco in India in 1927 was estimated at 1000 million lbs. Local consumption amounted to 970 millions lbs., leaving 30 million lbs. as an exportable

surplus. Again only a third of her total exports went to Great Britain. Even if India loses her whole export trade to the U. K., the loss suffered by the tobacco producer in India would come to about 1 per cent of the total production. We should expect to make up this loss very easily by expansion of home consumption and export to countries other than the U. K.

Other items:

The other items of export in this group do not require detailed discussion. In the case of hemp, barley and non-essential vegetable oils, the exports from India to the U. K. are small, both absolutely and relatively to the British import from the rest of the Empire. In the case of Mahogany the Indian figures of export to the U. K. and to all countries are not available. As regards other sorts of hardwood the British and the Indian groupings do not tally. Useful data regarding the rest are not available. However what has been said of this group as a whole applies to these commodities, details about which are lacking.

To sum up the conclusions of the previous long study of the effect of British preference on our exports as well as the consequences which may follow, if India were excluded from it, is an extremely difficult job. Facts do not always yield unequivocal conclusions, and not all the secrets that we want to know are contained in the statistics that are available.

§ 5. Conclusions on the immediate effect of preference upon Indian exports.

In spite of these difficulties however we shall make an attempt to summarise our conclusions at this stage. We have shown that with regard to our first group of exports whose total value is about two-thirds of the value of the total export of all commodities affected by the British preference, we are not in a position to receive an estimable benefit from it. And also such is our position in respect of the majority of exports in this group in the world market and still more among the Empire countries supplying the British market, that exclusion of India from British preference can hardly injure her, while the whole burden of the higher duty would be borne by Great Britain.

In the second group which is about half as important as the first, our position is less secure. Neither do we enjoy any monopoly or semi-monopoly in the world market, nor do we occupy among Empire countries a place which cannot be taken up by others (except in the case of linseed). Moreover, in recent years, our relative position within this group has been deteriorating.

From these facts it follows that exclusion of India from British preference would, after a length of time varying in different cases, lead to a displacement of Indian exports in this group by the exports from other Empire countries. This will not, however, happen in the case of linseed and teak, and may happen, but to a small extent, in the case of tanned hides and skins. It is probably only in the case of tea that the loss would be serious. The case of tea, however, is not representative of other cases.

But though India stands to lose something, probably a good deal, from exclusion from British preference, the extension of such preference would not materially improve her position. In the case of some exports, *e.g.* tea, hides and skins, the Empire and India are supplying to the U. K. as much as they will possibly do under preference. In the case of certain others, *e.g.* linseed and teak, British preference will lead to a transfer of Indian exports from other markets to the U. K. with no possibility of realising higher prices as a result of that transfer.

Moreover, in the case of some of these exports, India has been losing her position relatively to other Empire countries in recent years. Since the British preference extends to all Empire countries, it will not arrest this relative decline (and also absolute decline, since the total British market is not expanding) of Indian exports to the U. K.

The arguments used in the case of exports in the second group apply to those in the third group. Here the scope for expansion of Empire exports to Britain is larger. Apparently it is also larger for Indian exports. But in this group of exports India's relative position in the Empire is very weak, so that India will have to face ever keener competition in the British market from other Empire countries. This fact also makes it highly probable that if India refuses to enter into a preferential agreement with Britain, her exports of these goods would be,

soon or late, ousted from the British market by the competitive exports from other British countries.

This would not, however, be as great a calamity as would appear at first sight. In the case of certain commodities in this group, *e.g.* coffee and tobacco, British preference will not safeguard our position against a gradual encroachment by other Empire countries. Moreover, in the case of these two commodities, the home market is either so large at present or has such greater possibilities of development in the near future, that the loss of exports to Britain would not seriously affect the gain or loss on our total output and sale. The other items are unimportant except pulses and carpets. In the absence of sufficient data regarding these two commodities, nothing definite can be said about them. However, the relative importance of this group is very small. It accounts for only 3 per cent (in value) of our total export of all commodities affected by the Ottawa Agreement.

In the preceding sections the present and the immediate future of our export trade under Imperial preference

§ 6. The Future Capacity of Britain to absorb our exports.

have been discussed. We shall now supplement this discussion by a long view of the scope of expansion of the British market.

On a long view, a market which is favourable to a manufacturer (seller or producer) and tending to expand, may be more worth cultivating than a much larger market which, for reasons, economic and political, is tending to contract. It is from this point of view that the British market for our exports should be judged. The following table indicates the changes in the shares of our export trade, taken by different countries since the pre-war year.

Countries	Average of 5 pre-war years. 1909-10 to 1913-14	Average of 5 War years. 1914-15 to 1918-19	1921-22	1928-29	1929-1930	1930-1931
U. K.	25.1	31.1	19.7	21	22	24
British Empire (Total)	41.9	51.7	37.3	35	36	40
Japan	7.5	11.2	15.8	10	10	11
U. S. A.	7.5	11.9	10.5	12	12	9
Germany	10.0	.9	6.6	9	8	6
Total foreign countries	58.1	48.3	62.7	65	64	60

From this table it is clear that Britain has been taking a smaller share of our export trade in recent years than she used to do in the pre-war days, while all her chief competitors, except Germany, have been taking larger proportions. In the case of Germany it is her present recovery from her status during the war years which is remarkable rather than the fact that her percentage share in our export trade to-day is still slightly lower than her pre-war share. The export trade of India has thus been turning away more and more from the U. K. and seeking markets elsewhere.

However, Britain's foreign trade is so far flung that a decline in her percentage share in India's export trade does not necessarily indicate a reduction in her real capacity to absorb imports of raw materials and food products relatively to that of other manufacturing countries. For a secure judgment on this point we require evidence of a wider nature.

That evidence is furnished by indices regarding the growth of British export trade relatively to that of other countries which export manufactured goods. For, in the case of countries which export manufactured goods, made out of raw materials imported from abroad, a good index of the probable rate of growth of their demand for imported raw materials is supplied by the rate of growth of their manufactured exports.

Percentage changes in the Quantum of Export trade of some chief countries exporting manufactured commodities since 1913.

(1913=100)

Table I

Country	1924	1925	1926	1927	1928	1929
U. K.	81	80	72	83	84	85
U. S. A.	129	137	145	157	...	...
Germany	51	65	73	76	79	89
Japan	140	176	...	...	...	...
France	119	124	134	146	148	147
Italy	121	134	135	134	...	...
Czecho-Slovakia	106	117	118	128	...	...
Europe (total trade) ... ..	...	91	...	...	106	111
World (total trade) ... ..	...	107	...	...	123	127

Table II.

Country	Percentage of manufactured goods in total exports	
	Average of 1911-13	Average of 1927-28
U. K.	79	79.8
U. S. A.	47.4	57.0
Germany	66.1	72.0
France	50.6	56.2
Japan ... ..	...	83.2

From the first table we can see that all countries enumerated therein except the U. K. and Germany, and the world as a whole had more than recovered from the effects of War upon their export trades. The Continent of Europe still showed the effect of War. Between 1925 and 1929, however, all countries except the U. K., the Continent of Europe, and the world as a whole made a phenomenal advance in the volume of their trades. In the case of Germany and the U. K. alone, the pre-war level was still unattained in 1929. But for Germany it is the recovery from the depressed level of war years which is remarkable. Again, between 1925 and 1929, Germany's export trade increased by 36 per cent, while the English export trade expanded by only 6½ per cent.

The British demand for raw materials, therefore, has been developing much less than the demand from other countries. The conclusions suggested by Table I are supported by the second table. The percentage of manufactures in their total exports improved in the case of all the countries enumerated therein except in the case of the U. K.

The English export trade has thus lost both absolutely and relatively to that of other industrial countries. Again, while other industrial countries have more and more improved the percentage of manufactures in their export, the corresponding percentage in the case of the U. K. has remained almost unchanged.

Between pre-war and post-war years, however, there has been some change in the relative proportion of the

British production for home consumption and for export. Flux has estimated that in 1924 about 27 per cent of British production was exported compared with 30.5 per cent in 1907. The change in the quantum of Britain's export trade may not, therefore, be a perfect index of the change in her capacity to absorb import of raw materials from other countries. We require, besides, indices of national production in recent years.

Indices of National production 1924 to 1929 (1924=100)

	1924	1925	1926	1927	1928	1929
U. S.	100	109	114	112	117	125
Germany	100	120	115	145	145	148
France	100	99	115	101	118	129
U. K.	100	...	...	...	106	112

The remarkable difference between the growth of British production and production in other manufacturing countries is more than can be accounted for by differences in methods of compiling statistics in them.

The development of the trade and production of Britain during the last two decades and specially in recent years has been slower than in other manufacturing countries, which chiefly compete with her in the world market for the supply of world's raw materials. What will happen in the future cannot, of course, be proved from what has happened in the past; but it is permissible to establish from the existence of a powerful tendency maintained over a long period of years a presumption which can be rebutted only by evidence that new or hitherto latent forces are actively at work tending strongly in the opposite direction. The only new force likely to work in the opposite direction in future is the adoption of Imperial preference by the Empire oversea on a larger scale than ever. The possible effect of this factor upon Britain's future industrial capacity will be discussed later. But it is significant to note that the decline in the relative status of Britain as an exporting country during the last two decades has been associated with an increasing percentage of her exports that has gone to the Empire, of course, largely in consequence of Imperial preference, tangible and intangible.

Percentage of British Exports to Empire Overseas

1913	1925	1926	1927
37.2	43.4	48.5	46.1
...	(40.2)	(45.6)	(43.2)

N. B. The figures in brackets are percentages obtained by omitting the trade between U. K. and the Irish Free State.

But this Imperial preference has not evidently been effective enough to prevent a decline in the status of the U. K. as an exporting country. It remains to see whether a more powerful dose of Imperial preference will restore Britain's relative position in the world export trade,

We have considered our possible gain on our exports to the U. K. as a result of Imperial preference. British preference will have, however, repercussions upon our export trade in neutral markets. These will be considered now.

§ 7. The effect of British preference on our exports to neutral markets.

Whatever gain (or loss) we may make on our exports to the U. K. would be reduced (or increased) by our loss in neutral markets. We shall suffer this loss directly and indirectly. The direct loss would come to us from the reduced purchase of our exports by countries which would be discriminated against in the Indian market in favour of the U. K. Foreigners will buy less from us because we shall purchase less from them. In theory it does not necessarily follow that, since country A imports less than before from country B, B will import less from A. But where B represents the rest of the world or even a large or major section of countries to which A sends its exports, a smaller purchase of B's goods by A will be followed, soon or late, by a smaller sale of A's goods to B; *i.e.* if India buys less from foreign countries which are today taking 60 to 70 per cent of her exports, these foreign countries will naturally buy less from her.

In practice even where B represents a single country among a number of other buyers of similar status, a reduction of B's exports to A would be followed by a fall in A's exports to B. "Apart from the working of economic laws there has for many years been a tendency all over the

world for a country to purchase its imports from those countries which are the most important customers for its own produce."*

There is a further reason why foreigners should buy less from us. Most of our exports are raw materials which are converted into finished commodities in foreign countries. Some of these finished commodities are then exported to us by foreigners. If these exports of finished commodities to India are checked, the foreign countries concerned will naturally buy less of our raw materials, specially if a foreign country is sending a large proportion of its total output or total export to us and our country constitutes a specialised market for its finished commodity.

There is of course the possibility of retaliation by foreign countries. It has been said that the Indian exports are such that the foreigner will not or cannot retaliate. If one wanted to win a debating point, one could retort and say that if Indian exports enjoyed such a really invulnerable position, the whole justification for the Ottawa agreement would crumble to the dust. For if it is true that foreign countries cannot retaliate upon Indian exports, it is still more true that the U. K. which certainly depends much more than any single foreign country upon India for its raw materials cannot afford to discriminate against India in case the latter refuses to enter into the trade agreement.

The indirect loss to our exports to neutral markets would come through increased competition from foreign countries in them, so that a part or the whole of what we gain in the British market may be lost by us elsewhere. That this possibility is real and not imaginary can be shown by a case in point. "When in 1919 a fiscal preference in favour of Empire grown teas was introduced into the U. K., similar preferences were in force in all the principal parts of the British Empire except Australia, where at that time and until 1930, tea, if shipped in quantities exceeding 20 lbs., entered free of all duty. It is widely asserted in tea circles in London and Australia that one result of the introduction of preference in the United Kingdom in 1919 was to increase this foreign competition from Java in the Australian market. The argument is as follows With the introduction of preference in the United Kingdom the

* *Report on the Condition and Prospect of U. K. Trade in India 1930-31* by T. M. Ainscough, H. M. Senior Trade Commissioner in India and Ceylon, p. 31.

price of Netherlands East Indian teas was lowered to meet it. . . . Consequently, in the absence of any customs preference in Australia, the United Kingdom preference led, in this case, to an undercutting of the price of Empire grown teas in Australian market. It is a fact that between 1920 and 1923 the share of the Empire grown tea in the Australian import fell from 55 to 31 per cent and that of Netherlands East Indian teas rose from 42 to 60 per cent. In 1924, a year in which the U. K. duty was lowered and the preference *pro tanto* decreased, the reverse tendency began. In 1928, the Empire share of the Australian import had risen to 49 per cent and in the eleven months January to November 1929, the year in which the United Kingdom duty was removed, it reached 60 per cent against 40 per cent for the rival product.

"Point is given to the connection between the Australian import of Netherlands East Indian teas and the United Kingdom duty and preference by the fact that similar variations have not occurred in New Zealand, where throughout the period under review teas grown in the Empire have enjoyed preference of 2*d.* in a pound."*

The justification for this long quotation is its perfect appositeness. The loss that Empire tea including Indian tea suffered in the Australian market will probably be repeated in the case of all Indian exports (except where we enjoy monopoly) to the neutral markets of the world. And this argument gains in weight when we remember that these neutral markets for Indian exports are not only much larger than the British market, but they are also expanding at a faster rate.

* *Report on Tea by the Imperial Economic Committee*, pp. 33-34.

PART III.—IMPORTS

In previous sections we have discussed our possible gain and loss on our export trade, both in the present and in future. We shall now attempt to calculate the gain or loss on our imports as a result of the preference that we propose to grant to the United Kingdom. Here also the present and the future of our import trade should be discussed.

§ 1. The effect of Preference on Indian Imports.

In the present there is always a presumption that preference like protection imposes a temporary burden upon the consumer. For preference is protection given to our imports from a particular country just as protection is preference extended to the products of our own industry in our domestic market. And in either case there would be no need for preference or protection unless, the preferred foreign country or the protected home industry finds itself unable to face the free competition of other suppliers.

The extent of the loss and its duration, however, are not constant in different cases. They vary *prima facie* with the amount of protection or preference given, the extent of competition among protected or preferred suppliers, the possible rate of development of efficiency among these, etc.

Given the rate of preference, however, the immediate loss is determined by one factor, *viz.* facility of supply from the preferred country. To get the final criterion of this facility of supply in the present, we require data relating to the amount of its exports of the favoured commodities which the preferred country is now sending to neutral markets and the amount of its imports of these commodities which the country extending preference is receiving from non-preferred countries. If, for example, the U. K. is sending 100 units of a certain commodity to foreign countries, while the British oversea Empire (which gives preference to the U. K. on this commodity) imports 50 units of it from elsewhere, the facility of supply is great and preference will not impose, except to a small extent

and for a short period of time, any loss upon the oversea Empire countries.

Unfortunately, data of this type are not always available. Hence we should rest content with the next best criterion of facility of supply which also happens to be within our reach. That criterion is the relative importance of the source of supply to which preference is extended. The burden imposed by preference will be high or low and of long or short duration according as the country to which preference is extended is already supplying a small or a large part of our total import. We shall apply this criterion to our imports of preferred goods in judging the extent and duration of our temporary loss.

The annual average of value of British imports into India which will receive preference as a result of the proposed trade agreement and the existing Iron and Cotton Tariff was Rs. 62.22 crores* during 1926-27 to 1930-31.

The corresponding value of the total import of these commodities into India from all countries was Rs. 127.81 crores. In the classes of commodities on which British imports receive and will receive preference, British share was, therefore, 48.6 per cent or slightly less than half the total. Confining ourselves for the present to the large totals and applying the criterion just now discussed, we can reasonably conclude that taking the imports as a whole, preference to Britain will almost inevitably lead to a rise of prices of the preferred goods and hence impose a burden upon the consumer. Britain will have to double her present exports of these commodities before she can completely replace the other suppliers. Before that eventuality takes place, it is almost certain that prices will rise and consumption suffer as a result of the preference given to Britain.

The final totals and percentages are however made up of individual values and percentages which differ widely from them and from one another. Hence the correct procedure is to take the case of each individual item of import and to judge the possible extent and duration of the rise of its price as a result of preference. But such a

*After making allowance, wherever possible, for the values of items which are excluded from preference either because they are subject to protective or specially low duties or are admitted free of duty.

procedure would be hardly useful and certainly tedious. It would not be useful; for unless we can get a measure of the elasticity of supply in each case, we shall not be able to estimate quantitatively the possible rise of price in consequence of the preference. Therefore, since only a qualitative judgment is possible, we shall avoid this procedure and adopt an intermediate one. For our purpose we shall divide the imports into three groups, the exact demarcation of which from one another is entirely arbitrary.

In the first group are commodities of which our imports from Britain in recent years have been between 70 to 100 per cent of our total import. The following table gives the necessary data regarding this group.

§ 2. Group I of Imports.

Commodity	Total Imports Annual Average 1926-27 to 1930-31 (Rs. lakhs)	Imports from U. K. Annual Average 1926-27 to 1930-31 (Rs. lakhs)
Leather manufactures ...	38	30
Cycles ...	109	89
Asbestos manufactures ...	32	23
Boots and shoes of leather: ...	23	18
Toilet soap ...	45	35
Engine and Boiler Packing ...	5	4
Confectionery ...	25	20
*Motor cycles and parts ...	11	10
Sewing and knitting machines and parts ...	82	65
Total ...	370	294

The total value of Indian imports in this group from all countries was Rs. 3.70 crores on a yearly average during the five years 1926-27 to 1930-31. The value of imports of these commodities from the U. K. was Rs. 2.94 crores. Imports from Britain were thus 79.4 per cent of total imports. Therefore, under preference Britain will be called upon to increase her present exports to India by a quarter of what she is supplying at present. In the case

* This item has been included through oversight. It is not included in the schedules appended to the Report on the Ottawa Agreement.

of these imports the burden upon the consumer in the shape of a rise of prices above their present level is likely to be small and short-lived. After a time the benefit to the British producer of these commodities will not mean a loss to the Indian consumer.

In the second group are commodities of which the imports from Britain are between 50 to 69 per cent of our total imports. The following table § 3. Group II of Imports. gives the necessary data regarding these commodities.

Commodity	Total Imports Annual Average 1926-27 to 1930-31 (Rs. lakhs)	Imports from the U. K. Annual Average 1926-27 to 1930-31 (Rs. lakhs)
Chemicals	220	136
Building materials	65	20
Instruments etc.	476	274
Cotton manufactures	5564	3870
Iron and Steel	677	392
Stationery	92	51
Printing materials	32	25
Vehicles, not mechanically propelled	16	8
Leather cloth and Artificial leather	5	3
Filled cartridges	13	9
Ale and Beer	94	55
Cocoa and Chocolate	4	2
Oil cloth and floor cloth	10	5
Fish oil	5	3
	7269	4853

The total value of our imports in this group was Rs. 72.69 crores; the imports from Britain were worth Rs. 48.53 crores. The value of the imports from Britain was thus 66.7 per cent or about two-thirds of the value of our total import from all countries. Under preference Britain will have to increase her present exports of these commodities to India by about 50 per cent. A fifty per cent increase in the exports to any one country can of course be achieved more easily than a fifty per cent increase of total

exports or total production. Even then, however, such a large increment will not take place without some rise of prices in the preferred market above their level in neutral markets. Preference to British imports in this group will therefore lead to some rise of prices, large in certain cases and small in others. This rise is also likely to be of fairly long duration.

We turn finally to the last group of our imports on which we propose to extend preference to the United Kingdom. In the case of commodities in § 4. Group III of Imports. this group, the values of our imports from the U. K. are between 1 to 49 per cent of the values of our total imports. The relevant data are given in the table on page 54.

The total value of the imports in this group from all countries was Rs. 51.42 crores. The imports from Britain were worth Rs. 10.75 crores. Hence the latter were only 20.9 per cent of the former; *i.e.* Britain will have to increase her present export of these commodities to India by nearly four times before she completely displaces the foreigner in the Indian market. Here there is a perfect certainty that preference to Britain will lead to a rise of prices by the full amount of the preference and that the burden upon the Indian consumer imposed in this manner will be almost permanent.

We have shown that as a result of the preference to British goods some loss to our import trade is inevitable in the present, though an exact quantitative measure of that loss is not possible. Let us now turn to the future.

§ 5. The future of Imports.

With regard to the future we have to find answers to two questions. First, whether the loss in the present will continue into the future, *i.e.* whether the rise of prices of Indian imports caused in the present by preference to Britain will be of more or less long duration, and secondly, whether in future the prices of Indian imports will be higher

Commodity	Total Imports Annual Average 1926-27 to 1930-31 (Rs. lakhs)	Imports from the U. K. Annual Average 1926-27 to 1930-31 (Rs. lakhs)
Drugs and medicines ...	177	70
Apparel ...	162	64
Furniture and Cabinetware ...	33	13
Earthenware and Porcelain ...	69	26
Hardware ...	478	178
Silk manufactures ...	445	9
Artificial silk ...	323	73
Haberdashery and Millinery ...	111	26
Aluminium manufactures etc ...	115	34
Copper ...	124	36
Lead ...	11	5
Zinc ...	27	5
Brass etc. ...	226	67
German silver ...	16	2
Paper and cardboard ...	203	69
Rubber tyres etc. ...	271	92
Brushes ...	14	5
Metal Buttons ...	9	'9
Cordage and rope ...	11	5
Cork manufactures ...	4	'8
Cutlery ...	37	10
Glue ...	6	2
Smokers' Requisites ...	7	2
Toilet Requisites ...	62	24
Toys etc. ...	61	14
Umbrella and fittings ...	49	12
Perfumed Spirit ...	12	5
Tinned or Canned fish ...	28	4
Tinned and Canned Provisions	225	46
Condensed milk ...	83	27
Synthetic essential oils ...	1	'06
Natural essential oils ...	11	2'5
Mineral Lubricating oils ...	1,031	25
Motor cars and buses ...	635	109
Typewriters and parts ...	27	3
Vegetable non-essential oil ...	40	9
	5,144 *	1,075

* N. B.—From this total the values of metallic ores have to be deducted. The final total would be Rs. 51.42 crores.

than their world prices as a result of the continuance of preference to the U. K.

We do not believe that the rise of our import prices due to preference to Britain can be of long duration. Taking a long period into consideration, we have little reason to doubt the capacity of British manufactures to supply, at British competitive prices, the whole or a very substantial part of the total Indian import at British competitive prices. And the long run level of these prices will certainly be lower than what will prevail temporarily after the preference to British goods comes into operation.

From the point of view of the future of our import prices, however, this is the less important question of the two. In a world progressing rapidly in the technique and organisation of industrial production, a decline of prices of industrial products in the future is almost a certainty. The really important question to ask is whether in future the level of prices of British manufactures is likely to be lower than that of foreign manufactures. The answer to this question can be found only by a study of the past. Again, what has happened in the past will not necessarily happen in the future. But unless we can find out some special cause operating in the future in the opposite direction, the tendency shown by the records of the past will very probably continue into the future.

From a series of indices we shall try to study the competitive position of British manufactures during the last two decades. In the following table we give a summary of the change in Britain's status in the Indian import market.

Percentage shares of U. K. and her competitors in the total Import trade of India (in merchandise only)

Country	Average 1909-10 to 1913-14	Average 1914-15 to 1918-19	1928-29
U. K.	62·8	56·5	45
Other parts of the British Empire	7	8·9	9
U. S. A.	3·1	7·0	7
Japan	2·5	10·4	10
Germany	6·4	0·7	7
Other countries	18·2	16·5	22

From this table it is apparent that the British share in our total import trade has declined since the pre-war years, while the shares of her competitors have increased. The table on the opposite page analyses the changes in British share in detail. The commodities or classes of commodities included in this table are the chief exports of Britain to India as well as to the world as a whole.

This table shows that between 1913-14 and 1929-30 Britain lost all along the line relatively to her chief competitors in the Indian import market, that she lost both in those branches of our import trade in which our total imports (in value) expanded between the two years and in those in which they contracted, *i.e.* she did not share in the development of our import trade as much as her competitors, while she had more than their share when our import trade declined, and finally that she lost in the import of the products of new industries, *e.g.* motor cars, as well as in those of old industries, *e.g.* cotton manufactures.

The items of our import trade in which British share has declined are so varied, and the countries to which Britain has lost are so widely distributed over the face of the world and so differently circumstanced in important respects, that one is inclined to suspect that there must be some fundamental cause underlying the general deterioration of British position in the Indian market. There are of course particular causes affecting the share of Britain in special items of our import trade. There are again, special influences operating upon the whole British trade in particular years. But these cannot sufficiently account for the general, almost universal, decline in the British share over a period of nearly two decades. Looking for the general cause in possibly the best source for information on the conditions and prospects of British Trade in India, *viz.* the Reports on the subject by His Majesty's Senior Trade Commissioner in this country, we find that in almost all cases the cause of British decline is reported to be the relative inelasticity and the high level of the prices of imports from Britain. Just a few quotations from the 1930-31 Report will suffice.

§ 6. Cause of British Decline in the Indian market.

*Changes in the percentage shares of the U. K. and her chief competitors in the principal items of India's Import Trade.**

Country	Iron and Steel			Machinery			Instruments			Hardware			Motor Cycles and Cars			Cotton Manufactures		
	1913 -14	1929 -30	1930 -31	1913 -14	1929 -30	1930 -31	1913 -14	1929 -30	1930 -31	1913 -14	1929 -30	1930 -31	1913 -14	1929 -30	1930 -31	1913 -14	1929 -30	1930 -31
United Kingdom	69.9	59.2	52.3	89.8	75.1	74.7	75.3	56.4	53.4	57.2	35.6	36.4	71.3	20.8	23.7	90.1	63.5	58.0
United States ...	2.6	3.1	4.6	3.3	9.6	11.4	8.0	14.7	16.4	9.7	11.7	12.5	15.1	59.1	48.3	0.4	1.5	1.0
Germany ...	14.5	5.7	6.9	5.6	9.5	8.2	8.2	14.3	15.7	18.2	32.6	29.9	...	1.1	1.5	2.1	0.4	0.4
Belgium ...	11.5	23.5	24.9	...	1.0	...	...	1.3	2.1	...	0.8	0.9	4.5	0.3	0.4	...	0.2	0.2
Japan ...	...	...	...	...	...	...	0.6	2.2	1.9	1.5	5.1	5.8	...	...	0.2	1.8	26.5	30.3
France ...	...	5.0	4.1	...	...	...	...	1.6	1.5	...	1.0	0.6	4.5	1.7	1.8	...	...	0.2
Italy ...	...	...	...	...	...	...	2.2	2.8	2.0	...	...	...	...	3.8	4.5	1.5	1.9	1.5
Canada ...	...	...	...	...	...	...	...	...	...	...	...	...	...	12.7	19.0	...	...	...
Total value of Imports in Rs. lakhs	16,01	17,21	10,89	7,76	18,22	14,35	1,82	5,38	4,77	3,95	5,07	3,60	1,53	7,52	4,99	66,30	59,49	25,26

* Conditions and Prospects of United Kingdom Trade in India 1930-31, Report by H. M. Senior Trade Commissioner in India and Ceylon, Appendix II, pp. 236-37.

Commenting on the decline of British share in the import of Cotton goods into India, the Report says: "The reason for the success of our Japanese and Continental competitors lies, simply and solely, in their ability to quote lower prices."*

In the Iron and Steel trade, "The most disturbing feature is the phenomenal reduction in the imports of British galvanised sheets from 280,000 tons in 1928-29 to 200,000 tons in 1929-30 and 91,000 tons in 1930-31. This downward trend synchronised with an increase in the Belgian trade from 32,000 tons in 1928-29 to 51,000 tons in 1929-30 which was only reduced to 48,000 tons in 1930-31. Belgian competition in 1930 brought the price down to £ 11-11 s. per ton c.i.f. Calcutta, representing the lowest quotation for thirty years." †

In the import trade in Mill and Engineering Stores "Competition from the U. S. and Germany is keen and tends to increase". "This development is however partly due to the boycott (of British goods in India), as the low prices of German Stores have been attractive at a time of reduced purchasing power". ‡

In the hardware trade, "owing to the great increase in the cost of production in the U. K. since the war, U. K. prices of these low grade articles have risen to such an extent that they are beyond the purchasing power of the masses. In many articles of hardware and sundry goods, continental makers can now underquote to the extent of 15 to 30 per cent". §

In Bazar metals "Prior to and in the years immediately following the war, United Kingdom rollers of yellow metal sheets occupied a very strong position in the trade. German sheets at lower prices have now succeeded in securing 70 per cent of the business". ¶

Probably however we should not rely too much upon the relative decline of the U. K. in the Indian market in drawing conclusions regarding the future of British industrial prices. . On an annual average during the five years 1925 to 1929 the U. K. exported only about one-eighth of her total exports to India, and it is conceivable that the

§ 7. British decline in world market.

* *Conditions and Prospects of British Trade in India 1930-31*, by H. M. Senior Trade Commissioner in India, p. 70.

† *Ibid.*, p. 73.

‡ *Ibid.*, p. 80.

§ *Ibid.*, p. 85.

¶ *Ibid.*, p. 85.

relative deterioration of her position in a market which absorbs only one-eighth of her total exports may have been made up by gains in markets elsewhere which buy the remaining seven-eighths. In fact, however, that was not the case. The U. K. has lost relatively to her competitors in the export trade of the world as a whole. This has been already demonstrated in an earlier section. I shall now show that the U. K. has lost in the world trade in those very commodities on which we are giving or intend to extend preference to her in the Indian market.

“The exports of cotton yarn (from the U. K.) fell from an average of about 217 million lbs. in the last five pre-war years to 169 million lbs. in 1928. It is reasonable to look upon this loss as to a large extent inevitable. . . . But Belgium, Italy and Switzerland have increased their exports by 40 million lbs., which is not far short of the British loss. The gains for the most part have not been made where the most serious losses have been incurred; but the markets available have gone to others.”*

“Our share [*i.e.* British share] in the exports of the more important products of cotton piecegoods fell from about 75 per cent in 1913 to about 56 per cent in 1928. The loss to British trade, to other countries must have amounted to at least £10 millions.”†

“In 1913 British exports (of machinery) amounted to just under 30 per cent of the value of the nine leading countries. By 1924 the proportion had dropped to 27·2 per cent. But by that year Germany’s share had fallen from 31·8 to 18·4 per cent. Other countries—the United States, France, Switzerland, Sweden, Italy, Canada,—had captured part of her and our trade. Between 1924 and 1928 German exports have almost exactly doubled, ours have increased by under one-fourth and our share in the general total has dropped to 22·4 per cent.”‡

“A still more striking example of recent decline. . . . is afforded by the artificial silk industry. The British share in the quantity of this product exported by the leading countries was almost cut in half between 1925 and 1929. The exports of France in this period increased over 800 per cent; of Switzerland by over 350 per cent; of the Netherlands by nearly 200 per cent; of all

* A. Loveday, *Britain and World Trade*, p. 164.

† *Ibid.*, p. 165.

‡ *Ibid.*, pp. 165-6.

other countries except Belgium, by over 100 per cent and of the United Kingdom by 13 per cent.”*

“In the export of motor-cars the United Kingdom has, in the last few years, been more successful than her continental competitors, thanks to the imperial market. But the motor trade is becoming largely the monopoly of North America. Between 1925 and 1929 the number of vehicles exported from the United States increased by 281,000, from Canada by 28,000, from the United Kingdom by 10,500.”†

In the trade in the products of some industries of minor importance the competitive weakness of the United Kingdom is shown by the following table‡ :—

Class of commodity	Country	Value of Export £ (000)		Per cent	
		1925	1928	Increase	Decrease
Pottery and Clay products.	United Kingdom ...	6,645	5,874	...	-11.6
	Czecho-Slovakia ...	2,381	3,279	+ 37.7	
Boots and shoes (mainly leather)	United Kingdom ...	4,638	5,072	+ 9.4	-27.6
	Switzerland ...	1,098	1,350	+ 23.0	
	United States ...	3,219	2,331	...	
	Czechoslovakia ...	1,455	5,479	+ 276.6	
	Canada ...	63	78	+ 23.8	
Paper and Cardboard (unprinted)	United Kingdom ...	6,594	5,934	...	-10.0
	Sweden ...	6,906	7,002	+ 1.4	
	Netherlands... ..	2,783	3,135	+ 11.4	
	Canada	22,560	30,216	+ 33.9	
Cutlery	United K.	945	1,054	+ 11.5	
	Canada	263	364	+ 38.4	
	Sweden	63	76	+ 20.6	
Scientific Instruments	United K.	1,163	1,262	+ 8.5	
	Sweden	118	151	+ 27.9	
	United States ...	2,070	2,283	+ 10.3	
	Netherlands... ..	155	338	+ 117.6	
	Switzerland... ..	169	220	+ 29.7	
Wireless apparatus...	United K.	1,290	1,130	...	-12.4
	Sweden	24.5	114	+ 366.1	
	Netherlands... ..	73.1	1,887	+ 2,482	
	United States ...	2,051	2,479	+ 20.9	
Gramophones, Records etc.	United Kingdom ...	1,443	2,785	+ 93.0	
	United States ...	827	2,258	+ 173.0	
Photographic Cameras and Pro- jection apparatus	United Kingdom ...	50.5	53	+ 5.0	
	United States ...	464	875	+ 85.3	

* Loveday, op. cit. p. 167. †Loveday, op. cit. pp. 167-8. ‡Loveday, op. cit. p.168.

Britain has thus lost not only in her trade with India but also with the rest of the world. She has been losing her place among the chief exporters of industrial goods during the last two decades and even prior to them. Behind this phenomenon there is some general cause affecting the level of efficiency of her industries in general and of course special causes, influencing the fortunes of individual industries. We are not interested in the special causes which require special remedies and which will probably in time cease to operate. We are, however, concerned with the general cause. That ultimate general cause, as Loveday puts it, is lack of suppleness in the mechanism of production, a reduced capacity for adaptation and reorganisation in a world in which both the technique of production and the alignment of wants are changing rapidly.

Will Imperial preference—the assurance of the large Empire market to British manufactures—remove this defect and ultimately cheapen their prices relatively to foreign prices so that the other Empire countries which extend preference to Britain may not have to carry a permanent burden? It may or may not lead to this desirable result. But very probably it will not, and for the following reasons. In the first place, the whole history of Britain's industrial progress in the nineteenth century was a continual adaptation, from one decade to another, to meet the changing requirements of the world situation. The incentive to this adaptation was supplied by the unexhausted vitality of a pioneer industrial nation and by an uninterrupted practice of free trade. The system of free trade exposed Britain to the full effects of changes in world situation; but at the same time it developed in her a capacity to meet these changes. "England in the nineteenth century evolved an economy of maximum profits derived from maximum risks." Imperial preference, which is for Britain—as I have shown before, an extension of the protected home market to the limits of the Empire, is essentially a defensive policy, an effort to shut out the effect of changes in the outside world and like a snail to feel secure in the isolation of its own shell. Such a policy is not likely to maintain or develop in British industries the qualities of adap-

§ 8. Possible effect of Imperial Preference on British industrial efficiency.

tability and inventiveness. It is not a question of British industries absolutely failing to re-equip and re-organise themselves to meet new situations—some re-equipment and re-organisation have been in progress in the past and will be undertaken in future. It is only that the process of adaptation in Britain has been slower than in other industrial countries during the last two decades and will very likely be slower in future, especially when the stimulus of free trade which was behind British progress during nearly three-quarters of a century is removed henceforward.

The second reason is this. It has been asserted by some persons, that the assurance of the large Empire market to British industries may lead to large scale production. The unit of production in most British industries to-day is smaller than corresponding units in other industrially advanced countries, specially the U. S. A. This, it has been argued, is due to the absence of a large protected home market for the products of these industries, which, owing to their relatively high overhead charges, must have a large and fairly constant demand for their goods, if they are to work up to maximum of efficiency. Imperial preference is expected to create this condition of maximum efficiency for British industries, to lower the prices of their products and ultimately to benefit the consumers of Empire countries which agree to extend preference to the United Kingdom.

Those who argue on these lines seem to confuse scale of production with total volume of production. A large total volume of production may be achieved by many small scale producers as much as by a few large scale producers. To diminish by Imperial preference the imports into Empire countries of foreign goods in strong demand, will of course lead to more of it being made within the Empire, particularly in the U. K. But the larger volume of production may be spread over innumerable small factories as before. There is nothing in Imperial preference itself to favour large scale rather than small scale production. It may work in one way as much as in the other. There is at least no guarantee that Imperial preference will lead to mass production of British manufactures and to lower prices of these in the Empire markets. In fact if one were to judge the future from the past, the probability would not be in favour of an expansion of scale of production in Britain as a result of Imperial pre-

ference. In the first place, the "love of smallness seems deeply ingrained in the British character". Secondly, some British industries, notably the Motor industry, have enjoyed protection in their home market as well as a good deal of preference, direct and indirect, in the Empire markets during the last fifteen years. Yet this has not led to a mass production of British motor cars. On the contrary, it has "served to keep alive and separate multitudes of small makers of innumerable types of car, competing with one another, not by standardisation and cheapness, but by unimportant small variations."^{*}

To sum up our arguments with regard to the effect of the Ottawa Agreement on our imports:—

§ 9. Summary of the effect of Agreement on Indian import prices.

A temporary burden upon the consumer in the form of higher price is almost inevitable. Even on a very moderate and reasonable estimate that burden is likely to be heavy. Over a long period, however, this burden will probably tend to disappear or at least to be reduced to small proportions. But that will not necessarily mean that the Indian consumer will have ceased to suffer, unless we can show that future prices of British manufactures would be as low as the future prices of the products of her foreign competitors. A study of the relevant records of the last two decades has shown that Britain has lost relatively to her competitors both in the Indian and the world markets, this loss being due primarily to the inelasticity and the high level of British prices. There is, therefore, a presumption that British prices in future will tend to be higher than foreign prices, (that is to say, Indian consumers will continue to pay more for their imports than they need have done), unless some new factor introduces a tendency in the opposite direction. There will, of course, be a new factor henceforth, which was absent in the past, *viz.* preference to British manufactures on an extensive scale by Empire countries, specially by India. But as I have shown, there is no certainty, not even a strong probability, that with this new factor in operation, British efficiency will catch up the level of efficiency

^{*} *The Case for Tariffs*, by Sir W. Beveridge and others, pp. 96-7.

elsewhere, and keep pace with it, and that hence in future British prices will be as low as foreign prices. By accepting the application of the principle of Imperial preference on a large scale, we may not only impose upon the Indian consumer a heavy burden in the present, but also exclude him from a full and complete enjoyment of the fruits of a more rapid industrial progress in countries other than the U. K. The burden of Imperial preference, direct and indirect, will therefore be both temporary and permanent.

PART IV.—EXPORTS AND IMPORTS

We have discussed as fully as the data available has permitted, the probable effects of the proposed Ottawa Agreement upon our exports and imports.

§ 1. Effect of the Agreement on Exports and Imports Compared.

It remains for us now to bring the two sides of the account up against each other.

The value of our exports to the U. K. on which we shall receive preference as the result of the proposed agreement was about Rs. 51 crores on a yearly average during 1926-27 to 1930-31, while the value of the British exports to this country which will enjoy preference as a result of the agreement and of our existing tariff arrangement was on an average Rs. 61 crores per annum during the years 1926 to 1930. The gain that we may make on the export side, however, will have to be calculated not only on our export to the U. K., but also upon our total export to all countries, of the commodities affected by preference. Similarly the loss that we may suffer on our imports, will tend to spread over our total import of the commodities on which we grant preference to U. K. The total value of our export of commodities affected by preference was about Rs. 201 crores, on a yearly average between 1926-27 to 1930-31, and the total value of our imports was on an average Rs. 128 crores per annum during 1926 to 1930. If the gain on our exports were proportionately equal to the loss on our imports, we might have had a balance of gain on our side. In fact, however, on about two-thirds of our exports, *i. e.* on total exports of the value of Rs. 132 crores, there is no possibility of any gain to us. There is only the chance of an uneconomic diversion of our trade. On the other hand only on Rs. 4 crores of our imports, the chances of loss are small or negligible. Hence while our possible gain can be reaped on Rs. 69 crores of our exports, our probable loss will be on Rs. 124 crores of our imports. If equal proportionate gains and losses are made on our exports and imports, the loss would be nearly 90 per cent more than the gain.

This conclusion is based on the assumption that our exports occupy the same position in the British market as the British exports do here in our country. In fact, however, that is not the case. In the first place, in the

group of our exports in which we have a chance of reaping a gain as the result of the preference, we shall have to share it with the other parts of the British Empire; and within the preference ring will be some of the advanced producers of raw materials and food products in the world. On the other hand, the preference that we propose to extend to the United Kingdom will be enjoyed by her solely. All the other advanced industrial nations in the world would be outside the preference. Preference to our exports in the British market does not seriously lessen the international competition that they will have to face, while preference to British exports to this country almost creates conditions of monopoly for them.

Secondly, with regard to the future, the preference that our exports will enjoy will be in a market which has, during the last two decades, contracted relatively to the others. On the other hand, by confining our preference only to the imports from Britain, we are shutting out, or at least reducing, the supply of our requirements from sources which have shown a greater capacity for expansion and a greater ability to meet our wants cheaply.

Thirdly, the fact that our exports consist of raw materials and foodstuff, while our imports are mainly manufactured goods is significant. For, while the rise of the prices of our imports in consequence of the preference is likely to be passed on, soon or late, to the ultimate Indian consumer by the organised manufacturers abroad, the rise of the prices of our exports, if any, in the British market will take a much longer time to reach the ultimate unorganised producer in our country. Our gain as producers will therefore tend to lag behind our loss as consumers. And there is the less justification for any economic measure leading to this result to-day, when we remember that in recent years agricultural prices have suffered a heavy decline relatively to the industrial.

Finally, we should point out that if India does not extend formal preference to British goods, while she continues to enjoy the same concession as the other parts of the Empire in the British market, the trade relations between India and the U.K. would not be so one-sided and in favour of the former, as people looking only at the surface

§ 2. The "preferences" that U.K. already receives in India.

of things have made it out to be. Apart from the preference that she receives on her exports of iron and steel and cotton piecegoods to this country, Britain is enjoying preference in the Indian market in a variety of less obvious ways. Some of these preferences, though real, can never be statistically computed. Such are those which naturally follow from the dominance of British capital and enterprise in our industry and foreign commerce. But there are others, little known to the layman and very seldom pointed out even by economists, which can be measured statistically and turned from "political" into "economic" facts.

The facts about these less obvious preferences that the U. K. is enjoying to-day in her trade relations with India are set down in the following table.*

Balance of Trade between Britain and the Dominions in 1930.

Countries	Visible Balance in favour of (+) or against (-) Dominion (£ millions)
Canada ...	7.4
Australia ...	37.5
New Zealand ...	26.2
South Africa ...	34.4
Irish Free State ...	-1.2
Newfoundland ...	1.3
India ...	-9.6
South Rhodesia ...	-0.3

From this table it is obvious that of the larger countries within the Empire, India alone has to-day a large deficit balance in her trade with the U. K. "India is one of the few trading countries of major importance in the world, which has an adverse balance of visible trade with the United Kingdom. Imports from the United Kingdom exceeded exports to that country by over £60 million annually in 1921-25, and although the balance is rapidly falling, it remains true that by her large exports to other countries India is helping to pay for the goods which the United Kingdom imports from those countries in excess of what she sends to them."†

The table which follows in the next page is still more significant.‡

* *The Economist*, London, Aug. 6, 1932, p. 265.

† *Production and Trade of the Indian Empire*, E. M. B./T. P. 5, page 27.

‡ *Economist*, Aug. 6, 1932, p. 265.

		Ratio of exports to Great Britain to total exports in 1930 (percentage)	Ratio of Imports from Great Britain to total imports in 1930 (percentage)
Canada	...	37	18.9
Australia	...	49.8	39.4
New Zealand	...	87.7	49.4
South Africa	...	43.4	43.3
Irish Free State	...	92.2	80.0
Newfoundland	...	...	...
British India	...	27.9	35.4
South Rhodesia	...	...	...

Again it is only in the case of India that the ratio of British imports to her total imports is greater than the ratio which her exports to Britain bear to her total export trade. Thus India alone among the bigger Empire countries not only buys more from the U. K. than she sells to her, but also gets a larger percentage of her total imports from Britain than the percentage of her total exports that she disposes off to the latter.

These two tables indicate the preference that India as compared with the other large sections of the British Empire has extended to Britain. In the final table given below we have the history of Indo-British trade relations during the last two decades.

$\frac{\text{Import Price Index}}{\text{Export Price Index}}$; 1913=100

			1925	1926	1927
U. K.	...	...	.84	.85	.85
Canada	...	...	.89	.85	.83
New Zealand	...	...	.88	1.01	.97
South Africa	...	...	1.06	1.06	.99
India	...	...	1.03	1.12	1.02

The significance of the table is this. If for a country the fraction $\frac{\text{import price index}}{\text{export price Index}}$ is less than unity in any year, it means that in that year for that country each unit of import was cheaper in terms of units of exports than in 1913; in other words, for each unit exported the country would obtain in exchange more units of import

* Memorandum on the Trade of the British Empire by the Imperial Economic Committee, (13th Report).

than it had been able to do in 1913. If the fraction exceeds unity, then imports were more expensive in units of exports than in 1913. For the Dominions and India the import price indices are largely representative of the price indices of manufactured commodities which are either bought from the U. K. or whose prices move in unison with the prices of British manufactured goods. Therefore changes in the $\frac{\text{import price index}}{\text{export price index}}$ fairly indicate the alterations in the real ratio of interchange or barter terms of trade between the U. K. and the rest of the Empire.

It will be seen from the table on the previous page that only in the case of South Africa and India their exports were buying less of imports from the U. K. in 1927 than they did in 1913. In the case of South Africa, however, if account is taken of the heavy rise in the value of gold (which forms an important item of the South African export trade), the fraction would be less than unity, *i.e.* South Africa would be shown to have had a better position in 1927 than she had in 1913. Hence in the case of India alone Britain has been able to secure the old amount of Indian goods for a smaller quantity of her own manufactures. This is a preference which in practice is far more valuable than the formal preferences that the Dominions have extended to Britain through their Tariffs.

The table brings the history upto 1927. In 1928 probably India's position improved. But between 1929 and 1932 it is almost certain that India's position must have deteriorated below the level of the year 1927.

PART V.—CONCLUSION

At successive stages of our analysis of the Ottawa Agreement in the foregoing pages, we arrived at more or less definite conclusions, relating to particular aspects of the problem discussed. And also as the study developed, a number of impressions naturally formed themselves in our mind. It now remains for us to sum up these impressions and conclusions and to present them to the reader.

It will be apparent from the study of Part II of this pamphlet that the Indian delegates at
§ 1. Impressions. Ottawa did not sufficiently realise and adequately make use of the strength of India's position in the British market. They were dominated by the psychology of panic, which was, of course, created by the way in which Great Britain proceeded to hustle India into the Trade Agreement. And the general unpreparedness of the Indian Delegation contributed to this state of nervousness. A problem, so intricate in its texture and so momentous in importance as that involved in the Ottawa Agreement, ought to have been first studied by a body of experts—a Fiscal Commission. The Indian Delegation should have been then tutored in the findings of that Commission and sent off to Ottawa, armed cap-a-pie with the knowledge of what India could give and receive by way of preference without loss to herself. It is futile to suggest that the researches of a Government department or the private studies of the members of the Delegation could be an adequate substitute for the work of a Fiscal Commission. It is inconceivable that a Fiscal Commission could have been so indiscriminate in its suggestions *re*: the grant and receipt of preference as the Indian Delegation at Ottawa seems to have been. With the study of a Fiscal Commission for its guide, the delegation would not have angled for preference to our exports even where such preference is valueless; nor could it have consented to the grant of concession on imports in cases in which the chance of heavy loss is unrelieved. Surely a

Fiscal Commission would not have suggested the acceptance and concession of equal preference on items of export and import, the trade conditions of which are widely divergent.

In their nervousness too, the Indian Delegation seemed to have forgotten to draw upon their armoury of argumentative weapons. There is almost a pathetic effort on the part of the Delegation members to convince others that the withdrawal of British preference to Indian exports would have spelt utter ruin for these. It is not, however, evident that they tried to convince the British delegates or even themselves that the withdrawal of Indian preference to British goods would have an equally disastrous effect upon these. Hence while the former bogey stalked about the stage at Ottawa, the latter was securely chained up and removed from sight.

So much for the impressions. One would gladly weed them out from one's mind, if it were not
 § 2. Conclusions. that the conclusions, when assembled, seem to strengthen the impressions. These conclusions have been already indicated severally in the earlier portions of this study. They are now brought together and presented below.

General :

1. The Ottawa Agreements will not contribute to the recovery of world trade. Hence we cannot expect the conditions of world trade to react favourably upon India's foreign trade.

Exports :

2. Our exports as a whole cannot gain materially from British preference. Britain cannot however exclude them from preference, without great loss to herself.

3. Preference should not have been asked for on Group I of our exports, since preference cannot contribute to their recovery or prosperity, while denial of preference cannot injure them seriously.

4. Our delegates should not have taken the trouble to secure preference on Group III of our exports, since the value of preference in their case will be whittled down

to insignificance by the competition of other Empire countries, while the loss from the denial of preference can be made up in other ways.

5. The question of preference could have arisen only with respect to exports in Group II.

6. The future value of preference in the British market is not much ; since the other markets are developing and absorbing our exports much faster.

7. The exchange of mutual preference by India and Britain will lead to some loss of our exports to neutral markets, through increased competition, reduced purchase or retaliation by foreign countries.

Imports :

8. Our delegates should not have consented to give preference to British imports in Group III.

9. Probably the United Kingdom would not have strongly insisted upon having preference on imports in Group I.

10. The question of granting preference could reasonably arise only with reference to imports in Group II.

11. If the Agreement is ratified in its present form, the Indian consumer will suffer heavy losses both in the present and in future.

Exports and Imports :

12. The net gain to our exports from preference will be smaller than the net loss on our imports both to-day and in future.

13. The United Kingdom is already receiving a number of visible and invisible preferences in India. The latter are not well-known, and hence never mentioned in the course of tariff negotiations. But probably they are more valuable than the tariff preferences which Britain receives in the Dominions.

The conclusions stated above suggest that India stands to lose by the total acceptance as well as by the total rejection of the Ottawa Agreement in its present form.

There is, therefore, a case for the revision of the Agreement on lines which will be to the benefit of both the parties.

The nature of this desirable revision has been indicated by our study of the Agreement. We have concluded that the question of mutual preference can legitimately arise only with reference to the commodities in Group II of our exports and imports respectively.

Finally, if and when such a revision is taken up, we should see that the case for mutual preference is thoroughly scrutinised by a Fiscal Commission, before our Government or its delegates commence negotiations for a trade agreement with the U. K., and also that the preference we give or receive, is more discriminating than would be the case, if the Ottawa Agreement is ratified in its present form.

APPENDIX

SUMMARY OF THE AGREEMENT BETWEEN HIS MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM AND THE GOVERNMENT OF INDIA

On August 20, 1932 the Indian and the British Delegates entered into a trade agreement on behalf of their respective Governments. By this agreement, subject to the approval of the British Parliament, the United Kingdom undertakes :—

(A) To continue to give free entry to all Indian goods within the scope of the 10 per cent duty imposed by the Import Duties Act of 1932. In addition, higher British duties imposed or to be imposed, on foreign goods will give India enhanced preference. The principal commodities of Indian export affected are :—

Indian Cotton manufactures, Coir manufactures, Indian Carpets and Rugs, Jute manufactures, Tanned Hides and Skins, Non-essential vegetable oils, Sandalwood oil, Oil cake and Meal, Rice, Ground-nut, Coffee, Tobacco, Tea, Spices, Castor seed, Bran, Pollards, Rice meal and dust, Teak and other Hard-woods, Pig lead, Magnesite, Indian Granite and Magnesium chloride.

(B) To retain the existing preferences on Barley, Peas, Beans, other Pulses and Millets, Manures, Goat-skins, and Asbestos.

(C) To impose a 10 per cent duty on foreign linseed.

(D) To admit into the United Kingdom, free of duty, from all sources, the following goods, *viz.* Shellac, Raw Jute, Myrobalams, Broken Rice, Mica and Indian hemp.

(E) To co-operate in any particular scheme agreed to by the United Kingdom cotton industry and the Indian growers for promoting a greater use of Indian cotton by Lancashire.

By the same agreement, subject to the approval of the Indian Legislature, India undertakes :—

(A) To give a 7½ per cent preference on Motor Vehicles (other than Motor Cycles) imported from the U. K.

(B) To extend a 10 per cent Preference to the following main classes of imports from Britain :—

Building and Engineering Materials, Chemicals, Drugs and Medicines, Earthenware and Porcelain, Furniture, and Cabinetware, Hardware, Instruments, Apparatus and Appliances (Electrical, Musical, Photographic, Scientific, Surgical, Wireless and Miscellaneous), Leather Manufactures, Aluminium, Copper, Lead, German Silver, Zinc, Brass, and similar alloys and manufactures thereof, Paint and Painter's materials, Paper and Stationery, Rubber tyres and other manufactures of rubber, Vehicles, not mechanically propelled and Cycles.

These preferences may be given, either by an increase of duties on foreign goods or by a reduction of duties on the United Kingdom goods, or by a combination of both methods.

The preference on the manufactures is subject to certain exceptions. It does not also extend to commodities to which protective duties are applicable, to those which are free of duty at present, or to those on which, on grounds of national policy, a specially low rate of duty has been imposed.

(C) To extend a 10 per cent preference to the following :—

Articles in the class of machinery, which pay the ordinary revenue rate of 25 per cent *ad valorem*, articles of Apparel, Haberdashery and Millinery, which are dutiable at 25 per cent *ad valorem*, Woollen manufactures with specified exceptions, Asbestos Manufactures, Boots and shoes of Leather, Brushes, Metal Buttons, Cordage and Rope with certain exceptions, Cork manufactures, Cutlery, Glue, Leather cloth and artificial leather, Smokers' requisites, Toilet soap, Toilet requisites, Toys and Requisites for Games, Umbrellas and Fittings, Filled Cartridges and Cartridge cases, Oil cloth and Floor cloth, Engine and Boiler packing, Perfumed spirit, Ale and Beer, Cocoa and Chocolate, Confectionery, Tinned or Canned Fish, Canned or Bottled Provisions with certain exceptions, Condensed and preserved Milk, Fish oil, Synthetic essential oil, Natural essential oil, with specified exceptions, Mineral Lubricating oils other than

batching oils, Paint solutions, and Vegetable non-essential oils with specified exceptions.

(D) To extend, after consideration of the Report of the Tariff Board on cotton Textile Industry, a 10 per cent preference to goods made of Cotton, Silk and Artificial silk with specified exceptions.

The Agreement is to continue in force, until six months after notice of denunciation has been given by either party.

The main agreement is supplemented by a subsequent agreement regarding iron and steel. By this supplementary agreement, the United Kingdom undertakes to continue after the 15th November the free entry to all classes of Indian goods covered by the Import Duties Act.

The Government of India undertakes, subject to the approval of the Indian Legislature :—

(A) To adjust, on the basis of present selling prices, the duties on galvanised sheet in the Indian Tariff as follows :—

Rs. 30 per ton on sheet made in the U. K. from Indian Sheet bar,

Rs. 53 per ton on sheet made in the U. K from the other sheet bar, and

Rs. 83 per ton on sheet not made in the U. K.

(B) To impose, promptly and without an enquiry by the Tariff Board, an additional duty, in the event of further reduction in the price of sheet imported into India and not made in the U. K.

Each Government remains at liberty to take appropriate measures to prevent sales at unfair prices by the manufacturers in the other country, or to check an unnecessary increase in prices against the consumer by a combination of manufacturers in both countries.

These arrangements will remain in force until the end of March 1934, when action will be taken by the Government of India following a Tariff enquiry in India into the Iron and Steel industry.