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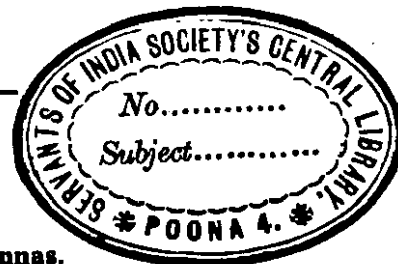
## The Ottawa Agreement and India

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## THE OTTAWA AGREEMENT AND INDIA.

### I

THREE complete years have elapsed since the ratification by the Indian Legislative Assembly of the agreement arrived at by the Indian delegation at Ottawa. We have considerable statistical information at hand for the course of world trade for two years following the conclusion of the agreement and there are data enough for attempting to form a considered opinion regarding the efficacy of the Ottawa programme. The two documents which will be found most important in considering this problem are the two reports issued by the Government of India "on the working of the scheme of preferences" for the years 1933-34 and 1934-35. The two reports, though planned on identical lines, are yet notably different in character. The first is issued under the signature of Dr. Meek, the then Director of Commercial Intelligence and Statistics, and is a document which embodies emphatically expressed opinions and definite conclusions. The second report is not signed by anybody, and does not even purport to issue from the Department of Commercial Intelligence and Statistics; it gives a mass of information and statistics on the lines of Dr. Meek's report but is a comparatively colourless production containing a minimum of comment. It is not known why such a change has come over the report this year; but it is expected that the Government of India will issue a defence of the Ottawa policy in time for the meeting of the Assembly. We have, in what follows, not found it necessary to travel much beyond the

statistical material officially sponsored in these two reports.

There are, as even Dr. Meek has pointed out, a great many difficulties to be met with in an attempt to elucidate the effects of the working of the Ottawa scheme. The course of international trade is affected by factors so numerous and so complex that the effects of a single factor like preferential tariff rates may easily be masked by other movements. It is, therefore, necessary to remember that even in spite of the fullest statistical information any judgment regarding the working of preferences is not likely to be more than a well-informed and well-reasoned guess. It may be pointed out at the outset that in the following analysis it is only the course of the trade on India with the United Kingdom that has been taken into account. The total measure of colonial preferences is so small that they may for all practical purposes be neglected.

We may begin with a consideration of the changes in the total volume of Indian trade with U. K. The volume of this trade has increased more than proportionately during the years 1933 and 1934. This is due to certain broad changes that have recently come about in the world distribution of trade. It is the currency and exchange policies of the different countries that have been mostly largely responsible for the changes. The biggest currency group in the world—the "sterling group"—has since 1932 distinctly gained in its percentage share of the total export and import trade of the world. Japan has forged ahead more than any other single country and so also U. S. A. in 1934. The increase in the trade of India with U. K. that has come about recently is,

therefore, to be attributed not to any measures of trade policy but to general trade movements brought about by other causes. This can be made most clear from the following statistics of the U. K. trade with India in preferential and non-preferential goods.

	1931-32	1932-33	1933-34	1934-35.
Index of the export trade of India with U. K. in articles enjoying preference	100	89.3	109.5	110.2
Ditto— in articles not enjoying preference	100	74.0	112.0	118.6
Index of U. K. imports into India in articles enjoying preference	100	105	118	134
Ditto—not enjoying preference	100	110.3	101.5	114.4

This table shows the comparative changes in the values of Indian exports to U. K. and of imports from U. K. into India of groups of articles enjoying preference and not enjoying preference. It clearly indicates that while the exports in that group of articles which enjoy preference increased from 1931-32 to 1934-35 by about 10 per cent. the increase in the group not enjoying preference is even greater. Hence the only conclusion possible on these figures is that the import trade of U. K. having expanded largely in recent years all kinds of Indian goods have found a widening market in that country irrespective of preferential treatment. It should be noted, on the other hand, that the imports into India of U. K. articles enjoying preference have increased much more than of those not having that advantage.

The general expansion of our trade with U. K., especially export trade, having thus no connection

with the Ottawa arrangements we are left to examine each item of preference individually to ascertain what effect preferential treatment has had on its trade. We had followed this method of attack in our brochure on "Imperial Preference" published on the eve of the consideration of the Ottawa agreement by the Assembly, and we shall have occasion hereafter to refer to conclusions reached therein.

It is obvious that every measure of preference must, like any other measure of interference, have some effect on trade and prices. So that preferences accorded to any commodity in a market must tend to increase the sales of that commodity and additional duties levied must tend to increase the prices of commodities. Circumstances may, however, either minimise or conceal these effects. And our endeavour has to be to note the extent of the effect felt by any trade allowing for the conditioning circumstances.

We may before going on to discuss each item glance at certain calculations made by Dr. Meek and published in Appendix II of the reports on the working of the agreement. These are called "advantage on landed cost in the United Kingdom" and are arrived at by multiplying the declared values of the various exports from India to the United Kingdom by the rate of preference. It is curious that in neither of these reports is any explanation given as to why these calculations have been made and published and as to what it is that they are supposed to represent. They are, of course, meant to lead the unwary reader into believing that they represent the real measure of the benefit secured by Indian trade as a result of the Ottawa agreement. Dr. Meek knew

better than to say so categorically in the body of his report, but we find other officials, as for example Sir Thomas Ainscough, using the statistics in this sense. Now even a moment's reflection by anybody who has had some elementary training in economics would show that these figures are utterly meaningless. They represent no more than the result of a mechanical multiplication of two sets of figures. The benefits secured by the Indian trader or trade may be indicated by an increase in the trader's profits and/or by an expansion of the trade over the previous level. And the reactions of a preferential treatment from trade to trade would vary enormously. In the case of a perfectly inelastic trade the benefit or loss suffered by the trader would be nil and the only effect of an increase or decrease in customs duties would be reflected in a variation of the price to the consumer. With a highly elastic or sensitive trade the effects, beneficial or otherwise, would be very large indeed. Without studying the detailed conditions of each trade there is no means of saying offhand or determining mechanically what benefits have been received. The official calculations are thus meaningless and we would hardly have thought it necessary to notice them if it were not obvious that they are very likely to mislead many persons.

In considering trade in each individual commodity the figures of its general expansion or contraction by themselves will not suffice. A particular movement of trade with the country may be part of a general movement of trade with all countries or may be part of a special trend, due to other causes, of that trade in that particular country. In either case a contraction or expansion could not be described as a result of the special tariff measure. The

contention put forward in the 1934-35 official report that a fall in the percentage of the exports to U. K. in a particular commodity is no necessary proof of the failure of the preference may be admitted and it may be agreed that the most important test is the increase in the proportionate share of India in the total imports into U. K. of the particular commodity. Of course, even if an increase is apparent the further question as to whether the increase is substantial enough and as to whether it is due directly to the preference or to other causes would still have to be asked.

## II

We shall now indicate briefly the conclusions regarding trade in some of the most important export commodities using the figures given in the two official reports and the latest statistics as given in the "Indian Trade Journal" of 5th December 1935. The figures in brackets represent the values of the exports to U. K. for the years 1933-34 and 1934-35.

*Tea* (Rs. lakhs 17,56 ; 18,15.) :—This is by far the most important article of export from India to U. K. and it was generally agreed at the time of the inauguration of the Ottawa arrangements that it was likely to profit somewhat from the preference. Even so it was clear that Indian producers had to depend on such a wide area for their market that protection in a single important area which would naturally result in intensified competition in other non-preferential markets was not in the long run of much real help. This was early realised by most producers of tea in India and Ceylon, and they had, therefore, directed their energies towards arriving at an arrangement with their

most important competitor—Java. An international scheme for the regulation of world tea exports was arrived at in May 1933 and has been in operation since. Hence for almost the entire period of the currency of the Ottawa agreement exports of tea to various countries have been regulated by a national agreement among the main producers. The course of tea trade may be said, therefore, to have been entirely unaffected by the preference and no useful purpose can be served by discussing the statistics thereof. The Tea Restriction Scheme is working successfully and there is every prospect of its continuing to operate at least till 1938. Under the circumstances the grant of preference to tea becomes meaningless and may be considered as of no account.

*Dressed and Tanned Hides and Skins (Rs. lakhs—5,30; 4,86):*—In the class of undressed leather (other than sole) for which preference has been granted to Empire products India supplies to U. K. tanned and dressed hides, and tanned and dressed goatskins and sheepskins. In all these products U. K. is by far the most important market for India and India the most important supplier to U. K. In 1927-28, for example, India supplied more than 90 per cent. of the total imports of tanned and dressed hides and goatskins into U. K. During the years 1930-31 and 1931-32 the Indian exports to U. K. of hides fell remarkably and so did their share in total U. K. imports. Since 1933 they have attained to their former position and it is presumed that the preference was helpful in enabling them to do so. In the case of skins the loss of market to others during the worst years of the depression was not large and hence there has been no con-



considerable advance in the percentage share since 1933. The goatskin market being almost entirely dominated by India, there is no scope for further advance. In sheepskins the fact that one of the competing sources of supply—Australia—is an Empire country limits the possibility of the remaining portion of the market being easily captured by India. This particular measure of preference, though it may have been helpful in enabling Indian exports in rising rapidly from the sharp fall in the depressed years, is not of a character likely to lead to a continuously expanding market. Seeing that these products have no important competitors in the U. K. market a free entry is all that is really needed by them.

*Jute Manufactures* (Rs. lakhs 1,56; 1,56.):—In the U. K. market the imports of jute manufactures from India have to meet practically no competition. This will be made clear from the figures of trade in jute bags and piece goods on the eve of the ratification of the Ottawa agreement, i. e. in 1932.

	Imports into U. K.	Imports from India.
Jute sacks and bags '000 cwts.	730.2	707.4
Jute piece goods '000 sq. yards	68.6	67.3

It will be seen that in both cases India held more than 96 per cent. of the total U. K. market. There was no possibility of the preference further widening the market and no important movement of trade has, therefore, been visible during the years since 1933. Here is another case where what is really required by the Indian producer is not so much preference as merely free entry.

*Linseed* (Rs. lakhs 2,01; 1,28.):—It was generally agreed in 1932 that linseed was a crop which was most

likely to profit from a preferential treatment. The trade figures for 1933 and 1934 show a most revolutionary change in the imports of linseed into U. K. During these two years India supplied much larger quantities of linseed than Argentine, which has during the post-war period been the chief supplier to U. K. This change seems to have been chiefly due to a shortage of crops and an increase in price of the Argentine linseed. On account of the shortage of crops in Argentine the demand for Indian linseed increased not only in U. K. but in the entire world market. It is the relation between the prices of Plate linseed and Indian linseed that determines the off-take in the U. K. market and throughout 1933 and 1934 this was greatly in favour of India. No doubt the 10 p. c. preference must have been of some help in bringing this about, but the main reason was undoubtedly the crop conditions. This is made clear by the fact that the moment the Argentine crop and prices reverted to their normal, the imports of Indian linseed into U. K. declined heavily. The following table shows the imports into U. K. of linseed during the first nine months of the years 1933, 34, 35.

	1933.	1934.	1935.
Total '000 tons	182.1	152.2	173.3
India „	68.0	109.6	36.1
Argentine „	109.9	42.2	136.4

↓ *Groundnuts* (Rs. lakhs 67; 1,70):—There has been a substantial increase in the imports of groundnut from India into U. K. and this may be partly attributed to the preference given to Empire groundnuts. There are two points, however, to be noted regarding this trade.

Firstly, India is not the sole Empire exporter of groundnut. British West Africa grows groundnuts on a considerable scale and its imports into U. K. have benefited very largely from the preference also. The possibilities of future expansion of the Indian market into U. K. are, therefore, limited by the strength of the competition of the W. African produce. The second point to be noted is the possibility of the substitution of groundnut by other oil-producing products. We had in our examination of the Ottawa agreement drawn attention to this feature of the oil seeds market and confirmation of it is available in the latest Government of India report on the agreement. It is here pointed out how the non-Empire imports of soya bean and cotton seed are increasing in spite of a duty and how this limits the market for groundnuts in U. K.

*Castor Seed* (Rs. lakhs 33; 31):—The U. K. market in castor seed was always held almost entirely by India and no difference has been made to the former position by the grant of preference.

*Rice* (Rs. lakhs 43; 50):—Preference may be said to have helped India to retain the U. K. market or slightly to increase it. The whole of the rice trade with U. K. is, however, unimportant and the position is best expressed by pointing out that while U. K. received in 1932-33 3.8 % of the total Indian exports of rice, in 1934-35 it received 4.8 % of these. The significance of the loss of rice markets of Germany and Poland is discussed elsewhere.

*Teak and other Hardwoods* (Rs. lakhs 49; 69):—Preference has been granted to teak and other

hardwoods and as teak is by far the most important of the exports from India it amounts practically to a preference for teak alone. India had even before the agreement been supplying U. K. with more than 80% of her total imports of teak-wood and this percentage has not increased during the last two years. The imports of teak have grown largely in recent years, but this has nothing to do with the grant of preference. Imports of all hardwoods into U. K. from all sources—Empire and non-Empire—have grown owing most probably to the boom in building and constructional industries and the Indian imports of teak-wood have merely shared in the general movement.

*Tobacco* (Rs. lakhs 47 ; 35 ) :—We had pointed out in our review in 1932 that from the analysis made by the Imperial Economic Committee it followed that preference to tobacco could be of no use to India. We export a very small proportion of our total production and what tobacco we exported was not of the type wanted in U. K. Dr. Meek's report and the latest Government of India report follow the same lines of analysis. The figures for both the years 1933 and 1934 show that with a large increase in the total tobacco imports into U. K. the figure of Indian imports is stationary, which means a large proportionate decline in India's share.

*Coffee* (Rs. lakhs 30 ; 21 ) :—Indian coffee has always had a small but select market in U. K. and it was not expected that a small measure of preference could much help it, even though the main competitor in the U. K. market of Indian coffee was non-Empire coffee from Central America. The result of the trade during the last two years

shows that the proportion of U. K.'s share in Indian exports and the absolute volume of these exports have both declined. There has been during these years a large and continuous decline in the total imports of coffee into U. K. The decline in Indian imports into U. K. was proportionate in 1933 but was less than proportionate in 1934. This, however, was entirely due to a short crop in British E. Africa, as is shown by the fact that the proportionate share of Costa Rica—India's chief competitor—also increased during this year. It would seem from the latest available figures that for the year 1935 even the 1932, 1933 position cannot be retained and that the share of Indian imports of coffee into U. K. will decline relatively both to British E. Africa and Costa Rica.

Imports into U. K. of Coffee for the first nine months.

	1933.	1934.	1935.
Total '000 cwts.	553.0	495.2	407.3
India	44.8	49.0	29.3
B. E. Africa	195.0	107.3	151.0
Costa Rica	231.4	225.4	177.4

*Pig lead*:—(Rs. lakhs 1,30; 85) All the most important suppliers of lead to U. K. are Empire countries and hence it was not clear from the beginning how preference was going to improve the position of Indian lead in the U. K. market. Actually there has been a definite deterioration in the position since 1932. Australia and Canada have both made considerable advances. It is expected that the former was helped to do this by the exchange advantage that it had obtained. It is clear from the figures given in the Government of India report that the imports of Indian lead into U. K. have declined both in absolute volume as well as in their percentage to

total imports. This decline which is clearly noticeable in the 1933 and 1934 figures seems to have continued still further in 1935, as the following figures will show.

Imports into U. K. of pig lead for the first nine months.

	1933	1934	1935
Total '000 tons	208.7	228.1	243.5
India	39.9	31.5	33.0
Australia	107.2	118.2	132.9
Canada	53.0	56.5	67.0

*Oilcakes* :—(Rs. lakhs 86; 1,36) This is a composite group and detailed figures are not available regarding each of its separate constituents to enable us to judge of the detailed effect of the preference. By far the most important constituent of this group is, however, groundnut cake. From the statistics available (I. E. C. Report on Groundnut products, 1934) it is seen that in 1931 and 1932 the average percentage of Indian imports of the total imports into U. K. was 92. This was maintained in 1933. It is not known what the percentage was in 1934. It is, however, obvious that the competitors of India hold such a small part of the market that the scope for a beneficial effect of preference as such, if any, is extremely limited. The large expansion of Indian exports of groundnut cake in recent years follows naturally on the greatly increased demand in the U. K. and other markets. The point we have noted before that the oilcake trade is one which we need not be anxious specially to encourage is one to be borne in mind in this connection.

*Carpets and Rugs* :—(Rs. lakhs 57; 74) In carpets and rugs U. K. has been always our chief market and the exports to that country have increased.

somewhat during the last two years. The percentage share of India in the total imports into U. K. under this head has also increased and this would show that the preference has been of some benefit to us.

*Paraffin Wax* :—(Rs. lakhs 55 ; 47 ) The figures of the imports of paraffin wax into the United Kingdom since 1931 show clearly that there has been no increase in the proportionate share of Indian imports to the total in 1933 and 1934. On the contrary there is noticeable some decline in that share.

*Fodder, Bran and Pollards* :—(Rs. lakhs 38; 65) This again is a composite group and in the absence of detailed information it is impossible to comment. The Indian imports into U. K. under this head are almost entirely made up of rice meal and dust and in that article the Indian imports have never met with any significant Empire or non-Empire competition.

*Coir manufactures* :—(Rs. lakhs 23; 25) This head has to be considered under two sections: coir yarn and coir mats and matting. The U. K. supply of the former has always been drawn almost entirely from two Empire sources—India and Ceylon. Since 1932 the only noticeable change in this trade has been an improvement in the share of the U. K. market by Ceylon at the cost of India. Of coir mats and matting India has always been the predominant supplier to U. K. but Belgium used also to send a substantial consignment. Today the Belgium imports into U. K. under this head have totally disappeared and the market is held entirely by India. It is doubtful, however, how far this result can be attributed to Ottawa as India already took up 98 p. c. of the U. K. market in 1932.

*Pig Iron* :—Under an agreement supplementary to the Ottawa agreement free entry has been granted to Indian pig iron into U. K. As the standard rate is  $33\frac{1}{3}$  p. c. and as there are no other Empire suppliers this has meant that the Indian supply has almost entirely captured the U. K. market. The U. K. market for pig iron is, however, not a large one and it has to be noted that pig iron imports into U. K. are not increasing in spite of the greatly increased activity in the iron and steel industry of that country.

Imports of pig iron into U. K. for the first nine months.

	1933.	1934.	1935.
Total '000 tons	67.9	87.5	64.9
India	60.3	76.4	54.0

Apart from preferential treatment the Ottawa delegation was able to secure free entry into U. K. for some of the articles in which India was specially interested. The most important among these articles are lac (Rs. lakhs 1,32; 1,46), mica (Rs. lakhs. 24; 35) and myrobolans (Rs. lakhs 29; 25). In lac and myrobolans India has usually supplied in recent times more than 95 p. c. of the total demand of the U. K. market. In mica also India has always been a dominant supplier and the competing sources are mostly within the Empire. With a mere free entry guaranteed no special movement of trade was expected; neither has any come about.

*Raw Cotton* (Rs. lakhs. 3,37; 3,42) :—There is no preferential treatment accorded to raw cotton and its imports, from whatever source, were never subjected to any duty. The U. K. Government has merely undertaken to encourage the use of Indian cotton in U. K. and has set up a committee to carry on some propaganda and research



in this behalf. Apart from the expenditure—whose extent we are not able to ascertain—in connection with the work of this committee, there is no burden involved on the U. K. producer, consumer or taxpayer in this connection. Hence it is highly misleading to include raw cotton as falling within the scheme of preferences. It is very difficult to gauge how far the work of propaganda and research has been useful in extending the market for Indian raw cotton in England. The consumption of Indian raw cotton in U. K. has always been subject to considerable fluctuations, both in absolute amount and the proportion of the total of raw cotton imported into U. K. The following is the percentage of the imports of raw cotton from India of the total raw cotton imports into U. K. for a number of recent years:— 1929: 6.8; 1930: 10.0; 1931: 9.7; 1932: 4.3; 1933: 7.8; 1934: 12.1. It will be observed that the 1933 percentage is less than the average of the three years preceding and even the 1934 percentage is not extraordinarily above the percentage for the years 1930 or 1931. The consumption of Indian raw cotton in U. K., it is well known, depends almost entirely on the relation between the price of Indian and American cotton. Now the parity (i. e. percentage of Indian price on American) between the prices of Middling American and Fine Broach at Liverpool was for the greater part of the year 1932 between 94 and 90; throughout 1933 it tended to come down and varied between 90 and 80 and it remained for the greater part of the year 1934 below 80. This would show that the progressive cheapening of Indian cotton in terms of American was by itself of sufficient magnitude to explain the greater consumption of Indian cotton by Lancashire in recent years. Even if it

were claimed that some part of the increase in consumption was due to the efforts of the Lancashire Committee we wish to emphasize the very great difference between a trade advantage obtained in this way and that obtained by preferential tariff treatment. There is, as a fact, not even a theoretical objection to favouring another country's goods by means of disseminating information and conducting research. It was along these lines that the activities of bodies like the Imperial Economic Committee and the Empire Marketing Board were carried on in Free Trade England, and no one could say that the costs of such activities are either excessive, wasteful or even onerous. As a fact they are in the long run advantageous to the country which incurs them. Research and a spread of knowledge of the ways in which Indian cotton can be used is of benefit to Lancashire itself and in the long run all steps that make Lancashire dependent less exclusively on the American supply of cotton are eminently to its own advantage. So that while one may acknowledge the possibility of the activities of the Lancashire Cotton Committee proving of some immediate use to the Indian raw cotton producer it should be made clear that they are of a type that lay no significant burden on the English producer, consumer and taxpayer and that they are of ultimate advantage to the Lancashire industrialists themselves. We, for our part, would never object to the most extensive reciprocity along these lines in favour of British goods. If the Indian Government can undertake activities by which the spread of information among consumers or the conduct of research work by government bodies in India would further the sale of any types of British commodities this should be certainly done in exchange for

similar treatment of Indian goods in England. We would not grudge any expenditure along these lines and we do not think that the monies will be ill spent. But we object most strongly to considering the costs of the activities of the Lancashire Committee as on a par with the sacrifices involved to the consumer and the tax-payer by a manipulation of the customs duties.

#### IV

We have examined above the movement of trade in all articles included in the Ottawa arrangements in which the exports from India to U. K. averaged during the years 1933-34 and 1934-35 at approximately more than Rs. 25 lakhs p. a. It is unnecessary to extend the examination to less important articles of trade. Before we go on to indicate the conclusions to which the above examination leads us it is necessary to note certain important reservations. It is extremely difficult to isolate the effect of preference, and any quantitative measurement of the effect of that policy is impossible. We have already commented on the misleading nature of the calculations entitled "advantage on landed cost" included in the Government of India reports. We have no idea as to what the state of trade would have been in the absence of the Ottawa agreement and, of course, cannot say that the increment in percentage shares noticed in individual commodities are, in any given proportion, to be attributed to this agreement. Indeed a change in trade volumes or percentages unless studied in relation to all the facts of the trade cannot warrant us in arriving at any conclusions. We have said above that all measures of interference such as a preferential tariff must have some repercussion on trade; but the extent of this repercussion

differs widely from trade to trade and hence the necessity of examining each item in detail. The important test in this examination that we have used is the percentage share of U. K. trade in any commodity that India obtains and the additional advantage gained, presumably as a result of preference. It is, however, also important in seeking preference or free entry for any commodity to consider whether the total U. K. market for it is important or not.

We note that the tea trade, being entirely extraneously regulated, shows no effects of the Ottawa agreement; in the case of tobacco, paraffin wax, lead, coir yarn and coffee there has been a definite decline in the percentage; in the case of jute manufactures, tanned skins, teak, oilcakes, bran and pollards, castor seed, coir mats and matting no significant difference in the percentage either way is to be observed; while in linseed, tanned hides, groundnut, rice, and carpets and rugs a definite advance in percentage has been noticed. The most important constituents of the free entry group are lac, mica and myrobalans. The speculation in shellac renders the recent trade figures of that commodity useless for drawing any conclusions; while in both mica and myrobalans no increase in the percentage share is noticeable.

The percentage relation by itself is not conclusive but when it is considered with the other relevant factors it makes certain deductions highly probable. In jute manufactures, tanned goatskins, teak, castor seed, lac, mica, myrobalans, groundnut oilcake, rice meal and dust etc. India is almost the sole supplier to the U. K. market. With no direct competitor in the field, a preference is of no more sig-

nificance than affording a duty-free entry to the market. It has been suggested that it helps in keeping off the competition of substitutes; but this is an advantage whose existence requires much more concrete proof than has hitherto been made available. For example, what is the point at which jute manufactures may begin to be replaced by some alternative means of packing is not easy of determination. The Review of the Trade of India, 1934-35 notes how in some countries efforts at finding substitutes are being made; but in most of these cases the incentive is that afforded by an almost prohibitive scale of duties or that of deliberate attempt at self-sufficiency. It is clearly open to doubt whether the difference made by a 10 p.c. revenue duty would be large enough for this purpose. A 10 p.c. revenue duty would no doubt affect somewhat the position of a direct competitor but not materially that of a substitute commodity. We find that the effects of a 10 p.c. duty are a number of times countered even in the case of a direct competitor by such factors as exchange fluctuations or crop shortage. We, therefore, conclude that in the type of articles noted above a preference has little significance. We shall have something to say later *re* the obtaining of free entry.

There are next a series of articles in which the main competitor of the Indian article in the U.K. market is produce from another Empire country. This is for example the case with coir yarn where the competitor is Ceylon and tanned sheepskins and pig lead where the competitor is Australia. In these trades general Empire preference has meant practically no change from the pre-Ottawa conditions. There are other commodities such as coffee, paraffin wax and tobacco where the competitors from non-

Empire countries hold, on account of various reasons, such a strong position in the U. K. market that a preference of the degree of 10 p. c. or thereabouts has not helped to stop a further deterioration of the Indian position. It is, of course, possible to say in this case, as everywhere else, that the position would but for the preference have been worse. But even this is doubtful. In most such cases the U. K. market for Indian produce is a small and specialised one and the difficulties in the way of expanding or retaining it are mainly those of quality of produce or marketing organisation; and a small measure of preference is thus unable to affect its position.

A definite rise in percentages is to be observed in the case of tanned hides, linseed, groundnut, carpets and rugs and rice. In tanned hides the normal position is that of India being the dominant supplier to the U. K. market. This position was temporarily lost during the years of depression and regained after 1933, hence the noticeable increase in percentage. In all the other products the competing sources of supply in the U. K. market being to a large extent outside the Empire, definite advantage of the preferential treatment has been available. It should be noted that the position of Indian rice in the U. K. market before Ottawa was substantially similar to that of Indian tobacco and coffee and that Indian rice has gained in the U. K. market only because the amount of preference given has been very high. The preference is indeed so high that it temporarily led to the creation of a flourishing rice-milling industry in U. K. on the basis of the imports of Spanish paddy which could come in subject to a 10 p. c. ad valorem duty. This import was put a stop to when on a representation by the Government of India the duty on

paddy was raised. While the increase in the trade in linseed and carpets and rugs was anticipated by us in 1932 it may be admitted that the course of groundnut trade has been different from what we had calculated it would be. It should, however, be observed that this is the result of an important change that has come over the world trade in groundnut and that we are likely to lose more in consequence in the French market than what we have gained in the British U. K. before Ottawa, drew its supplies of groundnut chiefly from India, British W. Africa and French W. Africa. These were also the chief sources of supply of our most important customer of groundnut, viz. France. To both U. K. and France India supplied the bulk of their groundnut requirements. The recent organisation of trade on Imperial lines has come to mean that U. K. has almost ceased to take up any groundnut from French W. Africa and that France is rapidly contracting her purchases of Indian groundnut. Now so far as groundnut is concerned the French market is vastly more important than the U. K. market. The consumption of groundnut in France in recent years has been on an average more than five times the consumption in U. K. (vide I. E. C. Survey 1934). Hence it is open to doubt whether, at least so far as groundnut is concerned, reorganisation of trade on Imperial lines can be held to be beneficial to India.

We have noted that preference has been of active use to Indian trade only, on a limited range of commodities and that even among these commodities in one case, i. e. rice, the total share of our exports taken up by U. K. is extremely small. There remains to consider the question of free entry. We have noted above, in the case of a number of commodities that, though

a preferential treatment has no particular value, obtaining a free entry to the U. K. market is helpful to the trade. One consideration may be noted at the very outset. It is that in the case of almost no important Indian export to U. K. does the commodity compete with U. K. home produce. Even in jute manufactures the Dundee products are substantially of a different type from those imported from Calcutta. The imports of Indian agricultural products do not compete directly or indirectly with British agricultural production. We are not thus affected by the new protectionist policy of Mr. Elliott either. Hence the main ground for opposing the abolition of import duty is in this case non-existent. Further except for rice, carpets and rugs and coir mats and matting almost none of the articles of export that we have examined above are consumers' goods. They are all in the nature of raw materials or subsidiary products helpful in the preparation of finished materials by U. K. manufacturers and hence it is obviously to the interests of the U. K. industrialists to obtain these with as light a fiscal burden as possible. That the U. K. manufacturer and trader is really anxious in this behalf is clear in a number of ways. Thus the linseed oil industry secured for itself from the beginning a rebate of 50 p. c. of the revenue duty on the non-Empire linseed contained in all exports of linseed oil products from U. K. This drawback was increased to 60 p. c. in 1934. Even so we learn that "the linseed oil crushers in this country (U. K.) have been seriously prejudiced and resent the tax on their raw material." ( *The Economist Commercial History and Review of 1934*, p. 44 ). The latest Government of India report on the working of the agreement notes (p. 102) how the U. K. tanners successfully:



agitated for the removal of the duty on some non-Empire tanning materials. Similarly the 10 p. c. duty on lead having had a very depressing effect on the business in lead on the London Metal Exchange it was on the advice of the Import Duties Advisory Committee substantially reduced only a few months ago. The chances of at least a mild recovery in business are now much brighter than they were in 1932 and hence the U. K. manufacturers will be all the more anxious to obtain duty-free raw material for themselves. The raising of revenue was never an important consideration in the imposition of the import duties by U. K. and hence the question of the consequential loss of revenue need not be raised in this connection. Further as in the large majority of articles in which India is interested the U. K. market being held entirely by Empire producers or India being the sole Empire supplier the abolition of preferential treatment or the reduction of it to mere free duty is not likely to be opposed by interests in other parts of the Empire. The chief reason why in 1932 U. K. imposed import duties was, it was said, the anxiety to attain to a bargaining position with other countries. It is likely that the anxiety to continue to be able to bargain favourably with India may induce U. K. to refuse Indian products free entry even though such a step may be in the interests of U. K. manufactures. We shall, however, consider this aspect of the problem somewhat later.

We may then conclude this examination of the export trade of India by stating that it is only in the case of a very small number of our exports that preferential treatment has been of clear use to us and

that its continuance is likely to be helpful in the future only perhaps in the case of linseed, carpets and rugs and rice. It is also doubtful whether a preference on linseed will continue to be available in the future. On a large majority of the other products a free entry to the U. K. market is all that the Indian producers need and the grant of such free entry is essentially in the interests of the U. K. producers themselves.

#### V.

We have made it abundantly clear above that no quantitative measurement of the effects of the Ottawa Agreement on our export trade is possible. It is even more difficult to gauge the cost to revenue and to our consumers of the preferences that we have in return extended to British goods. We do not undertake an examination of the increase in the imports of British goods into India as a result of preference, as the ascertaining of the profits accruing to British trade is neither relevant nor useful for our purpose. What is necessary and useful is to estimate the loss suffered by revenue on account of the preference and the increased burden on the consumer. For it is clear that the cost of the preference is borne by India partly in one way and partly in the other.

The Central Board of Revenue prepared for the Assembly Committee in 1934 a statement giving an appreciation of the effects of the Ottawa preferences on the customs revenue. This statement consists of three tables. In these tables are considered tariff headings (i) completely affected by the Ottawa Agreement, (ii) partially affected by the Agreement, and (iii) not affected by the Agreement. The tables

set out the customs revenue obtained in the years 1932-33 and 1933-34 under the various headings and indicate whether there has been an increase or a decrease. The conclusions arrived at are that under head (i) there has been a slight increase in revenue, under head (ii) a fair decrease and that the most substantial decreases have taken place under head (iii). It is supposed to follow from this that the Ottawa Agreement has not affected our customs revenue. It is difficult to understand how these figures can prove anything. The yield of customs revenue depends on two factors: (i) the extent of the trade and (ii) the rate of duty. When we are considering the problem of estimating the effects of preferential treatment on customs revenue we have to take two possible effects of preference into account: one that of contracting trade and affecting revenue and the other that of diverting trade from imports liable to a higher duty to those liable to a lower duty. In the case of those articles in which the level of duties did not rise at all as a result of the Ottawa Agreement the first type of effect would be totally absent.

For example, the duty on motor cars in Dec. 1932 was  $37\frac{1}{2}\%$  and preference was given to U.K. by lowering that duty in the case of U. K. imports. In doing this no further obstacle to general trade was raised and one special section of it was encouraged in preference to others. The total effect of the Ottawa scheme on the motor customs revenue would be gauged by estimating the extent to which in that year trade was stimulated because of the preference—this would count on the credit side—and also estimating how far trade was merely diverted from cars liable to  $37\frac{1}{2}\%$  duty to cars paying 30% duty—this would count on the debit side. It is only estimates of this nature

which would show the effects of preference on customs. Instead, the Board of Revenue gives the figure of increase in customs revenue from 1932-33 to 1933-34 and seems to consider that as measuring the effect of Ottawa. For aught we know, the trade in motor cars would have increased to the same extent even without the preferential treatment of British cars and the only effect Ottawa had was in increasing the sales of English cars at the expense of American cars and thus causing a loss to our revenues. At least, it is clear that the mere figures of customs revenue for the two years warrant us in drawing no conclusions.

In the absence of statistical information of this nature we can only proceed on the basis of estimating probable reactions of trade. The majority of preferences given were in the neighbourhood of about 10% and in the majority of cases the preferences were given by increasing the standard level by 5% and lowering the U. K. level by 5% as compared with the previous rate. It is difficult to say to what extent the demand contracted, or its recovery was impeded by the increase of the general rate of duty by 5% or thereabouts. But we are of opinion that in the majority of commodities the preference given to U. K. goods was not likely to stimulate trade. In those commodities in which U. K. was the dominant supplier and its supplies already priced low, trade could be stimulated by preference, but as in the case of the majority of articles this did not hold true, preference would have had the effect of merely bridging the competitive difference between British and non-British sources of supply and enabling the U. K. producer to expand his market at the cost of non-British competition or to hold his own. It is most

likely, therefore, that the effect of preference on our customs revenue was felt mostly by way of the loss entailed on account of the transference of a portion of the market to U. K. producers, i. e. the lightly taxed producers.

Another feature to be noticed about the tables presented by the Central Board of Revenue is the exclusion from the influence of Ottawa of cotton piece-goods and iron and steel. Formally the exclusion of iron and steel might have been correct in 1934; but as the 1935 Indo-British agreement balances the free entry to Indian pig iron against the preferential treatment of British iron and steel, even this no longer holds true. But in view of the Mody-Lees pact and the consideration of raw cotton under the Ottawa arrangements it was obviously never right to exclude cotton piece-goods. For our part we have always maintained that the preferences granted under cotton and iron and steel ought both to be reckoned in a measurement of the total effects of preferential arrangements. The value of trade under both these items is very considerable and the measure of preference accorded is also great. The preferential element, be it noted, in iron and steel has actually been increased in a number of items in 1934. It is extremely likely, therefore, that under them the loss of revenue is most marked.

There are not data enough to evaluate quantitatively the loss to revenue along lines indicated above. But it is only along such lines that an even approximately correct estimation of loss is possible. Whatever the loss in customs revenue sustained by us it is clear that we can ill afford it. It is notorious that the Central Government in India depends to a very

large extent on receipts from customs for its finance and it is the falling off of this revenue that has led it in recent years to resort to the very objectionable method of levying excises.

While it is difficult to attempt an estimate of the loss sustained by our revenues the burden imposed on the consumers by the preferential arrangements is almost impossible of estimation. Dr. Meek, for his report on the working of the Agreement for the year 1933-34, had caused to be compiled a series of statistics of comparative prices for the pre-Ottawa and post-Ottawa periods. Figures on the same lines have been given in the 1934-35 report also. The writer of the 1934-35 report has contented himself with pointing out the difficulties which make it impossible to draw any conclusions from these statistics of prices. Dr. Meek, however, in his report hazards the definite conclusion that the consumer has not suffered. It is evident that Dr. Meek was carried away by his too great enthusiasm in the cause of Ottawa. For it is otherwise not possible to explain how he could write sentences like the following and place them in juxtaposition :

Lastly the price reductions may have been effected by imperceptibly reducing the quality of the supplies . . . Some of the Collectors of Customs have definitely stated that some prices have been reduced at the cost of quality . . . But by whatever method the end was achieved the fact remains that the prices of both preferential and non-preferential items have fallen in most cases and the consumer has, therefore, profited to some extent as a result of the scheme of preferences.

To begin with it is obvious that Dr. Meek's claim amounts to saying that the consumer must benefit from a price reduction even though it has been brought about by a deterioration of the

quality of the commodity in question!! Further even though it be admitted that the prices have fallen, how can that fall be called a result of the scheme of preferences? The one way by which Dr. Meek tries to establish a connection between these two is by visualising the non-British importer as cutting down his prices in an attempt to compete with the British importer getting preferential treatment. No doubt temporarily such devices may be resorted to, but they cannot operate over a series of years. In the long run quality must suffer or the market given up. And if this did not happen and the non-British importer was always able to out prices and keep his market why should the Britisher ask for the preference, unless it be, of course, out of benevolent intentions towards the Indian consumer? Further, even Dr. Meek admits that in commodities where international prices are controlled by rings this type of consideration would not operate. How such rings would take full advantage of the tariff wall is best exemplified by what happened in the case of galvanised sheets. When the supplementary agreement to Ottawa was entered into we had remarked that the consumer had now been delivered bound hand and foot into the hands of the combined iron and steel industries of Great Britain and India Government to put some check on this exploitation of the consumer imposed a maximum price on the trade but it transpires that this maximum was exceeded and Government never noticed this till it was reported on a year later by the Tariff Board.

As a fact the small price fall in recent times of imported articles has had nothing to do with preference. The imports of India mostly belong to the group of manufactures; and the last two years have witnessed a tendency towards the bridging of the gap

between the prices of agricultural and manufactured goods by a continued fall in the price level of the latter. The following table shows the movement of prices of these two groups of articles in India :

	Exported Articles.	Imported Articles.
Indian Index No.		
Dec. 1932	120	129
Dec. 1934	124	124
Calcutta Index No.		
Dec. 1932	69	115
Dec. 1934	76	109

The movement revealed by both these indices is identical. This is further a movement not confined to India. The League of Nations' Review of World Production and Prices (1925-34) notes that "in most countries for which information is available raw materials rose more (or fell less) in prices in 1933 than manufactured articles." In 1934 also the same movement was continued in a large number of countries. Supporting statistics may be cited from Japan which next to U. K. supplies to us the largest volume of our imports. The following figures are taken from the monthly circular of the Mitsubishi Economic Research Bureau :

Index No.	Commodities for export.	Imported commodities.
Jan. 7-1933	159.0	171.2
Jan. 10-1935	133.9	192.3

Japan imports mostly raw materials and exports manufactured articles. Hence the movement of prices in these groups is opposite to that shown in the table of Indian index number. It will be observed that the extent of the movement in the Japanese index numbers is even greater than that shown by the Indian.



index numbers. It is unnecessary to enter into the causes of this tendency of price movements. For our purpose it suffices to point out that the price fall in imported commodities is the result of causes extraneous to the preference arrangements.

It has further to be noticed that the movement of exchange rates has been a factor powerfully affecting prices and trades. Thus, one of the reasons why Japan has been able to lower the prices of its goods is the exchange advantage obtained by it. On the other hand, the countries of the gold bloc and Germany have been handicapped by their exchange rates and have found it difficult to lower the prices of their products to any marked extent in the period since Ottawa. The extent to which exchange considerations may influence trade is clearly shown by the variations in the imports of motor vehicles into India. In 1933 helped by the adverse dollar exchange and the Ottawa preference Great Britain was able to capture a considerable portion of the Indian market for motor vehicles. In 1934, on the other hand, the depreciation of the dollar placed U.S.A. in its turn, in a favourable position and American cars recovered their old position in the Indian market in spite of the preference.

It has been maintained a number of times that the Ottawa arrangements have led to a lowering of tariff barriers. It is obvious that this is not true at least of India. It is not possible for us to compile an index of the level of customs duties. But it is enough to point out that of the 163 items contained in Schedule F to the Ottawa Delegation's report on which preference has been granted to U. K. the grant of preference has meant some raising of the general rate of duty in nearly 100 items. In most cases

this has been achieved by lowering the rate on British goods by half the measure of preference and adding half the measure to the general rate. On more than 15 items, however, Ottawa has meant raising of the general level of duty by the full measure of the preference. Now it can confidently be maintained that so far as consumer's prices and the real measuring of the tariff wall is concerned, it is the general rate that is the ruling one. It is not the height of the barrier at which one section of the supply comes in, but the height at which the general supply comes in that determines trade and prices. Hence the cases in which the tariff rate is lowered in favour of U. K. without lowering the standard rate are not to be reckoned as instances of a lowering of tariff barriers. They mean no doubt no additional burden to the consumer but they mean also, in general, no relief to him; and in their case it is the loss of revenue involved that measures the loss caused by preference to the country granting it.

It may perhaps be argued that this is not true of trades in which U. K. is the sole or at least the dominant supplier. It is difficult to determine to what extent this may be true. But we need not enter into any complicated analysis on this account. For, in contrast to the position which India holds in a great many lines in the U. K. market, it is only in a very few items of trade that U. K. can claim even as great as a three-fourths share of the Indian market. Among the groups of articles to which preference has been granted by India there are only four such items. These are: arms and ammunition, engine and boiler packing, toilet soap and cycles. And among these cheap Japanese soap has been kept out since December 1933 by a specific

minimum duty. On the other hand there are a large number of heads under which U. K. does not contribute even 25 per cent. of the total imports even after preferential treatment. The most important of these are earthenware and porcelain, haberdashery and millinery, packing paper, toys, umbrellas and motor omnibuses. We can in this connection do no better than quote a paragraph from what we wrote in 1932.

There are a great many important lines in which the U. K. importer is in so inferior a position that a large part of the supply will continue to be drawn from other countries in spite of the preference. Such lines are motor cars and lorries and pneumatic motor covers; metals like brass, aluminium and copper; metal lamps, enamelled iron-wares and builders' and domestic hardware; cutlery; electric lamps and fans; typewriters; blankets and rugs and woollen piece goods; printing and packing paper and pencils; canned fruit and condensed milk; porcelain; toys; playing cards etc. Secondly in these and even in others in which the United Kingdom is dominant non-British supply is mostly taken up by the poorer consumer. Mr. Ainscough emphasises again and again the strength of the competition in what he calls bazaar trade. The Indian consumer may be blamed for disregarding quality, but it is obviously his lack of means that forces him to do so. As Mr. Ainscough has himself put it at one place, "every pie counts." If for such a statement any authority is needed we may quote it in the words of the Fiscal Commission. "The great mass of the people in India, it must be remembered, are poor." And it is especially the poor that consume non-British goods. For these they evince a partiality because of their cheapness and we are now being asked to penalise them very heavily. In respect of tariff burdens the Fiscal Commission has clearly laid down; "Such burden as appears to us inevitable in the pursuit of a policy of more rapid industrial development of India, the Indian consumer must be asked to bear. But he should not be called upon to bear an additional burden on top of this for the further-

ance of interests which are not primarily Indian." (para 243). This additional burden is being imposed, it should further be remembered, at a time when, on account of the fall in world prices, the mass of the Indian population is enormously poorer than it has been for many years past.

In a number of commodities mentioned above the U. K. share has increased since the grant of preference, but in most of them non-British supplies are still very important and all of these now bear a higher duty than before. It is always extremely difficult to measure the burden on the consumers and in this case the task is rendered impossible by a contemporary fall in the prices of manufactured articles. But there is nothing in the situation that can lead us to believe that the burden of the tariff has not been passed on to the consumer.

## VI

We have, it will be seen, made no attempt to balance directly the gains that may be available to India under the Ottawa Agreement against the losses and sacrifices entailed by it. We feel that it is impossible to estimate, quantitatively either of these sides even in an approximate way. It is necessary thus to emphasise these difficulties as there have been current in this discussion some entirely misleading calculations of this character. There are the crude calculations of advantage on landed costs which have been used in a peculiar way by Sir T. Ainscough and which have been used by publicists in U. K. to support the statement that India has gained more than U. K. by the Ottawa Agreement. But there is even such a statement as the following by Dr. Meek which requires careful examination :

"The situation may be summarised in the statement, that although after the Ottawa Trade Agreement the United Kingdom has improved her position in the Indian Market, there is still a good deal of leeway for her to make up. On the other hand, she has proved an increasingly important market for Indian goods." Here, prefacing the sentence with the words "after the Ottawa trade agreement" seems to imply a causal relation of the later trends in trade with the agreement for which there is not the slightest justification. Our detailed examination of the Indian export trade has clearly shown that the development of recovery in U. K. has affected in varying proportions the different trades and that very little of this development can be attributed to Ottawa as such. On the other hand, the statement that the U. K. has a good deal of leeway to make up is based on the assumption of a normal level. The normal level that Dr. Meek assumes is that of the pre-1929 trade of U. K. with India. But this level can no longer be considered normal. It is true that since 1929 the favourable merchandise trade balance that U. K. had with us has considerably diminished; but this is due to certain fundamental factors that are unlikely to be affected by preferential arrangements.

It is necessary in this connection to emphasize a very important change in the direction of world trade that is progressively affecting international trade since 1929. This change, which has been very generally recognised by economists in recent years, has been termed the "trend to bilateralism." With an increasing height of tariff and other barriers to trade and increasing attempts at national self-sufficiency nations are regulating the measure of their trades.

directly one with the other. The multilateral system of trade in which surpluses of trade balances with one country were balanced by deficits in that with another has almost broken down. This has led to a great many adjustments in trade relations and we maintain that the recent changes in the trade balances between U. K. and India are for the most part results of this movement. We are not concerned with the merits of bilateralism, neither is it necessary for us to consider the economics of it. We merely note that Ottawa itself was a very important step in the progress towards bilateralism. The abandonment of free trade on the part of U. K. and the attempt at the organisation of trade on Imperial lines within the British Empire were very important stages in this movement. No doubt they were in part themselves caused by other earlier movements in this direction. But it is equally true to say that they helped considerably to intensify the situation. The protestations at Ottawa that Imperial preference will in course of time lead to freer trade all over the world did not even then find much credence; today they are thoroughly discredited. This trend towards bilateralism is so important a change, the probability that the changes brought about by it are durable is so high and the way in which it affects our trade with U.K. so intimate that we shall deal with it and its results at some length. We may begin this by describing the nature of the old trade relations with an extract from a publication of a Scandinavian Bank.

The excess of imports of the United Kingdom, which during the years immediately preceding the depression was fairly constant, amounted in 1929 to £382 millions, a sum which may be taken as representing the yield of the overseas investments of the country, the income of the merchant marine in foreign traffic and net profits on

account of various other business activities, after deduction of the amount by which capital exports exceeded capital imports in the form of amortizations, etc. The most important item of income was, of course, the yield of long-term investments abroad, which according to the estimates of the Board of Trade amounted to £250 millions.

According to statistics available for 1930, only 24% of British long-term capital abroad is invested in the United States and 74% in Europe. It may thus be estimated that about nine-tenths of the income from foreign investments are derived from other countries. Probably the other payments by means of which England met her excess of imports were also due mainly from these countries.

Some 80% of excess of imports arose, however, in trade with Europe and the United States and only 20% in trade with other countries. In fact, several of the countries indebted to the United Kingdom, for example India, Brazil and Australia imported more from that country than they sold there; but the balance of their total trade was active on account of their large exports to the United States and Continental Europe.

The transfer of the large amounts which the raw material producing countries had to pay in England was therefore performed in the following manner. These countries sold their products to all industrial countries of the world and employed their exports surplus with the United States and the industrial countries of Continental Europe for payments to England. England in her turn employed the currencies she thus obtained for purchases of various products, particularly industrial goods, in the last mentioned countries. These latter were to a considerable extent dependent upon their export surplus with England for their supply of foreign raw materials and foodstuffs. (Folke Hilgerdt: *The Approach to Bilateralism*: Index. Stockholm. Aug. 1935.)

This extract brings out very well the importance to India of its export surplus in the trade with U. S. A. and the countries of the European continent. It was only this export surplus that enabled us to buy the manufactures of U. K. in such great excess of

the value of our exports to that country and in addition to pay the various burdensome but invisible obligations that we owe to it. Bilateralism has meant inevitably the steady diminution of our export surpluses with other countries. The specially strong position that some of our products hold has no doubt steadied the rate at which our export surpluses have declined but no exports are entirely substitute-proof and when nations are bent on obtaining self-sufficiency or a closed economy within a group there are, it seems, no lengths to which they will not go. Hence though gradual, the tendency towards diminution of our export surplus has been continuous.

The following table shows the values of the export and import trade of India with the more important countries. It exhibits clearly the change in the character of the pre-1929 trade relations and demonstrates how with the vanishing of our export surplus with other countries our imports from U. K. have diminished. It has further to be remembered that even so, the balancing of our obligations in recent years has been made possible only by a draining of our capital or reserve resources by means of exports of gold.

VALUE OF INDIAN TRADE [ Rs. lakhs ]

COUNTRY.	Exports to			Imports from		
	Average 1926-27 to 1928-29	1933- 1934.	1934- 1935.	Average 1926-27 to 1928-29	1933- 1934.	1934- 1935.
U.K.	70.10	47.21	47.93	114.33	47.59	5. 7
Japan	34.82	16.36	20.80	17.34	12.61	24.14
Germany	28.65	9.84	7.17	16.03	8.89	10.11
U. S. A.	36.26	14.07	12.90	18.68	7.18	8.41
Belgium	11.03	4.48	4.38	7.16	2.66	2.16
France	15.85	7.37	5.29	4.21	1.51	1.53



↓ If we lose our export surplus we lose both the capacity to buy from U. K. and to pay for our invisible obligations. And the only way in which U. K. can extract these payments from us is by creating a direct surplus of merchandise trade in our favour. The whole lesson of the post-war reparations and debt tangle has been this; that a creditor country which wants to recover its interest and other charges must buy freely the products of its debtors. U. K. in many of its recent trade agreements has shown due appreciation of the importance of this by providing more for debt and interest recovery than expansion of its export trade. It is this consideration that lies at the bottom of its solicitude for the imports of Argentine and other South American countries. In this also lies the great strength of our position vis-a-vis U. K. We are both the biggest market for U. K. producers and U. K.'s biggest debtor and the biggest source of the invisible imports of U. K. Mr. Hilgerdt, in the article from which we have quoted, points out how during the years 1929 to 1934 the flow of trade along multilateral channels has enormously shrunk. The greater proportionate diminution of the imports of U. K. into India is the result entirely of this change. Even so U. K. was the only important country with which India had an import surplus during both the years 1933-1934 and 1934-35. If the whole world trade becomes entirely bilateral—and there is nothing in the world situation to-day that prevents us from making this assumption—then U. K. must buy from us to the total extent of the value of what she sells to us and the value of our invisible obligations.

## VII

The view put forward by official spokesmen that on the one hand it was the wickedness of foreign countries that forced on U. K. the policy of import restrictions and imperial preference and that on the other hand the Ottawa agreements have not had any effect whatever in intensifying the international trade situation is really too naive. "Retaliation" may or may not be a myth. It is useful to remember that the bogey is not newly raised but is at least as old as the memorandum on Imperial Preference by Lord Curzon's government. There are a number of ways in which the possibility of retaliation is disputed. In the first instance it is pointed out that Imperial Preference is not usually considered in international trade as "discrimination" against foreign countries. On this general question it is enough to record the following opinion of Prof. A. Zimmern: "The combination of a system of reciprocity within the Empire with the most-favoured-nation system in external relations is no doubt illogical and thus lays itself open to criticism." (*Index*, June 1933.) In practice what is and what is not considered "discrimination" changes from time to time. When the measure of Imperial Preference is not considerable foreign countries may not trouble themselves about it; but if its effects are deeply felt it will certainly be resented. It is, for example, an open question whether under the new U. S. A. policy of unconditional extension of reductions of customs duties to all countries not discriminating against U. S. A. the preferential agreements within the Empire will be interpreted as being discriminating or not. It again depends on what you interpret as "retaliation." Was ✓

the action of Japan in stopping imports of Indian raw cotton retaliatory in character or not? And will Japan in the next renewal of the trade agreement put up with such a high measure of preference in favour of U. K. goods, especially cottons?

As regards retaliation in general, it may well be said that today no retaliation (except in such a case as the tariff-war between U. K. and the Irish Free State) is to be noticed in the world. For, it is not a question of general easy conditions of trade to be made more difficult against a particular country. It is rather the variety and difficulty of the general barriers that have to be discriminatingly lowered. No country has retaliated on any other; each has raised barriers against all others. Today, therefore, the situation is that no country fears retaliation but rather hopes for favourable discriminating treatment. And the only way of obtaining this favourable treatment is to negotiate a bilateral treaty. The crux of the whole situation is thus whether we are free to use our bargaining position to the fullest advantage when negotiating with other countries.

It has been taken for granted by some official apologists that it is no use entering into bilateral treaties with countries with which we have a favourable balance. For, if the principle of compensation is applied this favourable balance is either way bound to vanish. It is obvious that such writers have not had any acquaintance with even official trade literature such as the reports of the Indian Trade Commissioner at Hamburg. The Trade Commissioner at Hamburg has commented in the past on the steady diminution in India's exports of various commodities to European countries, such as that of rice to Poland, oilseeds to France and Germany, etc. He

has invariably given as the reason for this diminution our not having entered into trade agreements with these countries. The best exposition of our position vis-a-vis these European countries is to be found in the latest annual report of the Trade Commissioner (*Indian Trade Journal*, Dec. 19, 1935). Here it is pointed out that already India has lost all its favourable balance of trade with Germany. Imports and exports just equal and they must continue to equal under the operation of Dr. Schacht's new plan of compensation trade. But this is not all; for, even with a trade treaty, we cannot expect a highly favourable balance of trade. The real danger, in the opinion of the Trade Commissioner, is not disappearance of the favourable balance of trade but the possibility that in the absence of trade agreements, the total volume of trade will continue to shrink. "One inevitable result of Germany's adoption of compensation trade and clearing agreements is that she has changed her sources of raw material supplies. She is now obtaining large quantities of raw materials, which she formerly bought from India from countries with whom she has clearing agreements." In the Trade Commissioner's opinion, these circumstances are likely to continue for something like a decade and if that happens he points out that we shall have permanently lost a good customer. He says: "This is a very serious danger and one which must receive due consideration." The Trade Commissioner's final comment on the whole situation is as follows:—

With the exception of jute, Indian raw materials do not enjoy any monopoly of supply to the German markets, and under the present abnormal conditions India can only maintain even the form of trade with equally balanced exports and imports to and from Germany by means of compensation or barter trade. Under these conditions—

an expansion of exports from India to Germany postulates an expansion of imports into India from Germany. ✓

In considering the costs involved by the Ottawa agreement we must, therefore, pay attention to a cost other than the loss of revenue and the increased price to the consumers. This additional cost, to which we attach very great importance, is the effect that the Agreement has on our capacity to bargain with other countries.

In this connection we may note the peculiar character of the Ottawa agreement between U. K. and India. By this agreement U. K. accorded preferential treatment or free entry to a small number of the export products of India. Of the total value of the exports from India to U. K. covered by the Ottawa agreement the exports of tea alone amount to nearly 50 p. c.; and the total value of the articles of exports that we have examined in detail above amounts to more than 95 p. c. Prof. Zimmern thus characterises the effect of Ottawa on U. K.: "The Ottawa agreements have left Great Britain far freer than was generally expected before the event to negotiate treaties for tariff reduction with other countries. It is indeed only in respect of some 30 articles that her tariff is 'tied' in favour of the Dominion." (*Index*, June 1933). The preferential treatment accorded by India to U. K. ranges on the contrary over a very wide list of commodities of all kinds. And the problem before us is: if our tariff gets "tied" in favour of U. K. on almost all the more important items in our import trade, what is there left for us to offer to the other countries?

The problem of a trade treaty with Japan will arise in an acute form in the near future. Whatever the unwillingness of the Indian Government to allow

any manufactures other than British a fair chance in the Indian market, Japan as an important customer for our raw materials holds such a strong position that it can easily force the hands of our Government. At the time of the last treaty a raw cotton boycott had to be successfully enforced by Japan for some months before our Government woke to a sense of its responsibility in this matter. In recent years Japan has proved a good buyer not only of raw cotton but of other articles such as pig iron, pig lead and lac. On the sales of raw cotton to Japan depends a great deal the prosperity of large tracts of agricultural India. Of pig iron Japan has always been our most important customer and even in the post-Ottawa period the take-off by Japan of our pig iron has been much more than double that by U. K. Our sales of pig lead and lac to Japan have increased very noticeably during the year 1934-35. We can ill afford to discriminate against such an important customer of ours and we must, if we want to expand the Japanese market for our products, be willing to extend the same opportunity to Japanese producers in respect of at least some of their export lines. The position of our trade relations with Germany has been made clear above by extracts from the Trade Commissioner's report. The U. S. A. President is recently following a policy of entering into trade treaties with other countries and of allowing general benefit of a large number of reductions in customs duties only to countries that do not discriminate against U. S. A. All the countries of continental Europe and as a fact all over the world are now working by way of negotiating bilateral treaties. We have noted above how U. K. has been left free to negotiate with other countries bilateral treaties on favourable

terms in spite of Ottawa. In the case of India however, the opposite is the case. The imports that she receives from her important customers like Japan, Germany, U.S.A., France and Belgium all compete with some portion or other of the imports from U. K. and are mostly covered under the Ottawa preferential arrangements. We should, therefore, be obviously unwise to accept the detailed schedules of Ottawa on which to give preference to U. K. or to accept the general principle of preferential treatment as propounded in the 1935 Indo-British agreement.

### VIII

"Where, however, important and influential nations are concerned which can command the acquiescence of weaker nations in less rigid interpretations of this principle of competitive equality much progress is possible. Perhaps the Ottawa agreements of 1932 in which Great Britain, her colonies and self-governing dominions all participated are a case in point. But if these Ottawa pacts illustrate the possibility of a wide extension of areas enjoying comparatively unimpeded trade they also clearly indicate the underlying conditions necessary for success. There is no need here to review the results of the Ottawa Conference and assess its value to the mother country and to the dependencies. But it would not be easy to refute the criticism that this series of trade agreements between the several parts of the British Empire have been trade-diverting rather than trade-enlarging in their effects. Moreover, they demand sacrifice on the part of some of the participants which in the long run may prove to be intolerable"—Prof. J. G. Smith "Economic Nationalism and International Trade", December 1935.

The above quotation from the Presidential Address of Prof. J. G. Smith to Section F of the British Association brings out clearly the nature of the agreements entered into at Ottawa. The Ottawa scheme has not been of India's seeking, and Imperial

Preference as a general policy has always been held ✓  
to be not in the interests of India whether by Lord  
Curzon's Cabinet or the majority of the Fiscal Com-  
mission. It was because U. K. imposed import  
duties to attain to a bargaining position with respect  
to the other countries that imperial preferential  
arrangements are said to have become necessary.  
For, it is alleged that if we had not entered the  
Ottawa scheme we would have lost free access to the  
"world's most stable and largest open market". This  
involves the assumption that the Ottawa agreement  
between England and India reflects correctly the eco-  
nomic needs and bargaining position of the one with  
respect to the other. We have already indicated how  
it is only in the case of few commodities ✓  
like tea, linseed or tanned hides and skins that U. K.  
is a dominant market for our products. We are not  
in the position in which other Empire countries  
like Australia and New Zealand find themselves, that  
of having to look to and secure chiefly one—the U.K.  
market. Neither can we hope for such an extension  
of the U. K. market for our products as to absorb the  
bulk of them, even if such an absolute dependence  
on one market were not otherwise undesirable. We  
are under the necessity of having to sell a large ✓  
variety of raw products to a large number of different  
countries. In some exports, most important from the ✓  
point of view of the peasantry, such as raw cotton and  
rice, the U. K. market plays a most insignificant part.  
Whatever our anxiety, therefore, for keeping a hold on ✓  
the U. K. market, we cannot afford to do anything  
which will jeopardise our position in the other import-  
ant world markets for our products.

We have clearly shown above the strong posi-  
tion that many of our products hold in the U. K.



market and the great importance of the majority of them to the U. K. manufacturer. Today when many industrial countries—U. K. prominently among them\*—seem to be in the midst of a process of economic recovery they must be specially anxious to obtain their raw materials tax-free. The "necessity of obtaining raw materials in the cheapest market" has been put forward as one of the safeguards against retaliation on India by non-British foreigners. Presumably, this necessity operates with equal force on the British industrialists. In asking for a free entry for our products we shall thus be not calling for any special sacrifice on the part of the British consumer, producer or tax-payer. Apart from this our position when bargaining with U. K. is one of the strongest, as we are that country's most important market and the most considerable debtor. We have discussed in detail this aspect of the question above. Any obstacles that U. K. puts in the way of the expansion of Indian exports to that country can merely result in a contraction of our imports of British goods. Hence the U. K. manufacturer has need to be quite as anxious regarding our export trade as about our import trade. If bilateralism progresses apace our export surpluses will in due course entirely vanish; we must awake from now to the new situation that will soon confront us. It may not be possible for us to negotiate for an export surplus but we should at least attempt to maintain our trade relations with other countries lest their entire market slips away from us by stages. We must try to stabilise by trade treaties, at least at the lower level that bilateralism demands, our exports to these other countries.

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\* The "Economist" index of business activity in U. K. has moved from 95½ in Jan. 1933 to 116½ in Jan. 1936.

An attempt has been made recently in a series of notes issued by the Director of Information on Trade Policies to draw a red-herring across the trail. These notes set out to compare the merits of various trade policies and emphasize the defects of the method of bilateral treaties comparing it specially with the application of the most-favoured-nation clause. In reply to such contentions it may in the first instance be pointed out that India is not in a position today to choose independently for herself her foreign trade policy. We are not in a position to set an example to the world and we must make the best of the international situation in which we find ourselves. Whatever our own wishes in the matter we must seek trade treaties with other countries if our failure to do so means an entire extinction of our trade with them. And that this is likely to happen we have proved above by reference to the course of our trade relations with Germany. Further in seeking trade treaties of this kind we shall only be following the most respectable precedents. That most right-minded of nations—the U. K.—has followed up Ottawa by a series of bilateral treaties with countries in all parts of the world. Canada has only recently negotiated an agreement with U. S. A. and Australia has sent delegations to many countries in the East for the purpose of these negotiations. U. S. A. has further shown how insistence on the application of the most-favoured-nation treatment can be combined with the technique of negotiating bilateral treaties. The supporters of the National Government in England have been at pains to show how the trade with countries with whom agreements have been concluded has increased specially rapidly. It would thus seem clearly necessary and desirable for us to follow this

method. Government-inspired criticisms of these trade policies can only mean that they begin to wear a different aspect and have a different result east of the Suez. We are not advocating, we have always most strenuously opposed, the spread of further restrictionism. But when it becomes clear that our exports to other countries are dwindling rapidly, because our Government would not try and enter into trade treaty relations with them, we are surely justified in asking for an exploration of the means of formulating such treaties, and when it is clear that the general adoption of Imperial preference is not called for in India's interests, and that the benefits we can receive therefrom are very small as compared with the sacrifices and the handicaps that it involves, we are surely justified in denouncing the Ottawa scheme.

In the management of bargains the positions of India and U. K. may be usefully contrasted. Each time U. K. has skilfully manipulated the tariff so as to benefit herself. The latest example of such manipulation was afforded by the way in which the duties on iron and steel imports into U. K. were temporarily put up to enormous heights in view of the negotiations with the International Steel Cartel and thus unexpectedly favourable terms were secured in the agreement of the U. K. producers with that body. On the contrary our Government is interested each time in favouring U. K. manufactures without any chance of obtaining a return, the latest example of this being Article 1 of the Indo-British treaty of 1935. It is difficult to understand why the Government of India should go out of its way to state that the normal Indian protective arrangements may be of a character so as to be pre-

ferential to U. K. It has all along been disputed by Indian publicists that the preferential element in our protective tariff has come in without any reference to U. K. interests and it has been repeatedly pointed out that the interest of the consumer could be protected without introducing this preference. But even if this contention were incorrect such a gratuitous admission, which is tantamount to deprecating on one's own motion the benefit of the preference granted to others, must be unique in bilateral trade treaties. It is not to be found in any British treaty with any Dominion, though it is obvious that the comparative competitive positions of the British and the non-British producers are the same in other countries as in India. And the great disparity in results may be emphasized by the fact that in the Indo-British trade treaty of 1935 the free entry into U. K. to Indian pig iron, the total value of which trade is in the neighbourhood of Rs. 20 lakhs, is balanced against the most substantial preferential treatment to British iron and steel imports into India worth nearly Rs. 3 crores. In the same way the preferential treatment to imports of British cotton piecegoods worth annually a good deal over Rs. 10 crores is often set off against the propaganda on behalf of Indian raw cotton exports to U. K.!! Cotton piecegoods and iron and steel are our most valuable import trades and the throwing away of these preferences in the supposed interests of the consumer can best be described as a result of the "acquiescence of a weaker nation" in a "less rigid interpretation of the principle of competitive equality."

If the fiscal autonomy convention is real and our Government, both disposed and able to use to the fullest our bargaining position, then the time has come, in our opinion, to change radically the

structure of Ottawa so far as India is concerned. We have in our former publication shown how the position of India differs materially from that of the Dominions and how a general policy of Imperial preference is not in our interests. Whatever the decisions taken by Dominion Governments, we on our part should not think of anything but a bilateral treaty within a strictly limited compass with U. K. And we should immediately follow the example of Australia and make energetic attempts to enter into trade agreements with other countries. In 1932 we wrote as follows on this question:

Mere trade bargains are innocuous, nay, they may in a large majority of cases be actually beneficial. And there is no reason why we should not enter into a trade bargain with any country because it happens to be a part of the British Empire. For example, if the Ottawa delegation had not gone beyond negotiating for a preference for tea and linseed and free entry for a few products like tanned hides and skins, pig iron or shellac as against, say, the existing preference on cotton piecegoods and iron and steel, the bargain could have been considered purely on its own merits. It would not have committed us specially towards either the United Kingdom or the British Empire and we could have had an entirely free hand in negotiating with other countries. But the Ottawa agreement, with its long schedules, commits us to a general preferential policy and to the principle of exploring Empire buying as far as possible. . . . Either the policy of Imperial preference is meant to be lasting and in that case there are no advantages to India in joining this economic block and becoming even more dependent on and tied up to the United Kingdom than it is at present. Or the policy is conceived of as a temporary measure preparing the ground for world co-operation. Then in the latter case it is obviously necessary that we do not commit ourselves so deeply as to remould our economic activities on an Empire basis.

Changing circumstances may shift the emphasis from one trade to another ; but all that has transpired since the ratification of the Ottawa agreement confirms our belief in the fundamental position we took up in 1932.

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APPENDIX

Table I

EXPORTS FROM INDIA (VALUE Rs. LAKHS)

Article.	1931-32	1932-33	1933-34	1934-35
<i>Jute Manufactures</i>				
Exports to all countries.	2,192.4	2,171.2	2,137.5	2,146.8
Exports to U. K.	186.4	174.6	160.2	159.7
<i>Tea.</i>				
Exports to all countries.	1,943.7	1,715.3	1,984.5	2,013.2
Exports to U. K.	1,692.8	1,478.5	1,756.6	1,814.6
<i>Rice not in the husk</i>				
Exports to all countries.	1,740.0	1,374.4	1,019.7	1,009.6
Exports to U. K.	27.4	33.6	30.1	87.1
<i>Groundnut.</i>				
Exports to all countries.	1,013.7	725.2	694.7	631.4
Exports to U. K.	114.7	62.7	70.9	174.9
<i>Skins Tanned..</i>				
Exports to all countries.	313.7	304.2	323.8	324.5
Exports to U. K.	276.8	277.0	291.8	291.2
<i>Paraffin Wax.</i>				
Exports to all countries.	231.7	201.9	228.9	191.9
Exports to U. K.	76.1	36.7	54.7	46.8

Article.	1931-32	1932-33	1933-34	1934-35
<i>Hides Tanned</i>				
Exports to all countries	212.7	162.1	240.8	197.6
Exports to U. K.	208.2	159.3	238.3	194.5
<i>Oilseed cake.</i>				
Exports to all-Countries.	200.7	196.5	164.7	197.0
Exports to U. K.	72.5	72.4	86.1	116.2
<i>Coir yarn, Mats and Mattings.</i>				
Exports to all-Countries.	190.1	129.1	151.6	142.9
Exports to U. K.	98.8	53.1	62.8	60.3
<i>Shellac.</i>				
Exports to all-Countries.	183.9	124.2	246.4	330.0
Exports to U. K.	45.0	32.8	131.8	146.0
<i>Lead.</i>				
Exports to all-Countries.	178.0	152.5	156.6	139.5
Exports to U. K.	105.2	119.0	129.8	89.0
<i>Linseed.</i>				
Exports to all-Countries.	153.1	91.1	457.5	299.8
Exports to U. K.	16.5	16.5	201.2	128.0
<i>Castor Seed.</i>				
Exports to all countries.	149.7	130.4	105.0	85.4
Exports to U. K.	33.6	35.7	35.5	31.8



Article.	1931-32	1932-33	1933-34	1934-35
<i>Coffee.</i>				
Exports to all countries.	94.5	109.8	102.5	72.7
Exports to U. K.	27.9	33.9	30.3	21.4
<i>Tobacco,</i>				
Exports to all countries.	85.4	77.1	93.8	82.0
Exports to U. K.	39.5	36.8	47.4	34.7
<i>Bran, Pollard etc.</i>				
Exports to all countries.	74.2	68.9	46.6	77.2
Exports to U. K.	48.2	54.0	38.0	64.8
<i>Woollen Carpets and Rugs.</i>				
Exports to all countries.	56.7	63.5	72.7	89.8
Exports to U. K.	40.6	44.6	56.5	73.9
<i>Teakwood</i>				
Exports to all countries.	56.6	40.2	62.1	94.2
Exports to U. K.	34.3	28.4	39.9	65.5

Table II

NOTE :— The figures for the year 1935 have been taken from the Indian Trade Journal ( 12 March 1936 ).

IMPORTS INTO U. K.

Article.	1931	1932	1933	1934	1935
<i>Tea.</i>					
Lbs. (000).					
Total Imports.	535,446	565,962	505,032	507,596	475,600
Imports from India	276,963	311,964	279,974	274,906	269,000
Percentage.	51·72	55·11	55·43	54·15	56·56
<i>Leather.</i>					
(Undressed Skins.)					
cwt. (000).					
Total Imports.					
Imports from India-	147·8	141·7	158·4	165·1	
Percentage.	98·5	102·1	111·7	123·5	
Percentage.	66·89	71·83	70·88	75·15	
<i>Hides Undressed.</i>					
( 000 cwts. )					
Total Imports.	297·5	352·8	567·8	271·7	
Imports from India	188·6	203·2	235·2	239·6	
Percentage.	63·42	80·23	87·68	88·23	
<i>Groundnut.</i>					
Tons (000)					
Total Imports.	138·7	96·8	131·6	112·7	139·9
Imports from India	81·3	57·6	69·8	72·5	89·8
Percentage.	58·27	59·79	53·03	64·60	64·18
<i>Jute Manufactures</i>					
In. Sq. Yds. (000)					
Total Imports.	71,917	68,666	56,250	60,820	71,486
Imports from India	56,759	67,332	55,076	60,644	71,406
Percentage.	78·90	98·05	97·91	99·71	99·9
<i>Shellac.</i>					
cwts. (000)					
Total Imports.	190	108	171	440	93
Imports from India	117	105	167	436	87
Percentage.	97·50	97·22	97·66	99·09	93·6

Article	1931	1932	1933	1934	1935
<i>Linseed.</i>					
Tons (000)					
Total Imports.	338	362	249	184	257
Imports from India	15	9	131	140	58
Percentage.	4.43	2.48	52.61	76.08	22.6
<i>Oilseed Cake.</i>					
Tons (000).					
Total Imports.	459	423	387	558	
Imports from India	126	101	159	238	
Percentage.	27.45	23.87	41.08	42.7	
<i>Pig Lead.</i>					
- Tons (000)					
Total Imports.	299	262	282	313	317
Imports from India.	49	44	55	42	43
Percentage.	16.38	16.79	19.50	13.41	13.4
<i>Cleaned Rice whole</i>					
Cwts (000)					
Total Imports.	1,441	1,592	1,034	1,358	1,186
Imports from India.	453	527	644	808	896
Percentage.	31.43	33.10	62.28	60.23	75.5
<i>Woollen carpets and Rugs.</i>					
(In thousand Sq. yards)					
Total Imports.	3,554	2,572	2,505	2,706	
Imports from India.	760	1,073	1,277	1,761	
Percentage.	21.38	41.71	50.97	65.07	
<i>Teakwood.</i>					
Cubic feet (000)					
Total Imports.	1,187	826	863	1,555	1,921
Imports from India.	869	731	782	1,372	1,788
Percentage.	73.20	88.49	90.61	88.23	93.07

Article.	1931	1932	1933	1934	1935
<i>Bran, Pollards etc.</i> Tons ( 000 )					
Total Imports.	391·6	524·9	545·5	657·6	
Imports from India.	159·1	184·1	196·6	245·3	
Percentage.	40·56	35·04	36·08	37·23	
<i>Coir Mats and Mattings.</i> Sq. Yds. ( 000 )					
Total Imports.	6,563	6,962	8,497	7,912	8,405
Imports from India.	5,332	6,817	8,385	7,820	8,346
Percentage.	81·24	97·91	98·68	98·83	99·3
<i>Paraffin Wax.</i> ( 000 cwts)					
Total Imports.	1,312	1,192	1,046	1,016	1,141 *
Imports from India.	491	337	213	235	265
Percentage.	37·42	28·27	20·36	23·12	23·22
<i>Tobacco</i> Unmanufactured Lbs. ( mill )					
Total Imports	194·0	174·9	211·1	239·3	251·6
Imports from India	9·3	9·2	13·0	9·8	11·5
Percentage	4·79	5·26	6·15	4·09	4·57
<i>Castor Seed</i> ( Tons 000)					
Total Imports.	31	25	33	35	36
Imports from India	25	20	30	32	29
Percentage.	80·64	80·00	90·90	91·42	80·6
<i>Coffee.</i> Cwts. (000)					
Total Imports.	751	742	659	542	483
Imports from India	46	50	45	49	30
Percentage.	6·12	6·73	6·82	9·04	6·2
<i>Coir yarn.</i> Cwts. (000)					
Total Imports.	451	216	148	153	165
Imports from India	403	199	125	124	140
Percentage.	89·35	92·12	84·45	81·04	84·8

**THE ALUMINIUM INDUSTRY  
AND  
THE OTTAWA TRADE  
AGREEMENT**

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# The Aluminium Industry and the Ottawa Trade Agreement.

## Introduction.

The object of the Agreement was to develop the trade of the Empire countries with one another. The defence of the Agreement between India and the United Kingdom is chiefly based on the fact that it is supposed to have helped the export of each of these countries. Whether these statements are correct or not, is not our concern, but these are referred to in order to point out the fundamental basis of the agreement. There was however, no intention in making the Agreement to affect adversely the industries of either country. In fact, Article 14 of the Agreement specifically provides for a change in the rates of duty or margins of preference, if such adverse circumstances were noticed, irrespective of the fact whether they could be definitely traced to the preference or not. In other words, if an adverse situation arose, on account of any cause, it would be a sufficient case for a revision of the duty in the interest of the industries of either of the contracting parties.

## A Brief History of the Industry.

It is in the light of these observations that we propose to place before the public, the Government of

India and the Legislature, the position of the Indian Aluminium Industry in relation to the Ottawa Trade Agreement. It should be pointed out that the raw material for this industry is not produced in this country. The aluminium industry in India chiefly produces utensils for common use of which there has been an increasing demand in recent years. For this purpose, the factories concerned import aluminium circles and sheets from outside and turn them into utensils locally. Several foreign concerns produce this semi-manufactured article, and among them are certain British and Canadian concerns.

The British Aluminium Company is a large and powerful Syndicate, in the United Kingdom. The Canadian Company is controlled by American interests. At a certain stage these British and Canadian manufacturers of aluminium circles and sheets, who have been among the suppliers of these products to India, found it profitable to establish factories in India for the manufacture of aluminium utensils. Obviously this led to severe competition between the British and Canadian Companies on the one hand, and the Indian-owned Companies on the other. The Indian-owned Companies, which were still in their infancy, were not highly organised, and each of them was working comparatively on a small basis.

The new comers were highly specialised concerns with wide connections and large resources. They could import their own circles and sheets at advantageous rates, whereas Indian factories were dependent

for their supplies, either on these very concerns or on other concerns outside the Empire. The dependence of the Indian factories on the new comers was limited only by the available supply from other concerns at competitive rates. It was however, possible for the British and Canadian Companies to undersell their products to the disadvantage of the Indian factories. As a matter of fact, they did adopt aggressive methods of under-cutting prices and secret rebates, which were intended to remove the Indian factories from the field, or to absorb them. We need not say that a similar effort on the part of an outside party in any other country would have met with effective state control in the interests of the national concern.

#### The Advent of the Preference.

While this situation was going on, the British manufacturers got a further advantage in the form of preference to British aluminium goods by the Ottawa Trade Agreement. In consequence the Indian factories were faced with a dilemma. If they took anything but British circles and sheets they were dearer by 10%, because of the higher duty on them. If they took the British goods, they became dependent on their own competitors in the Indian market and had to accept the terms of supply dictated by them. Cases occurred when the British companies sold utensils at rates cheaper than those at which they sold the raw material to the Indian factories. On account of these circumstances, the ruin of the Indian factories was accelerated and they began to die out one after another. Only two



or three indian factories are now in existence, and they would not be alive unless they had also the other business, namely, that of the manufacture of brass and copper utensils.

**Representation to Government, and their attitude.**

We have given only a bare outline of the history of this industry in recent times. These facts with relevant details were represented to the Government of India, and will be found in the Appendices to the first report on the working of the Agreement, known as the Meek Report. In Chapter IV of this report, Dr. Meek gives an elaborate defence of the British position, and assumes the theory that the question, whether there was unfair competition, was beyond the scope of his enquiry, in spite of the fact that definite proof in that connection had been submitted. This attitude may be described, to say the least, as callous.

The main question that arises from these facts is that even if the principle of preference is granted, whether it should be given to British manufacturers in India, who are in a position to bring their own supplies from Britain, and compete adversely against Indian factories to the ruin of the latter. The answer to this question can be better obtained by assuming a contrary position. For example, Indian pig iron receives preference in the United Kingdom by the Agreement. The Tata Steel Company supplies it. Let us assume that the Tatas establish a steel factory in the United Kingdom, and compete with the steel producers in Britain. Compared with the international Steel producers, though

the Tata Steel Company is not as powerful in steel, as the British Aluminium Company is in aluminium, and though the British steel industry is much more organised and powerful in Britain than the aluminium industry is in India, still such an action on the part of the Tatas would not only be resented but put a stop to at once. Even if theoretically the Tatas are allowed to start a factory, they will not certainly be in a position to enjoy the benefit of preference on pig iron, because Article 14 of the Agreement would in that case be immediately put into operation. Under these circumstances, if the British Minister in charge gave expression to views, similar to those of Dr. Meek, he would be forced to resign.

**Article 14 of the Agreement.**

We submit, therefore, that in this case the right point of view is that the interest of the Indian-owned factories should prevail. And in view of the various things that have already happened to their detriment, Article 14 of the Agreement, ought to have been invoked long ago. As that Article has still remained on paper, the only thing to do is to take advantage of the situation now arising, to see that justice is done to the Indian factories, however late.

**Alternative Supplies no longer available.**

It has been argued by Dr. Meek that other supplies of circles and sheets are available to Indian factories. In this connection, there are certain factors which may be briefly pointed out. It is well-known

that Japan supplied these materials in recent times. The Indian factories bought these goods, when they could obtain these at competitive prices, for a short period, because of the depreciation of the Japanese exchange. This factor is no longer in operation. Germany also is an important supplier of the same material. It was possible in recent times for the Indian factories to obtain from Germany some supplies in a round-about way, because of the exchange system introduced by Germany. Aluminium has however been excluded now from this exchange system by Germany, and therefore, German supplies will not be available in future, after the existing contracts expire in a few months. So far as the other supplying countries are concerned, namely, France, Switzerland and the U. S. A., they are out of the question, because their goods are certainly dearer in India compared with British goods, on account of the higher duty of ten per cent. on them.

#### The Complete Dependence on British Competitors.

These fortuitious circumstances which made it possible for the remaining factories to struggle to exist by getting circles and sheets from other sources at reasonable rates in more recent times are not likely to recur. It is obvious, therefore, that the dependence of the existing Indian factories on the British concerns will soon be complete and thorough. In other words, we should not be surprised if we find that the remaining Indian concerns meet with the same fate, and go out of existence, leaving the British concerns in a complete monopoly of the aluminium industry in India.

Preference—an unfair advantage to Britain.

If the Indian concerns are to live, the preference to British aluminium should be removed immediately. This will do away with the unfair advantage which the British Companies are enjoying in India. This will not, in any way come in the way of their already strong position. They have a monopoly in certain parts of India, and their resources are tremendously larger than those of the Indian companies.

The Main Issues.

From the foregoing summary of the position the following issues arise :—

(1) *Whether preference is justified in a case of this nature, where the beneficiary is an outsider, in a position with the help of the same to crush the local industry.*

(2) *Whether preference is intended to establish or develop British-owned industries in India or to give them a monopoly in this country.*

(3) *Whether preference is intended to ruin Indian-owned industries in India.*

(4) *Whether it is not the duty of the Government of India, who are trying in other fields to give fair conditions to British goods, to remove unfair advantages which British goods enjoy in this case.*

(5) *Whether it is the duty of the Government of India to look to the welfare of Indian*

*industries first or to those of the British industries to the sacrifice of Indian industries.*

*(6) Whether any corresponding effort on the part of the Tatas to manufacture steel in England out of their own pig iron, would ever be tolerated even for a single day.*

**Appeal for fairness.**

On a dispassionate consideration of these points will lie the fate of the Indian factories, which is now at the tender mercies of the British Aluminium Company. The Indian factories however, have still some hopes in the fairness of the Government of India on the one hand, and the capacity of the Indian Legislature to look after the welfare of Indian industries on the other. We only hope that they will rise to the occasion in the name of fairness and justice, and prevent the further ruin and complete extinction of the Indian factories, which is going on in the name of preference to British goods.

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# **NOTE ON OTTAWA SCHEME OF PREFERENCES.**

Issued by the Committee of the Federation of Indian Chambers of Commerce and Industry on the Report of the Government of India regarding the effect of the working of the Ottawa scheme of preferences on the import and export trade of India.

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**1936**

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Kamla Tower, CAWNPORE.

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## FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

*Memorandum issued by the Committee of the Federation on  
the Report of the Government of India regarding the  
effect of the working of the Ottawa scheme  
of preferences on the import and  
export trade of India.*

The Committee of the Federation, before examining the effects of the Ottawa scheme of preferences on the import and export trade of India, find it necessary to explain in brief certain circumstances that led the Government of the United Kingdom to enter into reciprocal trade treaties with the Dominions and India and later on with some of the principal manufacturing countries in the world. As a result of the Great War, every country of importance decided to follow intense economic nationalism, and international trade between countries received a severe set-back with the result that the supremacy of British industries began gradually to diminish in the world markets.

### **Pre-Ottawa Scheme History**

2. Attempts of the British statesmen to create in the Empire an economic block for promotion of British industries initiated since 1902 failed to evoke any appreciable enthusiasm in the various self-governing units of the Empire, and after the termination of the Great War, the British statesmen found it imperative to re-open the question of creating an economic block within the Empire, and an attempt was first made at the Imperial Economic Conference in 1923 and was further repeated at these

Conferences in 1926 and 1930. The British nation did come to certain understandings with her Dominions at these Economic Conferences held in 1926 and 1930. But the Government of India did not commit themselves to any general scheme of tariff preference within the Empire, though by the Steel Industry (Protection) Act of 1927 and the Cotton Industry (Protection) Act of 1930, the United Kingdom goods received sufficient protection against similar goods from foreign countries in the Indian market. In 1931-32, the position of the British industries in the world market was sufficiently grave to force the British Government to make a definite move towards the creation of an Empire block, as the McKenna Duties of 1916 and the Safeguarding of Industries Act of 1922 failed to afford adequate protection to British industries and the next step in that direction was the enactment of the Import Duties Act of 1932. Abandonment of the gold standard by the United Kingdom in September, 1931, afforded some relief to the British industries in the Empire markets, but that was found insufficient to face the keen competition from some of the foreign countries and at the Imperial Economic Conference of July, 1932, the Import Duties Act of 1932 was fully utilised for concluding reciprocal trade treaties with the Dominions and India.

### Ottawa Scheme

3. When the Government of India made known their decision to participate in the Imperial Economic Conference at Ottawa, the Indian commercial and industrial interests, intimately connected with the deliberations of the said Conference, approached the Government of India with a request to associate representatives of these interests with the deliberations of that Conference. The Committee of the Federation made it plain that in the absence of real

representative Government in India, the predominant commercial and industrial interests in the country should be consulted before constituting the delegation and the potentialities of the Conference as regards the scope of reciprocity in the trade relations between India and the United Kingdom should be made known to the interests concerned. The Government of India did not give any information about the Conference nor any indication of their attitude towards the question coming up before the Conference beyond the mere statement in the Assembly to the effect that "in case of the conclusion of a trade agreement, any changes in tariff which the agreement may involve will be duly placed before the Legislature for its approval". The country was naturally apprehensive of very serious consequences resulting from an agreement with the United Kingdom Government's representatives at Ottawa—consequences that would affect the course of import and export trade of this country in future. The Committee of the Federation, therefore, suggested that it would be in the best interests of the country if a reciprocal agreement was entered into with the United Kingdom after India got effective control over her fiscal policy under the new constitution. Even the Delegation from India could not ignore this aspect and they in para. 31 of their Report remarked :—

"We were strongly of opinion that India ought not now, when the constitution is in the melting pot, to enter into any agreement which would limit the power of the new Government to shape its fiscal policy in accordance with its own conception of India's interests and of its place in the British Commonwealth of Nations".

The Delegation, therefore, under article 14 of the Agreement, provided for its determination by six months' notice.

4. In spite of emphatic protests from all quarters in the country, the Government of India's Delegation at

Ottawa entered into a certain reciprocal trade agreement with the representatives of the Government of the United Kingdom and in justification of their action, the Government of India claimed certain benefits to the agricultural produce of India in exchange for certain preferences for manufactured articles from the United Kingdom into India. It was claimed by the Government that in case of certain important commodities, such as, rice, vegetable oils, linseed, coffee, tea, hides and skins, jute, raw cotton, pig iron and tobacco, India would not only capture a substantial market from foreign competitors in the United Kingdom but it would lead to greater acreage of some of these crops and the position of the agriculturists in India would, to some extent, improve thereby. An attempt has been made in this memorandum to examine, as far as possible, how far these hopes as entertained by the Government of India have come to materialise during the period of two years and three months, during which period the Ottawa scheme of preference had its full play.

5. The Committee of the Federation, as soon as the Report of the Delegation was out, expressed grave doubts as to the usefulness of such a reciprocal trade treaty between two countries like the United Kingdom and India and stated :—

- ✓ (a) that such a trade treaty may obstruct direct trade relations with foreign countries in a number of articles of export and may tend to create entrepôt trade in London markets ;
- ✓ (b) that India may not gain any comparative advantage in the supply of her raw materials to the United Kingdom markets when in competition with Dominions or self-Governing Colonies ;

- (c) that such a creation of an economic block within the Empire may check the growth of internationalism in trade relations between India and the other countries of the world and it may further provoke foreign countries with colonial possessions to create close preserves on lines similar to those created by the United Kingdom and
- (d) that it may create monopolies in the Indian market for certain British products in the absence of any fair competition from foreign countries.

#### **Government's Report**

6. The plan of examining the working of the Ottawa scheme of preferences, as adopted by Dr. Meek in 1934 differs in one material aspect from the plan adopted by Dr. Mathai. Dr. Mathai's report ignores the year 1929-30 for purposes of comparing the general aspects of the import and export trade of India. He goes back to the pre-war period of 1913-14 for purposes of relative comparison and also his report takes for its base the year 1931-32. The Committee of the Federation cannot ignore the change in the plan of examination because of two important factors. The one is that the year 1929-30 was taken as a normal year for purposes of calculation and ascertaining the advantages or disadvantages of the preference scheme by the Government of India's Delegation at Ottawa as also by Sir Joseph Bhore, the then Commerce Member to the Government of India, while piloting the ratification of the Ottawa Agreement in the Legislative Assembly. The non-official interests criticising the scheme then also adopted the same year as the base of their calculations. The

pre-war year of 1913-14 is entirely out of date as the whole aspect of international trade and economic policies in important industrial countries changed after the cessation of the Great-War. It would, therefore, be unfair to ignore the coming into existence of certain forces of economic nationalism if we were to accept 1913-14 as a normal year for purposes of comparison. The year 1931-32 adopted in Dr. Mathai's Report is accepted by all as a year of violent fluctuations in the monetary standards of important countries in the world. In September, 1931, the British currency went off the gold standard, with India linking her rupee to sterling. This resulted in serious disturbance of India's import and export trade with her foreign customers. The examination of the Ottawa scheme by comparing the results with the year 1931-32 would not give a faithful picture of its effect on India's import and export trade. The Committee have, therefore, in their memorandum in examining the Ottawa agreement, taken 1929-30 as the normal year for purposes of comparison and have tried to examine how the scheme has worked during the period of two years and three months by a comparative analysis of the position which the U. K. and the foreign countries having trade relations with India have come to occupy during that period in the export and import trade of India. As Dr. Mathai's report has all along taken 1931-32 figures as its base, the Committee have, in their memorandum, reproduced the figures for 1931-32 as a mere piece of information.

7. -Another aspect which strikes the Committee as a handicap for the proper examination of the results is the method adopted by Dr. Mathai's report in taking calendar years for purposes of comparison while giving figures of imports into the United Kingdom. The Committee feel that it would have been a more systematic and correct

examination if the figures for imports into the United Kingdom were adjusted for the periods corresponding to the financial years of India. Such an adjustment would have been possible for the Government of India with their huge machinery for the collection of statistics.

8. Dr. Mathai's report, in its preliminary remarks, lays down one criterion for purposes of ascertaining whether a preference given to a particular commodity is valuable or not. It says:—

“If India has improved her relative position in the United Kingdom as disclosed by her percentage share in the total United Kingdom imports then, other things being equal, the preference must *prima facie* be deemed to be valuable. Whether India's other customers have taken relatively more from her than the United Kingdom is not quite relevant to the issue”.

The Committee are rather surprised at the plea put forward in the report as enunciated above, as every trade treaty is bound to have its repercussions on the trade relations of that country with her other customers and one cannot isolate the effects of preference on a particular commodity by ignoring the result of that preference on that commodity with other foreign countries. One, therefore, must try to understand the cumulative effect of a trade treaty on the whole sphere of the import and export trade of a country with its foreign customers. With these preliminary observations with regard to the plan of examination Dr. Mathai has put forward in his Report, the Committee proceed to examine the general aspects of the import and export trade of India.

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### Import Trade of India

9. The following table gives an idea of how the total import trade of India stood during the last four years compared to 1929-30 :—

**TABLE No. 1**  
**Total Imports (excluding Treasure and Government Acctt.)**  
**(In crores of rupees)**

From	1929-30	1931-32	1932-33	1933-34	1934-35
United Kingdom ..	103.1	44.8	48.8	47.6	53.7
British Empire (Excluding United Kingdom) ..	21.4	11.9	10.6	10.1	11.6
<b>Total British Empire ..</b>	<b>124.5</b>	<b>56.7</b>	<b>59.4</b>	<b>57.7</b>	<b>65.3</b>
Germany ..	15.8	10.2	10.4	8.9	10.1
Netherlands ..	4.2	2.0	1.7	1.8	1.3
Belgium ..	6.8	3.0	3.4	2.7	2.2
France ..	4.6	2.2	2.0	1.5	1.5
Italy ..	6.7	3.6	3.9	2.9	3.0
Japan ..	23.6	13.3	20.5	16.4	20.8
U. S. A. ..	17.7	12.8	11.3	7.2	8.4
Java ..	13.7	4.8	3.7	2.4	1.9
<b>Total foreign countries ..</b>	<b>116.3</b>	<b>69.8</b>	<b>73.2</b>	<b>57.7</b>	<b>66.9</b>
<b>Grand Total ..</b>	<b>240.8</b>	<b>126.4</b>	<b>132.6</b>	<b>115.4</b>	<b>132.3</b>

It would further be instructive to understand the share of the United Kingdom and other foreign countries in the import trade of India, as shown in the following table :—



TABLE No. 2.

**Percentage share of the United Kingdom and other foreign countries in the import trade of India**

From	1929-30	1931-32	1932-33	1933-34	1934-35
United Kingdom ..	43.1	35.5	36.9	41.1	40.6
British Empire (excluding U. K.) ..	8.8	9.2	7.9	8.8	8.8
Germany ..	6.5	8.0	7.8	7.7	7.7
Netherlands ..	1.7	1.5	1.3	1.6	.9
Belgium ..	2.8	2.3	2.6	2.3	1.6
France ..	1.9	1.7	1.5	1.3	1.1
Italy ..	2.7	2.8	3.0	2.5	2.3
Japan ..	9.8	10.5	15.4	14.2	15.7
U. S. A. ..	7.3	10.1	8.5	6.2	6.4
Total of foreign countries	48.1	55.3	55.4	50.1	50.6
Grand Total ..	100	100	100	100	100

The tables Nos. 1 and 2 clearly indicate the position of the import trade of India in relation to her foreign suppliers. It will be seen that the United Kingdom's share in the import trade of India stood at the lowest ebb, at 35.5% in 1931-32 prior to the deliberations at Ottawa, with the foreign countries commanding 55.3% of the import trade. With the Ottawa scheme in operation, the United Kingdom's share improved from 36.9% in 1932-33 to 41.1% in 1933-34 and 40.6% in 1934-35; during these two years the share of the foreign countries dwindled from 55.4% to 50.6%. It is worth while noting that while the United Kingdom improved her position by about 4%, the foreign countries lost theirs by about 5%.

10. The value of imports from the United Kingdom rose from 48.8 crores in 1932-33 to 53.7 crores in 1934-35, while that from the foreign countries fell from 73.2 crores to 66.9 crores in the same period, showing thereby that while the United Kingdom gained additional market of the value of 5 crores, the chief industrial countries of Europe and the U.S.A. suffered a set-back of 6.2 crores, with the total imports remaining at 132 crores,—U.S.A. losing market worth 286 lakhs, Belgium 125 lakhs, Italy 93 lakhs, France 50 lakhs, Netherlands 40 lakhs and Germany 26 lakhs over their 1932-33 position.

#### Position of articles of import receiving preference

11. The following table No. 3 gives an idea of the advantage secured by the articles of import receiving preference under the Scheme :—

**TABLE No. 3.**

#### Imports of articles enjoying preference in British India

(In crores of rupees)

From	1931-32 Rs.	1932-33 Rs. Percentage	1933-34 Rs. Percentage	1934-35 Rs. Percentage
U. K.	12.6	13.3 (39.8)%	14.9 (45.8)%	16.9 (44.0)%
Countries other than U. K.	18.2	20.1 (60.2)%	17.6 (54.2)%	21.5 (56.0)%
<b>Total</b>	<b>30.8</b>	<b>33.4 (100)</b>	<b>32.5 (100)</b>	<b>38.4 (100)</b>

The table No. 3 shows the improvement which the United Kingdom industries secured under the scheme by securing practically all the increased demand from India in goods manufactured to the extent of 3.6 crores and further securing

44% in 1934-35 as against 40% in 1932-33 ; the United Kingdom gained extra 4% at the cost of other foreign countries.

12. In case of import of articles not receiving any preference, it must be first noted that in these articles, the United Kingdom industries were capable of holding their position in the Indian market in competition with foreign products and as such the United Kingdom Delegation did not ask for any preferential tariff at the Ottawa Conference. The table No. 4 given below indicates the strong position held by British manufacturers in these lines :—

**TABLE No. 4**

**Imports into British India of articles on which  
no preference is allowed to U. K.**

(In crores of rupees).

From	1931-32 Rs.	1932-33 Rs. Percentage	1933-34 Rs. Percentage	1934-35 Rs. Percentage
U. K.	32.2	35.5 (35.8)%	32.7 (39.4)%	36.9 (39.3)%
Countries other than U. K.	63.4	63.7 (64.2)%	50.2 (60.6)%	57.0 (60.7)%
<b>Total</b>	<b>95.6</b>	<b>99.3 (100)</b>	<b>82.9 (100)</b>	<b>93.9 (100)</b>

**Export Trade of India**

13. The following table gives a clear idea as to the position of the export trade of India in the foreign markets:—

**TABLE No. 5**  
**Export trade of India**  
(In crores of rupees)

Exports to		1929-30	1931-32	1932-33	1933-34	1934-35
United Kingdom ..		66.6	42.9	37.0	47.2	47.5
British Empire ..		43.6	25.3	22.8	20.9	20.8
<b>Total British Empire ..</b>		<b>110.2</b>	<b>68.2</b>	<b>59.8</b>	<b>68.1</b>	<b>68.4</b>
Germany ..		26.6	10.3	8.6	9.8	7.0
Netherlands ..		9.1	5.1	4.1	4.2	2.5
Belgium ..		12.2	4.5	4.0	4.5	4.2
France ..		16.8	7.6	8.1	7.4	5.3
Italy ..		11.3	5.4	4.7	5.8	5.7
Japan ..		32.3	13.9	13.9	12.6	24.1
China ..		13.0	7.8	3.6	4.4	2.6
Egypt ..		3.9	1.9	1.1	1.2	3.3
U. S. America ..		36.3	13.9	9.8	14.1	12.9
Argentina ..		7.1	1.5	2.8	..	..
<b>Total foreign countries ..</b>		<b>200.6</b>	<b>87.7</b>	<b>72.6</b>	<b>78.2</b>	<b>82.9</b>
<b>Grand Total ..</b>		<b>310.8</b>	<b>155.9</b>	<b>132.4</b>	<b>146.3</b>	<b>151.2</b>

The export trade of India in 1934-35 shows an improvement of Rs. 19 crores over her 1932-33 position, but if the share of different foreign customers is further examined, it will be found that Japan is responsible for an increase of 11 crores ; while U. S. A. improved her share by 3 crores, the United Kingdom took additional exports worth 11 crores from India. But there has been a set-back of nearly Rs. 8.7 crores in India's export trade with non-Empire countries. There are, no doubt, certain factors at work such as exchange parity or weak financial position of certain non-Empire customers, but it may be due also to the sub-conscious retaliation towards India by these customers. This is further supported by the position as indicated by the following table :—

**TABLE No. 6**  
**Exports from British India of articles enjoying preference**  
**(In crores of rupees)**

To	1931-32	1932-33	1933-34	1934-35
U. K. ..	33.3	29.7	36.5	36.7
Other countries ..	77.6	65.3	62.9	57.7
Total ..	110.9	95.0	99.4	94.4

There is a definite indication that India's exports to United Kingdom in articles enjoying preference increased from 29.7 crores in 1932-33 to 36.7 crores in 1934-35 at the cost of a corresponding decrease in her exports to other countries which dwindled from 65.3 crores in 1932-33 to 57.7 crores in 1934-35.

14. On percentage basis, India's position as regards her export trade with the United Kingdom and other foreign countries stood as under :—

**TABLE No. 7**  
**Percentage share of U. K. and other foreign countries**  
**in the export trade of India**

Countries	1929-30	1931-32	1932-33	1933-34	1934-35
U. K. ..	21.4	27.5	28.0	32.3	31.5
British Empire (excluding U. K.) ..	13.9	16.3	17.0	14.2	13.7
Germany ..	7.1	6.6	6.5	6.5	4.6
Netherlands ..	2.9	3.2	3.1	2.4	1.7
Belgium ..	3.9	2.9	3.0	3.0	2.8
France ..	5.4	4.8	6.1	4.7	3.5
Italy ..	3.6	3.4	3.5	3.9	3.7
Japan ..	10.4	8.9	10.5	8.6	16.0
U. S. A. ..	11.7	8.9	7.4	9.5	8.5
Argentina ..	2.3	0.9	2.1	..	..
Total foreign countries ..	64.7	56.2	55.0	53.5	54.8
Grand Total ..	100	100	100	100	100

The table No. 7 above gives a correct picture of the position held by the United Kingdom and several other important foreign customers in the export trade of India. The United Kingdom no doubt improved her position from 28.0% in 1932-33 to 31.5% in 1934-35, but along with it the British Empire countries, excluding the United Kingdom, took less, *i.e.*, 13.7% in 1934-35 instead of 17.0% in 1932-33; other foreign countries such as France, Germany, Netherlands and Belgium all took less from India during these two years. If one compares the position with that in 1929-30, it will be seen that the United Kingdom substantially improved her position with India, all other countries—except of course Japan—occupying less important position in India's export trade.

#### India—A debtor country

15. India being a debtor country, it is necessary for her to have a substantial balance of trade in her favour in her transactions with the world. In the year 1929-30, the balance of trade in her favour was about 79 crores. This gradually dwindled, as will be seen in Table 8 given below, to 3.3 crores in 1932-33 and with the improvement in the conditions of the world trade, it is now to the value of 23 crores in favour of India in 1934-35 :—

**TABLE No. 8**  
**India's Balance of Trade in merchandise**  
(In crores of rupees)

	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
Exports from India ..	310.8	220.5	155.9	132.4	146.3	151.2
Re-exports (foreign) from India ..	7.1	5.1	4.7	3.2	3.4	3.6
Imports into India ..	238.9	163.6	125.7	132.3	115.0	131.8
Balance of Trade ..	+79.0	+62.0	+34.9	+3.3	+34.7	+23.0
In favour +						
Against —						

If we analyse the balance of trade position of India in relation to her transactions with the United Kingdom, the other British Empire countries and non-Empire foreign countries, one notes the fact that in 1929-30 when the balance of trade in favour of India was to the value of 79 crores, she had an adverse balance with the United Kingdom to the extent of 36.5 crores in trade dealings alone. All the foreign countries, as will be seen from Table No. 9 below, contributed to make up a favourable trade balance for India to the extent of 106 crores :—

TABLE No. 9

**India's position as regards her balance of trade with U. K.  
and other foreign countries**

(In crores of rupees)

Countries	1929-30	1931-32	1932-33	1933-34	1934-35
In favour of India +					
Against India —					
U. K.	.. — 36.5	— 2.0	— 11.8	— 0.3	— 6.2
British Empire (Excluding U. K.)	.. + 22.3	+ 13.5	+ 12.2	+ 10.8	+ 11.2
Germany	.. + 10.8	+ 0.1	— 1.8	+ 0.8	— 3.1
Netherlands	.. + 4.9	+ 3.1	+ 2.4	+ 2.4	+ 1.2
Belgium	.. + 5.4	+ 1.4	+ 0.6	+ 1.8	+ 2.0
France	.. + 12.2	+ 5.4	+ 6.1	+ 5.9	+ 3.7
Italy	.. + 4.6	+ 1.8	+ 0.7	+ 2.8	+ 2.7
Japan	.. + 8.7	+ 0.7	— 6.5	— 3.7	+ 3.3
U. S. A.	.. + 18.6	+ 1.1	— 1.4	+ 7.0	+ 4.5

The position in 1934-35 has changed materially and though her adverse balance with the United Kingdom diminished to 6.2 crores from 36.5 crores in 1929-30, her favourable balance with practically all the foreign countries got a set-back. Her dealings with Germany, which gave her once a favourable trade balance of 10.8 crores, have, in 1934-35,

resulted in an adverse balance of 3.1 crores and so is the tale with every foreign country, particularly France and U. S. A. The claim thus put forward by the Government that the United Kingdom being the chief individual customer of Indian product, should occupy a privileged position in her tariff structure, is not supported by the position when examined in relation to India's trade balances with her customers abroad. Looked at from that point of view, in 1929-30, U. S. A., France and Germany stood out as the best customers contributing substantial trade balances to India to the extent of 42 crores of rupees to enable India to make her payments to the United Kingdom. The enforcement of the Ottawa scheme of preferences has practically shut the door of better trade relations with these three important foreign customers, in so far as India has now an adverse trade balance with Germany to the extent of 3 crores and substantially reduced favourable balances with U.S.A. and France to the extent of 4.5 and 3.7 crores respectively.

16. India's position owing to her political status in the world necessitates accumulation of a very substantial favourable trade balance in the foreign markets of the world. India has to pay to the United Kingdom £ 45 millions on an average towards the payment of debts, service and pension charges. In addition to these demands, there is an invisible drain towards the payment of profits earned by British investments in tea, jute, mining, banking, insurance, shipping and other industrial concerns in India. India has to make provision for payment of all these by creating favourable trade balances with her customers and the foreign countries, excepting the United Kingdom, have been very helpful in the past in making available such balances to India for her payment purposes. It is thus evident that in view of the



huge recurring obligations of India to the United Kingdom and from the standpoint of reciprocity in trading relations, India may justly claim a substantial favourable balance in her trade with the United Kingdom. But it is extremely problematic whether India will ever succeed to achieve this. For, being an exporter of agricultural commodities, India's serious competitors in the British market are Canada, Australia, S. Africa and New Zealand which also enjoy preferences under the Ottawa Agreement.

17. This can be further illustrated if we examine the percentage share of some important countries in the import trade of the United Kingdom.

**TABLE No. 10**

**\* Percentage share of some important countries in the import trade of U. K.**

		<u>In 1929</u>	<u>In 1934</u>
U. S. A.	..	16.1	11.2
Canada	..	3.8	6.9
Australia	..	4.6	6.8
Argentina	..	6.8	6.4
India	..	<u>5.1</u>	<u>5.8</u>
New Zealand	..	3.9	5.5
Germany	..	5.6	4.2
Denmark	..	4.6	4.5
France	..	4.6	2.6

The table given above indicates that while India stood fourth in rank in the import trade of the United Kingdom in 1929 with 5.1 to her credit, in 1934, she stood fifth in rank with 5.8 to her credit. Canada, Australia, New Zealand improved their position substantially in their share of import trade of the United Kingdom, but if we examine the position of India in the export trade of the United Kingdom, we find :—

\*Vide League of Nations' "Review of World Trade" (pp. 34-35).

TABLE No. 11

\* Percentage share of important countries in the export trade of the United Kingdom

		<u>In 1929</u>	<u>In 1934</u>
<u>India</u>	..	<u>9.5</u>	<u>8.3</u>
Australia	..	6.7	6.0
France	..	5.9	5.3
U. S. A	..	7.4	5.2
Germany	..	7.2	5.1
Canada	..	4.5	4.7
Denmark	..	1.4	3.2
New Zealand	..	2.7	2.6

The table No. 11 above conclusively shows that India stands first in her share of the export trade of the United Kingdom in 1929 with 9.5 to her credit and also in 1934 with 8.3. Australia and New Zealand are taking less than what they did in 1929, while Canada has improved slightly by .2 per cent. In fact, the table indicates that the United Kingdom's important customers have taken less from her in 1934 than what they used to take in 1929. India's case as regards her import and export trade with the United Kingdom, as examined above, indicates that while United Kingdom is reaping the highest advantage out of the tariff arrangement with India, India as the supplier of agricultural produce is not getting any advantage *vis-a-vis* the Dominions and certain Colonies in the import market of the United Kingdom.

✓ The logic of the situation as indicated above clearly argues that the United Kingdom should either help India to realize the necessary trade balance to meet her foreign obligations from within the Empire ring or stand away from India's way to secure enlarged markets in foreign countries. But

\* *Vide* League of Nations' "Review of World Trade, 1934" (pp. 34-35).

as under the existing arrangements, the first is not possible, it is quite legitimate on India's part to demand that the Indo-British commercial relations under the Ottawa Scheme of Preferences should be terminated and fresh negotiations should be opened for a reciprocal trade treaty on such basis that India's trade relations with other countries may not suffer and may receive ample scope for further growth and expansion.

#### **Specific commodities considered**

18. With these general observations regarding the trend of import and export trade of India, the Committee propose to examine some of the important commodities in the export trade of India. It is not their intention to examine and criticise each and every item of the export trade of India but they would restrict their attention to only such items wherein the Ottawa scheme has left a profound mark, either disturbing the course of trade in that commodity or affording greater impetus to the export of that article to the United Kingdom market.

#### **Exports from India**

##### **Wheat**

19. There has been an export of wheat to the value of 7 lakhs to the United Kingdom against no exports in previous years due to damage done to American wheat crop and unfavourable weather conditions in Europe. Though the Indian Delegation at Ottawa were particular to secure preferential tariff for Indian wheat exports, both Dr. Meek and Dr. Mathai, in their reports, assessed the value of this preference as entirely problematical, because of India's position in the wheat market of the world. It must, however, be remembered that Indian wheat used to be exported in very substantial quantities in the past and even wheat flour had also a secured place in the world markets as can be seen from the following table :—

TABLE No. 12

## Exports of wheat and wheat flour

(Value in lakhs of rupees)

		<u>1928-29</u>	<u>1929-30</u>	<u>1930-31</u>	<u>1931-32</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
Wheat	..	1,69.2	21.2	194.9	15.1	3.8	3.3	10.6
Wheat flour	..	1,16.4	1,07.2	80.0	58.0	27.7	16.4	14.7

No one can ignore these figures and a mere statement that India, which ranks third in the acreage and production of wheat amongst wheat-producing countries of the world next to Russia and the United States, should find it difficult during the last three years to face competition from other wheat-producing countries in spite of a preference of 2 shillings per quarter, will not be satisfactory. The specific preference of 2 shillings does not amount to 10 per cent which is generally the basis of affording preferential treatment to the produce of India in the United Kingdom markets and the Government of India should investigate the reasons which have stood in the way of the export of Indian wheat to foreign markets.

## Rice

20. With the separation of Burma from India in near future, it is for Burma to examine the effectiveness of the preference on the export of rice to U. K. market. We cannot, however, pass over the fact that though there has been an increase of over 54 lakhs worth of rice as an additional export to the United Kingdom in 1934-35 over her exports in 1932-33, there has been a corresponding decrease of 4 crores 30 lakhs during the same period in India's exports to foreign countries not granting preference. The report for the year 1935 tries to explain

this by saying that the decline with the foreign countries was due probably to larger production in eastern countries as well as to the restriction on imports of rice introduced in some of the European countries.

### Vegetable Oils

21. The Indian Delegation, in their report, stated that an enhanced preference of considerable importance is that on vegetable oils and that India had an expanding industry with great possibilities and an export trade of considerable importance. Sir Joseph Bhore, while referring to the very special importance of preference on vegetable oils, stated in the Assembly on 7th November, 1932 :—

“The 15 per cent preference *ad valorem*, which we get in regard to our vegetable oils, is of very special importance to this country for three reasons ; firstly, it will enable us to capture a market which is very largely supplied by the foreigner. In 1929-30, Great Britain took castor oil, linseed oil, coconut oil, groundnut oil, rape and sesamum oil from foreign sources to the extent of no less than £ 2½ millions. Now, except in the case of coconut oil, there is no reason why India should not supply the whole of this, and this is the point to be noted ; she has no serious competitor within the Empire in regard to these other oils”.

He further stated that this preference would give a definite impetus to our oil-pressing industry. The figures of export for the various oils coming under this group for the two years, during which the scheme had its full scope, show entirely a different picture. India's exports to the United Kingdom suffered in all varieties, though her exports to foreign countries showed substantial improvement. It is not necessary to deal with each and every variety of the vegetable oil but in case of the more important ones, the following conclusions can be drawn :—

(a) Castor oil : While India's exports to the United

Kingdom diminished by 18% in two years, her exports to foreign countries, as the Report says, increased both absolutely and relatively by a corresponding 18%.

- (b) Linseed Oil : Though the United Kingdom increased her imports of linseed oil from 7,000 tons in 1933 to 33,000 tons in 1934, India scarcely contributed anything towards it. This may be due to a system of drawback which is prevalent in the tariff structure of the United Kingdom, whereby re-exports of linseed oil or manufactures therefrom receive practically the whole of the import duty as drawback. The preference of £ 3-10 s. per ton is practically nullified by the drawback allowed to the extent of £ 3 per ton. The Government Report is silent on the allowance of drawback allowed under the tariff structure of the United Kingdom. How this drawback has encouraged import of linseed oil in the United Kingdom from non-Empire countries can be seen from the following figures :—

**TABLE 13**

**Imports of Linseed Oil in U. K.**

(In 000 tons)

		<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
Netherlands	..	11.2	4.2	35.3
Total	..	23.7	5.6	42.9

Import into the United Kingdom from Netherlands shot up from 4,200 tons in 1933-34 to 35,300 tons in 1934-35.

- (c) Groundnut Oil : Groundnut oil, for which the Indian Delegation said that they secured a "permanent position", dwindled from 10 lakhs of rupees in 1932-33 to 6 lakhs in 1933-34 and still further to Rs. 93,000 in 1934-35, it being the largest fall in the exports.
- (d) Rapeseed Oil : The figures given in the Report conclusively prove that "the share of countries granting preference registered a decline both relatively and absolutely", while purchases by countries not granting preference rose from 125,000 gallons in 1932-33 to 190,000 gallons in 1933-34 and 233,000 gallons in 1934-35.

### Linseed

22. Linseed is one of the chief articles receiving preference under the Ottawa scheme. Sir Joseph Bhore in the Legislative Assembly, referring to the grant of preference for the export of linseed, said :\*

"Here I think it is generally admitted that the preference will be of considerable value and that also for three reasons ; firstly, there is an extremely large market to be captured from the foreigner of the order of something like Rs. 2½ crores. Secondly, we will share this preference with no other member of the empire ; and, thirdly, it is possible for us to supply almost the whole of the United Kingdom's requirements without contracting our supplies to foreign countries having regard to our production twenty years ago. This preference will, I hope, result in bringing under more remunerative cultivation areas that are now being cultivated with less paying crops or may even have gone out of cultivation. In the year 1913-14, the area under linseed cultivation was something like five million acres. In 1930-31, it had contracted to three million acres. If, as a result of this preference,

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\*Vide page 1738, Legislative Assembly Debates, 7th November, 1932.

we are able to increase that area by only a million acres, and, if we count a modest extra profit of Rs. 10 an acre from the cultivation of linseed, this will be placing nearly a crore of rupees extra into the pockets of the Indian cultivator."

With such definite assurance about the advantage that would accrue to the export trade of linseed, the country looks forward to an era of prosperity, particularly in the production of this crop. The first 15 months' results justified these hopes to some extent, though the impetus given to the export was due to the failure of crop in Argentine and America, the two linseed-producing countries of importance. The second year's working, however, dispelled all doubts of India's securing any place of advantage even with a preferential tariff against competition from Argentine. The following table gives the position of the export of linseed in 1929-30 with a total export of 248,000 tons, as compared to the years 1932-33 to 1934-35 :—

TABLE No. 14

## Exports of Linseed from India to foreign countries

(In thousands of tons)

		<u>1929-30</u>	<u>1931-32</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	79.5	14.1	14.3	175.2	98.4
Germany	..	10.5	9.8	9.4	10.3	5.3
France	..	50.7	44.2	21.6	42.6	13.7
Italy	..	28.4	14.6	10.5	21.7	9.5
Australia	..	22.8	10.0	9.4	12.0	21.4
<b>Total</b>	..	<b>248.2</b>	<b>120.3</b>	<b>72.2</b>	<b>378.9</b>	<b>238.3</b>

The position of exports of linseed in 1934-35 with the total exports of 238,000 tons compared to total exports of 248,000 tons in 1929-30 shows how she lost her markets in all the



foreign countries except in the United Kingdom. Whatever position she secured in 1933-34 as a result of short crop in Argentine and America could not be maintained in 1934-35. If we examine the imports of linseed into the United Kingdom, we find :

**TABLE No. 15**  
**Imports of Linseed into the United Kingdom**  
(In 000 tons)

From		<u>1932-33</u>	<u>1933-34</u>	<u>1934-35*</u>
India	..	13.5	173.9	108.6
Argentine	..	316.0	67.1	77.4
Total	..	338.5	243.4	186.6

It is rather significant that though the United Kingdom took 65,000 tons less from India in 1934-35 as compared to 1933-34, she took 10,000 tons more from Argentine. India, instead of thus securing further market from Argentine, has practically lost a substantial portion of her position to Argentine. Further, the positions which India held in other foreign markets in 1932-33 with her total exports of 72,000 tons deteriorated during the year 1934-35 in spite of her exports nearing the level of 1929-30. India thus, in case of linseed, could not face competition in the United Kingdom market in spite of preference against Argentine but she also lost whatever market she held in a substantial degree in the foreign countries.

#### Coffee

23. Dr. F. X. DeSouza, in supporting ratification of the Ottawa Agreement in the Assembly in 1932, referred

\*Figures adjusted to Indian financial years.

to the advantages of the preference to the export of coffee in the following terms :\*

"I am interested in an industry which, I consider, will greatly benefit by the ratification of this Agreement. I refer to the coffee planting industry. \* \* \* \* Roughly speaking, with regard to 55 per cent of coffee which comes to England from foreign countries, namely, nearly four crores worth of coffee - that market is open to be captured and I venture to submit with all confidence that it is very likely to be captured by India if this Ottawa Agreement is ratified with regard to the preference given to coffee".

Dr. DeSouza, who was a Member of the Assembly Committee which examined the Ottawa scheme in August, 1934, in his supplementary note to the Committee's Report, writes :—

"The preference has been of no benefit to the Indian producer but Kenya has reaped a decided benefit. Our trade in fact has received a set-back in the United Kingdom market. \* \* \* \* Neither the absence of propaganda in the United Kingdom nor the alleged deterioration of quality can wholly account for this fall".

The following tables 16 and 17 indicate the volume and value of the exports of coffee to the United Kingdom and other countries :—

**TABLE No. 16**  
**Exports of coffee from India**  
(In 000 cwts.)

To countries	1929-30	1931-32	1932-33	1933-34	1934-35
U. K.	68.5	44.1	51.9	50.4	28.0 + 8.0 "for orders" cargo.
France	43.8	43.1	54.3	60.1	53.0
Norway	12.3	15.9	16.8	15.1	15.4
Germany	15.1	16.3	13.2	16.9	6.6
Netherlands	5.0	9.4	9.4	8.3	1.3
Belgium	2.9	6.4	7.0	12.3	8.1
Italy	4.1	5.5	4.5	8.8	5.9
Australia	6.9	2.5	5.6	4.6	6.0
Total	184.2	155.6	173.2	186.0	141.0

\*Vide page 1831, Legislative Assembly Debates dated 8th November, 1932.

**TABLE No. 17**  
**Exports of coffee**  
(In lakhs of rupees)

	1929-30	1931-32	1932-33	1933-34	1934-35
U. K. ..	54.1	27.9	33.9	30.3	17.0
France ..	33.1	25.6	32.1	31.2	24.9
Norway ..	9.5	9.5	10.9	8.0	6.9
Germany ..	12.2	9.4	8.5	9.4	3.6
Netherlands ..	3.9	5.7	6.0	4.5	.8
Belgium ..	2.4	3.8	5.5	6.7	4.2
Italy ..	5.0	3.4	2.9	4.4	3.0
Australia ..	5.8	1.4	3.4	2.6	3.3
<b>Total Exports ..</b>	<b>1,45.4</b>	<b>94.5</b>	<b>1,09.8</b>	<b>1,02.4</b>	<b>72.7</b>

The following table shows the import of coffee into the United Kingdom :—

**TABLE No. 18**  
**Imports of coffee into U.K.**  
(In 000 cwts.)\*

	1932-33	1933-34	1934-35
British East Africa ..	316.6	203.6	169.2
British India ..	46.3	49.6	35.0
Costa Rica ..	251.9	228.6	170.3
Brazil ..	90.0	18.9	16.5
<b>Total ..</b>	<b>778.0</b>	<b>579.1</b>	<b>493.7</b>

It will be seen from the above tables that India's exports to the United Kingdom diminished in 1934-35 as compared

\*Figures adjusted to Indian financial years.

to 1932-33 by about 24,000 cwts. at the cost of 17 lakhs of rupees, while her exports to France, Norway, Belgium, Italy and Australia in 1934-35 remained more or less in the neighbourhood of her exports to these countries in 1932-33, Netherlands and Germany alone recording a substantial fall during these years.

24. If we refer to the imports of coffee into the United Kingdom (*vide* Table No. 18), we find that even with a preference in favour of India, she could not improve her position in the United Kingdom market in competition with imports from either Costa Rica or British East Africa. The export trade of India in coffee received a substantial set-back during the year 1934-35, her total exports coming down from 173,000 cwts. in 1932-33 to 141,000 cwts. in 1934-35 at a loss of 37 lakhs of rupees.

25. Dr. Meek, while dealing with the position of Indian coffee in the U. K. market, states in his report that Indian coffee normally enjoys a limited market in the United Kingdom, being generally of superior quality and is mainly required for purposes of blending. He further states that Costa Rica coffee is still superior to Indian coffee. If that is a factor, then one fails to understand why Costa Rica coffee is being imported in greater and greater quantities by the United Kingdom when higher grades are only to be used for blending purposes. In introducing the coffee cess, the Government of India put forward the plea that there is a necessity of organising propaganda for the use of coffee in the United Kingdom and that the deterioration of quality that has set in in Indian coffee should also be arrested. But Dr. DeSouza, M.L.A., who is intimately connected with the coffee planting industry, does not regard these factors as wholly responsible for the position which the Indian coffee at present holds in the United Kingdom market. Besides,

all these factors such as the unsuitability of Indian coffee in the United Kingdom market and its price, were also present when the Ottawa Delegation considered the question of receiving preferential treatment for Indian coffee. The speeches in the Assembly in support of the ratification of the Ottawa agreement justified the view that unnecessary false hopes were raised in the minds of coffee planters with regard to the utility of the preference in the export of coffee to the United Kingdom market.

### Tea

26. It is not necessary to examine the export of tea to the United Kingdom in view of the agreement arrived at between India, Ceylon and Dutch East Indies regarding the quotas allotted for export purposes. But the following Table 19 reveals an interesting situation regarding the inroad made by China on the United Kingdom market by increasing her exports by 11 million lbs. in spite of a preference given to India and Ceylon.

**TABLE No. 19**

**Imports of tea in U.K.**

(In 000 lbs.)

		<u>1932-33</u>	<u>1933-34</u>	<u>1934-35*</u>
India	..	316,120	271,635	279,727
Ceylon	..	168,911	145,959	153,360
Dutch East Indies	..	62,516	50,810	44,516
China	..	4,832	9,005	20,569
<b>Total</b>	..	<b>559,611</b>	<b>486,055</b>	<b>513,409</b>

\*Figures adjusted to April-March Indian financial years.

It may be noted that Ceylon has also increased her imports of tea in the United Kingdom market by 5.5% over her 1933-34 imports while India could only increase hers by less than 3%.

### Hides and Skins

27. London has an entrepôt trade in tanned hides and skins and it is, therefore, difficult to assess the value of preference to Indian commodity. One significant aspect of this trade, however, is that India commanded an export trade to the extent of 37 lakhs in 1928-29 and 23 lakhs in 1929-30 with the United States of America, but during the last four years, U.S.A. disappeared from the market altogether. India enjoys a sort of a monopoly in the British Market, but in spite of that, her exports to the United Kingdom market decreased by 44 lakhs in 1934-35 as compared to 1933-34.

### Tanned Skins

28. There has not been any material change in the export of this commodity, the only noteworthy factor being that the U.S.A. which was importing nearly 49 lakhs of tanned skins in 1928-29 ceased to import any from India during recent years. The imports of hides and skins undressed into the United Kingdom are to the value of £ 15 millions and in such a vast trade, India scarcely occupies 6.2 per cent share. It will be further seen from Table 20 that while all countries secured a substantial gain in the United Kingdom market, India suffered a set-back to the extent of £ 4,10,000 in 1934 over her 1933 position.

TABLE No. 20

## Import of Hides and Skins undressed into U.K.

(In 000 £s.)

		<u>1932</u>	<u>1933</u>	<u>1934</u>
U. S. A.	..	1,772	2,106	2,505
Canada	..	2,089	1,646	1,979
U. S. S. R.	..	1,066	1,146	1,175
New Zealand	..	653	658	935
<u>British India</u>	..	<u>920</u>	<u>1,320</u>	<u>915</u>
Australia	..	642	950	833
Union of South Africa	..	658	805	887
<hr/>				
£ (000)	..	12,097	14,272	14,744

There is a considerable re-export trade in this article to the extent of 6,970 thousand £s. in 1934. The Government of India, in these days of reciprocal treaties, should explore all avenues of creating direct trade with foreign countries for India's undressed hides and skins. This will be helpful particularly in countries where there are quotas fixed for exports and imports.

### Jute Manufactures

29. In spite of India's very favourable position in the supply of jute manufactures, there has not been any material change in the position which India occupies in her manufactures of jute in the markets of the world including the United Kingdom. The argument that the preference in the United Kingdom has given Indian product an advantage

over foreign imports and has put the Indian Jute Industry on equal terms with the British industry loses much of its force when it is understood that even according to Dr. Meek's report, the scope for expansion for exports or production afforded by this preference is very moderate. Besides, owing to the Indian jute mill industry having restricted its production, even with a preference, the Indian product is not in direct competition with the British one, while the 20 per cent. import duty levied by the United Kingdom is much more in favour of the British product than the Indian one. The Report says that the foreign supplies have fallen by 14 million sq. yds. in the course of 4 years but India has secured 4 million sq. yds. only owing to contraction of demand in the United Kingdom market for jute manufactures.

### Oil-seed cake

TABLE No. 21

#### Export of Oil Seed Cake from India (In lakhs of rupees)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	1,19.2	72.4	86.0	116.1
Belgium	..	23.7	18.2	11.8	19.4
Germany	..	47.6	47.1	15.1	21.6
Netherlands	..	52.9	27.7	24.4	6.4
Ceylon	..	47.8	16.8	15.0	19.2
Japan	..	14.1	10.8	6.8	5.7
Egypt	..	..	..	..	14.8
<b>Total</b>	..	<b>3,11.9</b>	<b>196.5</b>	<b>164.7</b>	<b>196.9</b>

30. In 1934-35, India's total exports of oil seed cake to all countries seem to have regained their position



of 1932-33, over which they suffered a set-back of Rs. 32 lakhs in 1933-34. India's position in the United Kingdom market was gradually improving from her exports to the United Kingdom of 106,000 tons of the value of Rs. 72 lakhs in 1932-33 to 157,000 tons of the value of 86 lakhs in 1933-34 to 211,000 tons of the value of 1 crore and 16 lakhs in 1934-35. There is an improvement in India's position in the United Kingdom market which is to a great extent due to the preference granted to Indian oil seed cake. Though India improved her position in countries granting preference, which took 61% of her exports in 1934-35 compared to 37% in 1932-33, the share of the countries, not granting preference, fell from 181,000 tons of the value of 1 crore and 24 lakhs, i.e. 63% in 1932-33 to 137,000 tons of the value of 81 lakhs, i.e. 39% in 1934-35.

#### Coir yarn, mats and mattings

31. Though the figures from the Government Report record an all-round drop in India's exports to the United Kingdom in these three articles, one must admit that the preference has resulted in India practically monopolising the British market at the cost of Belgium. The United Kingdom's requirements of coir yarn have come down from 483,000 cwts. of the value of £ 705,000 in 1929 to 153,000 cwts. of the value of £ 159,000 in 1934. The imports of coir mats and mattings into the United Kingdom show an increase of about 1.8 million yards during the same period, India supplying the whole of the market, and Belgium disappearing from the field.

#### Paraffin wax

32. The following table indicates the export of Paraffin wax from India :—

**TABLE No. 22**  
**Exports from India**  
(In lakhs of rupees)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	112.4	36.7	54.7	46.8
Germany	..	14.3	6.0	21.2	1.9
Netherlands	..	19.2	23.7	28.9	16.3
Belgium	..	20.5	18.0	18.5	13.6
Italy	..	7.8	18.7	19.2	18.7
Union of South Africa	..	10.1	11.7	10.6	9.4
Por. E. Africa	..	15.9	23.7	18.2	19.0
U. S. A.	..	35.3	12.8	23.4	12.2
Mexico	..	1.8	13.6	2.7	19.3
<b>Total</b>	..	<b>317.7</b>	<b>201.9</b>	<b>228.9</b>	<b>191.9</b>

India used to export in 1929-30 paraffin wax to the value of Rs. 3,17,00,000. The year 1934-35 shows an all-round decrease in the exports from India. The imports of paraffin wax into the United Kingdom for the year 1934-35 as shown in the following table indicate that the United Kingdom took 12,000 cwts. of paraffin wax more from the United States of America, but took 34,000 cwts. less from India.

**TABLE No. 23.**  
**\*Imports of Paraffin-wax into U.K.**  
(In 000 cwts.)

		<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. S. A.	..	515	483	495
India	..	189	244	210
Poland	..	206	234	122
<b>Total</b>	..	<b>973</b>	<b>1107</b>	<b>950</b>

\*Figures adjusted to April-March Indian financial years.

## Spices

33. Of the spices exported, pepper is an important article of consumption in the United Kingdom market. The imports of spices into the United Kingdom are as under :

**TABLE No. 24**  
**Imports of Spices into U.K.**  
(In 000 cwts.)

		<u>1932</u>	<u>1933</u>	<u>1934</u>
Pepper	..	92.8	140.8	365.9
Other sorts	..	99.3	110.7	137.8
<b>Total</b>	..	<b>192.1</b>	<b>251.5</b>	<b>502.7</b>

There has been substantial increase in the imports of pepper, analysis of which is interesting :—

**TABLE No. 25**  
**Imports of Pepper into U.K.**  
(In 000 cwts.)

		<u>1932</u>	<u>1933</u>	<u>1934</u>
India	..	7.4	9.2	2.8
British Malaya	..	52.6	68.4	218.8
Other British countries	..	8.1	16.0	42.6
Dutch East Indies	..	22.0	43.8	90.8
Other foreign countries	..	2.6	3.2	10.6
<b>Total</b>	..	<b>92.8</b>	<b>140.8</b>	<b>365.9</b>

Imports of pepper increased by 2,25,000 cwts. in 1934 over 1933 imports but India instead of getting any advantage actually lost 7,000 cwts. over her 1933 trade. Every foreign and Empire country except India supplying pepper to the United Kingdom recorded an increase.

### Teakwood and other hard woods

34. India's exports to the United Kingdom increased by 25 lakhs but her share in the requirements of the United Kingdom in woods and timbers is very insignificant. The United Kingdom imported in 1934 woods and timbers to the value of £ 39,569,560 of which India is responsible for £ 538,613, that is, scarcely 1.2 per cent of the total value of imports. India and Burma, with her vast forest resources, ought to have better opportunity of supplying the United Kingdom's requirements to a greater proportion.

### Woollen Carpets and Rugs

TABLE No. 26

Exports of Woollen carpets and rugs  
(In lakhs of rupees)

		1929-30	1932-33	1933-34	1934-35
U. K.	..	38.2	44.6	56.5	73.9
U. S. A.	..	35.9	12.7	8.5	7.8
Total	..	85.0	63.5	72.6	89.8

35. There has no doubt been a very substantial increase in India's exports to the United Kingdom to the extent of 29 lakhs over 1932-33 position, and is due to a certain extent to the preferential scheme ; there is, however, another important factor to be taken into consideration and it is that as this article finds market according to the taste of the customers, the price factor may not be predominant ; besides, the figures of imports into the United Kingdom reveal that there has been an all-round increase in imports from all countries. The table of imports given in the Government Report differs substantially from the

following figures reproduced from the December, 1934, issue of the Account of the Trade and Navigation of the United Kingdom :—

TABLE No. 27

## Imports of Woollen Carpets and Rugs in U.K.

(000 sq. yards)

		<u>1932</u>	<u>1933</u>	<u>1934</u>
India	..	1,073	1,277	1,760
Other British countries	..	33	33	49
Belgium	..	945	1,275	1,583
Turkey	..	445	313	362
<b>Total</b>	..	<b>3,188</b>	<b>3,576</b>	<b>4,372</b>
<b>Re-exports</b>	..	<b>547</b>	<b>587</b>	<b>491</b>

## Rice Meal and Dust, etc.

36. There has been a rise in the export of this commodity to the extent of 11 lakhs to the United Kingdom in 1934-35 over 1932-33, but India seems to have lost her market in Germany to the extent of 6 lakhs during the same period.

## Tobacco

37. This is a very important item of export on which much reliance was placed by the Government of India but the figures as shown in Table No. 28 below indicate that there has been a substantial decrease in India's export to the United Kingdom, the United Kingdom taking 34 lakhs worth of unmanufactured tobacco in 1934-35 against 46.9 lakhs in 1933-34.

**TABLE No. 28**  
**Exports of unmanufactured tobacco**  
(in lakhs of rupees)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	41.3 (45.6%)	36.3 (49%)	46.9 (52%)	34.1 (44%)
Aden & Dependencies	..	22.2	15.8	19.7	21.9
Straits Settlements	..	14.4	3.0	3.9	3.7
Japan	..	12.5	9.4	9.8	11.1
F. M. S.	..	6.6	1.5	1.5	2.0
Netherlands	..	2.4	3.9	4.1	2.0
<b>Total</b>	..	<b>90.4</b>	<b>73.4</b>	<b>90.1</b>	<b>77.5</b>

If we compare the figures for imports of unmanufactured tobacco into the United Kingdom (*vide* Table 29), we find that the United Kingdom increased her imports in 1934 by 28 million lbs. more from Southern Rhodesia, 2 million lbs. from Nyasaland and 30 million lbs. from U.S.A., while she took less from India to the extent of 3 million lbs.

**TABLE No. 29**  
**Imports of unmanufactured tobacco into U.K.**  
(In 000 lbs.)

		<u>1932</u>	<u>1933</u>	<u>1934</u>
India	..	9,208	12,978	9,791
Southern Rhodesia	..	10,430	10,031	15,895
Nyasaland	..	15,078	10,372	12,518
U. S. A.	..	125,175	159,895	189,274
<b>Total</b>		<b>174,912</b>	<b>211,234</b>	<b>239,259</b>

### Castor Seeds

38. This is another of India's important agricultural commodities. We find from Table No. 30 given below that

India used to export castor seed worth Rs. 214 lakhs in 1929-30 but she suffered a heavy set-back and exports dwindled to Rs. 124 lakhs in 1932-33, Rs. 99.5 lakhs in 1933-34 and came down still further to Rs. 81.1 lakhs in 1934-35. The United Kingdom's share, in spite of a preference, is showing a corresponding decrease. Her exports to U. S. A., France, Italy, also diminished while she disappeared from Belgium market, the only relieving feature being Egypt's offering India a market to the extent of 13 lakhs.

**TABLE No. 30**  
**Export of Castor Seeds from India**  
(In lakhs of rupees)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	49.6	33.3	32.7	23.8
U. S. A.	..	101.5	40.9	29.1	17.0
France	..	34.3	24.1	16.2	11.5
Belgium	..	7.4	5.8	.3	..
Italy	..	13.1	9.0	9.6	5.7
Egypt	..	..	..	..	13.1
Total	..	214.0	124.0	99.5	81.1

**TABLE No. 30 A**  
**Export of Castor Seeds from India**  
(In 000 tons)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	24.7	22.7 (2.0)	27.1 (3.1)	26.4 (1.1)*
U. S. A.	..	50.9	28.4	23.4	13.9
France	..	16.5	16.8 (.2)	13.0 (1.2)	9.1 (1.3)
Belgium	..	3.5	4.0	.3	..
Italy	..	6.1	6.2	7.9	5.1
Egypt	..	.2	..	..	11.9
Total	..	106.4	85.9 (5.1)	81.5 (5.9)	68.7 (5.2)

\*Figures in brackets represent exports from Kathiawar ports.

## Groundnut

39. In 1929-30, exports of groundnut from India were of the value of Rs. 16.38 crores of which the foreign countries were responsible for Rs. 15 crores. The Table 31 given below shows how India received a severe set-back in her export trade of groundnut to all countries during the last 5 years. Though the reduction in values was from Rs. 16.3 crores in 1929-30 to Rs. 5.9 crores in 1934-35, in the matter of quantity, India's exports declined from 7,14,000 tons in 1929-30 to 5,11,000 tons in 1934-35.

TABLE No. 31

## Exports of groundnut

(In lakhs of rupees)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	1,24.3	57.7 (4.9)	66.5 (4.4)	93.0* (4.8)†
Germany	..	4,79.5	75.8 (.7)	1,18.1 (3.2)	49.1* (.9)
Netherlands	..	3,50.6	1,37.6 (2.2)	1,21.8 (18.8)	79.8* (8.1)
Belgium	..	18.4	13.9 (2.3)	14.2 (.6)	16.1* (1.9)
France	..	4,85.1	3,67.9 (2.6)	2,32.9 (.3)	1,14.2* (.8)
Italy	..	1,23.2	44.3 ..	83.9 (2.2)	46.5* (4.8)
Egypt	..	20.4	4.8	..	1,62.9*
Total	..	16,38.0	7,12.2 (13.0)	6,63.1 (31.6)	5,91.5 (38.6)

\* Figures for 1934-35 include "For Orders" cargoes.

† Figures in brackets represent exports from Kathiawar ports.



TABLE No. 32

Exports of groundnut  
(In 000 tons)

		<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	53.2	31.6 (4.3)	52.8 (5.2)	134.2* (4.1)†
Germany	..	210.1	48.1 (.5)	97.2 (3.0)	47.9* (0.9)
Netherlands	..	154.2	87.5 (1.5)	100.8 (16.7)	78.2* (8.7)
Belgium	..	8.1	8.6 (1.6)	13.5 (.5)	14.9* (1.6)
France	..	210.9	219.4 (1.6)	188.1 (.3)	96.4* (.8)
Italy	..	54.7	28.2	72.4 (2.3)	41.5* (5.4)
Egypt	..	6.4	3.0	.. (1.7)	136.8* (14.2)
Total	..	714.2	433.0 (9.8)	546.5 (30.0)	511.2 (36.6)

40. During the two years of the Ottawa scheme of preferences, though India regained her market of the United Kingdom to the extent of 36 lakhs, she lost during the same period her trade with the non-Empire countries to the extent of 121 lakhs. The Table 33 below gives an idea of the position about the loss and gain during the two years of the currency of the Ottawa scheme in respect of foreign markets of India in the export of groundnut.

\* Figures for 1934-35 include "For Orders" cargoes.

† Figures in brackets represent exports from Kathiawar ports.

TABLE No. 33

India's position in 1934-35 compared to 1932-33 showing increase or decrease in her exports to foreign countries

Exports to U. K.	+	36 lakhs
„ Belgium	+	2.2 „
„ Egypt	+	158.1 „
„ Germany	-	26.7 „
„ Netherlands	-	57.8 „
„ France	-	253.7 „

In Egypt, India found a new market to the extent of 162.9 lakhs.

41. The preference scheme has not resulted in any expansion of trade for India but has, on the other hand, resulted in loss of market in foreign countries.

42. The Government report states that Indian groundnuts could not record satisfactory progress in the United Kingdom market due mainly to the competition which groundnut has to meet in the United Kingdom market from soya bean and cotton seed. India does not grow soya beans, but as a chief cotton producing country, India is expected to supply the requirements of the United Kingdom market in cotton seed, but Indian cotton seed does not find any place in the Ottawa scheme and though she ranks second\* to U.S.A. in the production of cotton seed in the world, she scarcely commands any export trade worth the

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\* Production of cotton seed in 1934-35 (*vide* Statistical Year Book of League of Nations).

U. S. A.	37.6	Millions Quintals.
India	20.3	„ „
China	15.7	„ „
U. S. S. R.	8.8	„ „
Egypt	7.1	„ „

name and whatever export trade she had with the United Kingdom in 1928-29 to the value of Rs. 1 crore 22 lakhs, came down to Rs. 54 lakhs in 1929-30, Rs. 85,000 in 1932-33 and disappeared altogether from 1934-35.

### Lead

43. Exports of pig lead from India in 1929-30 were worth 2.44 crores, with the United Kingdom taking up 1.54 crore and foreign countries 77 lakhs. The Table 34 below indicates the position wherein Germany and Belgium have disappeared from the export trade of India in Pig Lead. India lost trade worth 34 lakhs in 1934-35 with the United Kingdom compared to 1932-33, while she secured an advantage of 20 lakhs in her export to Japan probably due to sharp fall in the production of lead in the U.S.A. and Mexico, the total trade suffering a set-back of 12 lakhs during the course of two years.

**TABLE 34**

**Exports of Pig Lead**  
(In lakhs of rupees)

			<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	154.4	117.6	127.7	83.6
Germany	..	..	33.0	..	..	..
Ceylon	..	..	11.1	3.9	3.5	3.2
Belgium	..	..	20.5	..	..	..
Japan	..	..	17.3	20.9	17.0	40.6
<b>Total</b>	..	..	<b>244</b>	<b>147.6</b>	<b>151.7</b>	<b>135.9</b>

**TABLE 35 \***  
**Exports of Pig Lead**  
(In 000 cwts.)

			<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	920.8	963.8	1,090.0	746.4 (39.9)*
Germany	..	..	201.0	..	..	..
Ceylon	..	..	65.9	33.5	31.5	29.8
Belgium	..	..	122.0	..	..	..
Japan	..	..	104.2	179.4	150.6	375.1
<b>Total</b>	..	..	<b>1,455.8</b>	<b>1,217.5</b>	<b>1,302.3</b>	<b>1,229.2</b>

If we compare the import figures into the United Kingdom (*vide* Table 36), it will be seen that India's position in the United Kingdom market deteriorated, while all other countries improved their position at the cost of India, owing to greater depreciation of their currencies.

**TABLE 36**  
**Imports of Pig Lead into U. K.**  
(In 000 tons.)

			<u>1929</u>	<u>1932</u>	<u>1933</u>	<u>1934</u>
<u>India</u>	..	..	<u>53</u>	<u>44</u>	<u>55</u>	<u>42</u>
Australia	..	..	..	129	145	163
Canada	..	..	..	54	69	76
U. S. A.	..	..	..	20	3	11
Mexico	..	..	..	5	3	16
<b>Total</b>	..	..	<b>292</b>	<b>262</b>	<b>292</b>	<b>313</b>

When there was a slight increase worth Rs. 4 lakhs in India's export to the United Kingdom in 1933-34, Government

\*For "Order" Cargo.

attributed it to the Ottawa scheme and even maintained that India and the Empire countries were displacing non-Empire supplies in spite of the Committee's contention that India's advantage was due to a definite decrease in the production of pig lead in practically all the countries supplying the commodity to the United Kingdom. The Table 36 above definitely disproves the Government theory and supports the view that in a market where India has to compete with the Dominions, she has scarcely any chance of reaping an advantage out of the scheme of preference, as Australia and Canada have made a further advance in their exports to the United Kingdom and displaced not only foreign countries such as U.S.A. but even India.

### Barley

44. The Government merely state that out of an annual production of 2.4 million tons, India exports only 14,000 tons, the United Kingdom importing 13.9 thousand tons. If we examine the requirements of the United Kingdom, the following figures are very instructive :

**TABLE No. 37**  
**Total imports of Barley into U. K.**

<u>Year.</u>				
1932	..	..	10.1	Million cwts.
1933	..	..	15.9	.. ..
1934	..	..	15.6	.. ..

India scarcely contributes .2 million cwts. The possibility of greater exports of barley to the U. K. market from India, encouraging thereby more cultivation of the crop, if it is needed, should be explored by the Imperial Council of Agricultural Research.

## Goatskins\*

45. Her exports to the United Kingdom increased by 2,000 tons but there has been a set-back in practically all foreign countries her whole export trade diminishing by 5,000 tons over her 1933-34 position. India's best customer, U.S.A., used to take practically 90 per cent. of the goatskins in 1929-30, now she takes 73 per cent., while the United Kingdom increased her share from 2.3 per cent to 18%. Germany, Belgium and France took less than what they took in 1932-33.

TABLE No. 38

## Export of Goat Skins raw

(In tons)

			<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	553	2,611	4,248	2,475
U. S. A.	..	..	18,595	7,635	11,611	9,604
Germany	..	..	61	122	169	88
Netherlands	..	..	220	496	992	449
Belgium	..	..	296	249	149	112
France	..	..	367	355	390	231
Australia	..	..	481	395	298	428
<b>Total</b>	..	..	<b>20,628</b>	<b>12,152</b>	<b>18,183</b>	<b>13,874</b>

The Government Report, after comparing the position of India with other British Empire countries in the import trade of the United Kingdom in Goat Skins raw, comes to the conclusion that "the share of India has declined both absolutely and relatively, while other Empire countries have fared better in 1934-35."

## Raw Cotton

TABLE No. 39

## Export of Raw Cotton

(In 000 tons)

<u>To</u>			<u>1929-30</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	48.2	29.4 (1.9)	61.0 (2.4)	61.9 (1.1)*
Germany	..	..	61.4	26.8 (1.5)	43.9 (5.6)	27.1 (2.3)
Netherlands	..	..	11.4	6.7 (2.8)	11.4	8.3
Belgium	..	..	60.9	22.3 ..	25.7 (11.4)	27.3 (2.9)
France	..	..	45.2	21.3	28.7 (.7)	26.4 (.7)
Spain	..	..	14.3	9.3	10.9	10.8
Italy	..	..	70.1	26.8	46.5 (.6)	49.6 (.9)
China	..	..	101.2	23.9	60.1	25.3
Japan	..	..	292.8	193.7	182.6 (3.2)	359.0 (1.5)
U. S. A.	..	..	14.4	1.1	5.1	5.8
<b>Total</b>	..	..	<b>726.9</b>	<b>364.8</b> (6.3)	<b>487.4</b> (25.1)	<b>615.3</b> (10.2)
			<b>726.9</b>	<b>371.1</b>	<b>512.5</b>	<b>625.5</b>

46. Raw cotton does not enjoy any preference in the United Kingdom market. In spite of all the efforts by the Lancashire Indian Cotton Committee, the United Kingdom could scarcely take 400 tons more than her 1933-34 requirements against an increase in her total exports of 113,000 tons in 1934-35, there being an increase of more than 20

\* Figures in brackets indicate exports from Kathiawar Ports.

per cent. over 1933-34 exports. Italy took 3,000 tons more, while Japan took more than 174,000 tons at an extra cost of 11 crores of rupees. India, on the other hand, lost her market with Germany to the tune of 16,800 tons, Belgium 7,000 tons, Netherlands 3,400 tons, France 2,300 tons and China 35,000 tons.

#### **Pig Iron**

47. India's exports advanced by 40,000 tons, the United Kingdom taking 5,000 tons more, Japan 62,000 tons more, while Germany took 4,000 tons less, China 2,000 tons less and U.S.A. took 32,000 tons less in 1934-35 compared to 1933-34 position. There has not been any material advantage for India as a result of preference in the United Kingdom market. She lost her trade heavily in U.S.A., Germany and China, and had it not been for her phenomenal rise in her exports to Japan, the industry would have suffered a severe set-back.

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### **Imports into India**

48. A number of articles of import were not classified according to the country of origin even though the value of those imports is substantially large. This has created a difficulty in the examination of the effects of the Ottawa scheme on the entry of British goods into India when they are in competition with goods of foreign countries. Only such items of import are, therefore, examined in detail, for which detailed figures are available in the Sea-borne Trade and Navigation of British India.

### **Chemicals and chemical preparations**

49. There has been an increase of more than 22 lakhs in 1934-35 over 1932-33 position, the total imports being of the value of 292.4 lakhs. The position of the United Kingdom product as reviewed by Government Report improved in so far as she was able to increase her share from 52% to 55% in 1933-34 and further to 56% in 1934-35.

### **Hardware excluding cutlery and electroplated ware**

50. The total imports of articles enjoying preference under this head increased from 2 crores 92 lakhs in 1932-33 to 3 crores 1 lakh in 1934-35. The share of the United Kingdom increased from 85 lakhs to 96 lakhs with an increase in the percentage from 29 per cent to 32 per cent. In most of the lines, the United Kingdom was able to hold her own against foreign competition, particularly from Japan and Germany, owing to the preference granted to her goods.

### **Instruments and apparatus, etc.**

51. The total imports increased by 88 lakhs during the period of two years rising from 384.7 lakhs in 1932-33 to 472.6 lakhs in 1934-35, the United Kingdom alone registering an increase of 39.4 lakhs during this period of 2 years.

The following table indicates her advance under several headings :

**TABLE No. 40**

**U.K's Advance in 1934-35 over 1932-33 in "Instruments and apparatus, etc."**

Electric fans	..	3.3	lakhs	increase over 1932-33 imports.
Electric wire & cables	..	7.1	..	do.
Electric Insulators	..	16.4	..	do.
Bare copper wire	..	2.0	..	do.
Telegraph & telephone	..	7.6	..	do.
Electric lamps	..	1.4	..	do.
Unspecified	..	1.6	..	do.
				39.4 lakhs

**TABLE No. 41**

**Imports into India of goods electrical  
(In lakhs of rupees)**

				<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	..	1,21.5	1,30.5	1,62.4
Germany	..	..	..	34.4	25.2	31.9
Netherlands	..	..	..	11.0	11.4	13.0
Belgium	..	..	..	2.9	3.2	2.0
France	..	..	..	1.3	2.4	1.0
Italy	..	..	..	6.1	6.2	7.6
Japan	..	..	..	16.8	15.7	16.7
U. S. A.	..	..	..	26.6	23.9	30.6
Other countries	..	..	..	13.4	12.5	15.7
<b>Total</b>	..	..	..	<b>2,34.2</b>	<b>2,30.8</b>	<b>2,81.2</b>

It will be seen from Table 41 above that it was the United Kingdom alone which reaped the highest advantage in the Indian market to the extent of 39 lakhs, while all other countries' share was comparatively insignificant.

### Machinery and Mill-work

52. The United Kingdom is mainly interested in the import of various kinds of machinery coming under this group. Total imports coming under this head increased by 209 lakhs in 1934-35 over 1932-33 position—the increase being from 10 crores 54 lakhs to 12 crores 63 lakhs and the United Kingdom's share in the total imports increased by an enormous amount of 1 crore 34 lakhs. This improvement does not, however, represent the result of any preference given to the United Kingdom as the articles enjoying preference are the sewing and knitting machines and parts and typewriters, their parts, etc. The United Kingdom improved her position in the supply of sewing machines.

### Aluminium Wrought

TABLE No. 42  
Imports of aluminium wrought in India  
(In lakhs of rupees)

				<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
Circles	..	..	..	14.2	23.7	27.8
Sheets	..	..	..	1.1	1.3	1.6
Others	..	..	..	6.8	7.5	8.7
<b>Total</b>	..	..	..	<b>22.2</b>	<b>32.6</b>	<b>38.3</b>

53. The grant of preference to the United Kingdom has diverted the trade in circles and sheets to the United Kingdom, but the benefit of the preference is not enjoyed

by the Indian consumer. The difference in price has gone to the British producer, as the c.i.f. price of British circles, which have to pay 20 per cent., is so adjusted that the consumer gets it at the same price as circles imported from Canada and Japan, which have to pay 30 per cent. This would be found also in a wide range of other articles and is a sufficient answer to the claim that the preferences have benefited the Indian consumer and are in favour of the Indian consumer.

#### Brass, bronze and similar alloys

54. Though the total imports under this head have fallen from 179.1 lakhs in 1932-33 to 168.1 lakhs in 1934-35, the share of the United Kingdom shows an improvement of 7 lakhs during this period, her percentage share improving from 31% to 37%. The following are the figures for the sheathing metal which constitutes an important article of import from the United Kingdom.

TABLE No. 43

#### Imports of brass, bronze and similar alloys for sheathing in India

(In lakhs of rupees)

				1932-33	1933-34	1934-35
U. K.	..	..	..	46.6	46.0	54.5
Germany	..	..	..	72.2	47.4	60.7
Japan	..	..	..	30.3	25.7	27.7
Total	..	..	..	149.2	119.1	143.0

55. Though the total imports of metal for sheathing have fallen by 6 lakhs during the course of 2 years from 149.2 lakhs in 1932-33 to 143.0 lakhs in 1934-35, the United Kingdom's share has increased from 46.6 lakhs in 1932-33 to 54.5 lakhs in 1934-35, Germany and Japan receiving a

set-back to the extent of 12 lakhs and 3 lakhs respectively. The United Kingdom improved her position absolutely as a result of preference, in sheathing metal alone.

### Copper wrought

TABLE No. 44

Imports of copper wrought into India  
(In lakhs of rupees)

	1932-33	1933-34	1934-35
U. K.	28.0	38.0	58.7
Germany	67.2	32.3	30.1
Belgium	3.8	1.1	.8
France	1.3	.1	.9
Japan	6.7	8.9	19.4
U. S. A.	4.2	2.3	24.4
Total	1,12.0	83.0	1,34.7

56. During the period of 2 years, the imports increased by 22 lakhs ; the United Kingdom increased her share in the market by 30 lakhs, thereby not only supplying all the increased market but enjoying some share from foreign suppliers. Japan and U. S. A. were also in a position to increase their market by 13 lakhs and 20 lakhs, Germany and Belgium receiving a set-back to the extent of 37 lakhs and 3 lakhs respectively.

### Iron and Steel

57. Though the imports of iron and steel into India do not come under the Ottawa Agreement, the products of the United Kingdom origin enjoy a preference under the Iron and Steel Industry Protection Act. Under the Indo-British Trade Treaty which is considered as a supplement to

the Ottawa Trade Agreement, a preferential margin of duty between the United Kingdom and the foreign countries cannot be changed with detriment to the United Kingdom's interests. The preference, therefore, granted to the United Kingdom in imports of iron and steel products, necessarily comes under the Ottawa Trade Agreement. On examining this, we find that the imports of all kinds of iron and steel - protected and not protected - show a substantial increase of Rs. 90 lakhs in 1934-35 as compared to 1932-33. The United Kingdom scored materially and absolutely in practically all important items of import coming under this group.

**TABLE No. 45**

Advance secured by the United Kingdom in 1934-35 as compared to 1932-33 in relation to the total gain or loss in the imports of the following commodities in respective periods.

(In lakhs of rupees)

ARTICLE.			Total gain or loss in imports.	U. K.'s gain or loss.		
	..	..		+	-	
Bar	..	..	+	12	+	11.8
Beams, channels, etc.	..	..	+	8.2	+	5
Bolts and Nuts	..	..	+	10.3	+	4.1
Fencing material	..	..	+	14.3	+	2.1
Hooks and strips	..	..	+	18	+	9.2
Nails, rivets, etc.	..	..	+	2	+	3
Rails, chairs & fish-plates, etc.	..	..	+	3.1	+	3.4
Galvanised sheets	..	..	-	13.1	+	13
Not galvanised or tinned sheets	..	..	+	15.5	+	12
Sleepers, keys, etc.	..	..	+	12.2	+	3.3
Tubes, pipes, etc.	..	..	+	28	+	19
<b>Total</b>	..	..	+	<b>90.3</b>	+	<b>85.9</b>

+ = Gain  
- = Loss

58. In 11 of the important items as indicated in the above Table 45, the United Kingdom increased her imports into India during the period of 2 years by a tremendous figure of Rs. 86 lakhs against an increase in the total imports under these headings of the value of 90.3 lakhs and the United Kingdom could usurp this position at the cost of India's foreign suppliers, such as, Germany and Belgium. It must further be remembered that in total imports of 5.33 crores in 1934-35, protected items alone account for imports of 2.97 crores, that is, an increase of 30 lakhs over 1932-33 position. An increase in the imports of protected articles necessarily means so much loss of market to the indigenous industry.

59. The galvanised sheets which secured an undue preference against Belgium manufactures under the same agreement increased by 2 lakhs over the 1933-34 position. How far the advantage of the supplementary agreement was taken by the United Kingdom in improving her position in the supply of galvanised sheets to India against the competition from Belgium can be well illustrated by the following Table 46 which shows that the United Kingdom ousted Belgium entirely from the Indian market.

**TABLE No. 46**

**Imports of galvanised sheets into India**

(In lakhs of rupees)

	<u>1929-30</u>	<u>1930-31</u>	<u>1931-32</u>	<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K. (Galv.) ..	3,93.9	1,63.5	91.3	69.1	98.2	100.3
(Plain) ..	43.7	20.6	15.1	17.8		
Belgium (Galv.) ..	90.1	70.1	42.9	26.1	8.6	2.8
(Plain) ..	13.1	16.5	13.2	6.9		
<b>Total (Galv.) ..</b>	<b>4,94.6</b>	<b>2,47.9</b>	<b>1,35.4</b>	<b>96.5</b>	<b>1,12.1</b>	<b>1,10.1</b>
<b>(Plain) ..</b>	<b>61.1</b>	<b>41.3</b>	<b>30.5</b>	<b>26.8</b>		

## Oils

TABLE No. 47

**Import of lubricating oils other than batching oils**  
(In lakhs of rupees)

			<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	20.9	25.5	23.1
Belgium	..	..	9.3	.5	.7
U. S. A.	..	..	74.2	72.5	66.7

60. The total imports under this head diminished by 14 lakhs during 2 years, but the United Kingdom increased her share by 3 lakhs definitely at the cost of Belgium and U.S.A.

## Oil Cloth and Floor Cloth

61. The Government Report admits that the United Kingdom was able to improve her supplies from 414 thousand sq. yds., in 1932-33 to 534 thousand sq. yds., in 1934-35.

## Paints

TABLE No. 48

**Imports of paints into India**  
(In lakhs of rupees)

(The following figures include all classes, whether receiving preference or otherwise).

			<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	43.3	46.8	48.7
Germany	..	..	8.9	7.5	7.3
Japan	..	..	7.3	6.3	8.1
U. S. A.	..	..	2.5	2.3	2.5
<b>Total</b>	..	..	<b>70.3</b>	<b>70.3</b>	<b>74.0</b>



62. The total imports increased by 4 lakhs during 2 years, the United Kingdom increasing her share by 5.4 lakhs. Examining the Government Report figures for articles enjoying preference, the results are identical, the United Kingdom gaining extra market worth 5.3 lakhs and improving her share from 63% in 1932 to 68% in 1934-35, which indicates that the preference materially helped the United Kingdom to secure an absolute advantage in absorbing all the increase in the imports and even increasing her share at the cost of Germany.

#### Provisions

63. The figures given below represent total imports of all articles coming under this head :

**TABLE No. 49**

**Total imports of provisions into India**  
(In lakhs of rupees)

			1932-33	1933-34	1934-35
U. K.	..	..	1,39.7	1,51.3	1,60.6
Netherlands	..	..	34.7	24.1	25.5
U. S. A.	..	..	18.5	13.7	15.2
Australia	..	..	18.3	16.2	11.8
Straits Settlements	..	..	19.9	19.6	25.2
China	..	..	8.4	9.1	11.3
<b>Total</b>	..	..	<b>2,92.9</b>	<b>2,71.5</b>	<b>2,89.1</b>

There has been a set-back of about 3 lakhs in the total imports but the United Kingdom's share increased by 21 lakhs, while Netherlands, U.S.A. and Australia suffered a set-back of 9 lakhs and 7 lakhs respectively. If we examine the figures given in the Government Report in respect of

articles enjoying preference, the United Kingdom was able to improve her relative position from 43% in 1932-33 to 52% in 1934-35 by securing an additional market worth 9 lakhs.

### Rubber Manufactures

64. These are an important group of import items wherein the United Kingdom, with the help of preference, showed a remarkable progress in her position as chief supplier to the Indian market. In pneumatic motor covers, the United Kingdom's imports increased from 44.8 lakhs on 1932-33 to 87.4 lakhs in 1934-35. While all her competitors received a set-back during this period—Germany—1.4 lakhs, France—5.4 lakhs, Italy—12.6 lakhs, U.S.A.—16 lakhs. The United Kingdom also secured an advance in the supply of pneumatic cycle covers by an increase of 2 lakhs of rupees, while Germany and France received a set-back.

### Woollen Manufactures

**TABLE No. 50**  
**Imports into India**  
(In lakhs of rupees)

			<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
U. K.	..	..	52.5	57.4	{ 46.5 29.5*
Germany	..	..	8.8	6.5	{ 7.6 1.0*
Belgium	..	..	5.8	4.6	{ .4 .6*
France	..	..	34.3	17.4	4.2
Italy	..	..	42.1	22.6	{ 3.5 3.7*
Japan	..	..	7.8	15.5	{ 73.1 5.0*
<b>Total</b>	..	..	161.1	130.3	{ 139.8 41.7* = 181.5

\*Goods of wool mixed with other material separately recorded from April 1934-35.

65. The imports of woollen piecegoods into India present a very phenomenal course of trade during the last 2 years. There has been an increase of 20.5 lakhs in 1934-35 over 1932-33 position. Japan, with her depreciated currency, usurped about 50% of the import trade by increasing her share from 7.8 lakhs in 1932-33 to 78.1 lakhs in 1934-35—a phenomenal increase of 70 lakhs during the course of 2 years. France and Italy were the greatest sufferers in this trade, France losing trade worth 30 lakhs and Italy losing 35 lakhs during the course of 2 years, while the United Kingdom was able to increase her trade by 19 lakhs during the same period.

#### **Motor cars, motor cycles and cycles**

66. The United Kingdom increased her trade in motor cars to the extent of 43 lakhs during 2 years ; Canada and U.S.A. also increased their imports along with the United Kingdom owing to depreciation of dollar. In the import of cycles, the United Kingdom increased her trade by 18 lakhs, while in case of motor omnibuses, she increased her trade by 16 lakhs. She was able to improve her position in the Indian market to a very substantial extent.

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### Colonial Empire

67. Geographically India's position in the eastern zone is most advantageous for the furtherance of export trade with the whole of South and East Africa, Arabia, Red Sea Ports and Iran on the West and Australia, New Zealand, Federated Malaya States, Straits Settlements, Hong Kong and Indo-China on the East. Such a position was fully taken advantage of by Indian merchants migrating to countries on the West of India and even to some of the neighbouring countries on the East of India during the eighties and nineties of the nineteenth century. The trade mostly consisted of agricultural produce of India and re-export trade in foreign manufactures. With the advent of British rule in South Africa and more aggressive administration in favour of British products in Kenya, Uganda, Tanganyika, Federated Malaya States, and Straits Settlements, India lost her re-export trade in these countries and whatever new trade they developed in Indian manufactures gave place to Japanese competition and India's share in the import trade of these neighbouring countries gradually dwindled to negligible amount. South Africa, Australia and New Zealand being self-governing units, their case does not come under the Colonial Empire. Iran, Arabia and Indo-China are outside the Colonial Empire. The countries on the East African coast, which were of vital importance to India in her trade dealings, are precluded from offering any preference to India under the Convention of St. Germain, 1919. In answer to a question asked in the House of Lords in 1932, whether this Convention would be denounced in 1935, it was explicitly made known that "there would be rather large international obstacles in the way of bringing the present regime to an end." In spite of such a position, the Government of India went out

of their way in offering preferential treatment to imports from Kenya with the result that soda-ash – an important product controlled by the Imperial Chemicals – secured a preference of 10% over non-Empire product. One fails to understand the implications of the observation made by the Delegation in offering this preference to Kenya, “our considered view is that India gains a very substantial advantage at a very low cost”. If we examine the case of each part of the Colonial Empire, we find :

- |  |   |  |
|--|---|--|
| <p>(a) Kenya<br/>Uganda<br/>Zanzibar<br/>Nayasaland<br/>Part of Northern<br/>Rhodesia.</p> | } | <p>Precluded under the Convention of St. Germain-en-laye from giving any preference to India.</p>    |
| <p>(b) Tanganyika and other Mandated Territories.</p>                                      | } | <p>Under Treaty of Versailles, no preference allowed.</p>  |
| <p>(c) Gold Coast and Nigeria.</p>   | } | <p>Precluded under the Anglo-French Convention of 1898 from granting preference to India.</p>        |
| <p>(d) That part of Northern Rhodesia not governed by St. Germain Convention.</p>          | } | <p>Offering more favourable preference to U. K. and other reciprocating countries than to India.</p> |
| <p>(e) Hong Kong,<br/>Malaya.</p>  | } | <p>Entrepôt trade being very extensive, does not grant any preference.</p>                           |

Thus it will be seen that in the most important neighbouring markets, such as in East Africa, India has no chance of getting any advantage in her export trade to these countries.

68. The export and import trade between India and such parts of the British Colonial Empire as give preference is not sufficiently significant enough to fully examine the effects of the Ottawa scheme. The following figures give an idea of the position of India's export trade in preferred commodities to these countries :—

**TABLE No. 51**  
**Exports of preferred commodities from India**  
(In lakhs of rupees)

			<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
Ceylon	..	..	74.7	76.6	88.9
F. M. States	..	..	3.9	5.4	8.4
Straits Settlements	..	..	.5	.3	.1
Fiji	..	..	3.1	2.3	2.0
Seychelles	..	..	.7	.6	.7
Somaliland	..	..	2.7	2.1	1.5
Mauritius etc.	..	..	3.0	1.8	6.4
British West Indies	..	..	13.9	15.8	26.8
British Guiana	..	..	6.9	5.6	4.6
Cyprus	..	..	1.1	1.6	2.7
Sierra Leone	..	..	1.4	2.5	3.9
<b>Total</b>	..	..	<b>1,12.0</b>	<b>1,14.6</b>	<b>1,46.2</b>

Ceylon, which is the nearest foreign market for India's agricultural as well as industrial product, scarcely accounts for 88 lakhs and that too, in a number of unimportant items. There is no preference given to India by Ceylon to some of India's chief industrial products, such as, cotton textiles,

iron and steel, sugar, matches, cement etc. The second country of importance is the British West Indies, which accounts for 26 lakhs worth of India's exports. But out of this, rice is responsible for 13 lakhs and as such, there is scarcely any scope in all these parts of the Colonial Empire for furtherance of trade in India's industrial products.

69. The import trade is valued at 140 lakhs in 1934-35 and the following table will give an idea of the imports of preferred commodities from the various parts of the Colonial Empire into India :—

**TABLE No. 52**  
**Imports of preferred commodities into India from British**  
**non-self-governing colonies**  
(In lakhs of rupees)

			<u>1932-33</u>	<u>1933-34</u>	<u>1934-35</u>
Kenya	..	..	7.1	7.4	9.6
Tanganyika	..	..	.6	.1	.9
Zanzibar & Pemba	..	..	34.6	34.7	31.3
Ceylon	..	..	1,37.4	96.0	97.7
F. M. S.	..	..	.4	.2	.3
Seychelles	..	..	5.8	2.1	.4
<b>Total</b>	..	..	1,86.0	1,40.9	1,40.2

Here too, Ceylon accounts for 97 lakhs worth of imports in 1934-35. It is worth while noting that India gives preference to Ceylon's copra, and coconut oil which are responsible for Rs. 79 lakhs in 1934-35 and which directly come in competition with Indian seed and produce.

70. Kenya, Tanganyika and Zanzibar do not offer any preference to Indian exports. Still India offers preferential treatment to their products, such as, soda ash and ivory from Kenya and cloves from Zanzibar.

71. There is another very important factor which seems to have been ignored altogether by the Indian Delegation in considering the value of preference to India in the Colonial Empire and it is the position of India *vis-a-vis* the United Kingdom and the Dominions in the import trade of the Colonial Empire. It cannot be conceived by any stretch of imagination that India would gain a footing in the import trade either in competition with the United Kingdom in the supply of finished articles or in competition with some of the Dominions in the supply of agricultural produce. The Colonial Empire's main requirements would be in finished goods and it is in this line of trade that the United Kingdom is trying to gain supremacy in the British Empire by raising a tariff barrier against her non-Empire competitors. India can scarcely stand to gain in such a market specially preserved for British goods. In the supply of agricultural produce, we have seen, in case of the import trade of the United Kingdom, that even with a preference India was not able to occupy any place of advantage when in competition with the Dominions in the supply of agricultural produce to the United Kingdom. There can, therefore, be no chance for India getting any foothold in the supply of agricultural produce in the Colonial Empire. Mere establishment of the principle of equal preference for all Empire countries in Empire markets does not in any way improve India's export trade within the Empire. Particularly in the Colonial Empire, as has been indicated above, a very substantial portion is precluded by certain conventions and reciprocal trade treaties from extending any preference to India and India's trade in the remaining portion of the Colonial Empire is of a negligible proportion, nor has it any chance of receiving a substantial advance through preferential tariffs.



### System of drawback

72. Another complication has entered into the working of the Trade Treaty between the United Kingdom and India and it is the system of allowing drawback on import duties in the tariff structure of the United Kingdom. Nobody disputes the right of any country to allow drawback on import duty in case of re-exported commodities, but when the system is used to seriously affect the working of a trade agreement between the two countries based on adjustment of preferential tariffs, it is open to serious objection on the ground that it nullifies the very preference sought to be granted to the country under the trade agreement. During the course of 2 years, it was brought on more than one occasion to the notice of the Government of India that the allowance of drawback of an import duty on the exports of articles manufactured from the imported ones, on which the import duty is paid, nullified practically the preference granted to Indian linseed and linseed oil in the United Kingdom market. The Board of Trade in November, 1934, issued a notification allowing a drawback of £3 per ton out of the import duty of £3-10s. per ton on non-Empire linseed oil in case of goods manufactured from non-Empire linseed oil on which import duty was paid. Similarly in case of linseed, if plate linseed is utilised for extracting linseed oil, a drawback of 18s. from the import duty of £1 per ton is allowed.

73. If we examine the effect of the allowance of drawback in case of these two articles on the import of Indian linseed and linseed oil in the United Kingdom, it would be found that as practically all the United Kingdom industries are exporting ones, the utilisation of raw products in the process of their manufacture would entitle the British manufacturer to an advantage of practically 90 per cent

of the import duty levied on non-Empire products. This has naturally restricted the import of linseed and linseed oil in the United Kingdom market as the manufacturers have gone in for either Argentine linseed or Continental linseed oil. The Continental linseed oil extractors do not use Indian linseed ; ultimately, therefore, Indian linseed is suffering both in the United Kingdom and the Continental markets, while Indian linseed oil is practically debarred from an entry into the United Kingdom market. If a reference is made to the import of linseed and linseed oil into the United Kingdom (Tables Nos. 15 and 13), it will be found that the United Kingdom imported from Netherlands 4,000 tons linseed oil in 1933-34, while in 1934-35, with the drawback in operation, the United Kingdom imported 35,000 tons of linseed oil from Netherlands, imports from India being practically nil in the United Kingdom market. In case of imports of Indian linseed in the United Kingdom market, the same phenomenon is repeated ; with an increase in the drawback in favour of Argentine linseed, the United Kingdom imported 10,000 tons more from Argentine and 65,000 tons less from India in the year 1934-35.

74. When this aspect of the British tariff structure was brought to the notice of the Government of India, instead of representing the matter to the Government of the United Kingdom, they coolly remarked in their reply to the Committee, "that they were fully cognisant of the fact that the allowance of the drawback has been part of the tariff structure of the United Kingdom for a number of years prior to the Ottawa Conference and its existence was not overlooked in the negotiations of the Trade Agreement with the United Kingdom concluded at that Conference." The Committee searched in vain in the Report of the Government of India's Trade Delegation for a reference to the allowance

of drawback system and they have nowhere found an indication that the existence of such a system of drawback in the tariff structure of the United Kingdom was made known to the Government of India's Delegation at Ottawa, as allowance of such a drawback in case of goods manufactured from imported raw materials practically nullifies the probable effect of the 10 per cent preference given under the agreement to Indian produce in the United Kingdom market. It should further be noted that the allowance on drawback existing at the time of the Ottawa Conference was not continued in the same scale but in case of both linseed and linseed oil, it was increased to an extent to cover up practically the whole import duty. In spite of such fundamental considerations, the Government of India further replied "that they would continue to watch carefully the effect of drawback on the Indian linseed trade within the United Kingdom". This is a question which, the Committee feel, ought to receive very serious consideration at the hands of the Government of India.

#### **Effect of the scheme on non-Empire countries**

75. The inauguration of the Ottawa scheme and the depreciation of the £ increased the competitive power of the United Kingdom manufactures while that of the countries like Germany, Italy, France, Czechoslovakia, declined in the Indian markets for manufactured goods ; this resulted in increased passivity of trade between these non-Empire countries and India. Under the compulsion of finding the means for balancing their international accounts, there has begun a period of sub-conscious retaliation by these countries towards India, purely as a self-defensive measure, by their resorting to new and ingenious devices of either import licenses or quota restrictions or foreign exchange control. These systems gave rise to Clearing Agreements

and bilateral treaties between industrial and agricultural countries. The position of Germany, for instance, was accurately depicted by Dr. Scacht, Economic Minister to the German Rietz who, referring to the German desire to pay the debts contracted, remarked :—

“The only way in which she can do this, however, is by disposing of her own goods just as she is prepared to buy her raw materials abroad in exchange for her own finished products. Without the possibility of disposing of her goods, however, Germany can neither pay nor purchase”.

Germany has to place limitations on the purchase of the foreign exchange required to pay for imports and has, therefore, resorted to foreign exchange control. India's export trade in raw materials to Germany naturally suffered as the scope in the Indian market for German manufactured goods was restricted by the effective operation of the Ottawa scheme. The Government of India's contention that there was no discrimination aimed at India by these European countries in their resorting to import licenses, quota restrictions or exchange control, does not save this country from the same harmful effects as would result from an act of discrimination against India. As quotas have to be allotted as between countries, the danger of discrimination is inevitable and so is the case with the foreign exchange control. The inevitable corollary of exchange regulations is the control of imports. These devices can be utilised with complete freedom either to placate a friendly nation or to annoy a country like India, and Germany has been fully utilising the power vested in her Executive to so control the foreign exchange as to adjust her balance of trade with her foreign customers.

76. France and Italy have been following since the Ottawa Conference a policy of developing their colonial

possessions on lines similar to the British scheme and France is now taking from French West Africa raw materials in greater quantities at the cost of her trade with India. France and Italy have adopted quota schemes for the import of a number of articles in which India is chiefly interested. It requires no imagination to understand the result of the forces let loose after the Ottawa Conference in the sphere of international trade and every country is trying to enter into a bilateral trade agreement with her customers with a view to save her export trade from deterioration. The United States of America have on hand negotiations with not less than 14 countries for bilateral treaties, and she has already completed tariff reduction agreements with Cuba, Brazil, Belgium and recently with Canada. The United Kingdom, soon after the Ottawa Conference, also entered into bilateral trade treaties with a number of continental countries adjusting her trade relations with them on the basis of quota arrangement. Unfortunately under the Ottawa scheme, India's power of entering into bilateral treaties with her chief foreign customers got restricted and there was no scope left for offering a certain portion of her import trade in manufactured articles to non-Empire countries, who happened to be the United Kingdom's competitors in Indian market. The Government of India, in examining the effects of the Ottawa scheme on non-Empire countries, will have to give very serious consideration to the situation that has developed abroad and an indication of which is given above by the Committee of the Federation. If India is to be a willing party to a certain scheme of economic block within the British Empire, she must secure sufficient freedom to adjust her import trade with such of her chief non-Empire customers which have been in the past, and even continue to be at present, her substantial customers in her export trade.

### Results of the Scheme

77. The full implications of the Ottawa scheme did not seem to have been fully examined by the Government of India in 1932 when the Trade Agreement was ratified. The mere grant of 10 per cent preference in the customs tariff of the United Kingdom to India and Dominions against non-Empire countries was not based on any scientific examination of the effects of such a preference on India's export of raw materials to the United Kingdom markets, wherein she was bound to face competition not only from the Dominions producing raw materials but also from non-Empire agricultural countries, such as, Argentine, Brazil, Costa Rica and the United States of America. One important factor which seems to have been lost sight of was the competitive strength of these exporting countries due to devaluation of their currencies in relation to gold parities, which was a deciding factor in securing a place in the United Kingdom markets. The phenomenon of Australia and New Zealand scoring over India with equal preference and of Argentine, Costa Rica, Brazil succeeding even without any preferential tariff in securing a greater share in the United Kingdom's import trade in competition with India, finds explanation in the following table showing the competitive strength of their devalued currencies in 1934 and 1935 as compared to 1931 :—

**TABLE No. 53**  
**Percentage discount in relation to gold parities\***

	<u>1931</u>	<u>1932</u>	<u>1934</u>	<u>1935</u>	
Great Britain ..	6.91	28.19	38.23	40.64	(May, 1935)
India ..	7.70	27.82	38.10	40.71	(April, 1935)
Canada ..	3.67	11.91	39.76	40.55	
Australia ..	27.77	42.48	50.86	53.20	
New Zealand ..	14.67	34.21	50.67	52.91	
Argentine ..	30.82	39.42	64.21	64.18	
Brazil ..	41.24	40.46	65.93	69.87	

\* *Vide* pages 44-45 of "Trade in our days" by F. H. Fentener van Vlissingen.

It will be seen from the above table that Australia, New Zealand, Argèntine and Brazil have a natural advantage over India and consequently the 10 per cent preference was of no practical use to India in increasing her share in the United Kingdom market.

78. The examination of the several commodities in the export trade of India leads one to the following conclusions :—

- (a) In case of linseed oil, hides and skins undressed, pepper, tobacco, pig lead, in spite of the United Kingdom increasing her imports, she took less from India and the extra market made available was either taken up by the Dominions or foreign countries.
- (b) In case of rice, oil-seed cake, rice meal and dust, groundnut, pulses, goat skins, the United Kingdom took no doubt more from India but India's exports to other non-Empire countries suffered. Some of these illustrations point out how diversions of trade have taken place.
- (c) In case of coffee and tobacco, even with a preference India could not improve her position because of certain factors which are permanent features of these particular articles but which were ignored by the Delegation. Indian coffee is of superior type and not suitable for large scale consumption in the British market, for it is used there mainly for the purpose of blending. Besides, Indian coffee has to face serious competition of the Kenya coffee. In case of tobacco also, Indian product does not enjoy a

wide market in the U. K. in which Cuba's product holds the field. It seems, therefore, that in both the cases, the preference in its present form is quite inadequate and as such ineffective.

In case of a number of commodities as has been pointed out in clause (a) above, India lost her ground in the U. K. market in spite of a preference and the extra market available in the United Kingdom was taken up by other countries. Such a position calls for every serious consideration at the hands of the Government of India, and they should investigate each and every case of export commodity and the extent of preference which is necessary for giving adequate advantage to India's produce over non-Empire suppliers in the U. K. market. It will be found that the non-Empire suppliers are neutralizing the 10% preference by the greater depreciation of their currencies.

79. The examination of the import trade of India conclusively proves the apprehension held out by the Indian public that India was made to pay at Ottawa a premium to the British manufacturers for their inability to compete with continental manufacturers by making available to them greater share in the import trade of India under the Ottawa scheme of preferences. In practically every line of import trade, the United Kingdom secured either a substantial gain or consolidated her position in several of the important items of imports into India, such as, chemicals and chemical preparations, instruments and apparatus, machinery and mill-work, iron and steel, rubber manufactures, motor cars and cycles. Under all these heads, the United Kingdom secured a substantial advance in her trade with India.



### Conclusion

80. The Committee have tried to examine the results of the Ottawa scheme of preferences with an unbiased mind free from all considerations other than those warranted by the economic necessities of India. They would have welcomed any appreciable improvement as a result of the Scheme in the trade relations between India, the United Kingdom and her non-Empire customers, but even after giving the Scheme a trial for over two years, the Committee are now in a position to express definitely on the results of the scheme and have no hesitation in asserting that any impartial examination of the working of the Agreement will arrive at the same conclusions to which the Committee have come and which they summarise as under :—

- (a) That India's export trade in agricultural produce with the United Kingdom did not show any substantial advance owing to the fact that the British dominions securing similar preference gained a better and stronger footing in the United Kingdom market over India's produce ;
- (b) That the intense economic nationalism initiated by the United Kingdom in creating an economic block within the Empire has restricted the growth of internationalism of trade instead of encouraging it and forced a number of manufacturing non-Empire countries to resort to import licenses, quota restrictions and exchange control to arrest the passivity of trade, which measures, in case of India, affected her export trade to these non-Empire countries.

81. The Committee feel that in view of the facts and conclusions adduced above, they are justified in

recommending to the Government of India the termination of the present trade agreement between the United Kingdom and India as it has resulted in no material benefit to India's agricultural produce and has unnecessarily called for retaliation - however subconscious - from her other foreign customers. The Committee are not averse to any trade pact between India and any of her customers ; on the other hand, they would welcome such pacts on purely reciprocal basis. They, therefore, suggest that the Government of India should forthwith terminate the present trade treaty and should open up fresh negotiations not only with the United Kingdom but with all other foreign countries for trade treaties, in consultation with representatives of commerce, agriculture and industry in India.

10th January, 1936.

CAWNPORE.

D. G. MULHERKAR

*Secretary.*

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THE  
INDIAN MERCHANTS' CHAMBER,  
BOMBAY.

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VIEWS OF THE COMMITTEE  
ON THE  
REPORT OF THE INDIAN DELEGATION  
TO THE  
IMPERIAL ECONOMIC CONFERENCE, OTTAWA.

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1932.

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# The Indian Merchants' Chamber.

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"THE RECLUSE,"  
31, MURZBAN ROAD, FORT.

No. 1768.

Bombay, 2nd November 1932.

From

J. K. MEHTA, ESQ., M. A.,  
Secretary, Indian Merchants' Chamber.

To

THE SECRETARY TO THE GOVERNMENT OF INDIA,  
Department of Commerce, NEW DELHI.

SIR,

In continuation of my letter to you dated 9th September, 1932, and, as mentioned therein, I am now directed by my Committee to address you on the Report of the Indian delegation to the Imperial Economic Conference at Ottawa, and with reference to the Trade Agreement between His Majesty's Government in the United Kingdom and the Government of India.

2. My Committee desire, first of all, to emphasise that India's participation in the Ottawa Conference was imposed on her from outside. The people of India were not consulted about the advisability of holding, or participating in, such a Conference, and the fact that the Government of India had agreed to send a delegation, and also had nominated delegates to that Conference was made known almost accidentally in reply to a question in the Assembly, on the

4th April last. It cannot, therefore, be said that the nominees of the Government of India, who attended the Conference, spoke on behalf of India, or that India willingly participated in the deliberations of that Conference.

3. My Committee have examined the Report, and can only reiterate their condemnation of the Agreement entered into. Indeed, from an examination of the arguments and the statistics contained in the Report, they feel more convinced than ever that the Agreement is not only *not* to the benefit of India, but is positively prejudicial to her economic interests. The attitude of the Government of India, in the past, on various occasions when the question of Imperial Preference came up, is well known, and has been well recognised by the Delegation themselves. It was that India had little to gain by the adoption of a general scheme of tariff preferences within the Empire, and that on the balance there were no sufficient grounds why India should support any such scheme. In spite of that attitude, which they consistently maintained till 1927, when granting protection to India's Steel industry the principle of Imperial Preference was introduced by the back-door, in the teeth of the opposition of the elected members of the Legislative Assembly. The same was done in the case of the Cotton Textile industry in 1930, when the plight of that industry was taken advantage of to extend the principle of Imperial Preference. It is inconceivable how it can be held that there was no preference to Britain involved in the differential duties then imposed. It is also inconceivable to my Committee how the preference then given could have possibly been in the interests of India, as contended by the Delegation. The Delegation themselves recognise that, if not in intent, in fact, at any rate, those duties did involve the grant of preference to Britain. And they also recognise that the duties did confer advantages on Britain. But as far as this country is concerned, it received no equivalent and compensatory benefit.

4. Having thus departed from a policy consistently maintained since Lord Curzon's time, the Delegation have now thrown it completely over, on the ground that a new situation

had arisen following the Import Duties Act, and the subsequent announcement of His Majesty's Government in the United Kingdom in this behalf. That new situation was the imposition by the United Kingdom of a general 10 per cent. duty from which India would be exempted, if she agreed to give preference to Britain. In the words of the delegation, "*It was no longer a question of what India stood to gain, but what she stood to lose,*" if she did not give such preference—a point of view which my Committee consider untenable.

5. The Delegation emphasise that the paramount consideration to be borne in mind was, of course, the interests of India's export trade; but my Committee fail to see that they have even considered those interests. They cannot help pointing out that the issues involved in the Ottawa Conference, so far as India was concerned, did not receive the dispassionate consideration due, and the Delegation were throughout obsessed by the fear that, if India did not join in such a scheme of preference, her export trade to the United Kingdom would inevitably shrink and suffer. The Government of India themselves cannot be acquitted of partisanship in this matter. Indeed, it cannot be denied that it was their clear intention to give preference to Britain, following the preference already given to her in Steel and Textiles. Nowhere in the Report, for instance, the slightest consideration seems to have been given to the serious probability of the loss to India's export trade with foreign countries, which is nearly three times as much as that with the United Kingdom. Nowhere has there been any consideration of India's export trade *as a whole*. In the case of almost all foreign countries, India exports to each one of them far more than what she imports from it. And Lord Curzon's Government, 30 years ago, was wise in refusing to consider any concession of tariff preferences, which might "involve reprisals by foreign nations." In estimating the balance of advantages, however, the Delegation did not even consider the possibility of such reprisals and their effects on India's export trade.

6. It has been argued that the interests of the Indian agriculturist demand the grant of preference to Britain lest his

exports to British markets diminish. So grave a concern for him should have merited at least some examination of the probable effects of the Agreement on his exports to other countries which, we need not repeat, are of far greater moment to him. The Delegation have paid not the slightest attention to these his more vital interests, in the rest of his markets, which absorb 64 per cent of his produce as against 22 per cent taken by Britain. To say, therefore, that the Delegation have acted in his interests is but a travesty of facts.

7. The most amazing part of the Report is that in which an attempt is made to show that by keeping certain articles on the free list the United Kingdom is conferring a boon on India, and that the Delegation have achieved some unforeseen gain for India by persuading the British delegation to do so. The Delegation admit that in the case of those articles, in which India possesses what amounts to a practical monopoly in the British market, a preference is "nugatory". They enumerate articles, like Raw Jute, Lac, Myrabolams, Broken Rice, Mica and certain varieties of Hemp, in which India enjoys such a monopoly. In spite of this, they make a laboured apologia to lead the public to believe that India has been favoured by the United Kingdom by keeping on the free list these raw materials of British industry.

8. Then again, the consideration of the Delegation has been most superficial and one-sided, on the effects of India's non-participation in the scheme on her export trade to the United Kingdom. The largest items in this trade are, Tea, Jute, Hides and Skins, Raw Cotton and Oil-seeds. My Committee consider that the risk which weighed in the minds of the Delegation, in the case of Tea, was most exaggerated. After all, India is the largest supplier of Tea to the United Kingdom, and the ability of Ceylon to supplant India in the United Kingdom market is limited. An import duty on such a necessity of life inevitably falls on the consumer. So much has been said of the instance of Tea that it calls for a little fuller examination. India exports to the United Kingdom Rs. 22 crores of Tea. Ceylon, the next largest supplier, exports about 18 crores. Now, if Ceylon got preference, and

we did not, it could under-sell us in the British markets provided, of course, it were capable of totally supplanting Indian exports. But it is obvious that Ceylon cannot more than double its output. It is conceivable that it might increase its production by 4 or 5 crores, in which case, the figures of Indian and Ceylonese exports would be just reversed. But assuming that Ceylon were in a position to supply 22 crores Britain would still require 18 crores and would have to come to India for it, the supply from the Dutch Indies being comparatively small. A duty of 10 per cent against Indian Tea, 18 crores of which is wanted by Britain can only result in raising the price of *all* Tea imported into Britain. In that case, Ceylon would no doubt have the benefit of that higher price. All the same, the person who would be hit most would be not the grower in India but the consumer in Britain. Besides, as the Delegation themselves say, "*when the preference is accorded to several countries and their aggregate export to the importing country constitutes a large proportion of its requirements, the preference cannot do much to extend the market for the produce of any of the countries concerned.*"

9. It ought to have been obvious, therefore, that no Government in England would ever impose any higher duty on Tea, which would be a burden on the British consumer. One might assuredly hope also that the interests of the British Tea Planter in India would equally weigh with the British Government before they took any such action against them. And in guarding their interests, those of the Indian Tea Labourer would *ipso facto* be taken care of. My Committee would be much surprised if an article produced by the British planter in India and consumed by a large majority of the population of the United Kingdom could at any time become subject to much increased or heavier duties, even if India had not entertained the Agreement. It may be noted in this connection that there are, in British politics, very important interests who are seriously opposed to any further levy which would add to the cost of living.



10. In the case of Jute, India's monopoly as a producer is, of course, recognised. In the case of Jute manufactures, a duty of 10 per cent against the Indian product would have hurt the British manufacturer in India, and it is, therefore, doubtful if the British delegation would have carried out the threat in this class of goods too. Even if they did, it would have affected no more than 6 per cent. of our total export of Jute manufactures 94 per cent of which go to foreign countries.

11. In the case of Cotton, it may be noted that a duty on foreign cotton imported into the United Kingdom was suggested by the Indian Delegation; but the British delegation made it plain that they could not entertain such a proposal at all. The only article of importance in which an additional market could be given to us by the United Kingdom is Raw Cotton. But a preference in favour of Indian Cotton is flatly denied. A pious hope is held out that arrangements will be made to encourage the export to Lancashire of Indian Cotton of improved type, and the Delegation are more than satisfied with this hope. They forget, however, that in spite of the efforts of many decades, the kind of cotton required by Lancashire has not been produced in India in sufficient quantities. They forget also the fact that, even if we grew some more of the improved variety in future, the Indian mills would be its first buyers, because they are now *importing* such cotton. The day when the Indian grower is in a position to supply an exportable surplus of such variety, over and above the increasing requirements of the Indian mills, is remote. And a little thought would have saved the Delegation from falling, and from leading the public, into the erroneous belief that there was any advantage to India in such a hope. Cotton was the only article in which the British delegation could have shown their *bona fides* for the benefit of the Indian export trade. It was the only article in which the Indian Delegation could have justly insisted on a clear preference. A scheme of preference, in which there is every likelihood of Indian exports of raw cotton to Japan and other countries being reduced, and in which there is no possibility of a corresponding increase in England's demand for the

article, must obviously be detrimental to the interests of the Indian grower. Attempts have been made in the past by Britain to develop the growth of suitable cotton, in *other* parts of the Empire, by means of subsidies. If this be an indication of the direction of the co-operation of His Majesty's Government in developing the growth of cotton, then, India has little to expect from Article 8 of the Agreement.

12. The Delegation, indeed, admit that "*the importing country has always to consider the interests of its own manufacturers, and must naturally be reluctant to impose duties, which would increase their cost, more particularly when the finished products of industry are ultimately exported to foreign countries.*" The bulk of our exports to the United Kingdom consists of raw material for British export industries. And that being the case, they should have realised that India had nothing to fear from the operation of the Import Duties Act. The very interests of British industry would have dictated to His Majesty's Government the inadvisability of doing anything to increase its cost of production by the imposition of such duties. For, an import duty on essential raw material must inevitably fall on the manufacturer who uses it, and to that extent his ability to compete in foreign markets must diminish. It should, moreover, have been obvious that most of India's exports to the United Kingdom are such as cannot be so easily replaced from other sources. The preference accorded to India by the United Kingdom on such articles is, therefore, sham and illusory. In fact, having regard to the very nature of our exports, it would be difficult to show how any material preference could be given by the United Kingdom, which would be of value to India. And even assuming that there was a possibility of a part of our export trade to the United Kingdom, in some or other of the less important commodities, being diverted on our non-participation in the scheme, the loss would be nothing compared with the loss that, under our participation in the scheme, we shall be faced with in our export trade with the rest of the world. The inevitable increase of imports into India from the United

Kingdom, resulting from such a scheme of preference, must appreciably reduce imports from foreign countries, which, in their turn, will be compelled to buy *less* from India. And when it is remembered that India sells far more to them than to Britain, the serious effect of Imperial Preference on India's export trade can well be imagined.

13. The tariff weapon is admittedly being used by the British Government as a bargaining instrument to obtain certain advantages for British goods in the Empire markets. The Indian Delegation are apparently satisfied that they have struck a good bargain for India. My Committee are, however, of the opinion that the Delegation were so overpowered by the fear of the danger to Indian exports to the United Kingdom, that they overlooked the importance of India's position in international trade in general, and in the trade with the United Kingdom in particular. They do not seem to have been aware even of the most elementary facts of the situation, that, on the one hand, Indian exports to the United Kingdom are mostly articles of food and drink, or raw materials required for British industry, most of which are difficult to be replaced; and, on the other, that the Indian market is the most important single market for British goods, and that the need for the retention and expansion of this market on behalf of the British manufacturers, under present conditions, is greater than ever. Had the Delegation appreciated these elementary facts, they would have realised that India was in a much stronger position than other parts of the Empire; for, as Britain's largest single market, she was in a position to offer substantial advantages and, therefore, to dictate terms, instead of being dictated to under fear of imaginary losses. Had they taken this into account, they would have come to the conclusion that by the acceptance of the Agreement the gain of the United Kingdom was going to be preponderating and at the expense of India, and that by the non-acceptance of the Agreement the loss of the United Kingdom would have been far greater than that of India. Had these fundamental facts been borne in mind, and had they adopted the very method of the British Delegation, and used

the same threats in the bargaining, the situation would have been entirely different. In answer to Britain's threat of penalising Indian goods, the delegation could have, with equal justification, threatened to withdraw the advantage *already given* in Steel and Textiles. That such a natural attitude would have gone home to the British Delegation may be realised from the fact that they were fully conscious of the substantial advantages which Britain was receiving by these already existing preferences. In para 100 of the Report, the Delegation observe: "*It cannot be assumed that if there had been no differential duties, His Majesty's Government in the United Kingdom would have been prepared to enter into the Agreement actually concluded or that they would be prepared to continue the Agreement indefinitely if the differential duties were abolished.*" This means that without any further gifts on our part, the British threat would have been silenced, and the fear of loss of India's trade in the United Kingdom, which is the basis of the Agreement and the Report, would have altogether disappeared. A most valuable instrument of bargaining was thrown away.

14. Even taking the Agreement as it is, my Committee consider that the Delegation, in their Report, give an entirely misleading impression to the public regarding the advantages which either country may expect. In the first place, they calculate, omitting the most important commodities that are imported from the United Kingdom on which preference is *already being given, viz.,* Steel and textiles, that India will be called upon to give preference to Britain only on £17·4 million of British goods, and that, on the other hand, India stands to receive preference in Britain on goods of the value of £41·8 million. If, however, the excluded items are taken into account, which come to £ 26·6 millions, the Delegation say that the balance is fairly even, which means that the value of trade of either country likely to receive preference is about the same. Even so, the British Chancellor of the Exchequer stated only the other day in the House of Commons that India had given preference on as much as 26 per cent of her total imports; and since the Delegation have been working on the figures for

1929-30, the percentage works out at over £46·8 million of goods on which we are to give preference to Britain, as against £44 million (£17·4 + 26·6) estimated by the Delegation. The difference, is, however, small and we shall leave it aside. But why need they have at all presented such misleading data, and suggested that we would be called upon to give preference to Britain only on £17·4 million of our imports? And why should they have excluded, from the imports into India, Steel and Cotton goods, on the ground that we had already given them preference, when they do *not* exclude from the imports into Britain, Indian Tea which has also been receiving preference for several years now, irrespective of the recent Import Duties Act? If articles on which preference is already granted are to be excluded in striking a balance, surely they must be excluded in both the cases. Moreover, they themselves admit that the fairness of the Agreement cannot be measured by this "crude test." In the words of the Report, "*the only test by which the value of a trade Agreement can be judged is the extent to which it results in an increase in the export trade of the countries concerned or in the retention of trade which would otherwise have been diminished or altogether lost.*" While unnecessarily dilating on several irrelevant and minor issues, they have taken no trouble whatsoever to apply to the Agreement this "only" and real test, and to work out an estimate of the gain or loss to India on such a test.

15. In fairness to the Indian public, the Delegation should have made some attempt to estimate the probable increase or decrease in the trade of either country, with reasons in the case of each article. My Committee have searched in vain for such an estimate in the Report. They therefore cannot accept the mere assertion that India has gained "solid and substantial advantages", and that, "what she has given can be given without detriment to any national interest"; because if we were to apply to the available data of 1929-30, the year which the Delegation have adopted as the basis of their estimates, the very test enunciated by them, my Committee are convinced that the conclusion would be wholly contrary to that assumed by the Delegation.

16. The value of a trade agreement can only be assessed on the basis of anticipated gain. In assessing, therefore, the value of the Agreement with the United Kingdom, one must needs estimate the probable gain in the export trade of either country, if the Agreement is to be *accepted*, and the probable loss in the case of *non-acceptance*. From the very nature of the case, there can, of course, be no finality or exactness in such an estimate. But an estimate based on available data applied with due regard to known economic tendencies, is better than no estimate at all. A Finance Member who makes his estimates of Revenue and Expenditure for the coming year, particularly with reference to new taxation, is on similar grounds and it is all he can do to make them as reasonable as possible with due regard to economic considerations. In the present case, there can be only one method of estimating. By taking the total imports into India from all countries of the various classes of articles affected by the Agreement and by deducting from them the same classes of imports from the United Kingdom, the maximum *margin* which the United Kingdom can hope to capture in the Indian market is arrived at. It is obvious, however, that it cannot capture the *whole* of that margin even with the help of a preferential duty, save, perhaps, in exceptional cases. What we have therefore to estimate is its probable capacity to capture a part of this margin. And in this, numerous factors enter into calculation. Each class of articles must be examined on its own merits and on known tendencies. Further, we must take into account also the factor of protection to the indigenous industry, of competition from other countries and the capacity for expansion of the industry concerned. My Committee consider that having regard to all these factors, the most that the United Kingdom can hope to do, in most of the classes, is to capture about 50 per cent of the possible margin. The total possible margin to the United Kingdom in the imports into India of articles which are to receive preference is about 75 crores, and since in some of the classes less than 50 per cent of the margin might be captured, it would be reasonable to

estimate that it would capture, say, about Rs. 80 crores of new trade in India.

17. Similarly, the additional market that India may capture in the United Kingdom can be estimated, due regard being paid to the nature of Indian exports, and the other factors referred to above. My Committee estimate that by the preference offered to Indian goods in the British market, the additional trade that we may have in that market is hardly likely to exceed Rs. 15 crores, most of which will be a diversion from our present trade with other countries, whose capacity to buy from us will be reduced on our buying less from them and more from Britain, as a consequence of the preference that British goods will receive in India.

18. While Britain therefore stands to lose 30 crores of additional trade if the Agreement is not accepted, we stand to lose little because, in the event of acceptance, the additional trade that we might expect with the United Kingdom would *not* be *new* trade, but only a diversion from our existing trade with other countries. In the event of non-acceptance, Britain has, of course, threatened to impose a 10 per cent duty against some of our goods. My Committee have estimated that having regard again to the nature of India's exports to the United Kingdom, the shrinkage in the British market due to the duty will be no more than 10 to 25 per cent, according to the nature of the articles. In this connection, we take into account the articles in which India is the chief supplier to the United Kingdom; those in which the Dominions or the Colonies are likely to compete; those in which our capacity to export is limited; and certain special articles like linseed, pig iron and cotton. Taking all these factors into account, in the event of non-acceptance of the Agreement, we would stand to lose at the most Rs. 10 crores worth of export trade to the United Kingdom, for which we shall have to find other markets. But since in this case we would not be giving any preference to Britain, there should be no difficulty in our foreign markets absorbing these exports—a bare 2·5 per cent of our total exports. And it must be re-

membered again that between them, foreign countries buy far more from us than Britain or the Empire.

19. On these estimates a balance can be struck. And it will be found that if the Agreement is accepted, while Britain stands to gain far more than we do, we stand to lose little if the Agreement is not accepted. And this balance does not take into account the harm that would befall indigenous industries in India by the grant of preference to Britain, and the amount of additional taxation that would be involved in putting the Agreement into effect, which harm and which additional taxation we should be spared, were we to reject the Agreement.

20. My Committee would like to point out that if the increase of British imports into India is estimated at any *lower* figure, the amount of higher taxation which India will have to pay on foreign imports will be *greater*; and if the estimate of such imports is *higher*, the reciprocal advantage to India in the British market should be correspondingly *larger*. In other words, if British imports into India increase, the Customs revenue suffers because of the preference and to the extent of the increase and the decline would have to be made good by fresh taxation. If they do not increase to the anticipated extent and foreign goods still continue to be imported, the higher duty against them means so much more indirect taxation on the people. But in the former alternative, in increasing Britain's advantages in the Indian market, India can justly claim equal and reciprocal advantages in the British market. In view of the estimates given above, my Committee feel that, on the one hand, the advantage to India in the British market is likely to be comparatively small, and, on the other, there is bound to be substantial addition to taxation in order to give effect to the Agreement,—which means that in either case the sacrifice of India is great.

21. But even this statement of account is incomplete, when we consider the important fact that the Agreement would be not only between India and Great Britain, but also with the Colonial Empire. For want of time at Ottawa, no



agreements have been concluded by the Delegation with the Dominions, and though discussions were carried on further, negotiations have been left to the Government of India. In the case of the Colonies, Protectorates and Mandated Territories, which are covered by the Agreement with His Majesty's Government, no reciprocity is offered, because, whereas a few minor colonies will be invited and are *expected* to give preference to Indian goods, under certain conditions, the more important colonies like Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland, part of Northern Rhodesia, the Gold Coast, Nigeria, and the Mandated Territories will not give *any* because of their international agreements. In spite of this fact, India is required, and the Delegation have accepted the position, to give preference to goods coming from all these Colonies. Besides, no assessment of the value of the trade coming from these Colonies has been made or is possible. The Delegation admit that no Trade Returns are available relating to most of them; and, therefore, there are "insuperable difficulties" in making any estimate. At the same time, some of these Colonies do a large entrepôt trade; and there are bound to be, therefore, serious administrative difficulties in ascertaining whether particular articles really originate from the Colonies in question. As to how the Delegation could have signed an agreement, which gives away valuable privileges in the Indian market to such a large number of Colonies, without obtaining from them at the same time anything in return worth the mention, passes comprehension.

22. Even confining ourselves to the rest of the Colonial Empire, *i. e.* excluding the Colonies, Protectorates and Mandated Territories which are debarred from giving us preference, the Delegation, first of all, admit that they were unsuccessful in their efforts to obtain preference for Indian and Burmese rice which has to meet with keen competition in Eastern markets from rice produced in other Asiatic countries. Ceylon and Malaya, in fact, impose an import duty on rice. Fiji, which gives some preference to Empire goods, cannot give us any special preference, because we cannot give preference on its

sugar, since sugar is a protected industry in India. Nor can Mauritius give us any preference unless we gave preference on its sugar, which we cannot. The West Indies, Sierra Leone, Gambia, Somaliland, Gibraltar and Cyprus give a preference on Empire products. But the Delegation themselves find that the only Indian exports of substantial importance are Jute manufactures and rice to the West Indies, to an annual value of about Rs. 40 lacs. Hongkong is only a port, with no hinterland, and its trade is mainly an entrepôt trade, and it is therefore not in a position to give any preference to any part of the Empire. In the case of Malaya, the Delegation admit that we shall have to give *more* than we receive. And even taking the Colonial Empire as a whole, they haltingly admit that India will "*probably be found to be giving preferences on goods of a somewhat higher value than that of the goods on which she receives preferences from the Colonial Empire*"; and that we must trust to the growth of our exports of manufactures to "*redress any adverse balance*". Do the Delegation seriously hope that we shall increase our manufactures, when the whole scheme of preference is devised to *increase* the imports of British manufactures into India?

23. If the estimate made above regarding the diversion of Indian trade to the United Kingdom be considered, along with the obviously one-sided nature of the Agreement with the Colonial Empire, the conclusion is only strengthened that taking the Agreement as a whole, it is calculated to give far more than to receive.

24. My Committee must draw attention to another aspect of this matter. It is a tragic irony that we are called upon to give preference to Colonies in which the treatment meted out to Indians leaves much to be desired, and which has been one of the sorest grievances of India for years past against the Colonial Office. Where the citizens of India are denied the bare rights of citizenship in a Colony or Dominion, it is a travesty of justice, to suggest that raw materials or manufactured articles from that Colony or Dominion should have preferential consideration in India. It is an acknowledged convention of

commercial treaties and arrangements that the contracting parties give each other's citizens mutual rights to enter, travel and reside in each other's territories, and to possess property and do not subject them to any special taxes or charges. There are Colonies in the British Empire which not only do *not* give Indian citizens such elementary rights but in fact impose on them the further hardship of discriminatory legislation, and we are now asked that we should give them preference without any undertaking on their part to give Indian citizens even such conventional rights. The Delegation cannot say that this point was not brought to their notice, as my Committee understand that the Chairman of the Imperial Indian Citizenship Association, sent a telegram in the matter to the leader of the Delegation. My Committee consider that in identifying themselves with the grant of preference to Colonies, which treat Indians with discrimination, the Government of India will seriously discount their advocacy of the rights of Indians in the Colonies and Dominions,—an advocacy which for a number of years recently has been to their credit. As long as this discrimination against Indians prevails in any Colony, any preference to the goods of such a Colony, can only be considered as an insult added to injury.

25. The Report is not only misleading as already pointed out, but has altogether ignored two most important aspects arising out of the Agreement, namely, the loss of Indian trade in other countries and the additional indirect taxation involved in putting the agreement into effect. We have already referred to the fact that there is not even a mention of India's trade with other parts of the world, which, in the aggregate, is of far greater consequence to us. So far as the method of putting the Agreement into effect is concerned, it is obvious that it will require many changes in the tariff, leading to additional indirect taxation, which must be condemned unreservedly. If preference is given by a *reduction* of the existing import duty, the resulting gap in the Customs revenue will have to be made good by *additional* taxation. If it is given by an *increase* in the existing duty, that increase

will be *additional* indirect taxation. So that, in either case, preference can only be given by increasing taxation, direct or indirect. There can be no justification for taxing the poor Indian citizen in order that British imports into India may increase.

26. My Committee doubt if any serious consideration has been given by the Delegation to the position and prospects of the several nascent industries of India which are thus to be faced suddenly with the serious competition of British goods if they receive preference by a *reduction* in the existing duty. If an attempt is made to gauge the consequences on many indigenous industries that are just beginning to establish themselves, it will be found that, exposed to serious competition, most of them will be threatened with extinction. In a representation of this kind it is, of course, impossible for my Committee to go into the prospects of all such industries. They can but mention a few instances. Take the instance of the soap-making industry. With the growth of numerous soap works in India, imports of foreign soaps, during the last four years alone, have declined from about Rs. 50 lakhs to Rs. 28 lakhs. The value of the present output of these works is estimated at about Rs. 20 lakhs and the value of their productive capacity is estimated at about Rs. 52 lakhs. In other words, they are in a position to-day to more than double their output, and to replace the entire imports. The Agreement, however, will deal a serious blow to them; for a 10 per cent preference given to British soaps—and even now more than 80 per cent of imported soaps come from Britain—is assuredly calculated to drive the Indian manufacturer out of his own market. And instances of this kind in which grave harm will be done to Indian industries by the grant of preference to Britain can, indeed, be multiplied.

27. Take another kind of instance. The Agreement seeks to give a preference of 10 per cent to aluminium circles and sheets and manufactures imported into this country from Britain. There are a number of indigenous factories in India importing such circles and sheets and pressing them into utensils. At the same time, the large manufacturers of

aluminium in Britain have also established utensil-making factories in this country. A preference of 10 per cent given to British aluminium circles and sheets must needs, therefore, drive the Indian manufacturer into the hands of the British aluminium interests. And since those interests themselves have their own factories in India, nothing will be easier for them than to starve the Indian manufacturer of supplies, and by extending their own factories, drive him out of his own market.

28. Apart from the important issues involved directly in the Agreement, there are fundamental questions of policy which the Agreement is likely to affect. For example, in spite of the way in which preference was given to British goods, while passing the Steel and Cotton Duties Acts, it has been assumed by the Delegation that these were a part and parcel of the fiscal policy of this country. This introduces a new question in the industrial policy of the country, namely, whether protection to Indian industries is to be given subject always to the dominating condition that the protective scheme itself shall contain preference for British goods, in those cases in which British manufacturers are interested. My Committee need not point out that this would be in strange contrast to the policy of the Dominions, which do not and will not give any preference to British goods in the case of those of their industries which, in their own interests, require protection even against Britain.

29. It may be pointed out that, unless a national economic policy is established in India and acknowledged and accepted by Government, the Agreement is contrary to national interests. A trade agreement should give maximum advantage for the products of a country and lead to increased manufacture, just as Britain seeks to do in her own case; and preferences should only be extended to such articles as are not manufactured in India or cannot be manufactured. It seems contrary to common sense, and to every consideration of economy, that Indian sheet bar should be exported to the United Kingdom and manufactured there into sheets;

to be shipped back to India, when India could and should manufacture them herself. The industrial policy of India may thus be further adversely affected by the acceptance of the theory of industrial co-operation involved in the Supplementary Steel Agreement. If this position is accepted,—along with the change in the policy just referred to,—India will be reduced to the position of manufacturing semi-finished goods; will be denied also the opportunity of extending domestic manufacture and employment; and the Indian taxpayer will be called upon to pay, so that the British manufacturer may have the benefit of turning these semi-finished goods into finished articles for the Indian market and thus help to relieve unemployment in Britain; and, incidentally, give additional cargo virtually to British bottoms. In so far as the Shipping industry is concerned, why, the whole scheme of preference will only strengthen the already dominant position of British Shipping in Indian waters, to the detriment of the growth of Indian Shipping.

30. The Delegation have omitted to consider also that, apart from actual tariff preference, British goods already receive substantial preference in this country in a variety of other ways. By administrative arrangements; by the fact of British investments in this country; by the manipulation of the currency policy of the country; and no less, by the introduction of the preferential method in the schemes of protection already in operation, British goods already receive preference in the Indian market, for which India does not get any adequate return. Indeed, Britain has always acted on the basis that India should be the producer of raw materials, and should be a free and open market for British goods. She has derived advantages in the past by the imposition of an excise duty in favour of Lancashire. She has manipulated Indian currency and exchange to the advantage of British interests, and even now, to the serious disadvantage of India, free of export of gold is allowed. Since Britain departed from the Gold Standard and the Rupee was compulsorily linked to Sterling at the Statutory Rate, British exports to India have secured preference of about 33 per cent over Gold Standard countries, This was in addi-

tion to the advantage of  $12\frac{1}{2}$  per cent already conferred on them by the currency manipulation that raised the Statutory Rate from  $1/4$  to  $1/6$ . On the top of this, the Agreement proposes to give them a further additional advantage of 10 per cent; and this is what the Indian Delegation are pleased to call a substantial gain to India! Would it not have been fair and reasonable to have insisted on a *quid pro quo* for the advantages already secured by Britain through currency manipulation, before even entertaining the idea of this further sacrifice for the benefit of the British manufacturer?

31. It has been laid down that in view of the impending constitutional changes, the Agreement is subject to six months' notice by either party, so that if the future Government of India want to denounce it, they can do so with ease. The difficulty of denouncing trade agreements is well known. Why, even His Majesty's Government have hesitated to denounce the Anglo-Japanese trade agreement, in spite of the plight of Lancashire on the one hand, and the Indian cotton-mill industry on the other. The clause in the Ottawa Agreement regarding six months' notice has misled some people into the belief that the Agreement is not likely to do much harm because it will be possible to denounce it in due course. This, first of all, assumes that under the constitutional changes, India will attain the position of a self-governing country, with powers to denounce such agreements, if she thinks fit. The manner in which Government are setting about getting together delegates for the Third Round Table Conference would not appear to warrant such hope being entertained, and it is generally apprehended that Government will force on India a Constitution which will, for all practical purposes, make the exercise of such power inefficacious. Even assuming that India will reach that status in the immediate future, the new Constitution will take two or three years to begin really to function. During the interval, new trade relations will have been formed, many channels of trade diverted, and the vested interests thus created will act as a powerful force against the denunciation of the Agreement. And all this time substantial damage would continue to be done to the country.

My Committee would not have cared to mention this aspect but for the fact that the clause regarding six months' notice is likely to be mistaken by the public as a safeguard against the evils of the Agreement. It is idle to discuss seriously whether the Agreement is sound, or is in favour of India, or whether the notice clause makes it any the more acceptable. One is almost led to the belief that the Agreement, in anticipation of the establishment of political reforms long promised and evaded, is intended to tie the hands and the free choice of the future Federal Assembly.

32. On economic grounds alone, the Agreement is so essentially unsound that my Committee are amazed that the Delegation did not unreservedly reject it. Whatever designation an economic arrangement between the Dominions and England might be given, it is altogether a misnomer to call any such arrangement between the United Kingdom and India an "Agreement". Can there really be a fair and a just agreement between a politically unequal and dependent country, and another which is its ruler? So long as there is no settlement of the political issues, so long as India is not self-governing, there *can* be no trade Agreement between the United Kingdom and India. For, only a free Legislature can freely make an agreement of this kind. And my Committee warn the Government that, if they get it passed through the present Assembly by means of the Official bloc and the nominated members and the Europeans, they will be laying the foundations, not of settlement between India and the United Kingdom, but of prolonged bitterness.

33. With regard to the manner, motive and method by which the Agreement was secured, my Committee will only say this: His Majesty's Government of the United Kingdom held out a threat, and asked India to come to terms. The representatives of India—nominees of the Government of India—and their expert advisers, without caring to examine the nature of the threat acquiesced. They argued themselves into believing that it would hurt terribly, shutting their eyes to the possibility of their being hurt in the back much



more, and by a number of stronger assailants, because of this very submission of theirs in agreeing to discriminate unequally against them; and ignoring, likewise, the consequences of Britain's position in the trade of India, made still more predominant, inevitably reducing India's trade with other countries, without giving any compensatory increase in our export trade with Britain.

34. In the whole history of trade relationship between Britain and India there has been no sorrier instance of the Trustees of the people of India coercing them in a course of action least consonant with their interests and manifestly in the interest of the Trustees themselves. In a word, it only means further economic domination. And any strengthening of the economic domination must needs result also in increasing the political domination over this country.

35. Having achieved their object at Ottawa, it has now been proclaimed to the world that it is far from being a selfish one. It is altruistic. It is a gesture and an invitation to the world to reduce tariff barriers. Verily, an appropriate prelude to the World Economic Conference! We are asked to believe that the only way to reduce such barriers is by putting on some *more* barriers! And by implication, we are asked also to believe that it would be in India's interests to reduce her tariffs and give up her protectionist policy. Further, the Prime Minister has declared that with the Ottawa Agreements in their hands, His Majesty's Government have every intention of entering into trade agreements with the other nations of the world. If they succeed, and pursue such bargains to their logical conclusion, a general grant of preference will only negate even the nominal preference sought to be thrust on India.

36. To sum up, my Committee are of opinion that the situation created by the Agreement and the consequences thereof are as follows:—

- (1) The Agreement owes its origin not to India's needs or wishes, but to those of Britain. Having

regard to the circumstances under which it has been made, and is sought to be carried into effect, it will be one forced upon an unwilling people, and is therefore not likely to promote any cordial relations between the two countries, especially at the present juncture.

- (2) The Agreement will perpetuate, and extend further the present dominant position of Britain in the trade of India. This is against the very economic axiom, that to be able to get the best advantage out of international trade, a country must needs have large trade relations with the largest possible number of countries as buyers and sellers,—in other words, the widest possible markets and the widest possible sources of supply. Besides, the consequent strengthening of the economic domination of Britain will only serve to perpetuate and stiffen the political domination, in the further vested interests that it will create.
- (3) The Agreement is not based on the principle of reciprocity, because whereas the United Kingdom is likely to get a substantial benefit in the Indian market, India's advantage will be very little, if any, at all. The Delegation have failed to make effective use of the existing Indian tariff in striking a bargain.
- (4) The Agreement ignores the principle of reciprocity altogether in the case of the Colonies, most of which are debarred from giving us any preference and to which nevertheless we are required to give preference. In the case of the remainder, we are asked to give more and receive less. Besides, agreements with the Dominions are yet to come.
- (5) The Agreement will reduce the purchasing power of other countries for our goods, because we shall get our imports in a much greater proportion from the

United Kingdom, and there will thus be a substantial reduction in our imports from, and therefore in our exports to, *other* countries, which is not likely to be balanced by a proportionate increase in our exports to the United Kingdom. The Agreement wholly ignores this important factor.

- (6) The Agreement may lead to retaliation, active or passive, from foreign countries, the aggregate trade with which is of far more consequence to us than that with the United Kingdom.
- (7) The Agreement is bound to lead to additional indirect taxation, at a time when the people are already overtaxed. Even if in future the finances of the Government of India improve, there will remain a large amount of this avoidable taxation on goods from other countries.
- (8) The Agreement will seriously prejudice the growth of Indian industries in those articles in which British goods are to receive preference, and many a nascent industry will be driven out of our own home market. Even if an Indian industry in any of these articles, at any time in the future, proves its case for protection, protection will be given only on the basis of preference to British goods, as already done in the case of Steel and Textiles.
- (9) The Agreement initiates a policy of industrial co-operation between Britain and India, which will reduce India to the position of manufacturing semi-finished articles, and the Indian taxpayer will be called upon to pay in order that the British manufacturer may have the benefit of turning such articles into finished products for the Indian market.
- (10) The Agreement in increasing British imports into India and diverting some of our exports to Britain, will only help to tighten the stranglehold of British Shipping to the detriment of our own.

- (11.) The alleged safeguard of power to denounce the Agreement on six months' notice is illusory.
- (12.) The threatened loss of Indian trade in the British market by the imposition of a duty on certain Indian commodities, in the event of non-acceptance of the Agreement by India, is highly and unnecessarily exaggerated, because
- (a) the United Kingdom is not likely to impose additional duties on articles of food and drink or those which are required by her for manufacturing purposes ;
  - (b) the United Kingdom is not likely to reduce imports from India, so long as she desires to increase her exports to us ;
  - (c) the amount of trade which may be, if at all, in danger is so small that we shall be able to find other markets for the same, if necessary ; and
  - (d) the difficulty of having to find such other markets is insignificant, compared with all the disadvantages enumerated above.

37. In conclusion, my Committee would like to emphasise that the Agreement should be judged *as a whole* in its manifold consequences on the economic life and financial system of the country, because these are interconnected. The emphasis of the Delegation on only one single aspect, *viz.*, the threatened loss of India's trade in the British market, gives an entirely wrong and warped perspective to the Agreement, and this must be deprecated as but a piece of propaganda in favour of British industry under the guise of the so-called protection of the interests of the Indian farmer. For, the Agreement does *not* at all protect his interests; it is calculated only to divert the trade of India from other countries to the United Kingdom. In fact, the probable loss to him in the reduced demand for Indian raw materials from other countries

will be greater than the threatened loss to him in the British market in case of non-acceptance of the Agreement. Judging the Agreement as a whole, my Committee have no hesitation in pronouncing their conviction that it is *not* in the interest of the Indian farmer, *not* in the interest of the Indian businessman, *not* in the interest of the Indian manufacturer, *not* in the interest of the general taxpayer. It is only in the interest of the British manufacturer, the British exporter, and the British shipper. Truly, as the President of the Board of Trade in His Majesty's Government declared in the House of Commons that it will mean "*an enormous increase in the activities of our houses exporting to India with a corresponding effect on manufacturing centres in the United Kingdom.*"

I beg to remain,  
Sir,

Your most obedient servant,

J. K. MEHTA,

*Secretary.*

# THE NATIONAL UNION OF MANUFACTURERS JOURNAL



JULY, 1935

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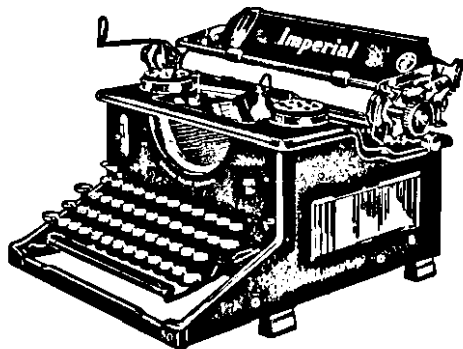
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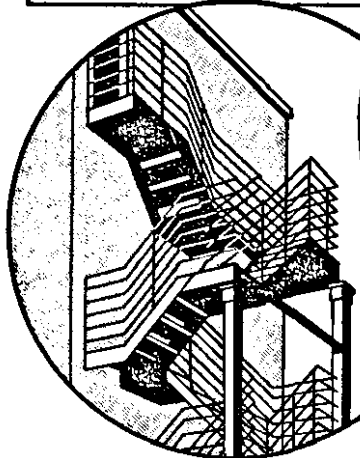
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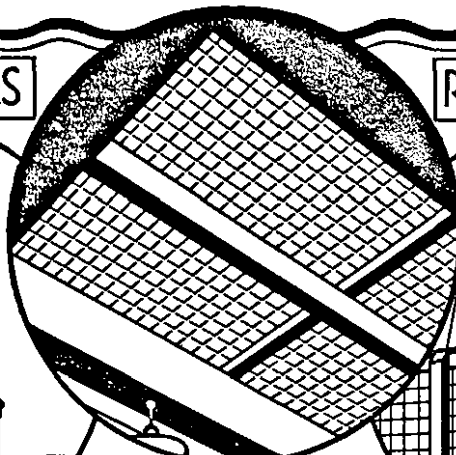
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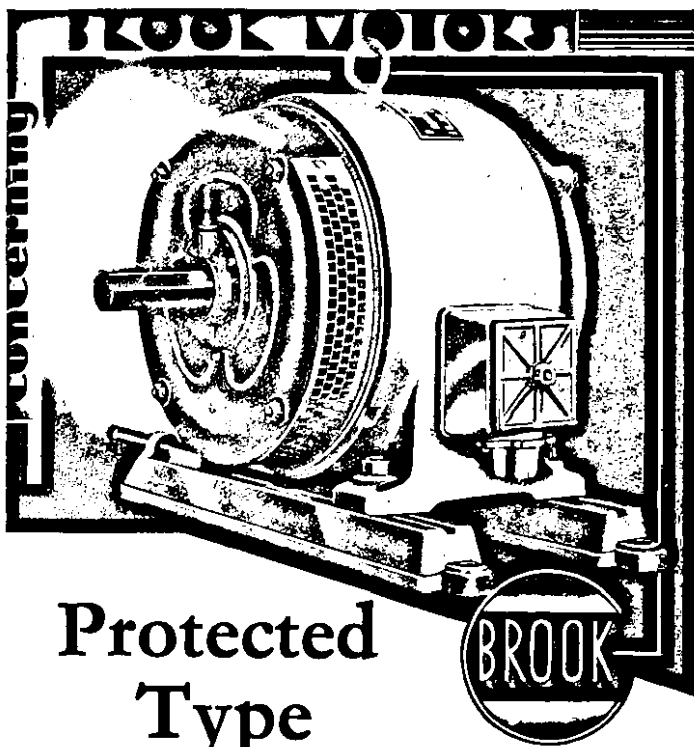
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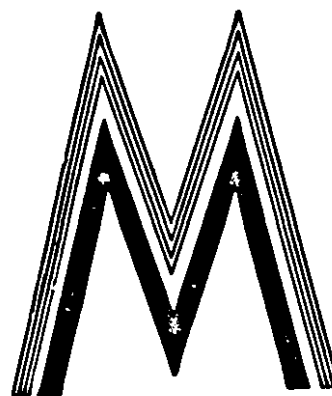
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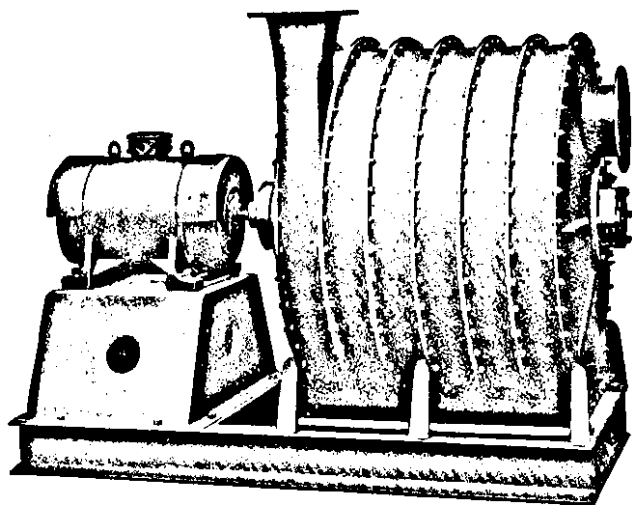
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## Notes and Comments

### *The New Government*

To us the most interesting feature of Mr. Baldwin's first speech as Prime Minister, at Himley Hall on 8th June, was the emphasis which he laid on the economic side of the problems which lie before the new Government:—

“All the countries of the world have been suffering, and are suffering, from economic disturbance; all countries are suffering from unemployment. They are all suffering from the broken exchanges that make the transfer of goods and payments so much more difficult and prevent foreign trade developing as it should. These disturbances—unemployment, exchanges, and so on—lead to the use of quotas, of which we have had to have some—bad things in themselves and more disturbing to trade than any other economic machinery that can be put into force.

“We have to learn to adapt our own national economy to world conditions. Yet, though that be obvious, the world conditions themselves are fluid, and we are not yet in sight of any form of monetary stability or agreement that can enable us to make that adjustment which must be made as a prelude to a distinct increase in international trade throughout the world . . . .

“Changes there must be, changes there have been, but we always have to remember that situated as we are, and dependent for the payment of our food on our exports, sudden changes, ill-considered changes, can do more harm in this country than they can in any other country in the world. No country stands to lose more than we do if, by rash experiment, we upset our trade. That does not mean that experiment will not have to be made. It does not mean that I am afraid of experiments, but it does mean that experiments ought not to be made until every possibility of the results of those experiments has been examined thoroughly from top to bottom.”

This is encouraging, for the thesis that we have been maintaining for some time past is that the troubles of the world to-day are mainly economic, and that it is incumbent on the Government to try and find out what are the causes of those troubles and to propose some remedial measures.

We do not ask for any sudden or ill-considered changes. On the contrary, we ventured to criticize the Trade Agreements precisely because they were of so opportunist a character, made under pressure from powerful coal and financial interests, and completed without consulting the other interests concerned, and before any general trade policy for the country, or any broad plan as to the way our new fiscal powers should be used, had been thought out.

We have repeatedly urged that a trade policy should be formulated for this country and for the Empire, by business men and Government representatives acting together, following the example of the Japanese, before more valuable time is lost; and we have suggested that, as the present commercial-treaty system of the world is impeding international trade, that system should form the subject of a special inquiry.

It is not the business men who are asking for hasty or ill-considered action; they want more consideration given to these basic economic questions before action is taken, and they fear that if the Government Departments cannot, or will not, find time to think these things out, we shall continue to muddle along without a plan, with the result that we shall not do as well for ourselves or be of as much service to others as might otherwise be the case.

The new Government have placed two Cabinet Ministers at the Foreign Office, but it is the Board of Trade that needs strengthening far more than the Foreign Office, for it is becoming more and more clear that no real progress can be made towards that collective security which people talk so much about, until the economic troubles, which keep Europe and the rest of the world in

a state of uncertainty and disquiet, are dealt with.

While these problems remain unsettled, the mere appointment of a Cabinet Minister to look after League of Nations business can do little or nothing to restore the League's flagging vitality, whereas each step forward in the solution of these economic problems would make all the nations sit up and take notice, and self-interest would gradually draw them together into some kind of association which might easily become a real living force making for peace.

### *Two Historic Judgments*

On 27th May the Supreme Court of the United States delivered judgment to the effect that President Roosevelt's New Deal is *ultra vires* and unconstitutional, and on 6th June the Judicial Committee of the Privy Council in London confirmed the legal right of the Parliaments of Canada and of the Irish Free State to prohibit appeals to the Committee from the Dominion Courts. It is an accident, of course, a rather dramatic accident, that these judgments should follow one another so closely, and the remarkable contrast they provide between a system, under which the work of reorganization is arrested by the dead hand of a written constitution, and the other system which allows the utmost freedom in development, is due to an undesigned coincidence in point of time; but the contrast is so striking that one wonders which system is right and why.

To say that America is experiencing the disadvantages of having a written constitution does not carry us very far, for the greater part of the British constitution is written, and is a matter of positive law, or of custom and usage which has almost the force of law, and we must dig a little deeper. We have to ask ourselves why it is that the two great Western democracies should differ so profoundly in their method of working, that the one can make the most far-reaching social changes as soon as the country is ready for them, while the other is liable to be pulled up at any moment by legal and constitutional checks. It looks as if there were some fundamental difference between the British and American conceptions as to the nature of popular government, and it is worth while trying to find out what this difference is.

If any business man thinks that this is merely an abstract question of constitutional law in which he and his pocket are not concerned, let him ask himself what his business colleagues in America think about the matter when they find that all the plans they had made on the faith of the continuance of the New Deal are liable to be upset; he will realize that those constitutional questions have a very direct bearing on business and are therefore worth investigation.

### *Maine's "Popular Government"*

Towards the end of last century a great Victorian jurist, Sir Henry Maine, wrote a treatise on popular government, in which he described with an unsparing pen the weaknesses of the democracies he saw in Europe and South America, and contrasted with these the safeguards provided by the constitution of the United States.

He pointed out that, as a matter of fact, popular government, since its reintroduction into the world in modern times, had proved itself to be extremely fragile; that in the extreme form to which it tends, it is, of all kinds of government, by far the most difficult to work; and that the perpetual change which it appears to demand is not in accord with the normal forces ruling human nature, and is apt therefore to lead to cruel disappointment or serious disaster.

These defects and disadvantages of popular government are real enough, and we are continually being reminded of their existence. Maine comforts himself with the thought that it is not beyond the powers of human reason to discover remedies for the infirmities of popular government. The success of the constitution of the United States, and the success of such American institutions as had succeeded, had, in his view, arisen rather from skilfully applying the curb to popular impulses than from giving them the rein.

Maine disliked and distrusted popular government in all its forms. "I suspect," he said, "there are very few observant Englishmen, who in presence of the agitation which filled the summer and autumn of 1884, were not astonished to discover the extent to which the constitution of their country had altered, under cover of old language and old forms. And, all the while, the great strength of some of the

securities which the American Federal Constitution has provided against the infirmities of popular government has been proving itself in a most remarkable way."

### *The Dred Scott Case*

Maine, in his enthusiasm for the curbing influence of a written constitution on the wayward tendencies of democracy, had one awkward fence to get over, viz., the Dred Scott case. In that case, as *The Times* puts it, the Supreme Court, faithful to the letter of the law, ruled that slaves, or the descendants of slaves, could not be allowed access to American courts, and declared that it was the constitutional duty of the Federal Government to uphold the rights of property, including property in slaves. By general agreement this decision helped to bring about the crisis which led to the Civil War, by ignoring the changes in conditions and in sentiment which had occurred since the constitution was drafted.

Maine was too powerful a mind to ignore a point of this magnitude, but he gets out of the difficulty with marvellous adroitness. He says that the framers of the United States Constitution deliberately thrust the subject of slavery out of their sight, and did not provide for it, so that "in the one instance in which the authors of the constitution declined of set purpose to apply their political wisdom to a subject which they knew to be all-important, the result was the the bloodiest and costliest war of modern times."

The inference is that if the fathers of the constitution had applied their minds to the problem of slavery, the Dred Scott decision would never have been given and there would have been no Civil War; and, to be logical, Maine, if he were alive to-day, would have to argue that if the framers of the constitution of 1787 had taken the trouble to foresee and provide for the modern industrial and agricultural developments which have taken place in America, they would have been able to prevent all the upset and uncertainty which has been caused by the recent decision of the Supreme Court.

### *Ancestor Worship*

This would, we submit, be asking too much of human nature. We cannot believe that the men

of the "horse and buggy" days could possibly have foreseen modern conditions or could have provided for them, any more than we can believe that any superman to-day can tell what the world will be like in 150 years' time or could frame a constitution which would prevent our great-great-grandchildren from making grave political mistakes.

Each generation, it seems to us, has got to make its own mistakes and work out its problems in its own way, with such wisdom as it can command; it can learn much from the wisdom of its ancestors, but it is dangerous to allow the ancestors to control policy. Worship of ancestors is a Chinese cult which is foreign to the spirit of Western communities.

The framers of the American constitution were great men, and that constitution is probably the ablest document of its kind which the world has seen. On the whole, it has served America well, during its period of expansion, but it broke down on the question of negro slavery; and, now that America is faced with the same kind of economic problems that beset the rest of us, it prevents the Americans from putting their house in order.

### *The American Situation*

Opinions differ as to the wisdom or otherwise of this or that feature of the New Deal or of the other Roosevelt measures, but there seems to be general agreement that some kind of co-ordinated national effort was absolutely essential in order to deal with the tremendous difficulties which confronted America when the present administration took office.

Considerable progress was being made by efforts of this kind, but the Supreme Court—or rather the Constitution, for the judges were unanimous and could apparently come to no other conclusion—has now called a halt. It is decided that Congress cannot delegate legislative power to the President, and that the clause giving Congress power to regulate commerce among the several States cannot be construed to affect enterprises and transactions which have merely an indirect effect upon inter-State trade. This means that, as the Constitution stands, the great national industries—farming, manufacturing, mining and construction—are all outside the

Federal jurisdiction and are the exclusive concern of the individual States.

The question before America now is, according to the President, whether there should be relegated to the 48 States of the Union all control of State or national social and economic conditions, or whether there should be restored to the Federal Government powers which are vested in the national Governments of every other nation—the right to enact or administer laws that have a bearing on, or control over, national social and economic problems.

What the answer to that question is to be it is for America to say, but it seems to the foreigner self-evident that national social and economic problems must somehow be dealt with by way of national action, and there must be something wanting in a Constitution which forbids this natural method of procedure. We can only wish the Americans the very best of good luck in dealing with this colossal problem, both for their sakes and for our own.

### *Misleading Pessimism*

We have reached this point then, that, whatever the weaknesses of popular government may be—and they are real enough—it is a mistake, and a dangerous mistake, to think that we can guard against them by inserting clauses in a written constitution. Maine made that mistake, and it looks as if he had been led into it partly by his legal training, partly by dislike of the excesses of democracy, and partly by his rather poor opinion of the political capacity of his fellow countrymen.

In one place he speaks of the infirmities of our constitution "in its decay," and in another he refers to himself as living in the dregs of time, *in faece Romuli*. It is a pity that his faith was not more robust, for events have shown that his fears were not well-founded. We are not out of the wood yet, and have a horror of being boastful or complacent, but the world can see for itself that there is any amount of life in the old dog still; that we have gone through a social revolution and an unprecedented war without losing our heads or too many of our tail feathers; and that our society is now more broad-based and more stable than it ever was in Victorian times.

### *The Secret of Self-Government*

Why is this? It is not due, much as some of us in our more expansive moments may like to think it, to any superior virtue in us, nor is it due entirely to good luck, though we have had our fair share of luck and we would not like to think ourselves inferior to our neighbours; it is due mainly to the tradition we have inherited from our fathers, strengthened by the teaching and example of generations of good men and women who have gone before us, that the only control that is in the end worth having or which is any good, is the control that comes from within, and that self-control and self-government can never be learned unless men have responsibility and are able to make mistakes, on the condition that they pay for their errors.

Take alcohol, for instance, which is one of the blessings of life or a poisonous drug according to the way it is used. It is possible to prevent or restrain some of the worst kinds of misuse of alcohol on the part of the weaker brethren by licensing laws or other statutory enactments, but real temperance can only come from the growing good taste and good sense of a community which sees for itself, and finds out for itself, that excess is both silly and ugly.

### *Compulsion only of Secondary Importance*

Laws and compulsory restrictions can undoubtedly be of some help while that good taste and good sense are developing, and they will probably always be needed to some extent for the purpose of preventing the weaker brethren from offending too grossly against the standards of good sense and good taste which for the time being obtain in the community, but they cannot do more; they cannot make us temperate any more than bladders can teach us to swim. We have got to learn to swim for ourselves, and we can never become good swimmers unless we go out into the deep water where we may drown if we are not careful, and there learn how to keep ourselves afloat and make progress through the waves.

It looks as if much the same sort of thing were true in politics; that the art of government can only be learned by exercising it; that a people

can only develop a sense of responsibility if they are given responsibility, and made to realize that they themselves will suffer if they go wrong.

In this country, so far as mere law goes, there is nothing which would prevent an extremist majority doing the maddest things, for they could easily repeal any law or laws which stood in their way, and the idea that any paper barriers would be of any avail against this kind of foolishness is wholly illusory.

### *The Sense of Responsibility*

The real sanction is that if any majority, however great, were silly enough to defy the economic or political laws of the universe, the sky would at once become dark above their heads with the gathering clouds of the coming storm, and, if they persisted in their mad course, they would speedily be overwhelmed by the deluge which followed.

The reason why we do not think that this kind of thing is likely to happen in this country is that our people, by means of property and responsibility, are becoming more and more interested in the safe navigation of their ship of state, and more and more acquainted with the laws of navigation and the law of storms; they realize more and more fully that in the very difficult waters we are crossing to-day serious errors in navigation may easily, and very speedily, prove disastrous to themselves.

The burden of all this talk is, not to prove that democracy is the best form of government—it may or may not be—but that if you happen to have a democracy it is much better in the long run to let the people make mistakes and so acquire a sense of responsibility than to keep them in leading strings by means of a system of constitutional checks devised by a bygone age. However wise that system may have been at the time it was drafted, it must sooner or later become out-of-date, and a people kept in leading strings cannot develop the same sense of political responsibility as one which has to walk without them.

All this sounds rather platitudinous to us, but it is by no means a platitude to our neighbours to the East and West of us, although they are in so many essential respects in very much the same position as we are, and although they prob-

ably want very much the same kind of things as we do.

### *Points of Resemblance*

Mr. Baldwin in his broadcast address on 8th June described the attitude and desires of this country in the following terms:—

“There is to-day in the vast mass of our fellow-countrymen an ever-growing pride of country, pride of our achievements, pride of our system of government, pride of law and order, and of our liberty and freedom. It is combined with a genuine desire to work together for the common good along progressive lines which will secure peace, which will increase industrial prosperity and still further improvement in social conditions and in the lot of the less fortunate of our fellow-citizens.”

This form of words, with slight variations perhaps in the first part of it, could be adopted wholeheartedly by most of our neighbours. It could certainly be accepted in principle and with complete sincerity by all the dictators, for, whatever their methods may be, they all seem bent on improving the condition of their people. There is community of aim if there is not agreement as to method.

The other point of similarity between us and our neighbours is that the common people are far more important than they were under previous systems. It is true that the dictators are absolute, but they regard themselves as directly responsible to the people and as leaders of the people. The systems in Germany and Italy are avowedly Socialistic in colour and purpose and that in Russia is even redder. There is an immense popular force behind these systems of government as there is behind ours, and the difference between us is very largely one as to the method by which we try to attain objects; with us it is a case, speaking very roughly and generally, of government by the people, whereas in their case it is government for the people.

### *Points of Difference*

We have therefore the spectacle of great masses of organized people, all animated by much the same kind of ideals, and all pressing forward to something which they regard as

better; but one lot has to be led or driven onwards, like sheep, toward their kingdom of heaven, without much sense of direction and without much knowledge of the road they are following, while the other prefers to find its own way and march forward of its own volition.

Both may arrive, and the group that is driven may at times take a more direct course and may make better speed than the group which has to find its own track and swerves now a little to the left, and now a little to the right, of the direct line; but the drawback to the dictatorship system is that everything depends on the capability and character of the leader, and the more capable the leader is the less accustomed do his flock become to thinking things out for themselves.

The consequence is, not only that there is no trained material ready to take the place of the dictatorship system when it breaks down—and it is idle to think that dictatorship is likely to be any more permanent than other forms of government—but also that a mass which has given up

exercising and using its political will and its political intelligence is exceedingly easy to sway in any direction, right or wrong.

A gust of passion can sweep over it like wind over a cornfield, whereas in a mass, the units of which are used to thinking for themselves, the mere fact that one man makes a proposal is quite enough to make others find reasons against it. This characteristic may retard the adoption of good measures, and may involve a good deal of waste of time and energy, but it is also some guarantee against the hasty adoption of bad ones. People who think for themselves are not so easily stampeded as those who do not.

It looks, therefore, as if there were something to be said for the form of government under which we happen to live, and some reasons for thinking that it is not necessarily quite so fragile as some people have imagined; but it is also clear that it can only be maintained if people of their own accord feel that they have an interest in its maintenance, and are given every opportunity for developing a sense of responsibility.

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## The Union and Current Problems

One of the most important questions to come under the consideration of the Union during June was the revision of the Ottawa Agreements and the Import Duties Act.

A great deal of information still continues to be received as a result of the Union's appeal for the experience of Members as to the effect of the Ottawa Agreements upon their particular business and the competition which they may be encountering from manufactured goods produced in overseas portions of the Empire.

Following a full and interesting discussion on this subject at the meeting of the Administrative Committee on 18th June, a small Sub-Committee was appointed to examine the evidence available and recommend what amendments appear to be necessary in the Ottawa Agreements.

The Sub-Committee will also examine the replies received from Members consequent upon the letter from the Canadian Chamber of Commerce in Great Britain inviting the co-operation of the Union in removing the difficulties which may stand in the way of the further development of Anglo-Canadian trade. The question of Empire content is so closely associated with the subjects already mentioned that the Sub-Committee will pay special attention to the operation of the present provisions. On this latter

question there was unanimity of opinion that many articles remaining in the 25 per cent classification should be transferred to the list of goods for which 50 per cent is required and that there are other commodities for which a higher figure should be set up.

It was felt that in the case of Canada particularly, the 25 per cent provision still permitted goods of essentially American origin to enter this country under the facilities afforded by the Empire content regulations.

It was apparent from the replies already to hand that manufacturers generally are of opinion that the free import of manufactured goods from the Empire should be withdrawn and a system of preferences set up in its place.

### How the Ottawa Agreements Affect British Manufacturers

#### HEAVY EMPIRE DUTIES

The following instances were quoted to demonstrate the severity of Empire duties under the Ottawa Agreements and the resultant hardship to British manufacturers endeavouring to sell goods in various Empire countries.



**AUSTRALIA:** Duties imposed on British manufactures by the Dominions, especially Australia, are very high compared with many foreign countries.

Considerable competition in tin oxide imported from Australia at prices much below those ruling in that country.

Various grades of leather are being dumped here at considerably less than home prices, and in some cases at prices as low as those of the raw pelt.

Impossible duties have killed trade in floor and other polishes.

**CANADA:** Elastic bands sent in at practically "dumped" prices. Elastic webs to a total of £29,907 were imported duty free last year.

Black bolts and nuts are being dumped into this country at prices considerably under the Canadian home price, whereas Canada levies a dumping duty on material sent into that country.

Engineers' files previously sent from U.S.A. to a value of £56,410 in 1931 have fallen to £834 in 1933, while in the corresponding years Canadian exports to this country have risen from £47 to £36,081. This increased quantity is believed to come from American-owned Canadian factories.

Rubber soles and heels came in free from Canada in 1931 to a value of £359,093, while a prohibitive tariff reduced British exports to Canada to £402.

Trade with Canada in pure tin collapsible tubes has been entirely lost through a prohibitive duty.

Surplus stocks of Canadian workmen's gloves are dumped into Great Britain at prices with which the home manufacturers cannot compete.

**INDIA:** Large quantities of chain webbing are coming in from India duty free and at low prices.

A duty of 40 per cent is imposed on British sports goods going into India, while a large quantity from that country comes to the home country duty free.

Very large quantities of carpets are being sent from India duty free. British carpets sent to India are met with a duty of 25 per cent.

**TANGANYIKA:** British manufacturers report serious competition in binder twine from this country as well as from American-owned factories in Canada.

It was felt that sufficient evidence was already available to demonstrate clearly the need of a much more even balance of inter-trading conditions between the Dominions and Colonies and the Mother Country, in order to bring about an expansion of trade within the Empire.

Members who had visited Canada received the impression that Canadian industrialists were now beginning to realize that they had driven too hard a bargain at Ottawa and that the Agreement was bound to be revised to a fairer basis.

The Committee felt that the question of Empire content was of great importance and was the source of much of the difficulty with which British manufacturers were faced. The figure of 25 per cent was very much too low for many of the goods to which it applied, and led to American-owned concerns assembling their products in Canada and sending

them not only to this country but to other parts of the Empire.

It was pointed out that the Empire content provision was not a part of the Ottawa Agreement, and as it could be revised at any time, there was a strong feeling in favour of pressing for an early alteration

## Subsidies and Dumping Duties

### UNION PRESSING FOR JOINT GOVERNMENT AND INDUSTRIAL JOINT COMMITTEE.

The Union have given much attention to the lack of provision in our legislation to deal quickly and effectively with the dumping of foreign goods into this country. In view of the continued rise in the importation of foreign manufactured goods, the following letter was addressed to the Board of Trade on 5th June:—

"I am desired by the Union to refer to their previous letters to the Board of Trade in which they suggested that our fiscal machinery needed amendment in order to cope with sudden attacks due to subsidies or dumping in any of their numerous forms, and to ask that this question may be reconsidered.

"The Board's attitude hitherto has been that the existing machinery is adequate for the purpose and did not need revision, but the Board will have noticed that the imports of manufactured goods which were £46 million in the first four months of 1933, rose to £55 million in 1934 and to £58 million in 1935.

"After making every reasonable deduction for oils and fats, non-ferrous metals, goods which are imported to be worked up here, and classes of this kind, manufacturers submit that the increases recorded under the remaining headings support the opinion which they have formed as the result of their day-to-day experience, viz., that manufactured goods which could quite well be made here are being imported, and that the quantity tends to rise rather than to fall.

"If this is so, and if, as the Union are satisfied is the case, the Advisory Committee are doing their utmost to make full and efficient use of the powers which they at present possess, the inference is that those powers are not adequate for the purpose intended, and there is a case for considering whether the fiscal machine should not be amended.

"On the basis of recent experience, therefore, the Union would ask that this question be reconsidered, and they would add that there is a widespread apprehension amongst manufacturers as to the effects which may be produced on British industry if France and others of the gold-bloc countries go off gold, and they doubt whether the present fiscal machine is capable of dealing adequately, or with sufficient speed, with the situation which may then arise.

"It is sometimes suggested, rather than argued, that as the trade of this country benefited when we went off gold, we are estopped from taking measures to protect ourselves against the effects of devaluation on the part of others; but it may be pointed out that

other countries took steps to protect themselves when we went off gold, and it is submitted that it is the duty as well as the right of each country, in the present very uncertain condition of foreign exchanges, to protect its trade against the consequences of devaluation on the part of its neighbours.

"As it is at least doubtful whether the present fiscal machinery is capable of protecting our trade against any sudden attack caused by serious devaluation, the Union would suggest that the question should be considered whether our fiscal system should not in this respect also be amended.

"The nature of the amendments to be made could be determined by a suitable Committee to be appointed for the purpose, and the Union again bring before the Board of Trade the strong feeling on the part of manufacturers that the question of amending and strengthening the fiscal system is one which should be considered by the Government.

"The principle that protective measures of the kind contemplated should be taken when sufficient cause is shown has already been affirmed by the Government themselves in the Debts Clearing Office and Import Restrictions Act, the second part of which, in provisions expressly stated by the Government to have been introduced in the interest of the producer, gives the Government power to impose quotas on any foreign country which imposes discriminatory quotas against us.

"The only questions, therefore, are whether there is sufficient reason for amending the law, and, if so, what form the amendments should take, and the Union would again suggest that these questions should be examined by a Committee on which the Government and industry are represented."

## The School Leaving Age

### UNION CONCERN FOR EARLY TECHNICAL TRAINING.

Further consideration of the question of the school leaving age was given by the Administrative Committee following a resolution at a conference of education authorities favouring an immediate raising of the age to 15. A proposal for 16 years of age was rejected, not because the conference itself was not in favour of this age, but because it was felt that the country was not yet ready for such a step.

The examination of the whole question by the Government was stated to be still proceeding.

It was reported that the cost of raising the school leaving age to 16 would be at least £18,000,000 per annum, including maintenance allowances.

The Committee were of opinion that recent events and discussions had produced no new facts or aspects of the question which called for any change of the Union's general attitude. It was felt that the point of most importance, even more important than the heavy cost of the scheme, was the handicap which would be placed upon boys of 16 entering a trade or occupation, where a high degree of manual skill was

required, as they would be deprived of the early training which those concerned in the direction of industry knew to be essential. Experience shows decisively that in highly skilled trades vocational training must start not later than 14. This may be combined with a system of part-time classes, but early workshop experience is essential if the boy is to become a really skilled workman. Workshop training could not be given adequately in the schools, and it would be far more advantageous for the boys themselves if a scheme of combined workshop training under actual factory conditions and continuation classes could be obtained. Where boys acted as assistants to men it would mean that double the number of boys would be on the books of the factory.

Members were fully in favour of a system of vocational training with compulsory attendance at continuation classes as a condition of employment and advancement in employment being considered in relation to school reports. Such a system would allow of much greater vocational selection in the interests of boys themselves than would a fixed school leaving age. Another aspect of the case, based upon the experience of industrialists, was that at 14 a boy would learn more than at 15, and that at 16 there was a further marked decrease in the speed with which he was able to assimilate knowledge. At 14 the boy came into the works without too many preconceived ideas. By the time he had reached 16 years of age he was not so tractable or ready to perform the more humble tasks which were often undertaken by beginners.

The discussion was adjourned for further inquiries to be made.

## Monetary Policy

### UNION COMMITTEE'S REPORT COMPLETED.

The Special Committee which has been considering the question of monetary policy has concluded its sittings. Its report was presented to the Administrative Committee on 18th June, and in view of the importance of the recommendations made, the Committee decided that it should be circulated to the branches of the Union for their consideration and observations. In this way it is hoped to obtain a reasonably comprehensive view of the opinion of Union members.

## In the Provinces

### Birmingham

#### INDUSTRY AND HEALTH.

One of the most interesting subjects to come before the meeting of the Midland Council at Birmingham on 17th June was the report of the first meeting of the Advisory Board which is co-operating with the Department of Industrial Hygiene and

Medicine of Birmingham University. The Midland Council is taking an active part in the work of the Board.

The following recommendations were made :—

1. That the Department should devote a good deal of attention to health propaganda amongst workers by means of lectures and works visits and consultation with those responsible for works management.
2. That the Department should be open to accept invitations from the management to visit and advise on matters connected with industrial health.
3. That, if possible, a course of lectures be arranged in the University for members of works management committees, shop stewards, foremen, etc.
4. That every effort should be made to create a library and make the most modern information concerning problems of health and diseases in industry readily available to managements and workers.
5. That consideration should be given to the provision of a course of instruction in Industrial Hygiene for Nurses.

It was stated that the University would appoint a research worker, and that industrial concerns would be invited to submit any problems for research.

Dr. Collier referred to the need which industry has felt for knowledge concerning the prevention of diseases and the maintenance of health which constitute a formidable "hidden charge" upon industrial life. There appeared to be a lack of co-ordination of the results of the study of these complex problems and an absence of due facilities, both for the systematic and advanced teaching of it, to medical practitioners, industrial nurses and welfare workers, and no "common centre" to which industrial welfare problems could be referred and from which the latest knowledge could be available.

The Department of Industrial Hygiene will, therefore, make contact with the problems met by the worker, the industrialist, and the medical profession, and will build up a Department where research, teaching and the effectual dissemination of knowledge concerning industrial health can render useful services to industry.

#### POSTAL CHARGES

A letter from the Postmaster-General expressed the gratification of the Department at the Council's appreciation of the concessions announced in the Post Office Jubilee programme.

With regard to the Council's suggestion that the weight limit for parcels should be fixed at 22 lbs., the Postmaster-General added that the revised scale of 15 lbs. was fixed only after full consideration had been given to the various representations which had

been made on the subject. The 22 lbs. limit had been rejected chiefly on account of the practical difficulties of handling parcels of that weight. The question of extending the weight would, however, be borne in mind.

#### THE STEEL CARTEL

The Midland Council heartily welcomed the agreement which had been come to between the British Iron and Steel Federation and the International Steel Cartel. The agreement was regarded as an excellent example of the way in which the tariff could be used to assist British industry and an important step towards the standardization of world prices.

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## The Trade Agreements

### SOME INTERESTING FIGURES

As we have had to criticise the Trade Agreements, it is only fair to call attention to the following increases in trade with trade agreement countries, as reported in the *Board of Trade Journal* of 6th June.

#### *Sweden.*

Exports of United Kingdom goods to Sweden in 1934 amounted in value to £9,874,000 as compared with £7,849,000 in 1933, an increase of £2,025,000 or 25.9 per cent. Excluding re-exports, the increase was £1,907,000, and was due largely to coal, cotton goods, iron and steel and manufactures thereof, but also of most manufactures for which United Kingdom exporters have found a market, and which, states the Commercial Secretary to H.M. Legation at Stockholm, were imported on a considerably higher scale in 1934 than in any year since 1929. The demand at present is extraordinarily good for high-class fabrics and semi-luxury articles; there is none for inferior goods.

#### *Argentine.*

The United Kingdom supplied goods to the value of 57.4 million pesos in March quarter, 1935, as compared with 51.3 million pesos in the first quarter of 1934, and fully maintained its lead over the United States and Germany.

#### *Denmark.*

Danish imports from the United Kingdom were 36.3 million kroner in April, 1935, as compared with 28.5 million kr. in April, 1934, and represented 37.11 per cent of the total imports as against 36.1 per cent in March.

These figures make one ask whether it is possible yet to see what has been the effect of the agreements on our trade with the countries concerned, and the

following table, which has been compiled from the official trade returns, give some indication of what is taking place. It is obvious that the trend of trade with non-agreement foreign countries and with Empire countries must be looked at at the same time.

TRADE WITH TRADE AGREEMENT AND OTHER COUNTRIES DURING THE FIRST QUARTERS OF 1933, 1934, AND 1935

Trade	Imports from January to March			Exports to January to March		
	1933	1934	1935	1933	1934	1935
<i>Agreement countries</i>	£,000	£,000	£,000	£,000	£,000	£,000
Germany, May, 1933 ...	6,591	7,345	7,316	3,524	4,358	6,557
Denmark, June, 1933 ...	7,982	7,760	7,229	2,857	3,090	3,639
Sweden, July, 1933 ...	2,649	3,498	3,389	1,549	2,035	2,231
Norway, July, 1933 ...	1,785	1,940	2,016	1,238	1,582	1,526
Argentina, Nov., 1933 ...	11,800	12,519	11,698	3,265	3,203	3,615
Soviet Russia, March, 1934	2,719	3,540	2,176	1,310	744	721
France, July, 1934 ...	4,330	5,105	4,923	4,947	4,593	4,124
Finland, Nov., 1933 ...	1,851	3,241	2,537	404	637	881
<i>Total Trade</i>						
<i>Agreement Countries</i>	39,761 (24.95)	44,568 (34.21)	41,974 (29.14)	19,124 (21.33)	30,142 (21.97)	29,278 (22.06)
<i>Other Foreign Countries</i>	57,651 (36.20)	67,189 (36.35)	66,113 (37.48)	31,035 (34.30)	33,697 (34.52)	33,469 (31.74)
<i>Empire Countries</i>	61,849 (38.84)	72,089 (39.41)	70,239 (39.38)	39,547 (44.08)	41,879 (44.21)	48,738 (46.20)
	159,241 (100.00)	183,845 (100.00)	178,317 (100.00)	89,706 (100.00)	94,718 (100.00)	105,498 (100.00)

It is true that the full effect of the trade agreements cannot be seen from a hasty glance at a table of this kind, but there are one or two observations that can be made, and for the purpose of making them we will look only at the exports side of the picture, as that is the one which interests us most.

It will be noticed that the exports to all the trade agreement countries have gone up, with the exception of Russia and France, and that the exports to the trade agreement countries taken together have increased by a larger amount (£4.1 millions) than the exports to other foreign countries taken together (£2.4 millions), although the latter group is considerably the greater of the two.

It will next be seen that the exports to all foreign countries, agreement and non-agreement, during the quarters under review increased by £6.6 millions, while the exports to Empire countries increased by £9.2 millions, which seems to show that Empire preference agreements are more efficacious than agreements made under the shadow of the most-favoured-nation clause, which forbids all preference.

A further point is that, as the exports to the foreign countries with which we have not made trade agreements show a marked increase, it looks as if our trade with foreign countries generally was increasing, irrespective of any agreements, and the authors of the agreements cannot, therefore, claim that the increase in the exports to the six countries is entirely due to their work. Part of it certainly is, possibly rather more than half, but the remainder is not.

The question whether this special advantage, whatever the correct figure may prove to be, was bought too dear, remains undetermined; and the general criticisms, that the agreements were made without proper consultation and without any settled policy, remain unaffected.

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*Love's Labour Lost*, Act III, Scene 1.

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When we survey the vast universe as a whole, we see our sun reduced to a grain of sand, and our earth to a millionth part of a grain of sand—a tiny spec of dust circling round a grain of sand which is a million times bigger than itself, and yet is only of infinitesimal size in the universe as a whole. We may take pleasure in finding that the universe is such a very grand affair, but we cannot flatter ourselves that our mundane affairs play any large part in it.

—Jeans. "Through Space and Time," p. 217.

We glance over hundreds of thousands of years of human history, and see only savages living in caves like animals, fighting with animals, and perhaps crying like animals. Then, perhaps 100,000 years ago, he acquires a new capacity for speech, he becomes able not only to plan and devise, but also to exchange his ideas with his fellow-men, and communicate his plans to them. This gives him an almost unchallengeable ascendancy over all other animals, and henceforth his progress is rapid. Perceptible change is no longer a matter of millions of years, thousands suffice, then centuries, now almost single years. Human life has changed more in the last 50 years than reptile life did in 50 million years in the Jurassic and Permian Eras.

—Jeans. "Through Space and Time," p. 45.

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Date	Shipbuilding			All Industries	
	Number of insured Workpeople	Unemployed	Employed	Percentage Unemployed	Percentage Unemployed
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Jan. 1921	338,798	39,712	299,086	11.7	8.2
Jan. 1922	358,790	126,280	232,510	35.2	16.0
Dec. 1932	181,930	115,435	66,495	63.5	21.7
Apr. 1935	158,790	69,780	89,010	43.9	15.7

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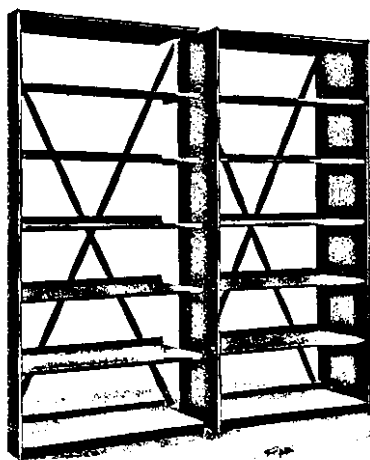
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A STUDY OF THE  
OTTAWA AGREEMENT  
FROM INDIAN STANDPOINT

*By*  
NALINI RANJAN SARKER

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## MAINLY EXPLANATORY

THE idea of Imperial preference with the object of welding together the different parts of the British Empire into an economic unit is not new. It dates back to the time of Joseph Chamberlain. The interest which has been reawakened in the subject in recent years owes its origin to the changed economic forces that have been at play since the War, and have given birth to the policy of economic nationalism almost the world over. In fact, the policy of Imperial preference may also be regarded as a variant of this idea of economic nationalism.

In the wake of the disastrous European War, the dislocation and paralysis which overtook trade, industry and finance made it extremely difficult for Great Britain to maintain her economic supremacy. The situation was complicated by the fact that some undeveloped countries had, by exploiting their resources, reduced materially their imports from the United Kingdom, while others had carried the process of industrialisation to a stage where they broke into overseas markets which were considered Great Britain's preserves. All these factors contributed to a phenomenal shrinkage in the export trade of the United Kingdom, forcing her to explore measures for the recovery of her lost markets and the opening up of new ones. The McKenna Duties, the Safeguarding of Industries Act and the abandonment of the Gold Standard in 1931 are some of the measures which England adopted under the supreme necessity of rehabilitating her commercial position in the world. These measures, however, were far from adequate and failed to bring about the desired expansion in trade and industry. The continuance of economic pressure reinforced the idea of Empire self-sufficiency which led to the invitation to the Dominions and other

Empire countries to the Imperial Economic Conference at Ottawa in July 1932. And as the Dominions and other Empire countries, were confronted with similar problems, most of them gladly responded to Great Britain's initiative.

Such a response could not, however, be expected from India where the situation was entirely different from that in the Dominions. Long before the Ottawa Conference and as early as 1903, informed opinion in India had been opposed to Imperial preference; and it is interesting to recall the reasons adduced when the question came up before the Government of India in the time of Lord Curzon. The proposal was rejected on the grounds:

- (a) That without any system of tariff preference India already enjoyed a large measure of the advantages of the free exchange of imports and exports;
- (b) That India had not very much to offer to the Empire;
- (c) That Government would not be justified in embarking on a new policy which might involve reprisals by foreign nations, unless assured of benefits greater and more certain than any which at that time presented themselves.\*

It may be conceded that the first two considerations mentioned above, do not hold good to-day, for, events have moved rapidly since the Government of India first dealt with the question. A policy of

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\* Report of the Indian Delegation to the Imperial Economic Conference, Ottawa, 1932, Chapter II (para ii)

## OTTAWA AGREEMENT

intense economic nationalism pursued by almost every country has made it practically impossible for India to retain her foreign markets, without negotiating trade agreements with her customers. Moreover, the increased competition in the Indian market from England's rivals has considerably enhanced the value of the concessions that India might make to her. Nevertheless, these altered circumstances do not by themselves justify a change in the policy adumbrated more than three decades ago. The third test, however, then applied by the Government of India remains valid. The value of any agreement should be determined on the basis whether, as a result, there would occur any net expansion of India's foreign trade. This consideration should have been kept prominently in mind by the Indian Delegation to the Ottawa Conference; in negotiating the Agreement with the United Kingdom, they appear to have been concerned, not so much with what India stood to gain, as what she stood to lose if she refused. This made a vast difference in approach.

The Delegation, in fact, maintained that "if India is to retain the trade she has already built up and to extend her trade in new directions in accordance with variations in world demand, she must see to it that outlets for her produce, which have hitherto been open to her, are not closed against her." But they went even further and held out the hope that the Agreement would augment India's foreign trade substantially. It was emphasised that, not only would the existing state of India's foreign commerce be preserved, but a definite expansion of exports to Empire markets would accrue. It was further maintained that Indian agriculture would be materially assisted by the Agreement on account of the assured markets and that production in India would consequently increase. These arguments were repeated by the supporters of the Agreement when its terms were discussed in the Assembly in a mixed atmosphere of pronounced scepticism and radiant expectation, which did not dissipate the gloomy forebodings of the wider public outside the Legislature. They were convinced that the Agreement would not much help India's foreign trade in the British market; there her serious

competitors in agricultural commodities were some of the Dominions and Colonies themselves, who would receive the same preferential treatment as India. Further, on account of the preferential treatment that India would have to extend to British goods, as a matter of reciprocity, the non-Empire countries, would, as a measure of protection, if not retaliation, consume less of India's exports by the erection of tariff and other barriers. Though the Indian commercial community did not agree with either the approach or the conclusions of the Delegation, the Government of India nevertheless succeeded in carrying its ratification through the Legislature.

In conformity with the decision of the Indian Legislative Assembly to review the working of the Agreement after two years, Dr. Meek, the Director General of Commercial Intelligence and Statistics, prepared a Report on the working of the Agreement for the year 1933-34 and a special Assembly Committee, having examined the review, have recorded their conclusions in a Report. These conclusions are not unanimous, there being sharp differences as to the results of the Agreement on India's trade, commerce and industry. The majority and the minority sections of the Committee have arrived at almost diametrically opposite conclusions—the minority maintaining very definitely that "the preferences given by the United Kingdom to our agricultural products have not, to any extent that matters, helped India to recover the lost ground and, on the other hand, the preference has adversely affected our foreign markets." Dr. Meek's report essays an impartial review of the working of the Ottawa Agreement; all the various aspects of the subject have not however been considered. In the following chapters, I shall have occasions to refer to Dr. Meek's conclusions and also to some of the views expressed by the members of the Assembly Committee on the results of the Agreement.

A year has passed since the publication of Dr. Meek's Report. Dr. Matthai, Dr. Meek's successor, is, it is believed, engaged in preparing another report on the same subject. We cannot, therefore, have the advantage of Dr. Matthai's conclusions and

## OTTAWA AGREEMENT

also the opportunity of analysing them, as we propose to bring within our purview a consideration of the working of the Agreement during 1934-35 on the basis of available relevant statistics.

Before examining the results of the Agreement, it may be pointed out that India's Delegates to the Conference, who were nominees of the Government of India, suffered from an initial handicap owing to lack of necessary statistics. Particularly in the case of the Ottawa Agreement which covers so large a number of commodities, the statistical position of every commodity, the position of the industries of India that have a bearing on these commodities, as also the general economic conditions in the country, should have been thoroughly examined, and analysed in the light of up-to-date informations. Nor were the Delegation associated with advisers who represented any important sections of the Indian commercial community likely to be affected by the Agreement; and they were thus denied a close acquaintance with the conditions of Indian trade and commerce necessary for coming to right conclusions. If they had given adequate consideration to the recommendations of the Fiscal Commission of 1921-22, they would have realised, as this Commission pointed out, that no preference should be granted if it in any way (i) diminishes the protection required by Indian Industries and (ii) involves on balance any appreciable economic loss to India.

To arrive at a correct appraisal of the effects of the Agreement on India's foreign trade and internal economy, we require to keep in mind certain vital considerations.

(1) First, we have to take into account the fact that since the Ottawa Agreement came into operation, a slow, steady and distinct undercurrent of recovery of world trade has been noticeable. This may have been due to either individual or collective efforts of certain nations. Whatever the reason, India has automatically shared in this world recovery, and her

exports to the U. K., as well as to other countries, have increased in comparison with previous years. An accurate estimate would therefore have to take into account these two factors, as far as possible, with reference to statistics of the increase in India's exports to the U. K.

(2) Secondly, net amounts of exports or imports do not correctly indicate the trend of trade. As we are engaged in the consideration of the trends of the entire foreign trade of India, we should lay stress on the proportionate share therein of each country.

(3) In the third place, it cannot be denied that the genuine world demand for India's commodities was, notwithstanding the tendency towards recovery, to a great extent restricted by the discrimination made against the non-Empire countries, and the consequent restriction of the Indian market for the imports from these countries. The Ottawa Agreement can be considered to have conferred an advantage on India's export trade, only if it can be shown that, despite the diminished demand for Indian goods on the part of non-Empire countries, the increase in Indian exports to the U. K., directly traceable to the Agreement, has been so substantial, as not merely to compensate the loss of other markets, but also to have resulted in a net expansion of India's export trade. To this end an examination of the respective shares of all the countries in India's imports and exports, both before and after the Ottawa Agreement, would reveal the truth.

(4) Fourthly, it is necessary, apart from making an estimate of the advantage to the entire foreign trade of India, to enquire how far the indigenous industries and the consumers in India have been affected by the Ottawa scheme of preferences.

On these broad and basic conditions I may now proceed to an examination of the reactions on India of the Ottawa Agreement and attempt to indicate in the light of our findings the possible lines of revision or modification of the Agreement.

# INDO-BRITISH TRADE

## (A) INDIA'S EXPORT TRADE

The export trade of India furnishes the acid test of the economic utility of the Agreement, for the *sine qua non* of the success of a trade pact is the positive expansion of the total volume of exports. I shall first of all consider the net export returns. Though the commodities falling within the purview of the Agreement form only a part of India's total exports, the net figures of export may give certain indications as to some tendency that might have been the outcome of the Agreement. For, the large number of commodities affected by the terms of the Ottawa Agreement must have exercised considerable influence on the entire export trade of India—both in its direction and volume.

**Table I**  
India's Exports  
(In lakhs of rupees)

	U. K.	Foreign countries	Total
1932-33	36.96	72.61	132.41
1933-34	47.21	78.17	146.31
Percentage increase	27.7	7.6	10.5
1934-35	47.53	82.87	151.24
Percentage increase	.67	6	3.5

Statistics of India's exports during 1933-34, the first year of the working of the Agreement, clearly point out that, while the off-take of the U. K. from India has increased by about Rs. 10 crores, the off-take of foreign countries outside the Empire has recorded an increase of less than Rs. 6 crores. In other words, while the U. K. has increased her off-take of India's exports by 27.7 per cent. the percentage increase in the case of the foreign countries has been only 7.6.

During 1934-35, again, it is found that, while foreign countries have increased their off-take of India's exports by more than Rs. 4.5 crores i.e., by 6 per cent., the U. K.'s off-take has advanced by Rs. 32 lakhs only, i.e., by .67 per cent. It is true that the rate of increase in the total export trade of India which was noticeable during 1933-34, has not been maintained during 1934-35, and actually it has come down from 10.5 per cent. to only 3.5 per cent; but the relatively greater increase in the off-take of foreign countries would appear to warrant the conclusion that the Ottawa Agreement has not been of substantial benefit to India. With regard to the pronounced increase in the off-take of India's exports by the U. K. during 1933-34, the question would naturally arise as to the relative contribution of the Agreement and of the recent tendency to trade revival in bringing about the result. Before, however, we proceed to investigate this aspect of the problem, it is necessary to enquire as to how far this increased portion of India's exports to the U. K. is ascribable to an accelerated demand for the preferred articles in the U. K. market and also to the extent of loss that India has sustained in the foreign markets.

**Table II**  
India's Exports to the U. K.

	(In lakhs of rupees)		Increase in 1933-34	1934-35	Increase in 1934-35
	1933-33	1933-34			
Preferred Articles	29.73	36.16	21.6%	55.90	.6%
Non-preferred "	7.23	10.41	40.9%	11.63	11.7%
All Articles	36.96	46.58	26. %	47.53	2. %

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The percentage increase in the off-take of the U. K. of preferred articles, during 1933-34, is only 21.6, while her off-take of the non-preferred articles, has advanced by as much as 40.9 per cent. The fact that an increase of such magnitude has been recorded by those articles which do not enjoy any preference, in the U. K., as against an increase of merely 21.6 per cent. in the case of preferred articles warrants a strong suspicion that, whatever advance India's export trade with the U. K. appears to have registered, has been due, not so much to the Agreement as to the general increase in the demand for India's commodities in the U. K. market. During the year 1934-35 the same trend was maintained, though in a less pronounced degree, as will be evident from the fact that the off-take by the U. K. of preferred commodities declined by .6 per cent. while that of non-preferred goods advanced by as much as 11.7 per cent. A legitimate inference is that, on the one hand, the reviving trade and industry of the U. K., have stimulated a demand for the non-preferred commodities of India and, on the other, the preference granted by the U. K. has been of little benefit, as far as the exports of preferred articles are concerned.

That the increase in the value of the total exports of India to the U. K. is, to some extent, due to the revival of trade conditions is evident from the statistics relating to its foreign trade and industrial production, as well as those relating to its other aspects of economic life. It is needless to point out that, of all the countries in the world, that have been showing a tendency towards recovery from the effects of the depression, the U. K. is the most notable, as having been the most persistent fighter against unfavourable world conditions. The general economic conditions of the U. K. in 1933 were much better than they were in 1932. Indices of production, wholesale prices and clearing house returns are clear indications of her increased economic activity, while figures of foreign trade, with which we are immediately concerned, furnish no less direct evidence, of her march towards recovery. It is significant that, while as compared with the calendar year 1932, the

total imports of the U. K. in 1933 recorded a decrease of more than £25 millions, (the figures being £701.67 millions and £678.85 millions respectively for the two years), the imports of raw materials and articles wholly unmanufactured increased from £164.61 millions in 1932 to £180.36 millions in 1933—an increase of slightly less than £16 millions, reflecting much greater industrial activity than in the previous year. This conclusion is corroborated by the facts that during the same period, the exports of British manufactured goods recorded an increase of £5 millions, the index of production in manufacturing industries rose from 97.2 to 103.5 (as compared with 1924=100) and that the average proportion of insured persons unemployed in Great Britain and Northern Ireland fell from 22.1 per cent. to 19.9 per cent. During 1934 again the economic conditions in the U. K. registered more pronounced improvements in many directions. While both imports and exports increased substantially, the industrial level rose to as much as 109.2 on a monthly average during the year and the employment index rose from 102 in 1933 to 106 in 1934.

All these facts, indicative of a greater industrial activity in the U. K., sufficiently explain the increase in the figures of India's exports, the bulk of which, be it noted, consists of food, drink and tobacco and of raw materials and articles mainly unmanufactured. That India is not the only country to receive the attention of the U. K. as an importer of increased quantities of raw materials, is also evident from a perusal of the large number of tables given by Dr. Meek. There are other countries, both within the Empire and outside, which have benefitted from the revival of economic conditions in the U. K. No conclusion can, therefore, be drawn from the mere fact of the increase in India's exports to the U. K. that it has been due solely or even to any important extent to the operation of the Ottawa Agreement.

Then, as to the extent of loss of foreign markets, the following table will furnish some indications.

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**Table III**

**India's Export of commodities enjoying preference**

(In lakhs of rupees)

	1931-32	1932-33	1933-34	1934-35*	Increase	
					in %	in %
To U. K.	32,97	29,73	36,16	35,90	21.6	- .6
To British Colonies	1,26	1,12	1,15	92	2.7	- 20
To other countries	88,29	73,21	71,92	62,83	- 1.6	- 12.6
<b>Total</b>	<b>122,52</b>	<b>104,06</b>	<b>109,23</b>	<b>99,65</b>	<b>4.6</b>	<b>+ 8.6</b>

\* Subject to revision.

The first impression conveyed by these figures is that, owing to the Ottawa Agreement, the U. K. has decidedly conferred a benefit on India in the matter of her off-take of commodities in which she has granted India preferential treatment, but, if we bear in mind that in an evaluation of the effects of the Ottawa Agreement on our export trade, we should leave out of account that portion of the automatic improvement in our exports to the U. K. attributable to the increased industrial activities in that country, it should not be difficult to conclude that the increase in exports to the U. K., at any rate, a considerable portion thereof, has taken place at the expense of India's markets in other countries, and that there has been very little net advantage to India from the Ottawa Agreement in the shape of a net expansion of her export trade. This fact will be more clearly realized when we consider that India's export trade in all commodities, with other countries increased, as we have already seen, by 7.6 per cent. in 1933-34 and by 6 per cent. in 1934-35, as compared with the previous corresponding years, while her export of

those commodities affected by the Ottawa Agreement has declined by 1.6 per cent. and 12.6 per cent. during the same periods. In other words, there has taken place a diversion of trade in these preferred articles from the foreign countries to the U. K. Further, as we have seen before, India's total exports to all countries have advanced by 10.5 per cent. and 3.5 per cent. respectively in 1933-34 and 1934-35, while her exports of the specified articles covered by the Ottawa Agreement have registered an increase of 4.6 per cent. in 1933-34, but a decline of 8.6 per cent. in 1934-35. This suggests clearly that India has not been able to take as much advantage of the present world conditions as she would perhaps have done had not the restrictive effects of the Ottawa Agreement stood in her way. With regard to even the U. K. market, it should be pointed out that, while her off-take of all commodities from India advanced by 27.7 per cent. in 1933-34 and by .67 per cent. in 1934-35, her offtake of preferred articles showed an increase of 21.6 per cent. in the first year and a decline of .6 per cent. in the second year,—which means that the Ottawa Agreement has not helped India to obtain any abiding advantage in the U. K. market in respect of the preferred commodities.

The above two tables have been constructed mainly on the basis of the data furnished by Dr. Meek, and considering the relative position of the preferred and the non-preferred articles in the U. K. market, the conclusion becomes irresistible that the Agreement has conferred little benefit on India's foreign trade.

*Specific commodities considered.*

I shall now consider some specific commodities coming under the operation of the Agreement. First of all, I shall divide the main commodities under two categories to indicate their respective increase or decrease in export to U. K.



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**Table IV**

India's exports to the U. K.

<i>Commodities that marked an increase</i>	1932-33	1933-34	1934-35
Rice (not in the husk)			
Value: Rs. (lakhs)	34	30	41
Quantity: tons (000)	42	44	59
Paraffin Wax			
Value: Rs. (lakhs)	37	55	47
Quantity: tons (000)	8	13	11
Linseed			
Value: Rs. (lakhs)	17	201	122
Quantity: tons (000)	15	176	98
Hides and skins tanned			
Value: Rs. (lakhs)	436	530	486
Quantity: tons (000)	14	18	17
Oilseed cakes			
Value: Rs. (lakhs)	72	86	104
Quantity: tons (000)	106	157	193
Teak and other hard wood			
Value: Rs. (lakhs)	28	40	66
Quantity: Cft. (000)	12	17	32
Woolen Carpets			
Value: Rs. (lakhs)	45	56	74
Quantity: lbs. (000)	4,293	6,710	8,235
Tobacco			
Value: Rs. (lakhs)	37	47	35
Quantity: lbs. (000)	9,076	13,337	9,297
Lead (Pig)			
Value: Rs. (lakhs)	118	128	88
Quantity: cwts. (000)	964	1,090	786
Shellac			
Value: Rs. (lakhs)	25	123	134
Quantity: cwt. (000)	81	309	215
Mica			
Value: Rs. (lakhs)	18	24	35
Quantity: cwt. (000)	18	24	31
Jute (Raw)			
Value: Rs. (lakhs)	224	255	234
Quantity: tons (000)	130	177	166
Groundnuts			
Value: Rs. (lakhs)	58	67	93
Quantity: tons (thousands)	32	53	71

**Table V**

India's Exports to U. K.

<i>Commodities which marked a decline</i>	1932-33	1933-34	1934-35
Castor Oil			
Value: Rs. (lakhs)	12	10	9
Quantity: gals (000)	767	753	612
Coffee			
Value: Rs. (lakhs)	34	30	21
Quantity: cwts (000)	52	50	36
Jute manufactures			
Values: Rs. (lakhs)	170	153	157
Groundnut oil			
Values: Rs. (lakhs)	10	6	1
Quantity: gals (000)	664	507	89
Castor seed			
Value: Rs. (000)	33	33	24
Quantity: tons (thousands)	23	27	20
Myrobalans			
Value: Rs. (lakhs)	28	29	24
Quantity: cwts (000)	494	598	666
Pig iron			
Value: Rs. (lakhs)	26	22	21
Quantity: tons (000)	76	93	98

The two tables indicate that all the commodities have not received equal stimulus, if there were any added stimulus from the Agreement. It will be found that many of the commodities like paraffin wax, linseed, tanned hides and skins and tobacco, which marked an increase in export during 1933-34 have however, fallen both in quantity and value in 1934-35. Again some commodities such as castor oil, coffee and groundnut oil which marked a decline even in 1933-34, have further gone down in export in 1934-35, while some others such as pig iron, and myrobalans have registered an increase in quantity but a decline in value. Leaving aside the commodities which marked a decline in export, with regard to the other commodities which marked an increase, it should be enquired whether this increased export from India has been reflected in an increased share in the total imports of the U. K. of those

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commodities. That this has not been the case in all the commodities will be evident from the following table.

**Table VI**

Percentage share of certain exports from  
India in the Import Trade of U. K.

		India	Empire countries	Foreign
		%	(excl. India) %	countries %
Bran, Pollard, rice meal and dust	1932	35.1	...	50.1
	1933	35.9	...	51.9
Groundnuts	1932	60	29.1	...
	1933	53	45	...
	1934	40	...	...
Lead	1932	16.3	70.6	...
	1933	19	76.6	...
	1934	16	...	...
Mica	1932	85	...	11.1
	1933	82	...	16
Hemp	1932	6.3	...	63.1
	1933	5.5	...	63.5
	1934	5	...	...
Cocoanut Oil	1932	1.07	...	32
	1933	1.05	...	53.8
	1934	.43	...	...
Tea	1932	55	...	14
	1933	55	...	14
	1934	54	...	...
Coir yarn	1932	92.1	7.4	...
	1933	84	16	...
Skins undressed	1932	72	12.7	...
	1933	70	14.2	...
Paraffin wax	1932	28.2	...	71.8
	1933	20.3	...	79.5

Statistics of many commodities in regard to their position in the import trade of the U. K. are not available. But the few figures that Dr. Meek furnished in his report and others that have been included in the above table, seem to warrant the inference that, in the export of these commodities, the Agreement has produced no desirable effects; for, while the Empire countries or other foreign countries have increased their share in the import trade of the U. K., the share of India has either remained

stationary or has declined in certain articles; in regard to those commodities in which India records some increase, the degree of improvement is much less than in the case of the Empire or other countries. It is only in the case of commodities like linseed, and shellac that considerable improvement is noticed; but even in these cases, so many factors (mentioned later on) have been working along with the operation of the Ottawa Agreement that the increase in the export of these commodities to the U. K. cannot be ascribed to the Agreement alone. Judging from the results during 1934-35, it appears that the increase in the export of linseeds, for instance, has not been at all maintained.

I shall now proceed to investigate the cases of some specific commodities.

### WHEAT

A preference of two shillings on wheat granted by the U. K. has not been of use to India. Apart from the fact that India does not require any stimulus for the expansion of her export trade in wheat, she being on balance a wheat importing country, the grant of preference has actually synchronised with an entire absence of exports of wheat to the U. K. in 1932-33 and in 1933-34. The benefits granted by Ceylon have also been quite insignificant, her share rising from 166 tons to 229 tons in 1933-34 out of a total Indian exports of only 2 thousand tons in both the years. Dr. Meek considers that "this preference is of no value to India at present and in the near future its value is extremely problematic." The Indian Trade Delegation to Ottawa was very anxious that India should not be left out of any arrangement connected with wheat into which the Dominions and the U. K. might enter, as "the preference may be of appreciable value to her when the most recent irrigation schemes and particularly the Sukkur Barrage, bring about, as they are expected to do, a substantial increase in India's wheat acreage". Unfortunately, however, these expectations did not attain even partial fulfilment and the "possible future value" of the preference has remained as far remote from reali-

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sation as before. The fundamental position in regard to wheat is not the problem of disposing of a huge exportable surplus in foreign markets, but the distribution of the available supply in India among the different provinces in a manner that will do away with the necessity of importing wheat for internal consumption. The Delegation approached the problem entirely from the wrong angle, forgetting that India does not possess under present circumstances any exportable surplus, nor is there any possibility in near future of such a contingency. This will be evident from the following table.

**Table VII**  
Production, Exports and Imports of Wheat  
(In thousands of tons)

	Production	Export	Import
1927-28	7,791	300	69
1928-29	8,591	115	56
1929-30	10,469	13	357
1930-31	9,302	197	232
1931-32	9,026	20	111
1932-33	9,452	2	33
1933-34	...	2	18
1934-35	...	8.6	7

Obviously India does not stand in need of an export market for wheat, but what she needs, is to

remove the freight anomalies existing within India so as to facilitate a free flow of wheat from the producing provinces to the consuming areas. Further, the grant of a preference in regard to wheat can be of very little assistance to India in the near future, as in view of the probable international wheat restriction scheme India's wheat has hardly any chance of securing a substantial export market abroad. The grant of preference to wheat in such circumstances has little or no significance. As will be readily admitted, it is not at all necessary, nor is it desirable in the interest of national economic policy, to encourage the export of Indian wheat. As the standard of living in India improves, the local demand for wheat will necessarily increase; and it is necessary that Indian wheat should be retained as much as possible for local consumption. Any artificial encouragement of wheat exports in the absence of a pronounced net exportable surplus is economically unwise and cannot be too strongly condemned from the point of view of the wider economic interests of the country.

### LINSEED

The statistical position of linseed in the export trade of India is as follows:—

**Table VIII**  
India's Exports of Linseed to All Countries

	Quantity				Value					
	(In thousands of tons)				(In lakhs of Rupees)					
	1931-32	1932-33	1933-34	1934-35	1931-32	1932-33	1933-34	1934-35		
U. K.	...	...	14	14	176	98	16	17	201	122
Germany	...	...	10	9	10	5	14	13	13	7
Netherlands	...	...	4	.2	4	.7	.5	.3	5	.9
Belgium	...	...	8	.8	10	.8	.9	.4	13	1
France	...	...	44	22	43	14	53	25	51	17
Spain	...	...	4	2	9	3	5	2	11	4
Italy	...	...	15	11	22	10	24	18	31	12.
Greece	...	...	3	3	6	4	3	3	7	5
Australia	...	...	10	9	12	21	12	10	14	26
Japan	...	...	6	.1	1	...	7	.1	2	...
Other countries	...	...	13	2	85	81	15	2	110	105

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### Table IX

#### Distribution of Linseed between Preferring and Non-preferring Countries

	1932-33 (Tons. 000)	Percentage of the total	1933-34 (Tons '000)	Percentage of the total	1934-35 Tons '000	Percentage of the total
U. K. ...	14	19.4%	176	46.4%	98	41.1%
Non preferring countries (Foreign countries)	57.5	80.6%	202.7	53.5%	139	58.4%

**Note:** India's linseed has obtained preference in the U. K. and Fiji. Exports to Fiji are too small to be considered.

The above two tables demonstrate that India has received substantial benefit in respect of the export of linseed, from the U. K. and Fiji, under a 10 per cent. preference. Exports to the U. K. recorded a spectacular increase, both in volume and in percentage, the figures for 1933-34 being more than 12 times those of the previous year, and the percentage increase being from less than 20 per cent. in 1932-33 to more than 46 per cent. in the year 1933-34. During 1934-35, however, this share has dwindled to only 41.1 per cent., India's share in the net imports of linseed into the U. K. also advanced from 2.5 per cent. in 1932 to nearly 53 per cent. in 1933. During 1934 the total imports of linseeds into the U. K. dwindled to 184 thousand tons from 249 thousand tons during the previous year and consequently India's share rose to 62.7 per cent. The share of the privileged countries in the total exports of linseed from India advanced from 19.4 per cent in 1932-33 to 46.4 per cent. in 1933-34 as against a decline in the share of all other countries from 80.6 per cent. to 53.5 per cent. during the same period.

Part of this considerable expansion of the export of India's linseeds to the U. K. is no doubt due to the preference enjoyed by Indian linseed, but to ascribe this expansion wholly to the Ottawa Agreement would be to misread the situation. For, though the percentage share of the countries, other than the U. K., in India's total exports of linseed have no doubt declined, most of these countries, as we find in the first table, have enlarged their offtakes of India's linseed to a substantial extent. As a matter of fact, while the exports to the U. K. have advanced from 14 thousand tons to 176 thousand tons, the

total exports to all the countries have also increased from 72 thousand tons to 379 thousand tons, all the countries having participated in varying degrees in this increase in the total exports. The real explanation lies in the fact that the year 1933-34 was an exceptionally favourable year for India's linseeds, in as much as the exports of this commodity to the U.K. and other countries received a fillip owing to the failure of crops in Argentina and the U. S. A., the two most important of India's competitors in the world market. It was these factors which enhanced the demand for India's linseed in the U. K. market as well as outside, as will be evident from the following figures.

### Table X

#### Production of linseed

	Acres (000)		Tons (000)	
	Argentina	U. S. A.	Argentina	U. S. A.
1928-29	6,936	2,674	1,955	497
1929-30	5,229	3,046	1,247	397
1930-31	6,746	3,734	1,954	531
1931-32	8,260	2,415	2,222	294
1932-33	7,401	1,975	1,432	292
1933-34	6,852	1,283	1,316	170
1934-35	...	...	1,830	...

Evidently the substantial reduction in the production in Argentina and the U. S. A. during 1933-34 resulted in a premium on India's linseed in the international market. Besides, the price factor, not wholly explained by the preference, was also largely responsible for this increased demand for India's product. As Dr. Meek has rightly pointed out, the shortage of the crop in Argentina raised the parity of Argentine seed as compared with Indian linseed.

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and this naturally affected the demand for the former adversely.

In view of these considerations, the alleged beneficial effects of the Ottawa Agreement accelerating the export of India's linseeds to the U. K. appear to be shadowy indeed.

We find, moreover, that the production of linseed which, by the way, occupies a minor place among the oil-seed crops of India, has actually fallen much below the figure in any previous year. The volume of exports also, though registering a substantial increase, falls short of the pre-War average. Further, the prospects of an extension of linseed production in India as a result of the Agreement have not materialised.

**Table XI**  
India's Production and Exports of Linseed

	Production (Tons) ('00)	Exports (Tons) ('00)
1911-12	644.9	522
1914-15	397.0	322
1931-32	4.6	12
1932-33	406	72
1933-34	377	37
1934-35	...	238

Considering the fact that if Argentine's crops had not failed, the situation might have been otherwise, a continuity of India's present position with regard to linseed in international markets is problematic. Dr. Meek struck a note of uncertainty by his doubt as to "what the position would have been

if Argentine had a good crop". There is, therefore, hardly any justification for taking too rosy a view of the future of linseed in Empire markets. The results of the year 1934-35 show that Dr. Meek's pessimism is more than justified, for while, on the one hand, the net production in Argentina has increased from 1,316,000 tons in 1933-34 to 1,830,000 tons in 1934-35, the total exports of India, on the other hand, have marked a decline to 238,000 tons as against 379,000 tons in 1933-34.

## COFFEE

Indian coffee enjoyed a preference of 2s. 4d. a cwt. in the United Kingdom long before the Ottawa Agreement. This preference, which was granted in May 1924, was increased as a result of the Agreement to 9s. 4d. High hopes were entertained by the Indian Delegation to Ottawa and by many members of the Assembly as to the possibility of the expansion of market for India's coffee in the U. K., as a result of the additional preference of 7s. a cwt. granted by the latter to India. The Delegation emphasised that as Indian production was largely dependent on the export demand and as the U. K. consumed nearly three times as much coffee as India exported, an increase in the preference from 2s. 4d. a cwt. to 9s. 4d. a cwt. was likely to result in a larger demand for Indian coffee. Actually the working of the preference during the last two years belied those expectations. The following table will speak for itself.

**Table XII**  
Exports of Coffee from India

	Cwts. ('00)				Increase in %	1933-34	1934-35	Increase in %
	1930-31	1931-32	1932-33	1933-34				
U. K.	73.5	44.1	51.9	53.0	2	35.9	-32	
France	107.7	43.1	54.4	57.1	...	52.9	...	
Netherlands	9	9	9	8.3	...	1.4	...	
Belgium	...	6	7	12	...	8.1	...	
Italy	...	6	5	9	...	5.9	...	
All foreign countries	195.8	104.8	113.7	125.5	10	105.0	-16	
Total	292.0	155.6	173.2	186.0	7	140.9	-24.2	

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It will be noticed that during 1933-34, in volume the increase in the offtake by the U. K. of India ✓ Coffee lagged far behind that by the foreign countries. While the British imports advanced to the extent of little more than 2 per cent. in 1933-34 as compared with 1932-33, the offtake of all the foreign countries, ✓marked an increase of more than 10 per cent. ✓And this, inspite of the fact that none of these foreign countries have granted any preference whatever to India in respect of Coffee. This only goes to demonstrate the insignificant improvement in the export of Indian coffee to U. K. During 1934-35, however, there has taken place a positive decline in the off-take of the U. K. to the extent of 32 per cent., as against a decline of 16 per cent. in the offtake of all foreign countries. In spite of the diminished offtake of the U. K. India's share in the total import of coffee in to the U. K. during 1934-35 has advanced to 7.4 per cent. from 6.6 per cent. during the previous year. This is explained by the fact that the volume of the U. K.'s imports of coffee during 1934-35 has diminished to the extent of 28 per cent.

The following figures will give some idea in regard to India's position in the U. K.'s import trade of Coffee.

**Table XIII**

Imports of Coffee into the U. K. (In thousands of cwts).

	Total Imports	India	Share in The Total	All Empire Countries (Exl. India)	Share in the Total %	Foreign Countries	Share in the Total %
1931	757	46	6.1	293	39.1	412	54.8
1932	742	53	6.7	279	37.6	413	55.7
1933	673	46	6.6	292	43.5	336	49.9
1934	484	38	7.4				
	(1934-35)	(1934-35)	(1934-35)				

In spite of the increased preference to India's coffee, India's net exports to the U. K. have actually registered a decline to the extent of 5,000 cwts. and her percentage share in the net imports into U. K. has also dwindled correspondingly. What is, however, the most remarkable feature of the trade figures is that the other Empire countries, especially British East Africa, have taken the lion's share in the import trade of the U. K. by increasing their supplies from 37.6 per cent. in 1932 to as much as 43.5 per cent. in 1933. India has thus failed to reap any advantage from the preference. Dr. Meek has, however, sought consolation by assuming that, had there been no preference, the decline in the export of coffee would have been more extensive and precipitous. There is little substance for such an assumption. For, as we have seen in the first table, India's coffee enjoyed a fairly active demand in the world market, the total exports recording an increase of 7 per cent. in 1933-34 compared with 1932-33 and

the exports to countries other than the U. K. having increased by more than 10 per cent.; things could not, under the circumstances, be worse than they have been under the Ottawa Agreement.

In explanation of this positive decline in the export of Coffee to the U. K., Dr. Meek has mentioned the following reasons. In the first place, a much larger coffee crop in Kenya in 1933-34, where the movement usually starts earlier than in India, has, with the added advantage of the comparatively lower price at which it sells, been able to oust India from the coffee market in the U. K. Secondly, the market for Indian coffee in the United Kingdom is very limited, as it is mainly required for purposes of blending only, being generally of superior quality. At the same time, Indian Coffee, Dr. Meek points out, is inferior in quality to Costa Rica coffee, and it has considerably deteriorated in recent years. "On a strictly quality basis, India's coffee is inferior to

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and this naturally affected the demand for the former adversely.

In view of these considerations, the alleged beneficial effects of the Ottawa Agreement accelerating the export of India's linseeds to the U. K. appear to be shadowy indeed.

We find, moreover, that the production of linseed which, by the way, occupies a minor place among the oil-seed crops of India, has actually fallen much below the figure in any previous year. The volume of exports also, though registering a substantial increase, falls short of the pre-War average. Further, the prospects of an extension of linseed production in India as a result of the Agreement have not materialised.

**Table XI**  
India's Production and Exports of Linseed

	Production (Tons) ('00)	Exports (Tons) ('00)
1911-12	644.9	522
1914-15	397.0	322
1931-32	4.6	12
1932-33	4.6	72
1933-34	377	37
1934-35	...	238

Considering the fact that if Argentine's crops had not failed, the situation might have been otherwise, a continuity of India's present position with regard to linseed in international markets is problematic. Dr. Meek struck a note of uncertainty by his doubt as to "what the position would have been

if Argentine had a good crop". There is, therefore, hardly any justification for taking too rosy a view of the future of linseed in Empire markets. The results of the year 1934-35 show that Dr. Meek's pessimism is more than justified, for while, on the one hand, the net production in Argentine has increased from 1,316,000 tons in 1933-34 to 1,830,000 tons in 1934-35, the total exports of India, on the other hand, have marked a decline to 238,000 tons as against 379,000 tons in 1933-34.

### COFFEE

Indian coffee enjoyed a preference of 2s. 4d. a cwt. in the United Kingdom long before the Ottawa Agreement. This preference, which was granted in May 1924, was increased as a result of the Agreement to 9s. 4d. High hopes were entertained by the Indian Delegation to Ottawa and by many members of the Assembly as to the possibility of the expansion of market for India's coffee in the U. K., as a result of the additional preference of 7s. a cwt. granted by the latter to India. The Delegation emphasised that as Indian production was largely dependent on the export demand and as the U. K. consumed nearly three times as much coffee as India exported, an increase in the preference from 2s. 4d. a cwt. to 9s. 4d. a cwt. was likely to result in a larger demand for Indian coffee. Actually the working of the preference during the last two years ~~belied~~ those expectations. The following table will speak for itself.

**Table XII**  
Exports of Coffee from India

	1930-31	1931-32	1932-33	Cwts. ('00)		1934-35	Increase in 1934-35	
				1933-34	Increase in %		Increase in %	
U. K.	78.5	44.1	51.9	53.0	2	35.9	-32	
France	107.7	43.1	54.4	57.1	...	52.9	...	
Netherlands	9	9	9	8.3	...	1.4	...	
Belgium	...	6	7	12	...	8.1	...	
Italy	...	6	5	9	...	5.9	...	
All foreign countries	195.8	104.8	113.7	125.5	10	105.0	-16	
Total	292.0	155.6	173.2	186.0	7	140.0	-24.2	

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It will be noticed that during 1933-34, in volume the increase in the offtake by the U. K. of Indian Coffee lagged far behind that by the foreign countries. While the British imports advanced to the extent of little more than 2 per cent. in 1933-34 as compared with 1932-33, the offtake of all the foreign countries, marked an increase of more than 10 per cent. And this, in spite of the fact that none of these foreign countries have granted any preference whatever to India in respect of Coffee. This only goes to demonstrate the insignificant improvement in the export of Indian coffee to U. K. During 1934-35, however, there has taken place a positive decline in the

off-take of the U. K. to the extent of 32 per cent., as against a decline of 16 per cent. in the offtake of all foreign countries. In spite of the diminished offtake of the U. K. India's share in the total import of coffee in to the U. K. during 1934-35 has advanced to 7.4 per cent. from 6.6 per cent. during the previous year. This is explained by the fact that the volume of the U. K.'s imports of coffee during 1934-35 has diminished to the extent of 28 per cent.

The following figures will give some idea in regard to India's position in the U. K.'s import trade of Coffee.

**Table XIII**  
Imports of Coffee into the U. K. (In thousands of cwts).

	Total Imports	India	Share in The Total	All Empire Countries (Excl. India)	Share in the Total %	Foreign Countries	Share in the Total %
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1933	673	46	6.6	292	43.5	336	49.9
1934	484	38	7.4				
	(1934-35)	(1934-35)	(1934-35)				

In spite of the increased preference to India's coffee, India's net exports to the U. K. have actually registered a decline to the extent of 5,000 cwts. and her percentage share in the net imports into U. K. has also dwindled correspondingly. What is, however, the most remarkable feature of the trade figures is that the other Empire countries, especially British East Africa, have taken the lion's share in the import trade of the U. K. by increasing their supplies from 37.6 per cent. in 1932 to as much as 43.5 per cent. in 1933. India has thus failed to reap any advantage from the preference. Dr. Meek has, however, sought consolation by assuming that, had there been no preference, the decline in the export of coffee would have been more extensive and precipitous. There is little substance for such an assumption. For, as we have seen in the first table, India's coffee enjoyed a fairly active demand in the world market, the total exports recording an increase of 7 per cent. in 1933-34 compared with 1932-33 and

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In explanation of this positive decline in the export of Coffee to the U. K., Dr. Meek has mentioned the following reasons. In the first place, a much larger coffee crop in Kenya in 1933-34, where the movement usually starts earlier than in India, has, with the added advantage of the comparatively lower price at which it sells, been able to oust India from the coffee market in the U. K. Secondly, the market for Indian coffee in the United Kingdom is very limited, as it is mainly required for purposes of blending only, being generally of superior quality. At the same time, Indian Coffee, Dr. Meek points out, is inferior in quality to Costa Rica coffee, and it has considerably deteriorated in recent years. "On a strictly quality basis, India's coffee is inferior to



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Costa Rica Coffee; on a strictly price basis, East African Coffee is relatively cheaper." The question that naturally arises is whether all these facts have now revealed themselves to the Government of India for the first time. On the contrary, it will not be far from the truth to say that all these factors are no new developments. They existed when the terms of the Ottawa Agreement were settled. In fact, the minority of the Special Committee of the Assembly which reported on the Ottawa Agreement in 1932, as admitted by Dr. Meek himself, clearly expressed the opinion that the Empire countries, especially Kenya, were in a better position than India to take advantage of the preference in the United Kingdom market. They also pointed out that the foreign countries were India's chief customers as far as coffee was concerned. Subsequent events have confirmed their prevision.

It is also pertinent to ask why, inspite of the handicaps on Indian coffee in comparison with the

Empire Coffee, the export of Indian coffee to foreign countries should have recorded such remarkable expansion as indicated in the table above, without enjoying any countervailing preferential treatment,

It is evident that if Indian coffee has to find a large market in the U. K. the margin of preference granted to it should be larger than that granted to other Empire countries. The results of the Agreement conclusively demonstrate that the preference in its present form is quite inadequate for the purpose and India's Coffee is, under existing circumstances, quite unable to compete with Empire coffee. In fact, the United Planters' Association of Southern India has strongly urged that the preference on India's coffee should be raised to 2d. per pound, without which our chances of successfully competing against Costa Rica and Kenya coffee are remote.

### TEA

Table XIV

	Exports of Tea from India				Value Rs.	
	Quantity Lbs. (000)				(000)	
	1932-33	1933-34	1934-35	1932-33	1933-34	1934-15
U. K.	330,661 (87.86)	276,459 (86.79)	286,966 (88.3)	14,78,45	17,58,16	18,0,72
Preference countries	334,408	279,812	...	15,02,59	17,79,04	
Non-Preference countries	44,429 (11.60)	28,030 (11.94)	...	2,12,69	2,05,58	
Total	378,837	317,842	324,836	17,15,28	19,84,62	20,13,01

N. B.—Figures in brackets represent percentages of total.

The most important fact which has to be noted in connexion with India's exports of tea during the year 1933-34 is that the entire tea trade of the world is now being governed by the Tea Export Restriction Scheme which commenced operating in 1933. The Governments of the various producing countries undertook legislation under the scheme to prohibit exports in excess of the quotas agreed upon for each producing country. The effect of the Restriction Scheme, which is to be in operation in the first instance for a period of five years, has been to

reduce the volume of India's exports in 1933-34 to 85 per cent. of that for 1929, and the export allotment for the financial year 1933-34 was fixed at 320.571 million lbs., as compared with 378.837 million lbs. in the year before. "The result has been", as Dr. Meek points out, "that the benefit of the preference in extending export markets as well as in increasing production could not operate."

A preference of 2d. per lb. was not, in these circumstances, expected to work wonders, and

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it was idle to hope for any expansion in the export of Indian Tea, either to the U. K., or to all the countries of the world. But, as will appear from the above table, India was not able in 1933-34 to export the entire quantity allotted to her, the actual figures being 317.842 million lbs. as compared with 320.571 million lbs. the quota allotted to her, though during 1934-35, the U. K.'s offtake of tea advanced and India succeeded in exporting the allotted quota of tea. Dr. Meek does not explain clearly why, in spite of the preference granted by the U. K. to Indian tea, the former should have reduced her offtake from 87.86 per cent. of the total Indian export in 1932-33 to 86.79 per cent. in 1933-34. The fact that the share of the foreign countries increased from 11.60 per cent. to 11.94 per cent. is also significant and serves to point out that the preference was of little value to India's tea during 1933-34. There was no doubt an increase in the total value of the exports, both to the U. K., and to other countries, but this was evidently due to a rise in the world price of tea, resulting from the operation of the Tea Export Restriction Scheme. The Ottawa Agreement had nothing to do with it.

During 1934-35, India's exports of tea have, of course, registered an increase, but there is no knowing whether this increase is likely to be maintained in future, for the working of the preferences during the first year was not, quite satisfactory.

### GROUNDNUT

Since 1st March, 1932, India has been enjoying 10 per cent. preference on groundnut from the U. K. Dr. Meek complained that the figures of net exports from India to the U. K. for 1933-34 were not available, as "there are shipments for orders which are later on credited to the country proper on advice from the exporters" for which separate statistics were not published. Since 1934-35, however, such statistics are included in the accounts of sea borne trade published by the Department of Commercial Intelligence and Statistics. The revised figures relating to the exports of groundnuts from India are as follows:

**Table XV**  
Exports of Groundnuts (from India including Kathiawar)

	Tons (000)			
	1931-32	1932-33	1933-34	1934-35
U. K.	83	36	58	75
Germany	125	49	100	44
Netherlands	153	89	118	87
Belgium	9	10	14	17
France	226	221	188	97
Italy	83	28	75	47
Total	694	443	576	448

It appears from the table that during 1933-34 there was some expansion in the exports of India's groundnuts to the U. K., but the offtakes of Germany and Italy were much greater in percentage, for, while exports to the U. K. advanced by 61 per cent. those to Germany and Italy by 100 per cent. Besides, Netherlands and Belgium substantially increased their imports of India's groundnuts.

During 1934-35 again the offtake of the U. K. advanced to 75,000 tons which still falls short of the 1931-32 level, while the share of most other countries has gone down. The most precipitous decline in exports, as will be seen in the table, has taken place in the case of Germany and France. The fact that though countries other than the U. K. generally increased their off-take of Indian groundnuts in the year 1933-34, the pronounced decline in their imports during 1934-35 corroborates the apprehension that in the meantime some of the countries have resorted to retaliatory measures against the imports of India's groundnuts. France, which accounted in 1931-32 for about a third of India's total exports and for practically a half next year, reduced her off-take in the year under review to even less than a fourth of the total Indian exports of the year. A reference may be made in this connexion to the warning uttered by me in 1932, as to the possibility of retaliatory measures taken by France in regard to the import of Indian groundnut. "Indian groundnut", I pointed out on that occasion, "is meeting with keen competition from West Africa, and if France by way of

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retaliation gave preference to West African groundnuts our trade would be seriously endangered." That competition has now become quite serious and is proving disastrous to India's exports of groundnut to France will be evident from the following figures.

**Imports of Groundnuts into France\***

Quintals (000)

GROUNDNUTS UNHUSKED				
	1931	1932	1933	1934
French West Africa	2968	1700	2907	4754
British India	34	15	7	.2
China	37	29	46	67
Total	3573	2240	3070	6279
GROUNDNUTS HUSKED				
West Africa (including French Colonies.)		1175	1319	1346
British India	2462	2695	3070	1525
Total	3446	4532	4628	3000

\* These statistics have been made available by the courtesy of the French Trade Commissioner in India.

A reference to the position of India's groundnuts in the import trade of U. K., indicates that though India's exports to that country have registered some increase in recent years, the preference has not still enabled her to successfully compete with other Empire countries in the U. K. market, as will be evident from the following figures.

**Table XVI**

**Imports of Groundnuts into the U. K.**

Tons (000)

	Total	From India	Percentage share %	Empire countries (Excl. India)	Percentage share %
1929	134.3	75.4	56.8	30.7	15.4
1930	115.2	45.0	39.1	37.8	32.7
1931	138.7	81.3	58.6	18.5	13.3
1932	96.8	57.6	59.5	28.0	29
1933	131.5	69.8	53.1	59.6	45.3
1934	112.6	44.5	39.4	...	...

It will be noticed that the off-take of India's groundnuts by the U. K. in 1933, though much higher than in 1932 is far below the figure for 1931,

not even reaching the level of 1929, the pre-depression normal year, while the Empire countries have been successful in increasing their exports to the U. K. to the highest level during the last five years. The percentage share of India in the total volume of imports into U. K. also, has declined by no less than 6.4 per cent. compared with 1932 and by 3.7 per cent. compared with 1929. The Empire sources of supply have, on the other hand, raised their share from 15.4 per cent. in 1929 and 29 per cent. in 1932 and to as much as 45.3 per cent. in 1933. The conclusion is, therefore, irresistible that the preference under the Ottawa Agreement has been of little avail to India's groundnuts. The entire benefit has gone to the Empire countries at the expense of India. The figures for 1934 again, point to the same conclusion inasmuch as the percentage share of India in the import trade of the U. K. has still further declined to 39.4 and correspondingly the share of the Empire countries must have increased.

Dr. Meek has not been able to offer any satisfactory explanation for this inability of India to reap a proportionate benefit with the Empire countries in the U. K. market, in spite of the same degree of preference enjoyed by her therein. "It is difficult to explain", as he remarks, "why India could not increase her share to the same extent as the other Empire Countries." Whatever may be the cause, it is clear that the Ottawa Agreement has failed to afford a decided advantage to India in respect of groundnuts and is not likely to do in future, so long as the Empire sources of the commodity enjoy the same amount of preference.

Myrobalans, being practically a monopoly of India, and about 97 per cent. of the British imports being supplied by her, there was no necessity of obtaining direct preference from the U. K. But the fact that Indian myrobalans came into competition with the synthetic substitutes for use as tanning substances was mentioned by the Indian Trade Delegation at Ottawa as sufficient justification for welcoming the imposition by the British Government

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of a duty on these substitutes and the free entry of myrobalans into the U. K. The Delegation was of opinion that such a procedure would afford some advantage to Indian myrobalans to compete successfully on the British market with the imported substitutes from the foreign countries.

In order, therefore, to find out whether the expectations of the Delegation have been realised, it is necessary to examine three sets of figures: (a) exports of Indian myrobalans into different countries including the U. K., (b) imports of myrobalans into the U. K. from different countries including India, and (c) imports of all kinds of tanning substitutes and the share of the myrobalans into the U. K.

**Table XVII**  
Exports of Myrobalans from British India  
Cwts. (000)

	Total Exports	U. K.	Empire countries	Foreign countries
1928-29	1,231	535	16	680
1929-30	1,236	514	25	697
1932-33	1,033	463	23	527
1933-34	1,237	598	31	608
1934-35	1,356	666	...	...

As is evident, export of myrobalans from India have registered an all-round increase. While the off-take of the U. K. has advanced by 23.8 per cent. the advance in the off-take of foreign countries has amounted to 15.3 per cent. During 1934-35, also this increase has been maintained.

**Table XVIII**  
Imports of Myrobalans into the U. K.  
Cwts. (000)

	Total Imports	from Br. India	from Empire countries	from foreign countries
1929	497	496	...	1
1932	614	614	...	...
1933	598	595	2	1

During the calendar year 1933, the total imports of myrobalans into the U. K. registered some decline; imports from India also decreased, though her share remained practically the same, the percentage fall being comparatively insignificant.

**Table XIX**

Imports of Tanning Substances into the U. K.

	Cwts. (000)	
	All sorts	Myrobalans
1931	1,293	577 (45)
1932	1,277	614 (48)
1933	1,272	595 (47)

N. B.—Figures in brackets indicate percentages of the total.

It will be evident that in relation to the total imports of tanning substances into the U. K. India's export of myrobalans has registered some decline, her relative share recording a fall of 1 per cent.

A survey of the above figures reveal some interesting facts. India's exports of myrobalans to the U. K. in the financial year 1933-34 increased by a larger percentage than to other countries, indicating the benefits which India has derived from the preferential treatment accorded by the U. K. to the import thereto of myrobalans. At the same time, the fact that the imports of myrobalans from all countries into the U. K. in the calendar year 1933 form a lower percentage of the total imports into the U. K. of all kinds of tanning substances, as compared with the previous year points to the conclusion that the preference to myrobalans in the British market has been of little value to India's export trade with the U. K. Dr. Meek has, in this connexion, advanced the theory of 'insurance value' of preference, and suggests that, but for this, India's exports of myrobalans to the U. K. would have recorded some decline. Before, however, this explanation is accepted, it is necessary to enquire whether there was, at the end of the calendar year 1933, any increase in the U. K., in the total demand for the tanning substitutes, and whether simultaneously with the increase in the Indian exports of myrobalans thereto during the first quarter of the calendar year 1934, there was any increase in the imports into the U. K. of tanning substances other than myrobalans. Unfortunately, however, these figures are not available at the present moment, and one naturally feels diffident in these circumstances, to subscribe to the view that the preference has been of tangible value to India.

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Besides, the question as to how far a preference on a monopoly commodity like myrobalans can be of any advantage to India is open to doubt, in view of the fact that the true competitive relations between myrobalans and other tanning substances imported into the U. K. were not fully investigated before the preference was hailed as a boon. As Dr. Meek himself admits, it is very difficult to determine which of these extracts and substances are in competition with each other and to what extent. Each has its special characteristics and the demand is apt to vary with the variations in demand for the different kinds of leather. The developments subsequent to the ratification of the Ottawa Agreement appear to

corroborate this statement made at the end of the first year of its working.

### VEGETABLE OILS

High hopes were entertained as to the probable expansion of the export of vegetable oils to the U. K. and the Colonies which have granted a preference on these products of India. The Indian delegation as well as the majority of Assembly Committee were of opinion that the U. K. offered a great potential market for India's vegetable oils and the preference in regard to these commodities was welcomed as offsetting the handicaps arising from expensive packing and high sea freight. The following table will set forth the results of the preference.

**Table XX**  
Exports of Vegetable Oils from India (quantity)

	Gals. (000)				Increase in 1932-33	Increase in 1933-34	Increase in 1934-35
	1931-32	1932-33	1933-34	1934-35			
U. K. ...	10,26	14,94	16,69	7,93	45.6 %	11.7 %	-52.5
Total trade with countries granting preference	11,16	16,16	17,95	8,90	44.8 %	11.1 %	-51
Not granting preference	7,84	8,28	11,20	11,22	5.6 %	35.2 %	.2
Total	19,00	24,44	29,15	20,12	19.2 %	19.2 %	-31

The first impression conveyed by the figures is that, while there has been some advance in the off-take of U. K. and the preferring colonies, during the year 1933-34, the expansion is quite inadequate to the expectations, for it is far less than the increase in the case of non-preferring countries, both in percentage and absolute volume. While in comparison with 1932-33 the off-take of the U. K. has advanced to the extent of 175 thousand tons and that of the entire preference block by 179 thousand tons only in 1933-34, the off-take of the non-preferring countries has increased by as much as 292 thousand tons. In terms of percentage, again, while the increase in the case of the U. K. has been 11.7 only, that in the case of the non-preferring countries has been as much as 35.2. Another important point is that the tendency of increase in the off-take by the U. K. has been substantially reduced. While the percentage increase in 1932-33 was 45.6 in comparison

with 1931-32, the percentage increase in 1933-34 in comparison with 1932-33 has been only 11.7. Simultaneously, we find that while the percentage increase in exports in case of non-preferring group in 1932-33 was only 5.6 as compared with 1931-32, the increase in 1933-34 as compared with 1932-33 has amounted to as much as 35.2 per cent. The figures for 1934-35, again, present a very depressing outlook for India's exports. As will be found, there has taken place an all-round decline in the exports. While the off-take of the U. K. and the preferring colonies has decreased by more than 50 per cent., the off-take of foreign countries has advanced by .2 per cent. only. These facts conclusively demonstrate the futility of the preference in respect of vegetable oils, for the simple reason that, while the enlarged world demand for India's oils has been reflected in the increased share of the non-Empire countries, the Empire countries have failed to offer any extensive market

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for the commodity, commensurate with the greater advantage resulting from the Ottawa Agreement and compared with the increase in the off-take of the foreign countries where the handicaps of expensive packing and high sea freight continue to operate against the Indian commodities.

The group of vegetable oils consists of (1) Castor oil; (2) Linseed oil; (3) Rapeseed oil; (4) Groundnut oil; (5) Coconut oil and (6) Sesamum oil. A consideration of each of the varieties also reveals the fact that in the export of none of them to the U. K. has India received a real advantage.

### CASTOR OIL

Table XXI

#### Export of Castor Oil

	Quantity : Gals. (000)					
	1931-32	1932-33	1933-34	1934-35	Increase in 1933-34	Increase in 1934-35
U. K. ....	685	767	753	612	- 1.8 %	- 19 %
Total preferring countries	685	767	753	612	- 1.8 %	- 19 %
Non-preferring countries	297	358	582	601	62.5 %	3.3 %
Total	982	11,25	13,35	12,13	18.6 %	9.1 %

As is evident, with regard to castor oil India has suffered some diminution in her export of the commodity to the U. K. while at the same time her exports to the non-preferring countries have registered an increase of as much as 62.5 per cent. during 1933-34 and 3.3 per cent. during 1934-35. The fact that, inspite of an increase in the percentage share of India in the total import trade of the U.K. from 71.2 per cent. in 1932 to 86.1 per cent in 1933, her net off-take from India has actually declined to the extent of 600 tons, proves that there is hardly any more scope for the expansion of India's exports of castor oil in the U. K. market.

A preference of £3-10-0 per ton was granted on linseed oil, but despite this fact, the U. K. has hardly imported a single ton of linseed oil from India. For the last four years imports of this article into the U. K. are consistently dwindling. From 43 thousand tons in 1930 the import figure has come down to as low as 7 thousand tons in 1933. The preference, therefore, on linseed oil has been of no advantage to India.

Considering the large demand for cocoanut oil in the U. K. market, it was expected that Indian oil, it

granted a preference, would have a ready market in the U. K. The following table shows the results for successive years.

Table XXII

#### Exports of Cocoanut Oil

	Gals. (000)			
	1931-32	1932-33	1933-34	1934-35
U. K.	11	12	12	16
Preference Countries	11	12	12	16
Non-preference Countries	25	17	20	23
Total	36	29	32	39

In comparison with the year 1932-33, India's export figure for cocoanut oil in 1933-34 has just been maintained, while the share of the non-preference countries has increased by about 12 per cent. During 1934-35, however, the off-take of the U. K. marks a greater increase than that of the non-preference countries.

But a consideration of the relative share of India's cocoanut oil in the import trade of the U. K. makes the advantage of the preference appear rather precarious.

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**Table XXIII**  
Imports of cocoanut oil (refined & non-refined) into the U. K.

	Tons (000)			
	Total	India	Empire countries	Foreign countries
1930	42.5	0.17	8.13	34.2
1931	43.5	0.27	1.73	34.5
1932	25.3	0.27	8.03	17.0
1933	13.4	0.14	8.56	4.7
1934	16.5	0.07	...	...

The Empire countries competing with India in the U. K. market has carried off the lion's share of the reduced import trade of the U. K. in coconut oil.

India's share, far from improving has actually dwindled by about 50 per cent. both in 1933 and 1934.

The disquieting fact about the whole situation is that India is being steadily displaced in the U. K. market by other Empire countries enjoying the same preference. Ceylon, for instance, has not only succeeded in capturing a large portion of the U. K. market for coconut oil by raising her exports by 43,187 cwt. in 1933, while India's exports suffered a 50 per cent. decline. It should however be noted that within the country itself, India is suffering from severe competition from Ceylon which has imperilled the position of the coconut oil industry in South India.

## GROUNDNUT OIL

**Table XXIV**  
Exports of Groundnut Oil

	Quantity : Gals. (000)			
	1931-32	1932-33	1933-34	1934-35
U. K.	280	644	507	89
Preferring Countries	322	717 (78%)	573 (80%)	...
Non-preferring Countries	133	200 (22%)	143 (20%)	...
Total	455	917 (100%)	716 (100%)	275

(N. B. Figures in the brackets represent percentages of total).

**Table XXV**  
Imports of Unrefined Groundnut Oil into the U. K.

	Tons (000)		
	Total	India	Foreign Countries
1931	13.0	0.63	12.37
1932	3.7	1.5 (40%)	2.2 (60%)
1933	4.0	3.8 (95%)	0.2 (5%)

(N. B. Figures in the brackets represent percentages of total).

The above two tables seem to indicate that India's position in the U. K. market with regard to groundnut oil has improved to some extent—if the calendar year is taken as a basis of calculation. But on the basis of the official year the net off-take by the U. K.

of India's groundnut oil has dwindled to the extent of 137,000 gallons, though the relative share of the U. K. in India's export trade of groundnut oil has registered a 2 per cent. advance. Dr. Meek has ascribed this decline to the fact that low butter prices, caused by record production in most countries, affected the demand of all vegetable edible oils and groundnut oil, one of the important items in this group, suffered.

The export figures, for 1934-35, however, present a distressing picture, for exports of India's groundnut oil have precipitously fallen. While the total exports have declined by more than 60 per cent., the off-take of the U. K. has fallen by more than 80 per cent. It would be worth while to investigate into the real causes of such sudden and steep decline in the exports of the commodity.

## INDO-BRITISH TRADE

### RAPE SEED AND SEASAMUM OILS

**Table XXVI**

India's Exports

Quantity : Gals. (000)

	Rape Seed Oil			Seasamum Oil		
	1932-33	1933-34	1934-35	1932-33	1933-34	1934-35
U. K.	34	16	17	.2	.01	9
Preferring						
Countries	101	73				
Non-preferring						
Countries	125	190		74.98	103.99	
Total	226	273	295	75	104	126

As it is quite evident from the above figures, the preference did nothing to stimulate the export of these two commodities to the U. K. during 1933-34, while there has been noticeable some tendency of increase in the exports of the two varieties of oils in 1934-35. It is to be seen whether this tendency is likely to be maintained. From the foregoing consideration of the statistics of India's exports of vegetable oils to the U. K., a doubt may be entertained as to whether there are any possibilities of enlarged market for India's oils in the U. K. In fact, except castor oil, U. K.'s total imports of vegetable oils have been steadily diminishing, as will be evident from the following statistics.

**Table XXVII**

Total Imports of Oils into U. K.

	Quantity : Tons (000)				
	1929	1930	1931	1932	1933
Linseed Oil	31	43	37	26	7.2
Cocoonut Oil	..	42.5	43.5	25.3	13.4
Groundnut Oil	..	..	13.0	3.7	4.0
Rapeseed Oil	4.7	7.5	2.6	0.53	0.26
Seasamum Oil	(Figures not available)				

Under the circumstances, to expect any substantial expansion of India's export of vegetable oils to the U. K. under preference, would be futile.

With regard to the question as to how far the oil industries of India have received a stimulus from the

Agreement, it is not possible to draw any conclusions in the absence of production figures. Dr. Meek has not been able to provide any statistics of production in his report with regard to these industries. Dr. F. X. De Souza, a member of the Assembly Select Committee, has pointed out, "Ceylon enjoys a preference of 10 per cent. on her coconut and seven and half per cent. on her betel nut. As a result of the former preference, she has flooded the Indian market with copra, cocconut products and coconut oil, the prices of which have had a catastrophic fall. The coconut industry of Malabar is threatened with ruin and the entire country side is demoralised by the crash in prices of the staple products." The tragedy of the situation is, however, that Ceylon has refused so far to carry out her share of the Ottawa Agreement. In corroboration of what Dr. Souza has said, it may be said that, though till December, 1933, Ceylon's exports of Coconut oil did not mark an advantage, since the beginning of 1934 remarkable expansion has been noticed, for while during the three months from April to June, India's import of coconut oil amounted to 15,25,075 gallons in 1932-33, it amounted to as much as 18,62,048 gals. during the same period in 1933-34. This presages a potential danger to the coconut oil industry of India.

### RICE

The preference of one penny a pound on rice in the U. K. market has produced the following results.

**Table XXVIII**

Exports of Rice not in the Husk

(Excl. broken cleaned rice).

	(In thousands of Tons)		
	1932-33	1933-34	1934-35
U. K.	...	41.5	43.9
Total trade with countries			
granting preference	58.72	113.92	95.6
Percentage of the total	3.4%	6.9%	6%
Countries not gaining preference	1,690.68	1,534.98	1,496.8
Percentage of the total	...	96.6%	94%
Total export of rice	...	1,749.4	1,648.9



## OTTAWA AGREEMENT

During 1933-34 the off-take of India's rice by the U. K. and other countries granting preference to India has almost doubled, the off-take of non-prefering countries declining by about 9 per cent, subject to the corrections that require to be made in the figures for exports to the U. K. owing to a considerable number of consignments "for orders" which are credited to that country, in the first instance, being later transferred to other countries. But even then there is no doubt, that looking at the problem from the view point of percentage changes, India has gained considerably from the preference granted to her. The export figures for 1934-35 point the same way. The figures for imports into the U. K. would also serve to strengthen this conclusion, for it is found that the share of India in the total imports of rice into the U. K. has increased from 33 per cent. in 1932 to 64 per cent. in 1933. This no doubt marks a substantial increase, but the normal share in the U. K. market is yet far way off. For in 1920-21 India's share in the total imports of rice in the U. K. was as much as 85 per cent., India exporting 2.1 million cwts. against the total import of 2.7 million cwts. into the U. K. No systematic efforts have so far been undertaken to investigate the probable causes which brought about this shrinkage of the U. K. market for Indian rice. The moderate rise in the percentage share of India should not, therefore, be made much of, for much lee-way has yet to be made. In the second place, it is interesting to note that India has not reaped a proportionate advantage in the U. K. market with other Empire countries. In volume, while India's export of rice increased from 527 thousand cwts. in 1932 to 644 thousand cwts in 1933, *i.e.*, by 22 per cent., exports from other Empire countries advanced from 5 thousand cwts. in 1932 to 78 thousand cwts. in 1933, *i.e.*, by no less than 1460 per cent. The Indian Trade Delegation to Ottawa was of opinion that, inasmuch as the United Kingdom took about one-third of its requirements from India and Burma and two-thirds from foreign sources, there was no reason why India and Burma should not meet the whole demand especially under the stimulus of a substantial preference. The

obstacles which Indian rice had to encounter in competing in the British market with American and Spanish rices were not considered too strong to be removed, if the proposal to enhance the existing preference of 10 per cent. ad valorem to 1*d.* a pound was accepted. It is clear that even with this enhanced preference Indian rice has not been able to capture the entire British market. Dr. Meek has sought to ascribe this comparatively less increase of India's exports in the U. K. market by suggesting that the desired standard of quality is not furnished by India's rice. This statement is, however, directly contradictory of what the Indian Trade Delegation pointed out as the state of affairs regarding the position of the rice trade in the U. K. "Great Progress" said the Delegation, "has been made by the United Kingdom rice millers in finding types of Indian rice suitable for all branches of the U. K. retail trade". The Delegation was, however, of opinion that the demand for rice in the U. K. was affected by certain minor matters, such as the method of packing and polishing,\* but that these factors were capable of being remedied by a scheme of preference. Even so there seems to be some truth in the following observations of the Burma Indian Chamber of Commerce. "Even if supplied with an equally attractive rice from within the Empire, it would take time to get the British public to change from the rice to which they had been accustomed, *i.e.*, Carolina, Mexican, Spanish etc." Besides, on account of the omission of paddy from the clause imposing a duty of 1*d.* on foreign rice imported into the U. K., millers in that country were importing foreign paddy and milling it into rice. The Burma Indian Chamber, therefore, had sounded an appropriate warning that importers of paddy into the U. K. are increasing so rapidly that they are likely to eliminate the benefits of the Ottawa Agreement to the Burma rice trade.

It is clear that India has not obtained all the advantages that were expected from the grant of preference on her exports of rice to the U. K. But it is pertinent to observe in this connexion, that even if she had been able to capture the entire British

## INDO-BRITISH TRADE

market, the boon promised by the Indian Delegation, it would have expanded her total export trade only to a very small extent. The entire demand for rice of the U. K. is about 3 per cent. of the total Indian export of rice. It passes one's understanding why so much was made of the opportunity afforded to India to develop a market, the importance of which was so insignificant to the Indian rice trade, especially when there were indications that countries which had hitherto been India's most important customers had begun to take advantage of other competitive sources of supply. It would have been more statesman-like of the Government of India to have adopted measures, such as would have ensured an expanding market in those countries, which offered an existing as well as a potential market far more extensive than that offered by the U. K. Dr. Meek himself referred to the fact that the existing and prospective international demand for India's rice was very poor, on account of restricted imports into countries like Germany, Rumania, Japan and China and also of the efforts of many countries to develop their independent sources of supply. The resentment that the preferential treatment afforded to the U. K. gave rise to among India's competitors in the U. K. market has proved fatal to India's rice trade and *pari passu* indirectly to the entire export trade of India to some extent. The following figures will speak for themselves.

**Table XXIX**  
Exports of Rice (not in the husk).

	(In lakhs of rupees).			
	1931-32	1932-33	1933-34	1934-35
Germany	178	155	138	87
Poland	49	20	18	12
Netherlands	109	61	43	11
Belgium	28	16	15	8
Italy	17	19	15	17
Arabia	60	48	36	41
Bahrein Islands	23	21	13	11
Ceylon	367	340	270	278
Straits Settlements	167	110	88	86
Federated Malay States	48	42	35	30
Sumatra	64	43	41	40
Java	43	11	2	16
China	265	180	93	97
Japan	36	62	12	27
Mauritius	54	46	37	47
East Africa Ports	7	8	6	5
Australia	3	4	2	2

It will be evident from the above figures that the off-take of all these countries has declined and that in the cases of countries like Italy, Japan and East African Ports, their off-take of India's rice showed a tendency to expand in 1932-33 but in 1933-34 and 1934-35, this tendency was nullified by the indirect adverse affects of the Ottawa Agreement. In this connexion reference may be made to the Report of Mr. S. N. Gupta, the Indian Government Trade Commissioner at Hamburg. Mr. Gupta has drawn attention to the distinct and readily observable change of direction, in recent years, in India's rice exports away from Europe and towards Asia and Africa. In explaining the causes of this new movement, the effect of which would be to reduce the price hitherto obtained by Indian rice in foreign markets, Mr. Gupta refers in particular to the feeling that is growing up, of late, in Poland to the necessity for bringing pressure to bear on the Polish rice milling industry to effect their purchase of rice only from those centres which would agree to take Polish manufactured goods in exchange. The development of the Polish commercial policy on these lines would, as Mr. Gupta points out, constitute a serious threat to India's export of rice to Poland which has no long been a very valuable market. Nor is Poland the only example of countries which are turning their attention to this "modernised system of barter". The remarks of Mr. Gupta are sufficient warning against the futility as well as the danger of entering into a trade agreement only with one country out of a large number of India's customers, especially when the particular country with which the Agreement is contracted offers a comparatively small market for the disposal of certain Indian goods.

From a different standpoint, however, the question of granting a preference to India's rice in the U. K. market loses much of its significance for India, for the entire benefit or otherwise accruing from such a preference is practically the chief concern of Burma. India stripped of Burma is on the whole an importer of rice; it does not, therefore, matter much, as Burma is going to be separated under the coming

## OTTAWA AGREEMENT

Reforms—whether the preference on rice remains or not. India's future trade policy will do well to take note of this consideration.

### RAW COTTON

Raw cotton does not come within the terms of the Ottawa Agreement, but a consideration of the statistical position in the Indo-British trade is of importance in view of the fact that though the Indian Delegation to Ottawa failed to secure a preference on India's raw cotton in the U. K. market, the British Delegation agreed to the inclusion of article 8 in the body of the Agreement, whereby His Majesty's Government promised their co-operation in any practicable scheme to encourage the use of Indian cotton in the United Kingdom. A tacit understanding between the cotton interests and the British textile interests for increased use of India's cotton by the latter is thus all that can be credited to the Ottawa Agreement, no full-fledged commercial treaty backed by the sanction of law of the two countries having been found negotiable.

Subsequent to the conclusion of the Ottawa Agreement, various steps have been undertaken, both on the part of U. K. and of India, to promote the fulfilment of the promise embodied in Article 8 of the Agreement. While on India's side efforts have been made to introduce improved varieties of long and medium stapled cotton for which the U. K. has a large demand, experiments have been carried on by the British Government to ensure a more efficient use of India's short staple—cotton. Dr. Meek states, these experiments have been attended with success and that, the off-take of India's raw cotton by the U. K. has been steadily on the increase. The relevant statistics are as follows:

**Table XXX**  
Exports of raw cotton from India

	Tons (000)	
	U. K.	Total
1930-31	50 (7%)	701
1931-32	30 (7%)	424
1932-33	29 (8%)	365
1933-34	61 (12%)	487
1934-35	62 (10%)	615

**Note:**—Figures in the brackets represent percentages of the total exports.

**Table XXXI**

Imports of raw cotton into the U. K.

	Total	Tons (000)	
		India	Foreign countries
		%	%
1929	687	47 (6)	593 (87)
1930	542	54 (9)	450 (83)
1931	487	47 (9)	423 (86)
1932	561	24 (4)	501 (89)
1933	626	49 (8)	538 (86)
1934	564	65 (11.5)	...

**Note:**—Figures in the brackets represent presentages of the total imports.

It will be noticed that the share of the U. K. in the export trade of India as well as that of India in the import trade of the U. K. has recorded some increase, respectively in 1933-34 and in 1933, over the previous corresponding periods; but a closer scrutiny will disclose certain factors, which do not warrant the conclusion that this increased off-take has been solely due to the good will of the British cotton interests fostered at Ottawa. It is true that the share of the U. K. in the Indian export of raw cotton has increased from 8 per cent. in 1932-33 to 12 per cent. in 1933-34, but at the same time the total exports also increased substantially, though not proportionately to the same extent as those to the U. K. In 1934-35, however, the off-take of the U. K. did not keep pace with the general expansion of exports of India's raw cotton and consequently the percentage share of the U. K. declined to 10 per cent. In the second place, though the figures for the year 1933 indicate considerable increase in the off-take of the U. K. of Indian cotton over the previous year, it will be evident that the year 1932 was an exceptional year so far as Indian imports into the British market were concerned. Both in 1930 and 1931 India's share in the British imports of raw cotton amounted to as much as 9 per cent. and even in 1929 it was 6 per cent. It was only in 1932 that it came down to as low a level as 4 per cent. The fact that the share went up to 8 per cent. in 1933 and 11.5 per cent. in 1934 as against 4 per cent. in 1932 should not, therefore, be ascribed solely to the benefits arising out of

## INDO-BRITISH TRADE

the activities of Indian Cotton Enquiry Committee set up as a result of Article 8 of the Ottawa Agreement. Indian cotton is only finding back its natural place in the British market and we cannot, therefore, conclude that the increased off-take of Indian cotton by the U. K. was due solely to the avowed good will of Lancashire interests.

It is perhaps too early to judge the results of such goodwill. We cannot say, till a larger period has intervened, that behind this understanding there is really an organised opinion in the U. K. to help India's cotton growers. The statistics available at the present moment do not encourage one to feel very sanguine about a "good will" or "good faith", as a factor in promoting mutual trade.

### IRON AND STEEL

In accordance with the Supplementary Agreement on Iron and Steel, India has received preference on pig iron and steel bars in the U. K. market, in the shape of free entry of the commodities, side by side with import duties on similar goods imported from other countries. In exchange, she has had to grant preference on galvanised sheets from the U. K. in the

Indian market. This preference took the form of a duty of Rs. 30 per ton on sheets made in the U. K. from Indian steel bars, Rs. 53 per ton on sheets made in the U. K. from other steel bars and Rs. 83-12 per ton on sheets not made in the U. K.

The underlying object of the Agreement was to find increased outlet for Indian pig iron and steel bars for the consumption of which Indian industries were not sufficiently equipped and the export trade in which was subjected to severe competition from other countries. At the same time a market was provided for galvanised sheets made in the U. K. both from Indian steel bars and bars not imported from India in varying degrees, on the assumption that the production of galvanised sheets within the country would not, in the near future, amount to more than half the total Indian consumption. A reckoning of the benefits of the Agreement will therefore, require an examination of the position both in regard to the resultant expansion of the export of Indian pig iron and sheet bars, as well as the share of British galvanised sheets made of Indian steel bars in the total import of sheets into India from the U. K. The following table gives the relevant statistics with regard to pig iron:

**Table XXXII**  
Exports of Pig Iron from India

	Quantity Tons (000)			Value Rs. (000)		
	Total	U. K.	Foreign countries	Total	U. K.	Foreign countries
1930-31	439.1	99.0	336.3	1,70,40	38,48	1,30,44
1931-32	350.9	69.1	278.7	1,22,70	24,11	97,51
1932-33	218.4	75.8 (35%)	138.6 (63%)	74,32	26,06	43,86
1933-34	377.5	93.1 (25%)	280.8 (74%)	85,03	21,55	62,47
1934-35	417.1	98.5 (23.6%)	310 (74%)	92,68	21,33	69,32

Note—Figures in the brackets represent percentages of the total exports.

The figures do not present an attractive picture. Simultaneously with an increase in the total exports, the off-take of the U. K. increased; but the percentage increase in the exports to the U. K. in the year 1933-34 over the previous year (22 per cent.) was far less than in the case of foreign countries (103 per cent.) and the share of the U. K. in the net exports of India's pig iron, has consequently dwindled from 35

per cent. in 1932-33 to 25 per cent. in 1933-34 while the share of foreign countries has increased from 63 per cent. to 74 per cent. During 1934-35 the off-take of the U. K. increased, on the basis of the previous year, hardly by 6 per cent., while the off-take of the foreign countries has advanced by more than 10 per cent. Consequently, while the share of the U. K. has dwindled to 23.6 per cent., that of the

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Subsequent to the conclusion of the Ottawa Agreement, various steps have been undertaken, both on the part of U. K. and of India, to promote the fulfilment of the promise embodied in Article 8 of the Agreement. While on India's side efforts have been made to introduce improved varieties of long and medium stapled cotton for which the U. K. has a large demand, experiments have been carried on by the British Government to ensure a more efficient use of India's short staple—cotton. Dr. Meek states, these experiments have been attended with success and that, the off-take of India's raw cotton by the U. K. has been steadily on the increase. The relevant statistics are as follows:

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It is perhaps too early to judge the results of such goodwill. We cannot say, till a larger period has intervened, that behind this understanding there is really an organised opinion in the U. K. to help India's cotton growers. The statistics available at the present moment do not encourage one to feel very sanguine about a "good will" or "good faith", as a factor in promoting mutual trade.

### IRON AND STEEL

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Indian market. This preference took the form of a duty of Rs. 30 per ton on sheets made in the U. K. from Indian steel bars, Rs. 53 per ton on sheets made in the U. K. from other steel bars and Rs. 83-12 per ton on sheets not made in the U. K.

The underlying object of the Agreement was to find increased outlet for Indian pig iron and steel bars for the consumption of which Indian industries were not sufficiently equipped and the export trade in which was subjected to severe competition from other countries. At the same time a market was provided for galvanised sheets made in the U. K. both from Indian steel bars and bars not imported from India in varying degrees, on the assumption that the production of galvanised sheets within the country would not, in the near future, amount to more than half the total Indian consumption. A reckoning of the benefits of the Agreement will therefore, require an examination of the position both in regard to the resultant expansion of the export of Indian pig iron and sheet bars, as well as the share of British galvanised sheets made of Indian steel bars in the total import of sheets into India from the U. K. The following table gives the relevant statistics with regard to pig iron:

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Note—Figures in the brackets represent percentages of the total exports.

The figures do not present an attractive picture. Simultaneously with an increase in the total exports, the off-take of the U. K. increased; but the percentage increase in the exports to the U. K. in the year 1933-34 over the previous year (22 per cent.) was far less than in the case of foreign countries (103 per cent.) and the share of the U. K. in the net exports of India's pig iron, has consequently dwindled from 35

per cent. in 1932-33 to 25 per cent. in 1933-34 while the share of foreign countries has increased from 63 per cent. to 74 per cent. During 1934-35 the off-take of the U. K. increased, on the basis of the previous year, hardly by 6 per cent., while the off-take of the foreign countries has advanced by more than 10 per cent. Consequently, while the share of the U. K. has dwindled to 23.6 per cent., that of the

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foreign countries has remained constant. The Indian Trade Delegation had solemnly sounded a warning that Indian's export trade in pig iron was faced with certain disaster on account of the possibility of diminished purchases of Indian pig iron by countries other than the U. K. which had hitherto been India's good customers. The export figures for the years 1933-34 and 1934-35, furnish sufficient testimony to the fact that the pessimism of the Delegation was unfounded. It is significant that even a free entry into the U. K. has not enabled India to expand her export in the British market to the same degree as in other foreign countries where it does not enjoy similar advantage and which, according to the Delegation, were to offer intensive and severe competition to Indian goods. Dr. Meek has sought to explain the larger off-take of other countries of India's pig iron by simply pointing out that "as a result of special causes, which are not likely to prove permanent, exports to other countries in 1933-34 show a much larger increase than the exports to the U. K." Unfortunately, however, he does not mention the causes. On our part, we are of opinion that this increase is due to a genuine world demand which is not likely to fall off, as the export figures for 1934-34 indicate, if exceptional circumstances do not intervene. On the other hand a reference to the net imports of pig iron into the U. K. would suggest that the market for pig iron in the latter country is gradually shrinking, and even if India succeeds in capturing the entire British market, and simultaneously loses the market outside, (as envisaged by the Delegation) the expansion of India's export trade with the U. K. would furnish very little relief to the surplus Indian production.

**Table XXXIII**

Imports of Pig Iron into the U. K.

	Tons (000)	
	Total Imports	From British India
1930	290.5	126.0
1931	284.0	46.8
1932	135.0	83.5 (61.8%)
1933	93.0	80.6 (86.6%)

It is found that though on the basis of the Calendar year the percentage share of India in the net imports of the U. K. has increased, there has been an actual falling-off in India's net exports to that country, simultaneously with a fall (continued for a number of years) in the total import by the U. K.

### STEEL BARS

The position in regard to the exports of steel bars will be evident from the following table:

**Table XXXIV**

Exports of Steel Bars (including channels)  
from Br. India

	(Tons)		
	Total Exports	U. K.	Other Countries
1931-32	9,419	9,317	102
1932-33	23,121	16,337	6,784
1933-34	46,400	41,104	5,296
1934-35	26	...	26

During the year 1933-34 the off-take by the U. K. of Indian steel bars (including channels) advanced considerably, side by side with a diminution in the exports to other countries. The export of Indian steel bars to the U. K., however, was closely related to the import of British galvanised sheets into India. The figures given on pages 111 and 112 of Dr. Meek's Report show that nearly 45 per cent. of all the sheets exported from the U. K. to India during the period from May 1933 to March, 1934, were made from Indian steel bars. But during 1934-35, as the table shows to our great surprise, the U. K. imported no steel bars from India and the net export of India's steel bars (including channels) amounted to such an insignificant figure as 26 tons against 46,400 tons during the previous year. The U. K., however, reaped the full benefit of the preference on galvanised sheets as will be evident from the following figures.

**Table XXXV**

India's Imports of Galvanised Sheets

	(In thousands of tons)		
	1932-33	1933-34	1934-35
U. K.	50	52	53
Belgium	21	6	2
Japan	1	3	3
Total	72	60	58

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The causes of this sudden and almost total decline in the exports of India's steel bars should be thoroughly investigated to determine the drawbacks that attend the arrangement. The very idea underlying the agreement on steel bars evidently militates against the industrial development of India. The theory of industrial co-operation within the Empire which was urged as a plea for exporting Indian steel bars to the U. K. to be manufactured into galvanised sheet and that again to be imported into India for disposal, is illogical. On this illusion India has been persuaded to grant a preference on a commodity for the production of which, within the country, she has had to shoulder the burden of protection for about a decade. This arrangement admittedly imposes a handicap on the development of the steel industry in India. For as the Tariff Board on iron and steel observed in their recent report, there is scope enough in India for two other

industries like the Tata Iron and Steel Works to meet India's requirements. Thus there is no justification for trying to artificially stimulate exports of semi-manufactured goods and to grant preference on finished goods made out of them, the only effect of which will be ultimately to stunt the growth of similar industries in India.

The Tariff Board definitely records their opinion that "the need of the Indian Industry for this particular outlet for its steel no longer exists to the same extent" and that "a renewal of the agreement in its present form will be impracticable." This is more so in view of the fact that if the U. K. does not import even the raw materials, namely steel bars, from India in exchange of galvanised sheets to be received by India, the arrangement becomes innocent of any principle of reciprocal benefit and as such unacceptable to India.



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### (B) INDIA'S IMPORT TRADE

The growth or otherwise in the import of the articles on which India has granted preferences is, in the opinion of Dr. Meek, "a matter of more direct importance to the United Kingdom and to her foreign competitors in the trade than to India." The theory thus put forward by Dr. Meek, however sound in normal times, is not tenable at the present moment when the direction of India's trade has shown a tendency of diversion, as a result of the operation of the Ottawa Agreement and of the preferential treatment accorded to a particular country. The import trade of a country is closely interconnected with its export trade, the one having its repercussions on the other, and an examination of the former, with special reference to the sources of the imported commodities, is specially important in order to assess the effect of the Ottawa Agreement on the volume and the relative shares of various countries in the export trade of India. It is therefore, necessary to investigate the distribution of India's foreign trade among the various countries, its present direction and probable future tendencies, so that any undesirable diversion may be provided against in time. An evaluation of the effects of the Ottawa Agreement on India's imports is also necessary in order to ascertain how far the Agreement has affected India's consumers. Besides, we cannot ignore the incidence of the growth or otherwise of the import of the articles on which India has granted preferences, in so far it may have affected the extent of the industrial progress within the country during the period the Agreement has been in force.

Before I attempt to consider these aspects of the situation, I shall, first, deal with the broad features of

India's import trade and try to determine the benefits that England has received from India under the Ottawa Agreement.

**Table XXXVI**

Imports into India (in Lakhs of Rupees)

	British Empire	U. K.	Foreign Countries	Total
1932-33	59.38	48.80	73.20	132.58
1933-34	57.70	47.59	57.70	115.38
Per cent. increase	-2.8%	-2.5%	-22.5%	-12.8%
1934-35	65.35	53.75	66.91	132.95
Per cent. increase	11.5%	13%	15.5%	14.6%

**Table XXXVII**

Distribution of India's total Import Trade

	1932-33		1933-34		1934-35	
	Rs. (lakhs)	Per cent.	Rs. (lakhs)	Per cent.	Rs. (lakhs)	Per cent.
U. K.	48.80	36.8	47.54	41.2	53.75	40.6
Germany	10.38	7.8	8.89	7.7	10.12	7.7
Belgium	3.41	2.6	2.66	2.3	2.16	1.6
Italy	3.94	3.0	2.91	2.5	3.01	2.3
Japan	20.47	15.4	16.36	14.2	20.80	15.7
U. S. A.	11.25	8.5	7.18	6.2	8.40	6.4

The above two tables clearly indicate that the United Kingdom has reaped substantial benefits from the Agreement. It should be pointed out that though in 1933-34, the net import figures did not mark an actual advance over the figures of 1932-33, the share of the U. K. registered an expansion relative to the total imports, as well as to those from other countries. It will be found that while, on account of the severe

## INDO-BRITISH TRADE

economic distress in India resulting from the reduction of agricultural incomes by about 50 per cent. the total Indian import from all the countries suffered a serious setback during 1933-34, the percentage share of the United Kingdom remained comparatively unchanged, registering relative and substantial advance over the previous year. The imports from non-Empire countries, on the other hand, suffered a very severe decline, losing ground to the extent of 22.5 per cent. during 1933-34 as compared with a decline of only 2.5 per cent. in the imports from the U. K. During 1934-35, again, the relative advance of the U. K. in the import trade of India had turned into a positive expansion to the extent of 13 per cent. over the previous year. As will be found from the table, India's import trade during 1934-35 has registered an increase of 14.6 per cent., the imports from the foreign countries marking an advance of about 15.5 per cent. This does not, at any rate, indicate that the economic depression in India is lifting, but the explanation lies probably in the fact that many of the pressing industrial requirements of India, which could not be satisfied during the last few years, are in process of being met by imports from abroad.

Sir T. M. Ainscough, the Senior Trade Commissioner in India for His Majesty's Government, himself admitted that the preferences granted by India to certain articles of the United Kingdom proved greatly beneficial to the latter. "This steady process of regaining lost grounds," says he, "proceeded during the year 1933-34. Notwithstanding a reduction in the total imports of over Rs. 17 crores resulting from a continuance of the depression which pervaded the Indian market, the imports from the United Kingdom only fell by Rs. 1.2 crores. This most satisfactory improvement in the relative position of the United Kingdom in the trade of her most important export market was accomplished inspite of a reduction of Rs. 3 1/3rd crores in the imports of British piece-goods." "It is most encouraging to note," continues Sir Thomas Ainscough, "that where the Ottawa preferences have operated, the United Kingdom's relative position has been improved and in many cases, shipments of United Kingdom goods have actually increased in favour of greatly reduced trade." These observations of Sir Thomas Ainscough have become more than justified in the light of the trade developments during 1934-35. The following table will further corroborates these statements.

**Table XXXVIII**

**Imports from United Kingdom into India**

	1931-32	1932-33	1933-34	Percentage increase in 1933-34	1934-35*	Percentage increase
	Rs. (lakhs)	Rs. (lakhs)	Rs. (lakhs)		Rs (lakhs)	
Preferred Articles	12,07	12,69	14,29	12.6	22,27	55.8
Non-preferred Articles	32,74	36,10	33,29	- 7.8	31,48	- 5.7

\* Subject to revision.

The above table reveals a very interesting situation. While the total volume of India's imports for the year 1933-34 has declined by 12.8 per cent. the share of United Kingdom in the preferred articles, has, during the same period, risen almost to the same extent. And during 1934-35 the share has further advanced by as much as 55.8 per cent. With regard to the non-preferred commodities, again, it will

be noticed that their imports into India have registered a falling off of 7.8 per cent. in 1933-34 and 5.7 per cent. in 1934-35, which unmistakably proves that the preferences granted by India to the U. K. have been of substantial help to her exports of the commodities to India. The following are some of the commodities in which the beneficial effects of the Agreement have been fully reflected.

## OTTAWA AGREEMENT

**Table XXXIX**

	1932-33 Rs. (lakhs)	1933-34 Rs. (lakhs)	1934-35 Rs. (lakhs)
Provisions	139	151	161
Hardware	91	97	98
Motor Cars	80	106	123
Motor Lorries etc.	10	12.5	25
Pedal Cycles	52	62.6	70
Pneumatic Motor Covers	45	71	87
Pneumatic Cycle	12	15	17
Galvanised Steel Sheets	87	98	100
Rubber Manufactures	80	116	107
Steel Tubes	28	38	47
Steel Hoops & Strips	10	16.6	19
Wrought Copper	28	38	59
Lubricating oils	21	26	23
Woollen Manufactures	54	58	78
Woollen piece goods	52	57	47
Electric Apparatus	121	131	162
Paints and Colours	43.2	46.7	48.7

There are many other articles whose relative position considerably improved notwithstanding the material decline in the total trade in 1933-34, but in 1934-35 they have registered definite increase in import. The following table will illustrate the advance in the relative position of certain British articles in the import trade of India.

**Table XL**

Percentage share of the U. K. in the Import trade of India

	1932-33	1933-34
Boots & Shoes	37	43
Brushes	31	43
Chemicals and Chemical preparations	52	55
Cordage and Rope of Vegetable Fibres	34	42
Hardware	29	33
Aluminium Wrought	31	38
Copper Wrought	25	46
Lead Wrought	79	83
Paints and Colours	62	68
Zinc Wrought	18	21
Provisions	43	49
Rubber Manufactures	40	62
Woollen Manufactures	33	44
Toilet Requisites	36	39

(These figures have been adapted from Sir Thomas Ainscough's Report).

It will be evident from the above that while the United Kingdom raised her share in the import of these commodities into India, the share of other countries in the same, decreased to a corresponding degree. To that extent the U. K. was benefited by the Ottawa Agreement. In a few articles, however, the share of the U. K. slightly declined owing to special circumstances. The following were such articles.

**Table XLI**

Percentage share of the U. K. in the Import trade of India

	1932-33	1933-34
Toilet Soap	80	74
Motor Cars	62	60
Motor Omnibus	24	9
Umbrellas	9	5

As Dr. Meek observed, the intense competition offered by Japan owing to the heavy depreciation of the yen had, to a large extent, offset the effects of the Ottawa Agreement. This explains the decline of the share of the U. K. in the import of toilet soap and umbrellas. With regard to the two other items in the table, the explanation is that on account of the depreciation of the dollar, larger arrivals of cars from the U. S. A. and Canada pulled down the share of the U. K. in the net import of India, though it should be remembered at the same time that India's off-take of British motor cars advanced by more than Rs. 20 lakhs and that of motor omnibuses by about Rs. 3 lakhs. During 1934-35, however, the percentage share of the U. K. in the total imports of soap, and umbrellas has advanced by 3 per cent. and 25.5 per cent. respectively. It is, therefore, apparent that the U. K. reaped the full measure of the benefit of the Ottawa Agreement, though it was to some extent hampered by exceptional circumstances like the depreciation of currencies in other countries.

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### (C) REVIVAL OF WORLD TRADE AND OTTAWA AGREEMENT

As I have already pointed out, the factor of an increased world demand for India's goods had a strong influence on the expansion of India's export trade during the last two years. I shall, therefore, endeavour to analyse the respective effects of this factor and the Ottawa Agreement on the foreign trade of India during the last two years. As Dr. Meek has very rightly pointed out, "trade from year to year is subject to various economic forces and the action of some of these may very well obscure or even nullify the effects of preference." Statistics of India's export trade with the countries of the Empire as well as with

non-Empire countries, in respect of the commodities covered by the Ottawa Agreement, make the effects of the Agreement very much obscure, for while the Agreement should have given an added stimulus to the export of the specified commodities to the United Kingdom or other Empire Countries, we find with pleasant surprise that non-Empire countries have also taken our exports at an equal rate with the United Kingdom and more in certain commodities. A consideration of the percentage increase of these commodities fully bears out this fact.

Table XLII

Percentage Increase in the Export of certain commodities during 1933-34 and 1934-35  
on the basis of 1932-33 and 1933-34 respectively

	Linseed		Coffee		Tea		Groundnuts		Hides and Skins (untanned)	
	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35	1933-34	1934-1935
U. K.	991	-40	-8	-29	19	3.5	68	40	62	-40
Germany	...	...	1	...	33	...	16	...	69	...
Italy	73	...	52	...	...	...	77	...	43	27
France	100	...	...	...	...	...	...	...	...	...
U. S. A.	...	...	...	...	...	...	...	...	73	...
Canada	...	...	...	422	...	...	...	...	...	...
Australia	34	90	...	30	34	...	...	...	...	...
U. S. Africa	...	...	...	237	27	...	...	...	...	...
N. Zealand	...	...	...	...	129	...	...	...	...	...

	Jute Manufactures		Raw Jute		Paraffin Wax		Shellac		Myrobalan	
	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35	1933-34	1934-35
U. K.	9	.5	13	-8	49	-15	396	9	7	-16
Germany	...	...	21	...	225	...	6	20	4	38
Japan	...	...	4	35	...	...	23	188	...	...
Italy	...	...	44	33	3	...	16	72	...	...
France	64	...	9	2.6	...	...	12	22	20	...
U. S. A.	25	...	10	...	83	...	43	55	16	...
Canada	30	...	...	...	55	...	...	...	...	...
Australia	...	...	...	53	4	9	...	113	...	...
U. S. Africa	...	38	...	...	...	...	...	...	...	...
N. Zealand	22	6	...	...	171	145	...	95	...	...

## OTTAWA AGREEMENT

In the table are shown the percentage increases and decreases in the export of the specified commodities to the United Kingdom; but with regard to some other countries only increases are shown, in order to set these against the apparent advantage that India has reaped under the Ottawa Agreement in her foreign trade with the United Kingdom. All the commodities treated in the above table, except raw jute and untanned hides and skins, enjoy preference. It would be a natural expectation that the percentage increase in the export of these commodities mentioned in the table, would be considerably greater than their export to non-Empire countries because of the preferential treatment that India enjoys in the United Kingdom. But as the table shows, this expectation has not been fulfilled. We find that, besides the U. K., many other countries which have not granted any tariff preference to India, have nevertheless increased their off-takes of certain Indian goods at a rate greater than the United Kingdom; in some cases, while the U. K. has taken less than before, some of these countries have taken more, the rate of increase in their off-takes being quite significant. In the case of linseed and shellac only, the U. K. has topped the list, having imported at a rate considerably higher than Indian exports to any other countries during 1933-34; the off-take of the U. K. is far behind those of Germany, Japan, Italy, France and several other countries. It should, however, be noted that the increase in the off-take of linseed was, as already mentioned, due to special conditions of supply, while the advantages gained in respect of shellac cannot be said to have been due entirely to the Ottawa Agreement, for we have not at our disposal the figures relating to the import into the United Kingdom of synthetic substitutes, to counter the competition of which in the British market, natural lac from India was permitted a free entry therein. Further, as we have already seen, even in respect of some of the articles in regard to which no preference has been granted to India by the U. K. the rate of import to the latter country has been much greater than that of preferred commodities. (The rate of increase in the import of preferred articles being only 21.6 per cent. and —.6 per cent.

while that in the case of non-preferred articles being 40.9 per cent. and 11.7 per cent. during 1933-34 and 1934-35 respectively.) It is, therefore, evident that the Ottawa preferences have had very little influence on accelerating the rate of increase in the export of India's commodities to the U. K. The increased rate of India's exports to all the countries, both within the Empire and outside, can chiefly be ascribed to the increased demand for India's commodities resulting from the revival of world economic conditions, of which signs are becoming more and more evident. It is to be admitted that as India is the supplier of raw products for most of the manufacturing countries, an increased industrial activity in the world will be an inducement to the expansion of India's export trade. As such, a correlation between the index of industrial production of the world and the rate of increase in India's exports may be attempted. According to the publication of the League of Nations, "World Production and Prices", for the year 1933, the index of industrial activity for the world (excl. U. S. S. R.) has advanced from 69 in 1932 to 78 in 1933, which means that the industrial activity in the world has increased by about 13 per cent. One would naturally expect that India's export trade should expand to the same extent. But actually the increase in India's export trade during the same period has been about 7 per cent and only 2.6 per cent. during 1934, partly due to the restrictive effects of the Ottawa Agreement and partly due to the forces of economic nationalism that have led to the adoption of various devices of exchange control and import restriction in many countries. Making allowance for these factors, it is to be admitted that the reviving tendency of industrial production in most of the manufacturing countries has been mainly responsible for the increased exports of India both to England and to other countries.

Though it is rather difficult to distinguish the effects of this general increase in world demand for India's goods from those of the Ottawa Agreement, a reference to the rates of increase in the respective shares of the various countries in India's imports and

## INDO-BRITISH TRADE

exports is likely to provide some clue as to the relative strength of the two factors in India's export trade.

**Table XLIII**

(Ref. : Tables III & IV)

*Percentage increase in India's imports and exports during 1933-34 and 1934-35 on the basis of 1932-33 and 1933-34 respectively.*

	1933-34		1934-35	
	Exports	Imports	Exports	Imports
	%		%	
United Kingdom	27.7	-2.6	.67	13
Total Br. Empire	13	-2.8	-.32	11.5
Foreign Countries	7.6	-22.5	6	15.5
Empire Countries	-7	-5.4	-.5	14.6

The table makes it clear that the 7.6 per cent. and 6 per cent. increases in the off-take of India's goods by foreign countries are purely a measure of the increase in world-demand due to trade revival, and one might conclude from the figures that India has derived considerable advantage from the Ottawa Agreement as far as her trade with the United Kingdom during 1933-34 is concerned. But how precarious this benefit was is amply shown by the Export figures for 1934-35, during which year India's exports to the United Kingdom have increased only by .67 per cent. while those to the foreign countries have marked an advance by 6 per cent.

Though the United Kingdom increased her off-take of India's total exports by a good margin over that of foreign countries during 1933-34, it did not constitute the exact benefit India received from the U. K. on account of the Ottawa Agreement. For, as I have already pointed out, in the section on "India's Export Trade", the increased off-take of India's merchandise by the U. K., is, to a large extent, the result of the reviving industrial activity in that country. On the other hand, we should remember that the 6 per cent. increase in the demand for India's goods by foreign countries is not really the exact measure of the trade revival during the period. The

reason is explained by the import figures. The relatively smaller decrease in India's imports from the U. K. during 1933-34, indirectly indicated the handicap which the imports from foreign countries had to suffer under the preferential terms of the Ottawa Agreement. As a consequence, there was a falling-off of imports from foreign countries. Had not this been the case and the imports from other countries discriminated against by India, there can be no reason to doubt that the off-take by foreign countries of India's exports would have risen much more in percentage. It may be pointed out that during 1934-35 also the same tendency has persisted in a more pronounced degree in the case of the U. K., and in a less pronounced degree in the case of foreign countries. For, while the imports from the U. K. have advanced by 13 per cent., and exports thereto by only .67 per cent., the imports from the foreign countries have advanced by 15.5 per cent. and India's exports thereto by 6 per cent. These figures seem to warrant the assumption that though during the first year of the Ottawa Agreement, namely 1933-34, there was some diversion of India's export trade to the U. K. away from the foreign countries, registering all the same a small net expansion in the total export trade, during 1934-35, however, there has taken place a positive diminution in India's export trade in the process of this diversion.

As regards the effects of trade revival on the import trade of India, it should be observed that on account of the heavy decline in the purchasing power of India's masses mainly due to falling agricultural prices, the influence of general looking up of world trade was to a great extent nullified. Yet with regard to certain articles like machinery and millwork the demand increased considerably, as is evident from the fact that the total import of these commodities advanced from Rs. 10,54 lakhs to Rs. 12,77 lakhs in 1933-34 and Rs. 12,64 lakhs in 1934-35. In this increase, the U. K. did not fail to have a share, for her export to India rose from Rs. 7,81 lakhs in 1932-33 to Rs. 8,73 lakhs in 1933-34, which again increased to Rs. 9,15 lakhs in 1934-35.

## INDIA Vs. COLONIAL EMPIRE

India's total trade with the Colonial Empire taken together is not very large, forming hardly 10 per cent. of India's foreign trade in a normal year. The export trade, however, exceeds her import trade by 6 crores of rupees on the average, while the Colonies also provide a potential market for the expansion of India's export of manufactures like cotton piece-goods, though her serious competitors in these fields are the U. K. and Japan. It is, therefore, necessary to explore every possibility of creating closer trading relations between India and these countries.\* Article 12 of the Ottawa Agreement imposed on the Government of India the obligation to grant preferences to the Colonies and Protectorates and the mandated territories of Tanganyika, the Camerouns and Togoland on certain commodities, provided that reciprocal measures were adopted by these countries in regard to their imports from India. In accordance with this provision, India granted preferences to the following countries in return of concessions received by her from some of them: Strait Settlements, Fiji, Somaliland, Mauritius, British West India Islands, British Guiana, Cyprus, Sierra Leone, Kenya, Zanzibar and Pemba, Ceylon, Federated Malay States, Seychelles and Mandated-territory of Tanganyika. It should, however, be noted that Ceylon has not fulfilled her part of the contract, the Agreement having not been ratified by her even to-day. As the detailed statistics about each territory are not available, I shall endeavour, first of all, to gauge the effects of the Ottawa Agreement from the trade returns for the whole of the Colonial Empire.

**Table XLIV**

**India's Exports to and Imports from  
the Colonial Empire**

	(In lakhs of rupees)			
	Exports	Percentage increase	Imports	Percentage increase
1932-33	15,70	...	8,98	...
1933-34	14,34	-9	8,11	-9.4
1934-35	14,58	1.7	9,43	16.2

\* Vide "Trade Agreements and the Empire"—a brochure by the author, wherein a detailed consideration of this aspect of India's foreign trade has been attempted.

**Table XLV**

**India's Exports to and Imports from Ceylon**

	(In lakhs of rupees)			
	Exports	Percentages of increase	Imports	Percentage increase
1932-33	6.52	...	1.76	...
1933-34	5.91	-9.3	1.29	-26.7
1934-35	6.37	7.7	1.26	-2.2

It is clear from the two tables that during 1933-34, the percentage decrease in India's exports to the Colonial Empire was slightly less than the percentage decline in India's imports from the same. But during 1934-35, though there has been an increase both in exports to the Colonies and imports therefrom, the percentage increase in exports has been only 1.7, while that in the imports from the Colonies is 16.2, which shows that the balance of advantage lies on the side of the Colonies. As regards Ceylon, again, it should be said that during 1933-34 India's trade, though diminishing, did not suffer any catastrophic fall. During 1934-35, however, there has been noticeable a recovery in India's exports to Ceylon, for they have registered an advance to the extent of 7.7 per cent. over last, year, while imports from Ceylon to India have declined by more than 2 per cent.

I shall now consider the cases of specific commodities with regard to which reciprocal preferences have been agreed upon.

**Table XLVI\*\***

**India's Export of Preferred Commodities**

	1931-32 Rs. (000)	1932-33 Rs. (000)	1933-34 Rs. (000)
Ceylon	86.68	74.55	76.58
Federated Malay States	4.84	3.88	5.43
Straits Settlements	66	56	32
Fiji	2.31	3.11	2.35
Seychelles	82	70	56
Somaliland	1.84	2.70	2.07
Mauritius & Dependencies	3.42	3.07	1.79
British West Indian Islands	18.56	13.91	15.76
British Guiana	4.98	6.87	5.61
Cyprus	1.66	1.16	1.59
Sierra Leone	14	1.41	2.51
<b>Total</b>	<b>1,25,95</b>	<b>1,12,06</b>	<b>1,14,57</b>

## INDIA VS. COLONIAL EMPIRE

**Table XLVII\***

**India's Import of Preferred Commodities**

	1931-32 Rs. (000)	1932-33 Rs. (000)	1933-34 Rs. (000)
Kenya Colony	7,58	7,12	7,74
The Mandated Territory of Tanganyika	16	59	11
Zanzibar & Pemba	40,25	34,61	34,73
Ceylon	89,71	1,37,42	96,02
Federated Malay States	13	42	24
Seychelles	2,18	5,87	2,05
<b>Total</b>	<b>1,40,01</b>	<b>1,86,03</b>	<b>1,40,89</b>

It appears from the two tables that India's exports in total to the Colonial countries have slightly advanced ; but the advance, small as it is, lags behind the figures of 1931-32. Besides, the rate of increase (slightly over 2 per cent.) is far less than the increase in India's exports, to the U. K. or to non-Empire countries. On the import side, we find that the decline to the extent of Rs.46 lakhs has not materially affected the position of the importing countries in the import trade of India during 1933-34 as compared to 1931-32. There has rather occurred a slight increase in the imports from the Colonies during 1933-34 over the year 1931-32.

It is thus evident that the Colonies have received a benefit from India under the Ottawa Agreement and on the side of India, the advantage has not been proportionate to the improvement in her total export

trade, for the markets in the Colonial Empire previously lost on account of the world crisis and also of the competition from Japan and the U. K., have not been regained under the Agreement in as much as even the level of 1931-32 has not been reached. Again, in the true interests of India's future foreign trade, it has been India's endeavour to expand her export trade in manufactures. To this end the Ottawa Agreement seems to have contributed hardly anything, for in the case of Ceylon, exports of cotton piece-goods, cotton yarn and woollen manufactures during 1933-34 have remained more or less stationary, whereas some improvement should have been naturally expected. During 1934-35, however, Ceylon's offtake of India's cotton piece-goods has advanced to Rs. 61,77 thousands as against Rs. 50,00 thousands in the previous year. But during the same period exports of cotton yarn have declined from Rs. 72 thousands to Rs. 71 thousands and woollen manufactures from Rs. 190 thousands to Rs. 156 thousands.

Further, as India's exports to Straits Settlements, Malay States, Fiji, Mauritius etc., indicate, these countries also have, instead of taking more of our cotton piece-goods and tobacco etc., in which they enjoy some advantage from us, have actually diminished their off-takes of these commodities from India during 1933-34. The following figures are significant:—

**Table XLVIII**

**India's Exports (in thousands of rupees)**

		Cotton piecegoods	Tobacco Manufactures	Jute gunny bags
Str. Settlements	1932-33	40,19	83	38,94
"	1933-34	26,15	39	35,49
"	1934-35	27,75	26	12,46
Malay States	1932-33	2,48	28	
"	1933-34	3,42	63	
"	1934-35	5,56	Not available	
Fiji	1932-33	28		70
"	1933-34	21	...	70
"	1934-35	Not available	...	Not available
Mauritius	1932-33	1,42	...	6,47
"	1933-34	80	...	8,07
"	1934-35	6,07	...	9,48

As will be found from the table, exports of cotton piece-goods to the Colonies have advanced substantially, but those of jute gunny bags have deteriorated in case of Straits Settlements and slightly improved in case of Mauritius. Exports of tobacco manufactures on the other hand have gone down.

\*\*\* These figures have been compiled from Dr. Meek's Report on the working of the Ottawa Agreement for 1933-34. As the trade figures for the various Colonies during 1934-35 are not available in the publications of the Government of India, the examination of the results of the preferences refers to the year 1933-34 only.



## INDIA Vs. COLONIAL EMPIRE

India's total trade with the Colonial Empire taken together is not very large, forming hardly 10 per cent. of India's foreign trade in a normal year. The export trade, however, exceeds her import trade by 6 crores of rupees on the average, while the Colonies also provide a potential market for the expansion of India's export of manufactures like cotton piece-goods, though her serious competitors in these fields are the U. K. and Japan. It is, therefore, necessary to explore every possibility of creating closer trading relations between India and these countries.\* Article 12 of the Ottawa Agreement imposed on the Government of India the obligation to grant preferences to the Colonies and Protectorates and the mandated territories of Tanganyika, the Cameroons and Togoland on certain commodities, provided that reciprocal measures were adopted by these countries in regard to their imports from India. In accordance with this provision, India granted preferences to the following countries in return of concessions received by her from some of them: Strait Settlements, Fiji, Somaliland, Mauritius, British West India Islands, British Guiana, Cyprus, Sierre Leone, Kenya, Zanzibar and Pemba, Ceylon, Federated Malay States, Seychelles and Mandated-territory of Tanganyika. It should, however, be noted that Ceylon has not fulfilled her part of the contract, the Agreement having not been ratified by her even to-day. As the detailed statistics about each territory are not available, I shall endeavour, first of all, to gauge the effects of the Ottawa Agreement from the trade returns for the whole of the Colonial Empire.

**Table XLIV**

**India's Exports to and Imports from  
the Colonial Empire**

(In lakhs of rupees)				
	Exports	Percentage increase	Imports	Percentage increase
1932-33	15,70	...	8,96	...
1933-34	14,34	-9	8,11	-9.4
1934-35	14,58	1.7	9,43	16.2

\* Vide "Trade Agreements and the Empire"—a brochure by the author, wherein a detailed consideration of this aspect of India's foreign trade has been attempted.

**Table XLV**

**India's Exports to and Imports from Ceylon**

(In lakhs of rupees)

	Exports	Percentages of increase	Imports	Percentage increase
1932-33	6,52	...	1,76	...
1933-34	5,91	-9.3	1,29	-26.7
1934-35	6,37	7.7	1,26	-2.2

It is clear from the two tables that during 1933-34, the percentage decrease in India's exports to the Colonial Empire was slightly less than the percentage decline in India's imports from the same. But during 1934-35, though there has been an increase both in exports to the Colonies and imports therefrom, the percentage increase in exports has been only 1.7, while that in the imports from the Colonies is 16.2, which shows that the balance of advantage lies on the side of the Colonies. As regards Ceylon, again, it should be said that during 1933-34 India's trade, though diminishing, did not suffer any catastrophic fall. During 1934-35, however, there has been noticeable a recovery in India's exports to Ceylon, for they have registered an advance to the extent of 7.7 per cent. over last year, while imports from Ceylon to India have declined by more than 2 per cent.

I shall now consider the cases of specific commodities with regard to which reciprocal preferences have been agreed upon.

**Table XLVI\*\***

**India's Export of Preferred Commodities**

	1931-32 Rs. (000)	1932-33 Rs. (000)	1933-34 Rs. (000)
Ceylon	86,68	74,55	76,56
Federated Malay States	4,84	3,88	5,43
Straits Settlements	66	56	32
Fiji	2,31	3,11	2,35
Seychelles	82	70	56
Somaliland	1,84	2,70	2,07
Mauritius & Dependencies	3,42	3,07	1,79
British West Indian Islands	18,56	13,91	15,76
British Guiana	4,98	6,87	5,61
Cyprus	1,66	1,16	1,59
Sierra Leone	14	1,41	2,51
Total	1,25,95	1,12,06	1,14,57

## INDIA VS. COLONIAL EMPIRE

**Table XLVII\***

**India's Import of Preferred Commodities**

	1931-32 Rs. (000)	1932-33 Rs. (000)	1933-34 Rs. (000)
Kenya Colony	7,58	7,12	7,74
The Mandated Territory of Tanganyika	16	59	11
Zanzibar & Pemba	40,25	34,61	34,73
Ceylon	89,71	1,37,42	96,02
Federated Malay States	13	42	24
Seychelles	2,18	5,87	2,05
<b>Total</b>	<b>1,40,01</b>	<b>1,86,03</b>	<b>1,40,89</b>

It appears from the two tables that India's exports in total to the Colonial countries have slightly advanced; but the advance, small as it is, lags behind the figures of 1931-32. Besides, the rate of increase (slightly over 2 per cent.) is far less than the increase in India's exports, to the U. K. or to non-Empire countries. On the import side, we find that the decline to the extent of Rs.46 lakhs has not materially affected the position of the importing countries in the import trade of India during 1933-34 as compared to 1931-32. There has rather occurred a slight increase in the imports from the Colonies during 1933-34 over the year 1931-32.

It is thus evident that the Colonies have received a benefit from India under the Ottawa Agreement and on the side of India, the advantage has not been proportionate to the improvement in her total export

trade, for the markets in the Colonial Empire previously lost on account of the world crisis and also of the competition from Japan and the U. K., have not been regained under the Agreement in as much as even the level of 1931-32 has not been reached. Again, in the true interests of India's future foreign trade, it has been India's endeavour to expand her export trade in manufactures. To this end the Ottawa Agreement seems to have contributed hardly anything, for in the case of Ceylon, exports of cotton piece-goods, cotton yarn and woollen manufactures during 1933-34 have remained more or less stationary, whereas some improvement should have been naturally expected. During 1934-35, however, Ceylon's offtake of India's cotton piece-goods has advanced to Rs. 61,77 thousands as against Rs. 50,00 thousands in the previous year. But during the same period exports of cotton yarn have declined from Rs. 72 thousands to Rs. 71 thousands and woollen manufactures from Rs. 190 thousands to Rs. 156 thousands.

Further, as India's exports to Straits Settlements, Malay States, Fiji, Mauritius etc., indicate, these countries also have, instead of taking more of our cotton piece-goods and tobacco etc., in which they enjoy some advantage from us, have actually diminished their off-takes of these commodities from India during 1933-34. The following figures are significant:—

**Table XLVIII**

**India's Exports (in thousands of rupees)**

		Cotton piecegoods	Tobacco Manufactures	Jute gunny bags
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"	1934-35	27,75	26	12,46
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"	1933-34	3,42	63	
"	1934-35	5,56	Not available	
Fiji	1932-33	28		70
"	1933-34	21	...	70
"	1934-35	Not available	...	Not available
Mauritius	1932-33	1,42	...	6,47
"	1933-34	80	...	8,07
"	1934-35	6,07	...	9,48

As will be found from the table, exports of cotton piece-goods to the Colonies have advanced substantially, but those of jute gunny bags have deteriorated in case of Straits Settlements and slightly improved in case of Mauritius. Exports of tobacco manufactures on the other hand have gone down.

\* \* \* These figures have been compiled from Dr. Meek's Report on the working of the Ottawa Agreement for 1933-34. As the trade figures for the various Colonies during 1934-35 are not available in the publications of the Government of India, the examination of the results of the preferences refers to the year 1933-34 only.

## DIRECTION OF INDIA'S FOREIGN TRADE

I shall now try to analyse the relative position of individual countries in India's export and import trade with a view to find the correlation, if any, between the Ottawa Agreement and the changes that have since taken place during the two years' working of the Agreement.

**Table XLIX**

**Percentage Share in the Total of India's Imports**

	1932-33	1933-34	1934-35
British Empire	44.7	50.0	49.4
United Kingdom	36.8	41.2	40.6
Empire Countries (Exl. U. K.)	7.9	8.8	8.8
Foreign Countries	55.3	50.0	50.6
Total	100	100	100

**Percentage share in the Total of India's Exports**

	1932-33	1933-34	1934-35
British Empire	45.1	46.2	45.2
United Kingdom	27.9	32.2	31.4
Empire Countries (Exl. U. K.)	17.2	15.8	13.8
Foreign Countries	54.9	53.8	54.8
Total	100	100	100

The figures are self-explanatory. What conclusions I have already drawn, seem to be further corroborated by the relative positions of the respective countries in the foreign trade of India. We find that, while the Empire countries (excluding the U. K.) raised their share in our imports by nearly 1 per cent. of the total in 1933-34 and have succeeded in well maintaining it in 1934-35 also, their share in our exports marks a decline of more than 2 per cent. in both the periods. As regards the U. K., while it has succeeded in raising its share in India's imports by 4.4 per cent. of the total in 1933-34, though it has declined by .6 per cent. in 1934-35, its off-take of India's merchandise has risen during the year 1933-34 by 4.3 per cent., but has declined by .8 per cent. during 1934-35. This disproportionate gain on the part of the United Kingdom and India is to be studied closely in order to assess the true value of the Ottawa Agreement to both countries. The conclusion seems to be irresistible

that the U. K. has gained a better advantage than India. Again, with reference to the share of India in the import trade of the U. K. we find that, while India has just maintained her position of 1929-30 in which year she had 5.1 per cent. share, by occupying only 5.5 per cent. share in 1933, which has again deteriorated to 4.8 per cent. in 1934, the share of the U. K. in the import trade of India advanced to 41.2 per cent. in 1933-34 which is the highest figure reached during the previous three years, but has registered a slight decline of .6 per cent. in 1934-35. As against India, Canada, Australia and Newzealand have obtained a greater advantage in the import trade of the U. K. for while since 1929, the share of Canada has advanced from 3.8 per cent. to 6.9 per cent. in 1934, that of Australia from 4.6 per cent. to 6.8 per cent. and that of Newzealand from 3.9 per cent. to 5.5 per cent., that of India has declined from 5.1 per cent. to 4.8 per cent. The foreign countries with which India has hardly any preferential trading relations well maintained their share in India's exports during 1933-34, while their share in India's imports dwindled by more than 4 per cent. of the total. During 1934-35, however, the share of the foreign countries in India's imports and exports has shown a slight advance. Nevertheless, there is a real menace to the expansion of India's export trade owing to the fact that, while under the Ottawa Agreement, India is taking relatively more goods from the Empire than previously at the expense of the non-Empire countries, it is likely that the non-Empire countries will not long continue to take India's goods. Signs are evident that many of the non-empire countries are showing a tendency to curtail their off-takes of India's merchandise in the absence of some sort of reciprocal advantage. The consequence is likely to be a decline in the volume of India's exports to foreign countries, as has already been the case, the rate of the expansion of India's exports to foreign countries which was noticeable in 1933-34, having been checked in 1934-35

## DIRECTION OF INDIA'S FOREIGN TRADE

(*vide* Appendix B). The figures in the above two tables also point to the same tendency.

That there is a tendency for the diversion of India's foreign trade to the U. K. away from other countries is further evident from the tables II & III, in which it has been made clear that in the preferred articles, the U. K. secured in 1933-34, a greater portion of our export trade than previously. While the export of the preferred commodities to the U. K. increased in 1933-34 by 21.6 per cent. and to the Colonies by 2.7 per cent., it declined by 1.6 per cent., in the case of other countries not granting any preference. At the same time, while the total exports of India in all the commodities increased by 10.5 per cent., the increase of only 4.6 per cent. in the export of the preferred articles to all countries clearly points to the

fact that the expansion of the export of these preferred commodities to foreign markets was, to a large extent, nullified by the restrictive effects of the Ottawa Agreement. During 1934-35, again, as has already been pointed out, though the tendency of the diversion of India's foreign trade is not so pronounced as in the previous year, there is, all the same, a danger which should be provided against in time.

Further, a reference to the trade figures for a number of commodities reveals the fact that on account of the enhanced demand for India's goods, foreign countries were gradually increasing their off-takes of India's raw products, but under the operation of the Ottawa Agreement during 1933-34, this tendency was cut short as will be evident from the following table:

**Table L**  
Exports of certain commodities from India

		(In thousands of rupees)			
		1931-32	1932-33	1933-34	1934-35
<b>Belgium</b>	Oil Cakes	12.26	18.67	13.23	17.12
	Groundnuts	6.99	13.94	14.19	16.08
<b>France</b>	Coffee	25.58	32.19	31.29	24.91
	Jute Manufactures	1.86	1.86	1.66	1.73
<b>Germany</b>	Jute Manufactures	6.50	8.34	4.22	2.21
	Oil Cakes	37.64	45.34	15.06	19.46
<b>Netherlands</b>	Oil Cakes	24.82	25.95	23.57	6.08
<b>Italy</b>	Rice	16.77	18.73	14.70	16.55
<b>Argentine</b>	Jute Manufactures	138.70	265.88	208.29	253.90
<b>Japan</b>	Jute Manufactures	12.88	24.84	13.63	41.41
	Paraffin Wax	4.40	6.56	...	11
	Rice	36	62.27	12	273
<b>Australia</b>	Jute Manufactures	243.34	331.86	242.41	197.68
	Rice	3.98	4.01	2.42	...

The tendency towards the improvement in the off-takes of the above articles by the countries mentioned in the table was not maintained; on the contrary, in spite of the general improvement in the world demand for India's commodities, the commodities concerned marked a decline in export. This may have been due to two causes. Firstly, on account of the

Ottawa Agreement there took place a diversion of trade in these commodities or secondly, in the absence of a diversion, the restrictive measures that have been undertaken by some countries in some way or other, may have tended to curtail India's exports to those countries. During 1934-35, however, as will be found in the same table, there is noticeable a revival in the

## OTTAWA AGREEMENT

exports of some of the commodities to certain countries. Still in some cases, a further deterioration in exports is revealed.

### INSURANCE VALUE OF OTTAWA AGREEMENT

Dr. Meek, again, has adumbrated an interesting theory about the utility of the Ottawa Agreement, by referring to its "insurance value". He maintains that with regard to the commodities the export of which to the U. K. has remained at a stationary level or has decreased only slightly, the insurance value of the Agreement has been manifest, for had no preferences been obtained by India in regard to the export of her commodities to the U. K., their export would have certainly declined or at least the set-back would have been even more pronounced. To this theory the facts and figures I have set forth in the section, "World Trade Revival and Ottawa Agreement", will

provide an effective reply. The general increase in the world demand for India's goods and also the increased industrial activity of the U. K., as I have already pointed out, in the section on "India's Export Trade", have mainly accounted for the increase or comparative stability in the U. K., as an export market for India during 1933-34, though in 1934-35 this stability has been proved to be quite precarious by the volume of India's exports received by the U. K. It is with regard to the exports of the U. K. to India, that the insurance value of preference can be asserted with greater force. Dr. Meek has himself admitted that the "imports from the United Kingdom would normally suffer more than the cheaper imports from other countries. This disadvantage to the U. K. would have been much greater, had it not been for the preference which enabled the U. K. to compete on more favourable terms with the cheap imports from the other countries."

## OTTAWA AGREEMENT & INDIA'S CONSUMERS

In December, 1932 while the terms of the Ottawa Agreement were being discussed in the Assembly, most of the non-official members expressed their misgivings as to the probable advantage that India's consumers would secure as a result of the Agreement. They laid particular emphasis on the point that the prices of imported articles would automatically go up and would thus shift on to the consumers a burden that was going to be imposed upon them in return for a problematic benefit to the export trade of India. The contention regarding this contingency was, however, strongly questioned by the then Finance Member, Sir George Schuster, who was of opinion "that the competition will tend to reduce the price at which foreign goods are sold to the level of the British goods and that in the long run the tendency will be that the consumers will benefit from these changes." Dr. Meek asserts that these anticipations have been fulfilled. An attempt may be made to consider how far this has been the case.

I shall, first of all, examine the price indices.

**Table LI\***

Index Number Series (Base 1914=100)

	Exported Articles	Imported Articles
(i) Average of 1926-29	133	124
(ii) Monthly average of 1933-34	71	79
(iii) Monthly average of 1934-35	70	75
Fall as compared with (i)		
(ii)	46.6%	36.3%
(iii)	46.6%	39.5%

We find that as compared with the average of 1926-29, the fall in the prices of exported articles in 1933-34 was 46.6 per cent. whereas in the case of imported articles, the fall was 36.3 per cent. The position in 1934-35 was that exported articles showed a decline to the same extent, namely 46.6 per cent., while the fall in the case of imported articles was 39.5 per cent.

This disproportionate decline in export and import prices would appear to indicate that the Ottawa Agreement compelled India to pay a relatively greater price for her imports than what she received for her exports, for the percentage decline in prices has been greater in the case of exports. But as the agricultural prices have declined, during the depression, much more in extent than the prices of manufactured goods which form the bulk of India's imports, this contention lacks adequate corroboration. An analysis of the statistics of the prices of preferred imports and the price movements of manufactured articles in and outside India, would be helpful in appraising the real effects of the Agreement on the prices of preferred imports, but in the absence of such data no categorical conclusion is possible.

It should however, be pointed out that as the Ottawa Agreement came into operation since the beginning of January 1933, a comparison of the prices of imports and exports on the basis of figures for earlier periods would perhaps be more appropriate. I would, therefore, take December, 1932, as the basic date for the purpose of comparison in order that the effects of the Ottawa Agreement may be more distinguishable.

**Table LII\***

Index Number Series (Base 1914=100)

	Exported Articles	Imported Articles
December 1932	71	83
March 1934	69	80
March 1935	72	83
Increase as compared with December, 1932		
March 1934	- 4.2	- 3.6
March 1935	1.4	...
Increase as compared with March, 1934		
March 1935	4.3	3.7

\* These figures have been compiled from the Monthly Survey of Business Conditions in India.

## OTTAWA AGREEMENT

It will be found that by March, 1934, the export prices have declined by 4.2 per cent. and import prices have declined to the extent of 3.6 per cent. indicating that while India's loss on the score of exports has been further enhanced by the relatively less decline in the prices of imported articles. In other words, India had to pay relatively more for her imports and received less on account of her exports. By March, 1935, we find that India's exports have fetched a larger benefit to the extent of 1.4 per cent., while India's consumers have had to pay for their imports at the same rate as they did in December, 1932. On the basis of March, 1934, again, it is found that India has received a larger benefit on account of exports to the extent of 4.3 per cent., while she has had to pay an enhanced price for her imports to the extent of 3.7 per cent. The relatively less increase in the prices of imported goods have afforded no doubt a slight relief to the consumers; but it should, at the same time, be pointed out that this benefit cannot entirely be correlated with the Ottawa Agreement for, as Dr. Meek points out, the U. K. has had to reduce the prices of her goods in the Indian market in order to compete successfully with other countries for "India is a price market and cheapness is generally a deciding factor in determining the purchases of the Indian masses." Yet the fact that the prices of imported articles have advanced means so much burden on the masses of India where agricultural incomes have recorded a decline of at least 50 per cent. during the depression.

It may be contended that the increase in the prices of imported goods has not had any influence on the wholesale prices of India, for on the basis of 1934, the index number of wholesale prices in Calcutta was 88 in December, 1932, 88 in March, 1934, and 87 in March 1935. To this it may be pointed out that the index numbers of prices in India and abroad

are not a safe guide to an evaluation of the effects of the Agreement on India's consumers. In the first place, as Dr. Meek has pointed out, the available price index number in India takes little cognisance of the articles on which preferences have been granted. As such, the indices of the import price do not reflect the influence of the Ottawa Agreement on the preferred commodities. Secondly, the articles of import on which India has granted preference form only a small proportion of the articles selected to construct the index numbers in most countries. It is not therefore, possible to arrive at an estimate of the effects of the Agreement on India's consumers simply by examining the price indices of various countries and of India, for the simple reason that they have insignificant bearing on the preferred commodities.

Still, taking into consideration the average prices that India has had to pay for some of her imports, we find that in certain articles prices advanced considerably. During 1933-34, India had to pay more, as compared with 1932-33, for boots by about 4 per cent., for zinc wrought by more than 2 per cent., for paper by more than 4 per cent. and for provisions by 2 per cent. During 1934-35, also, the average prices of imported boots, paints and colours have risen.

It should further be pointed out that the tendency of prices to go up under a scheme of preferences has been to a great extent nullified by the severe competition among the traders and also the depreciation of currencies that was effected in more than one country. It is, therefore, not unlikely that in near future when the conditions of world trade and commerce will get adjusted to the uncertainties resulting from the factors like currency depreciation and exchange restrictions, this tendency of rising prices with regard to imported articles, is likely to assert itself.

## OTTAWA AGREEMENT AND INDIA'S INDUSTRIES

Owing to the absence of necessary statistics regarding India's industries, the real effects of the Ottawa Agreement on industries in India, can not be fully measured. Dr. Meek has not furnished any production statistics of India's industries in connexion with the figures of imports of those commodities in which the U. K. enjoys preference from India. We have already seen that in the case of coconut oil, preference to Ceylon has seriously hit India's coconut oil industry on the Malabar coast. Dr. Patel who was deputed by the Agricultural Research Department, Government of India, to study the possibilities of coconut industry in the Malabar coasts, has also reported the doleful condition of the coconut oil industry mainly on account of the competition of Ceylon.

Another example is furnished by the aluminium industry in India which is of recent origin, and has great potentialities. The growing importance of the industry was forgotten when a preference was pitched upon aluminium sheets and circles from the U. K. The anomaly of the situation is that the majority of the manufacturers of aluminium industry in India are the same agencies which supply the aluminium raw materials from the U. K. The result has been that while almost a monopoly position in the industry has been secured by these manufacturers, the industries owned by Indians have been forced to wind up their business in many cases and those who are still struggling are in decadence. The representation by Indian industries against the Ottawa preferences, is a telling commentary on the equity of the preference. Dr. Meek has sought to explain the difficulty by pointing out that as the U. K. supplies only 54 per cent. of India's raw materials for aluminium industry, the alleged monopoly position is not a reality. It is true that the group of countries supplying India's

total needs, consists of the U. K., U. S. A., Germany, Switzerland, Canada, France and Japan. A reference to the import figures shows that in spite of Japan's depreciated currency, her share in India's imports during 1933-34 is very small. The fact that requires to be noticed is that the U. K. and Canada possess factories in India and offer effective competition to Indian manufacturers. In consequence, as the representation by the Indian industries argues, the very continuance of Indian factories will be in great jeopardy. That the preference on this score should be rescinded from the Ottawa Trade Agreement does not require an elaborate argument.

The effects of the Agreement on the textile industry of India, again, require to be closely studied. It is not possible to any great extent to evaluate the results, for in recent years the expanding requirements of India and the protective tariff have imparted a great stimulus to the industry. The following figures for cotton textile production are likely to prove significant.

**Table LIII**  
Average Monthly Production

	1932 Dec.	1934 Aug.	1935 Janu.	1935 Mar.
Cotton Manufactures (including twist & yarn) (million lbs.)	65.43	63.25	65.73	59.41
Cotton piece goods (million yds.)	295.0	288.8	299.9	277.0

The figures do not indicate that there has taken place any definite expansion. On the contrary some tendency of deterioration is noticeable.

The cases of several other industries like chemicals, leather, metal manufactures etc., require close examination with a view to ascertain the effects of the Agreement on their growth and expansion.



# INDIA'S CHANCES OF COMMERCIAL AGREEMENTS WITH FOREIGN COUNTRIES

## CLAIMS OF THE OTTAWA AGREEMENT AS A COMMERCIAL TREATY

It has been contended in certain quarters that the Ottawa Agreement should not be regarded as a commercial treaty as such, but as an extension of the general tariff relations existing between India and the U. K. It is perhaps more correct to characterise the Agreement as a combination of both, although serving its dual functions unsatisfactorily:

In widening the scope of the already existing preferential relations between India and the U. K. to cover a larger number of commodities, we find that the tariff system thus evolved for India by the Agreement has failed in its objective, not merely by failing to bring about any appreciable expansion in India's export of certain commodities, but by actually proving restrictive in respect of others. Further, the scheme of preferences adopted at Ottawa has not been in the best interests of India's consumers, for it not only tends towards a raising of prices of the imported commodities, in the absence of competitive economic forces, but also tends indirectly to prejudice the economic welfare of the country by holding back the development of national industries. The cases of aluminium and coconut oil in Malabar may be cited.

Again, the purpose of a commercial agreement as such, is, as indicated in the foregoing pages, very poorly served by the Ottawa scheme of preferences. The real basis of a commercial treaty is admittedly an adequate *quid pro quo*. The world over, preferential trading relations have been and are being organized

between countries on a basis of equal and reciprocal advantages. It must be admitted that conditions in India not only provide adequate justification for reciprocal trade agreements with other countries, but also emphatically call for such a course of action to be adopted. We have an abundant supply of raw materials for which we require ever increasing markets within the country and abroad, but as there is not enough scope for the utilisation of such raw materials within the country (most industries being either undeveloped or under-developed), we need to seek outlets for them in foreign markets. As, however, in these days of economic nationalism, almost all the countries have erected or are erecting high tariff walls and taking other steps to protect their industries and agriculture, we have to persuade these countries to come to some sort of mutual agreement with us for buying our goods. On our part, again, we have a large internal market, not yet sufficiently tapped by our national industries and we may, at least during the transition period, offer as a reciprocal gesture some part of our market to the countries agreeing to make some concessions to our export trade.

## ESSENTIALS OF TRADE AGREEMENTS

The primary considerations in contracting a commercial treaty are: (1) whether the results are likely to ensure an equal advantage with the opposite party in regard to expansion of India's export trade; (2) whether or not the tariff arrangements are likely to have any adverse effects on her industries and the customs revenue; (3) whether it is, thereby, likely to cause any undesirable diversion of trade and provoke tariff or political re-actions; (4) to what extent the

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country with whom agreement is sought, is competitive in both Indian and outside markets. It may happen that the particular country is India's rival in other markets in respect of one or more commodities, in which event, an agreement with that country should be so shaped as to provide for a mitigation of the competition; and (5) whether undue complexity is introduced in the administration of the tariff system.

Judged by these criteria, the Ottawa Agreement falls far short. Our industries have been hit, if not actually in all cases, at least potentially; our relations with foreign countries, some of whom have in the past been our best customers, have been strained, largely on account of the agreement. Restrictive measures like quotas, import licensing, etc., have been introduced against India's exports by many states; in consequence, as the foregoing study of the results of the Ottawa Agreement has demonstrated, there has taken place a large diversion of trade from the foreign countries to the United Kingdom with hardly any resultant net expansion of India's exports. Also, the competition of some of the Empire countries in certain commodities in the U. K. market has proved more formidable than India is able to meet. With regard to the tariff system of India, again, considerable complexity and inelasticity have arisen—a fact which not only tends towards shrinkage of customs revenue but also renders the task of contracting commercial treaties with other foreign countries extremely difficult.

Further, as has already been shown, the terms and actual operation of the Ottawa Agreement, with regard to most of the commodities covered by it, are very unsatisfactory. This is so, not only because an adequate *quid pro quo* basis is lacking but also because of the serious risks to which the major portion of India's export trade has been exposed, owing to the unfavourable attitude taken by non-Empire countries. India cannot certainly bestow all her favours on the U. K. and the Crown Colonies and at the same time expect to maintain her foreign trade with the non-

Empire countries against which the preferences granted to British goods serve practically as discrimination. The existing system of international trade is proceeding roughly on the lines of the barter principle and every country is naturally tending to discourage imports from those countries which do not receive its goods in return. Effective measures are being taken, whether by way of exchange control or commercial treaties on quota basis, to regulate imports. The concern felt and expressed by Italy, for instance, in respect of her continued unfavourable trade balance shows how the Ottawa preferences are viewed by certain countries. The decision of the Polish Government, as mentioned in the Report of the Indian Trade Commissioner at Hamburg, to bring pressure to bear on the Polish rice milling industry to effect their rice purchases from those countries which are willing to take Polish manufactures in exchange, gives point to the contention that unless there is an adequate *quid pro quo* in commercial relations, no lasting trade agreement can possibly be maintained.

### DIFFICULTIES IN THE WAY OF COMMERCIAL AGREEMENTS

India, therefore, requires that the terms of the Ottawa Trade Agreement should be revised in such a way as not to restrict the possibility of treaties with other countries, in order to widen the basis of India's trade. But, before I consider the possible lines on which the Ottawa Agreement may be revised, I may consider some of the main difficulties that, under the present conditions, stand in the way of India, entering into commercial agreements with other countries:

1. The extension of the 'most-favoured nation' treatment by India to any country outside the British Empire is likely to be resisted by British commercial interests. In the matter of preferential facilities, it is more often than not very difficult to harmonise India's interests with those of British industry and commerce. India's freedom to act is, therefore, greatly restricted. Again, the principle underlying the Supplementary Steel Agreement has created a danger-

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ous convention which is likely to go a long way to restrict still further, the scope for contracting commercial treaties. The theory of industrial co-operation, which was urged in connection with this Agreement, implies that the less industrialised Empire countries are regarded merely as sources for the supply of raw materials, for the production of finished goods for re-export to the countries of origin. The Steel Agreement contemplated an arrangement by which the Tata Company was to send Indian steel bars manufactured by them to the U. K. to be manufactured there into galvanised sheets and brought again to India for disposal. Such a principle leaves out of consideration the industrial ambitions of a country like India. In this instance, it strikes at the root of the development of the galvanised sheet industry in this country and at the same time, it limits the possibility of treaties with countries like Belgium and Japan, in regard to manufactured iron and steel.

These difficulties will be increased under the new constitutional reforms. The Government of India and the Indian Legislature "will possess complete freedom to negotiate agreements with the United Kingdom or other countries for the securing of mutual tariff concessions", and it will be the duty of the Governor-General, "to intervene in tariff policy or in the negotiation or variation of tariff agreements only, if in his opinion, the intention of the policy contemplated is to subject trade between the United Kingdom and India to restrictions conceived, not in the economic interests of India but with the object of injuring the interests of the United Kingdom". This provision, though innocent on the face of it, implies that only in very restricted circumstances, will the Indian Government be in a position to conclude trade treaties with non-British countries, since, as already indicated, the interests of India are likely to clash with those of the U. K. on almost every occasion. Indeed, with the growing requirements of India's internal and external economy, the inherent conflict between the interests of the two countries is likely to become more pronounced and insistent. Further more, the provision that "when either partner is considering to what

extent it can offer special advantages of this kind to a third country without injustice to the other partner, it will have regard to the general range of benefits secured to it by the partnership, and not merely to the usefulness of the partnership in relation to the particular commodity under consideration at the moment", makes India dependent on the attitude taken up by Great Britain.

2. The large number of commodities, covered by the Ottawa Agreement, which are the principal articles of India's export and import (accounting for about 70 per cent. of India's total export trade and about 34 per cent. of import trade on the average of last two years) obviously throws manifold difficulties in the way of extending preferential facilities to non-preferred countries, so long as the terms of the Ottawa Agreement remain unaltered.

3. Thirdly, the inadequate statistical data relating to the various industries, both large and small, constitute a standing obstacle. Without a full analysis of relevant statistics such as those relating to production, consumption, cost of production etc., no reliable estimates can be made. During the discussions prior to the conclusion of the Indo-Japanese Trade Agreement, the lack of statistical data was keenly felt and the same fact was, in no small degree, responsible for the unsatisfactory terms of the Ottawa Agreement. In fact, the position of the various small industries that owed their origin to the Swadeshi movement, was not considered at all and many other industries were not given the opportunity, nor had they the requisite equipment, to put their cases before the Assembly, while the terms of the Agreement were being considered for ratification. There is a great need for an exhaustive industrial census both for large and small industries as well as for the various cottage industries that are carried on in different parts of the country. In addition, there is also the need for compiling statistics, not merely of foreign trade of India, but also of the foreign trade of other countries with whom agreements are entered into, with special reference to the figures of import of specified commodities into those countries from competitive sources

## INDIA'S CHANCES OF COMMERCIAL AGREEMENTS WITH FOREIGN COUNTRIES

of supply. Unless we are in a position to know the total consumption of a commodity in any particular country and the total importations of that commodity from the various other countries which compete with India, we shall not have at our disposal sufficient facts and figures to enable a correct and conclusive appraisal of a commercial treaty or form any idea of its repercussions on the general economic conditions of the country. The unsatisfactory character of the Ottawa Agreement can, to no small degree, be ascribed to the lack on the part both of the Government of India and the Indian Delegation, of any such detailed information; and the danger of entering into any trade agreement without adequate preparation should be adequately guarded against.

4. Discriminatory protection is the accepted policy of the Government of India, in line with the trend of economic nationalism. Its object is to advance the interests of indigenous industries; and in the negotiation of trade treaties, this object must be kept prominently in mind, so as not in any way to offset the protection granted to our national industries. Unfortunately, the negotiation of any trade treaty is likely to be hampered by the fact that the protection of many Indian industries has been adjusted to the interests of parallel industries in Great Britain. The Indian Legislative Assembly found itself faced with alternatives, the rejection of either of which, would endanger the position of those industries that sought protection. It was, in fact, the woes of the Tata Iron Works that induced the Assembly to agree to preferential duties on certain kinds of iron and steel from the U. K.; for, in case of non-acceptance, the entire protective scheme might have been withheld. Again, it was the woes of the Bombay Mill industry that forced the hands of the Assembly to accept preferential terms on British cotton goods. Thus, when in course of years, many other industries in India come to receive protection, the preferences granted to Great Britain at the same time as a result of this policy, will make it increasingly difficult to effect agreements with other countries who are willing to do so. Alternative opportunities of reciprocal advantage are thereby

likely to be missed. The terms of the Indo-British Trade Agreement, 1935, further corroborate this apprehension.

### REVISION OF THE OTTAWA AGREEMENT NECESSARY

From the foregoing considerations, it will be evident that we need to modify the terms of the Ottawa Agreement in order to foster mutually advantageous trading relations with other countries. At present, most of our eggs are held in a single basket; and so we have no other alternative but to persuade the U. K. to forego certain preferences or accept the condition of equal preferences, or again, to allow intermediate tariff arrangements with other countries in respect of certain commodities. It has been made clear that the Ottawa Agreement has failed in its essential function of ensuring a *quid pro quo* to India in respect of the majority of the commodities included in the Agreement. This alone constitutes a strong reason for a revision. Instances are not wanting for the revision of agreements before running the full period, in view of the circumstances and we may point to the denunciation of quota agreement and subsequent economic war between Germany and France last year, and recently, the raising of the Australian tariff on spinning goods from the U. K. in contravention, even, of the Ottawa Agreement for the purpose of protecting Australian spinning industry. As the working of the Ottawa Agreement during more than two years since January, 1933, has demonstrated, though there has been some increase in the off-take by the U. K. in certain classes of Indian goods, the capacity of the U. K. to absorb Indian goods is not very large. Besides, the preferences granted by the U. K. have either proved, in certain cases, inadequate or have been off-set by certain economic factors. Indeed, in the case of coffee, the preference has proved so insufficient that it has had to lose ground before Costa Rica and Kenya coffee in the U. K. market; the preference on ground-nut has not enabled India to obtain a footing in the U. K. and the same may be said of coconut oil. The preference on India's exports of steel bars in the U. K. market

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has also proved entirely futile. With regard to linseed and linseed oil, again, the advantage that should have accrued from the preference in the U. K. market, has been largely neutralised by the system of drawback which obtains in that country in order to give advantage to the British manufacturers who import these commodities from non-Empire countries, with the purpose of re-exporting their finished goods. Obviously, the British importers of the two commodities under the attraction in the shape of the drawback are induced to turn to non-Empire sources of supply with the result that India's exports to the U. K. are steadily diminishing. The amount of drawback in the case of linseed (plate linseed) is 18s. from the import duty of £1 per ton, while the drawback in the case of linseed oil is £3 per ton out of an import duty of £3-10s. per ton. The other vegetable oils also, which enjoy preference in the U. K. market, have very little chance of benefiting thereby. These are instances in which revision of the terms of the Ottawa Agreement is necessary.

The situation demands that the U. K. should be prepared to forego certain preferences and also to share the same facilities with several other countries. This is the fundamental basis of any trade agreement on the principle of the 'most-favoured nation' treatment. And it is expected that the U. K. already realizes that expansion and consolidation of Indian trade will also react to her advantage. Not only will it help India to meet her obligations to England, but it would also tend to increase the volume of trade with England. This is a consideration that should make revision readily acceptable to Great Britain.

Further, the Ottawa Agreement requires to be so amended so as to ensure full economic justice to India, for, India's continued unfavourable trade balance with the U. K. still remains and is even on the increase, while India's favourable trade balance with non-British countries is steadily diminishing. The following table will speak for itself.

**Table LIV**

**India's Trade Balance**

(In lakhs of Rupees)

	Post-War average	1932-33	1933-34	1934-35
<b>U. K.</b>				
Exports	73.04	37.94	47.20	47.52
Imports	146.43	48.80	47.58	52.75
Trade Balance	-73.39	-10.86	-33	-6.23
<b>Non-British Countries</b>				
Exports	107.62	83.78	67.70	78.50
Imports	228.94	97.69	101.53	103.71
Trade Balance	121.32	13.91	33.83	25.21

India has, of course, to make large payments for the "invisible imports", in the form of services, pension charges and investment profits, etc., but as the general tendency of world trade to-day is for most countries to enter into bi-lateral trade agreements on the basis of reciprocity or barter, it is desirable that the U. K. should increase her imports from India. This is all the more desirable, because India's foreign obligations are mainly with the U. K. and that being so, the only possible means of India meeting those obligations is by means of a trade balance in favour of India. In the existing conditions of world trade, it is too much to expect that, if India's freedom to offer trade facilities to foreign countries remains as fettered by the terms of the Ottawa Agreement as under the existing arrangement, India will be able to obtain an adequate trade balance from her non-British customers to meet her obligations to Great Britain to the extent of about Rs. 100 crores annually. This fact should be given due consideration in determining the future basis of the Agreement now in force.

**CERTAIN CONSIDERATIONS AS PRELUDE TO  
COMMERCIAL AGREEMENTS**

Commercial agreements may be modelled on different lines. They may be classified broadly as follows:—

- (1) Mutually advantageous customs arrangements;
- (2) Preferential terms with some countries as against others;

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- (3) Most-favoured nation treatment which postulates "that any favour or privilege which may, hereafter, be granted either in virtue of autonomous measures or in virtue of commercial conventions in respect of the commodities of any third state whatsoever, shall be extended to the like or similar commodities of the other contracting party", and
- (4) Quota arrangement as regards imports and exports of certain commodities.

At present, India may be said to have entered into three commercial conventions only—first, the Ottawa Agreement; second, the Indo-Japanese Trade Agreement; and third, the Indo-British Trade Agreement. The Bombay-Lancashire Textile Agreement, being a mere commercial understanding between private commercial parties of the two countries, is not strictly a trade pact, though it has been endowed with statutory recognition by the Government of India. The Ottawa Agreement has admittedly been framed on a preferential basis discriminating against other countries. The Indo-Japanese Trade Agreement, again, is an instance of a quota arrangement with regard to India's raw cotton *vis-a-vis* Japanese cotton piece-goods. The underlying principle is obviously barter which is increasingly gaining recognition in bilateral trade conventions among most countries of the world. With regard to the Indo-Japanese Agreement, however, it should be said that as it was concluded under the urge of the immediate necessity of relieving the cotton growers of India, it failed remarkably in taking a longer view of the industrial welfare of the country, inasmuch as it is likely to stunt the growth of cotton textile industries in India. The Indo-British Trade Agreement, again, does not, in principle, postulate any new arrangement or bargain but it places on a contractual basis the existing preferential trade facilities enjoyed by the U. K. in such a way that it almost bars the extension of the same to other countries. The terms of the Bombay-Lancashire Textile Agreement have been given recognition in the Tariff Amendment Act of 1934. Its main purpose

was to ensure a steady market in the U. K. for India's raw cotton and also a preference to British goods consistent with a reasonable margin of protection to Indian industries. The Agreement promises also equal quota benefits for India's cotton piece-goods and yarns with British goods in the overseas markets.

So we find that India has practically contracted only three trade agreements which cannot be said to advance the genuine interests of India. It will, therefore, be in India's interests to model all future treaties on the lines of (1) and (3), namely, mutually advantageous tariff arrangements and most-favoured nation treatment; for, they will not only ensure markets in the contracting countries, but will not also debar the extension of similar treatment to other countries. The absence of real reciprocity in the Ottawa Agreement, and the limitations imposed by it on the scope for agreements with other foreign countries, accentuated further by the Indo-British Trade Agreement, 1934, constitute the greatest charge against it. The barter principle on quota basis may, also be recognised in some cases, as it has been in the Indo-Japanese Trade Convention.

Further, special consideration is to be given to the peculiar position of India as an importer mainly of finished goods and as an exporter of raw materials. India being predominantly an agricultural country and the majority of its export commodities being agricultural products, it should not be taken for granted that she will enter into any trade conventions stipulating exchange of India's raw products only, for manufactured products from other contracting party or parties. India does also export certain manufactured or semi-manufactured articles and detailed consideration of their strength and potential growth and also of the larger economic interests of the country as regards industrial development should be kept in view in any trade negotiation. In this regard, the Indo-Japanese Pact and the Supplementary Steel Agreement are obviously open to criticism. It is, therefore, imperative that India's trade treaties should proceed on an elaborate analysis of the nature of her export trade

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with the various countries. The requirements of our export trade and foreign obligations will largely determine the length to which we may go in offering preferential treatment to the imports of other countries. I propose here to consider only a few cases of our export commodities and the possible lines of approach to the task of devising commercial agreements with the appropriate countries.

There is, besides, another important consideration. We should not allow ourselves to be unduly influenced by the thought of disposing our agricultural products abroad in any manner we can, without adequate regard to the problem of developing our own industries. By a policy of indiscriminate export of raw products, we not only forget the needs of our industries but also indirectly weaken their position by inviting competition of foreign goods to which we have to grant preference for the sake of a larger disposal of our raw materials in foreign countries. That is a perilous method and that way does not lie the industrial salvation of the country. We require always to seek, first, the industrial development of the country and in concluding commercial agreements with any country, we should endeavour to bring about a harmonious adjustment between industry and agriculture. In other words, one should not be sacrificed for the temporary benefit of the other. Ours is a country which does not lack raw materials and is potentially fitted to realise a large measure of economic self-sufficiency. The organisation of our commercial relations with other countries should, therefore, proceed as a part of a larger and comprehensive plan of industrial advancement for the whole of India.

### CERTAIN LINES OF PROCEDURE SUGGESTED.

It is to be recognised that, though India is an agricultural country, the possibility of concluding mutually advantageous treaties with other agricultural countries, provided they are interested in any of India's manufactures or raw products, should not be ruled out. Let us take the case of Ceylon. Under the terms of the Ottawa Agreement though not yet

ratified by her, India enjoys certain preferences on boots and shoes, grains, pulse and flour, leather, iron and steel, cotton twist and yarn, silk manufactures, woollen carpets etc., in her market. In return, Ceylon enjoys preference on oilseeds, coir, coir yarn, mats and mattings, coconut oil, betelnuts etc., in the Indian market. From the list of the articles it is evident that both agricultural and manufactured articles have been included in the terms of Agreement. What is objectionable in the terms is that the granting of preference on coconut oil to Ceylon has not been quite judicious; for, as I have already shown, India's coconut oil industry in the Malabar Coast has been seriously hit by Ceylonese imports. It is certainly illogical to grant a preference on the import of a commodity for the export of which we seek, on the other hand, outlets in another country by securing parallel preference from that country. If our home industry is destroyed, then certainly our foreign market for that commodity cannot exist.

Further, if under the Indo-Japanese Trade Agreement, India agreed to receive cotton piece-goods from Japan up to a certain extent, it would be highly desirable on her part to seek, at the same time, some outlets for her cotton manufactures. Ceylon (which has developed a quota system in regard to imports of cotton piece-goods), other countries bordering on the Indian ocean and certain British colonies in Africa afford large possibilities for the expansion of India's cotton goods trade. Mutual arrangement on a quota basis with some of these countries would have better ensured the growth of India's cotton textile industry. But in all these markets, India's serious competitors are the U. K. and Japan, and so without coming to an understanding with these countries India can hardly hope to push her cotton goods beyond her shores.

### CASES OF CERTAIN COUNTRIES

The above two cases indicate errors against which we should safeguard ourselves and, also the general considerations which require careful attention.

A reference to certain specific countries will make the points clearer. Let us take the case of

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Italy. We find that the major portion of Italy's imports into India is accounted for by machinery, instruments, textiles (cotton, silk and wool) and certain metals, while the major portion of India's exports to Italy consists of raw cotton, raw jute, rice and seeds. During the last few years India has had a favourable balance in her trade with Italy. It is partly due to the Ottawa Agreement that Italy's machinery and textile goods have not been able to compete with similar British goods in the Indian market. In any trade agreement with Italy, India may grant minimum tariff preferences parallel to those granted to the U. K., or if the U. K. dissents, she may at least offer preferences in those varieties of machinery, mill works and textile goods in which the U. K. has no direct interest. The nature of the preference must, of course, be determined by a frank and detailed analysis of the commodities in all their varieties which are imported into India. Any preference granted to Italy in respect of machinery, mill works, motor cars and textile goods will naturally affect Belgium, the U. S. A. and Japan. The terms of preference to Italy should, therefore, be such that if these countries come forward at any subsequent time with corresponding offers of commercial concessions, the self-same facilities may also be extended to them. Thus, eventually a net-work of trade agreements consistent with the interests of each country may be envisaged.

With regard to the contingency of quota arrangements,\* again, it may be pointed out that if, by mutual agreement, a normal year is accepted as a basis of calculation, the agreement is likely not only to ensure a steady maintenance of a normal volume of trade between the two countries, but it may also facilitate the expansion of trade with regard to certain minor commodities in course of time.

In return, Italy may likewise grant preferences either in the form of quotas or of minimum tariff to India's raw cotton, hides and skins, seeds and rice, if necessary. With regard to linseed, groundnuts and castor seeds likewise, Italy may offer certain advantages. Italy has adopted an import license system with

regard to oil seeds and a quota arrangement with regard to hides; and the latest report from the Indian Trade Commissioner, Milan, states that such commodities as jute, cotton, hides, skins, furs, hemp-gums, resins and mica, cannot be imported on a compensatory basis (i.e., against exports from Italy), though the imports of the last four are permitted in unlimited quantities and without licenses. It should be worth while for India to seek preferential facilities to offset the effects of the restrictions that exist. The following figures will illustrate India's position in respect of the importation of seeds into Italy.

**Table LV**

Imports into Italy				
(Quintals' 000)				
	1931	1932	1933	1934
<b>Castor seeds</b>				
British India	103	63	90	52
Total	110	102	116	188
<b>Groundnuts</b>				
British India	1046	472	662	1465
China	168	145	106	120
Total	1222	635	835	1878
<b>Linseeds</b>				
British India	170	119	177	132
Argentine	381	514	537	462
Total	...	686	750	645

(These figures have been supplied by the courtesy of the Royal Consul General for Italy).

It will be evident that India's position with regard to castor seeds and groundnuts is quite strong but in Argentine India has a most formidable rival for linseed in the Italian market.

Let us consider another case, France. The following are the main commodities in which, from time to time, we are mutually interested.

Exports from France	Exports from India
Drugs and medicines	Coffee
Dying & Tanning substances	Jute-raw and manufactured
Provisions	Cotton raw
Rubber Manufactures	Manganese ore
Woollen Manufactures	Oil seeds.

\* The advantages and disadvantages of quota system as a method of regulating foreign trade are discussed in Appendix "C".



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India may grant preferential treatment, if, of course, it is sought with corresponding offer of preference, to France with regard to some of the commodities. With regard to provisions, the Ottawa Agreement does not allow much scope for preferences, but it is not impossible to come to an understanding with the U. K. on this subject. As regards tanning substances, some sort of arrangement may be made with due safeguard to Indian myrobalans. In respect of all the commodities mentioned, their statistical position and bearings on India's economy should be examined thoroughly before any form of preference is granted. Such arrangements are imperatively necessary for the simple reason that otherwise India's exports to France are likely to go on decreasing. Already quota restrictions have been imposed by the French Government in respect of commodities like coffee, linseed, rice, etc. In respect of coffee, for instance, France has granted quota preference to Brazil which further enjoys "minimum" tariff treatment for most of its products imported by France. The result of this preferential treatment is shown in the following figures.

**Table LVI**  
**Import of Coffee into France**  
Quintals (000)

	1931	1932	1933	1934
British India	41	31	30	30
Brazil	1225	972	1008	728

(These figures have been supplied by the courtesy of the Trade Commissioner for France).

It would appear that, in order to safeguard the French market for India's oilseeds, some understanding would be desirable. But, as France's total export trade with India hardly exceeds Rs. 3 crores, she is not likely to evince much eagerness to come to terms with India in this instance. But if the Indo-Irish trade agreement which is reported to be nearly complete, is considered worth the trouble, then there is no reason why France will not fall in, if certain mutual advantages can be arranged.

The necessity of a mutual agreement on a quota or some other basis, with Germany is also urgent. Her measures of exchange control and import restrictions are proving disastrous to India's exports. Mr. S. N.

Gupta's latest report to which a reference has already been made, gives cause for concern, inasmuch as it reveals that imports of jute manufactures are steadily dwindling in that country. An agreement with Germany is also necessary in regard to hides and skins.

It is understood that Mr. K. G. Dutt, as a representative of a number of Indian firms, was for some time past engaged in negotiating with the German Government on the question of trade debts and the future basis of trade with India. He is of opinion that a normal basis for future trade seems almost impossible at present except on a basis of barter. It suggests that negotiations between the Government of India and that of Germany should be opened for a special trading agreement of a kind which many other countries have with Germany. Otherwise, our exports to that country are bound to suffer severely.

### AGREEMENTS ON PURELY ECONOMIC BASIS - MORE BENEFICIAL TO INDIA

We have suggested certain lines of approach to the task and certain considerations to be kept in view in negotiating commercial treaties. No doubt an exhaustive survey of the whole trade position will be necessary as a preliminary to any commercial treaty and the details of the agreement will be determined by the Governments concerned with due regard to the implications to their general trade relations with other countries; but the fundamental consideration should be an approximately equal benefit to both contracting parties. Political considerations should not be allowed to play an important part in shaping the economic relations of India with other countries. It need hardly be stressed that India will gain immensely, if she is allowed to regulate her commercial relations purely on an economic basis. India cannot possibly expect that more than 50 per cent. of her export trade, which is shared by non-Empire countries, will remain as it is to-day, while she takes measures that curtail her imports from the countries who account for the major portion of her foreign trade. In a world of regulated commerce, it is, indeed, too much to hope that India's trade will remain intact without conscious planning.

## INDIA'S CHANCES OF COMMERCIAL AGREEMENTS WITH FOREIGN COUNTRIES

### REFERENCE TO CERTAIN TRADE AGREEMENTS

The U. K. though forming the nucleus of the Ottawa Agreements, has concluded many treaties with other non-Empire countries. She has entered into treaty relations not only with India and other Empire countries but also with France, Soviet Russia, Germany, Argentine, Denmark and many others. Apart from large nations, even small countries like Yugoslavia, Czechoslovakia, etc., are in treaty relations with other large and small countries. An examination of the terms of the various agreements and treaties reveals that no uniform principles and methods have been followed. Taking the case of the U. K. for instance, we find that while she has granted preferential tariff facilities to Dominions and other Empire countries, she has at the same time made quota arrangements with France. In her relations with Argentine again, while she has offered preferences in certain goods, she has also taxed the imports of linseed to the extent of 10 per cent. At the same time she has granted 10 per cent. preference to India's linseed. So we find that every country adopts measures to suit the requirements of its foreign trade.

For our purpose, we may take at random the example of the Commercial Agreement between France and Soviet Union, which commenced operating in January, 1934. Under the Agreement France grants "minimum" tariff treatment to certain kinds of Soviet products (in some cases for a specified quota of goods only) and "intermediate" rates in respect of certain others. For certain goods, subject to quota restrictions in France, the Soviet Union is granted a specified percentage of the total quotas allotted; among the goods affected by this provision there are certain agricultural products also, in addition to manufactures. The Soviet Union is to receive "minimum" tariff treatment for all goods subject to French quota restrictions and it is provided, in addition, that when a quota is divided among supplying countries, the Soviet Union is to receive her equitable share to be fixed by agreement; this share is not to be based on a

period during which the Soviet Union was not importing into France, under conditions equal to those enjoyed by other countries. Where licenses are required, the Soviet Union is to benefit from the conditions generally applied to other countries. France undertakes not to apply in her Colonies or mandated territories measures specifically directed against the Soviet Union, by way of exception to a general rule.

### HOW INDIA MAY PROCEED.

From the terms of this treaty we may as well take a lesson. At the present stage of India's industrial growth and the possibilities for further development, it has become necessary to cry a halt to the imports of certain manufactured commodities. Cotton textiles are easily the most outstanding instance. While we are anxious to expand our markets abroad for our products, we cannot at the same time be very niggardly towards imports from our customers. So what we would do well to do is to fix quotas, whenever found advantageous, of our imports in certain commodities and distribute them among the various countries on the basis of a normal year. This will not only prevent further influx of foreign goods, weakening our industries, but will also ensure to the various countries their normal share of trade with India and at the same time afford wide scope for our industries to plan development for meeting our national requirements. This is applicable not only to cotton textiles, but also to such other manufactured imports like machinery and mill works etc. Such practices have been developed in many countries and an examination of the treaty between France and Soviet Russia just referred to, will testify to it. Even the example of the economic policy of a country like Persia points to the general tendency towards quota arrangements. Persia has made quota arrangements with regard to imports of tea and spices, except from Soviet Russia. Recently it has also issued a new list of import quotas for cotton cloth for one year. The order applies to goods imported into Persia from all countries except Soviet Russia, which means, in effect, that the importation of all cotton piece-goods except sewing thread from

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those countries has been restricted. The significant fact in this connexion is that while in 1925, the U. K., in combination with India, shared approximately 90 per cent. of Persia's imports of cotton goods, their share in 1933 has been greatly reduced. The loss to India is likely to be serious, for, next to Ceylon, Persia was the largest customer for India's piece-goods and took in 1933, over 5,000,000 lbs. of yarn. This instance effectively proves the weakness of India's export trade in the absence of adequate trade understanding with foreign countries. It also urges the pressing necessity of contracting trade agreements with a large number of countries—both large and small, in order to widen the basis of our foreign trade in manufactures and raw products as well as to ensure stability and strength.

### EXISTING INDIAN TARIFF BOARD UNSUITABLE FOR INDIA'S RISING NEEDS

As I have already emphasized, a systematic and comprehensive collection of statistical data relating to all industries in India, as well as agriculture, trade and commerce, is an essential pre-requisite for the negotiation of commercial treaties with other countries. While it is to be admitted that the Department of Commercial Intelligence and Statistics is an agency which can considerably help in the matter by providing requisite statistics and commercial intelligence, the discerning agency should be a separate body that should be set up on the lines of a Tariff Board with enlarged scope, capacity and efficiency. The Indian Tariff Board, as at present constituted, is not competent to deal with the problems that I have outlined in the foregoing pages. The present function of the Tariff Board is admittedly very limited, its main concern being to examine certain cases of industries that may be referred to them by the Government of India for detailed investigations for the purpose of granting protection. Evidently a Tariff Board of such restricted scope is unsuitable for India's growing needs. A study of the Tariff Boards of countries like Australia and the U. S. A. will convince one of the necessity for considerable overhauling of the organisation of India's Tariff Board. Let us consider one

instance only, namely, the Tariff Board of Australia. It is a statutory body and has, at the instance of the Minister of Trade and Customs, to enquire and report on matters relating to

- (1) Classification and valuation of goods etc.
- (2) Proposals for new, increased, reduced or deferred duties;
- (3) Granting and effects of bounties.
- (4) The intermediate and preferential Schedules.
- (5) Any complaint against manufacturers abusing the state aid afforded to them by the tariff;
- (6) The general effects of the working of the customs and excise tariff on the industries of the country;
- (7) The fiscal and industrial effects of the customs laws;
- (8) The relative effects of the duties on raw materials and on finished goods and partly finished goods; and
- (9) Any other matter affecting the encouragement of industries.

In the matter of (6) and (9), the Board is given power to exercise its own initiative for enquiry. On the lines of the scope and function exercised by the Australian Tariff Board, the India's Tariff Board also may be remodelled. Men of no political bias and of the requisite efficiency such as knowledge and experience of the working of India's tariffs, of the tariff systems of other countries and also of the work of international and Imperial conferences dealing with economic questions, should form the Board which should be a permanent body. The main function of the Board will be to investigate and report on special questions relating to tariff and industry such as cases of dumping, schemes of imperial preferences or Empire Trade Agreements, complaints against the abuse of the protective system by manufacturers. This will ensure a specialised study of the requirements of India's trade, industry and commerce, and at the same time, the timely adoption of requisite measures calculated to further India's economic welfare.

## SUMMARY OF CONCLUSIONS AND SUGGESTIONS \*

1. The Ottawa Agreement has proved restrictive in practice. It has tended to shut out imports from non-preferred countries and *pari passu* to diminish India's exports to those countries, who form its largest group of customers.
2. India's gain is problematical and inconsiderable, accentuating the unfavourable trade balance with the U. K., while the benefit to the United Kingdom has been much more definite and considerable.
3. It has given rise to or encouraged restrictive measures either in the form of quota systems or tariffs on the part of those countries whose exports into India have been affected by the preferences granted by India to the United Kingdom.
4. In consequence, the tendency has been to divert India's foreign trade away from the non-preferred countries. Though during the first year of the working of the Ottawa Agreement, India's total volume of export trade with the U. K. advanced to a certain extent, the advance is not likely to be maintained, and it has not been maintained in 1934-35, if the tendency towards recovery in world trade does not persist; on the other hand, India's exports are likely to decline (in view of 3 and 4), or at least, they are not likely to advance at the same rate as those of other countries. This arises chiefly out of the fact that the capacity of the United Kingdom to absorb India's exports is limited and the restrictions applying to India's trade with the U. K. retard expansion of her trade with other countries.
5. It has reduced the margin of protection required for or enjoyed by India's industries and is tending to act as a brake to their progress.
6. Though the prices of imported articles have not marked a considerable increase (mainly due to exceptional circumstances referred to in earlier chapters), there is no mistaking the fact that in certain cases India has had to pay a higher price and in future the tendency is towards higher prices for imported articles than may be warranted by any trade recovery in the world.
7. It has rendered difficult, if not impossible, for India, to negotiate mutually advantageous trade agreements or preferences with other countries, for the large number of commodities, included within the terms of the Ottawa Agreement, afford small scope for granting preferences to countries outside the Empire ring.
8. Economically India has been more or less isolated by the Agreement from the world outside the Empire, a position which is economically unsound.
9. It will tend unduly to increase India's economic dependence upon Great Britain, and the political repercussions of such a position are likely to be undesirable.
10. In the Empire markets, preference has not helped India to maintain or to recover ground against the United Kingdom or other parts of the Empire. In every case where India has had to compete with any Empire country, she has invariably lost ground. (*Vide* India's trade position in Ceylon, Kenya, etc.).
11. India's percentage share in the total trade of the world, in export and import, has tended to diminish, while several other countries of the Empire

\* The author in his monograph entitled "Ottawa Agreement and India," published on November, 1, 1932, came to almost identical conclusions as regards the probable effects of the Ottawa Agreement on India's trade, commerce and industry.

## SUMMARY OF CONCLUSIONS AND SUGGESTIONS:

have reaped a greater proportionate benefit from improving world conditions. (*Vide* Appendix 'A').

12. India's foreign trade calls for substantial revision of Ottawa Agreement to allow of trade agreements with other countries.

13. England offers only limited trading opportunities and, therefore, she should not restrict expansion of India's trade with other countries, especially as India needs large favourable trade balance to fulfil her foreign obligations, which cannot be met by means other than general extension of India's trade. India's foreign obligations being largest with the U. K., it is incumbent on the latter to increase materially her importations from India.

14. Commercial agreements are necessary in the existing conditions of world trade and require to be contracted with other countries on the lines of—

(a) mutually advantageous tariff and quota arrangements, and

(b) 'most favoured nation' treatment.

15. Need for a machinery to watch and examine conditions of India's trade, industry and commerce with a view to taking measures for their improvement, including initiation of trade agreements. The existing Tariff Board may be reconstituted to this end, by enlarging its scope, efficiency and personnel.

16. Economic statistics relating to India's trade and industries must be expanded, made more reliable up-to-date and detailed.

# APPENDICES

## APPENDIX A

### INDIA'S TRADE VIEWED AGAINST THE BACKGROUND OF WORLD TRADE

**Table I**

Percentage Share in the Total Trade  
of the World

	1929	1932	1933	1934
U. K.	13.1	13.2	13.6	13.9
Canada	3.7	3.3	2.9	3.2
India	3.0	2.6	2.7	2.6
South Africa	1.3	1.8	1.9	1.9
Australia	1.9	1.7	1.9	1.9
New Zealand	.7	.7	.7	.8
U. S. A.	13.8	—	9.9	9.5
Japan	2.9	2.8	3.1	3.3
France	6.2	7.2	7.6	6.9
Belgium	2.8	3.2	3.3	3.2
Netherlands	2.8	3.2	3.2	3.0
Argentina	2.5	2.4	2.1	2.2
Italy	2.8	2.9	2.9	2.8
Denmark	1.3	1.2	1.5	1.4

**Table II**

Percentage Share in the Total Export  
Trade of the World

	1929	1932	1933	1934
U. K.	10.7	10.0	10.37	10.5
Canada	3.7	3.8	3.6	4.0
India	3.5	2.8	3.0	3.0
South Africa	1.4	2.5	2.5	2.1
Australia	1.8	2.1	2.4	2.1
New Zealand	0.8	0.8	0.9	1.0
New Foundland	0.1	0.2	0.2	0.1
U. S. A.	15.6	12.2	10.9	11.0
Japan	2.9	2.8	3.1	3.3
France	6.05	6.0	6.2	6.2
Belgium	2.7	3.0	3.3	3.3
Netherlands	2.4	2.6	2.5	2.5
Argentina	2.8	2.6	2.4	2.5
Italy	2.4	2.7	2.7	2.4
Denmark	1.3	1.6	1.5	1.4

**Table III**

Percentage Share in the Total Import  
Trade of the World

	1929	1932	1933	1934
U. K.	15.2	16.3	16.6	17.1
Canada	3.7	2.8	2.3	2.6
India	2.6	2.5	2.3	2.4
South Africa	1.2	1.2	1.4	1.7
Australia	2.0	1.3	1.5	1.7
New Zealand	0.7	0.6	0.5	0.6
New Foundland	9.1	0.1	0.1	0.1
U. S. A.	12.2	9.5	9.0	8.1
Japan	2.8	2.8	3.0	3.3
France	6.4	8.4	8.9	7.5
Belgium	2.8	3.2	3.3	3.1
Netherlands	3.1	3.8	3.9	3.5
Argentina				
Italy	3.2	3.0	3.1	3.3
Denmark	1.3	1.5	1.5	1.4

From the tables it will be evident that India's share in the total trade of the world, though marking a very slight improvement on the basis of 1932, has not advanced to any extent that matters. With the exception of a very few countries, all other countries as shown in the tables, have succeeded in considerably improving their trade position much more than India. Besides, it will be found that while all countries, excepting Canada, have more than regained their position in world trade during the pre-depression year, 1929, India's foreign trade still falls far short of her relative position in 1929. This fact is likely to be an effective answer to the question whether the Ottawa Agreement which came into force early in 1933, has proved of real benefit to India.

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## APPENDIX B

### STATISTICS OF INDIA'S FOREIGN TRADE WITH SOME PRINCIPAL COUNTRIES

**Table I**  
India's Import Trade

	1932 Rs. (in lakhs)	1933 Rs. (in lakhs)	1934 Rs. (in lakhs)	1932-33 Rs. (in lakhs)	1933-34 Rs. (in lakhs)	1934-35 Rs. (in lakhs)
U. K.	48.64	47.54	51.17	48.80	47.59	53.75
Canada	34	52	1.02	34	69	41
Australia	83	1.30	90	1.07	1.03	97
South Africa	19	23	26	19	26	25
Total Br. Empire	59.31	57.78	61.99	59.36	57.71	65.45
Germany	10.44	8.69	9.74	10.39	8.89	10.12
France	2.08	1.55	1.52	2.04	1.51	1.53
Italy	3.95	2.95	3.05	3.95	2.91	3.01
Japan	19.28	16.45	19.64	20.48	16.36	20.80
Netherlands	1.76	1.86	1.31	1.69	1.82	1.29
Belgium	3.23	2.80	2.20	3.42	2.66	2.16
U. S. A.	11.42	7.21	8.49	11.25	7.18	8.40
<b>Total Import :</b>	<b>1,33,66</b>	<b>1,16,04</b>	<b>1,26,43</b>	<b>1,32,58</b>	<b>1,15,38</b>	<b>1,32,25</b>

**Table II**  
India's Export Trade

	1932 Rs. (in lakhs)	1933 Rs. (in lakhs)	1934 Rs. (in lakhs)	1932-33 Rs. (in lakhs)	1933-34 Rs. (in lakhs)	1934-35 Rs. (in lakhs)
U. K.	36.97	43.57	48.10	36.96	47.21	47.53
Canada	1.62	1.75	1.64	1.63	1.88	1.63
Australia	4.00	3.08	2.64	3.88	2.98	2.71
South Africa	1.26	1.21	1.38	1.24	1.20	1.42
Total Br. Empire	61.70	64.06	68.23	59.79	68.15	68.37
Germany	8.08	8.82	7.60	8.59	9.84	6.99
France	7.93	8.04	5.02	8.08	7.37	5.26
Italy	4.79	5.62	5.58	4.66	5.75	5.73
Japan	11.67	14.00	21.68	13.95	12.01	24.14
Netherlands	4.13	3.88	3.10	4.13	4.21	2.53
Belgium	3.90	4.26	4.09	4.02	4.08	4.23
U. S. A.	10.15	13.35	12.10	9.77	14.07	12.87
Argentina	2.59	2.48	2.59	...	..	..
<b>Total Export :</b>	<b>1,34,63</b>	<b>1,44,05</b>	<b>1,48,00</b>	<b>1,32,41</b>	<b>1,46,31</b>	<b>1,51,24</b>

**Table III**

Percentage Shares of Countries in the Total  
Import Trade of India

	1932	1933	1934	1932-33	1933-34	1934-35
U. K.	36.4	41	40.5	36.8	41.2	40.6
Canada	.3	.4	.8	.3	.6	.7
Australia	.6	1.1	.7	.8	.9	.8
South Africa	.1	.2	.2	.1	.2	.2
Total Br. Empire	44.4	49.9	49	44.8	50	49.4
Germany	7.8	7.4	7.7	7.8	7.7	7.7
France	1.6	1.3	1.2	1.5	1.3	1.1
Italy	2.9	2.5	2.4	3	2.5	2.3
Japan	14.5	14.2	15.6	15.4	14.2	15.7
Netherlands	1.3	1.6	1.04	1.3	1.6	.9
Belgium	2.4	2.4	1.8	2.6	2.3	1.6
U. S. A.	8.6	6.2	6.7	8.5	6.2	6.4

**Table IV**

Percentage Shares in the Total Export  
Trade of India

	1932	1933	1934	1932-33	1933-34	1934-35
U. K.	27.5	29.9	32.5	27.9	32.2	31.4
Canada	1.2	1.2	1.1	2.2	1.3	1.1
Australia	3	2.1	1.8	2.9	2	1.7
South Africa	.9	.8	.9	.9	.8	.9
Total Br. Empire	45.8	44.5	46.1	45.1	46.2	45.2
Germany	6.4	6.1	5.1	6.5	6.5	4.6
France	5.9	5.6	3.4	6.1	4.7	3.5
Italy	3.6	3.5	3.7	3.5	3.9	3.7
Japan	8.7	9.7	14.6	10.5	8.6	16.0
Netherlands	3.1	2.7	2.1	3.1	2.4	1.7
Belgium	3	3	3.4	3	3	2.8
U. S. A.	7.5	9.3	8.4	7.4	9.5	8.5
Argentina	1.9	1.7	1.7	...	...	...

# APPENDICES

## APPENDIX C

### A NOTE ON TRADE BARRIERS

Some forms of trade barriers, mainly in the nature of tariffs, existed even when the system of free trade was widely prevalent. But the economic depression has led to a marked intensification and diversification of these barriers in recent years. The diminishing trade balances in the case of most countries induced measures of conscious regulation of foreign trade and exchanges with the result that international trade relations of all countries have been disturbed. The forces of economic nationalism have been working all the while and have now joined hands with the governmental measures to regulate imports, so as to turn out an enlarged favourable trade balance. The result has been increasing burdens on international trade. In devising ways and means to ward off the reactions of the economic policies pursued by the various countries, no nation could afford to depend on the inter-play of economic forces, but were compelled to undertake make-shift measures, which only tended to make things worse for them. Mr. S. R. Beale, in his presidential address at a meeting of the Association of British Chambers of Commerce at Norwich, very aptly remarked: "In their struggles to emerge from the period of almost unprecedented slump, the nations of the world, using all sorts of expedients to try to ease their troubles seem to the onlooker largely to have forgotten that while an expedient may tide those in difficulty over immediate troubles, a policy that ignores economic principle, must, sooner or later, bring further trouble in its train." In fact, restrictions on trade imposed in one country led to the adoption of counter-vailing measures in others in self-defence, with the result that no consistent policy aiming at general improvement of the situation could be pursued. The trade barriers which have so far been devised are of many varieties; but they may be classified under three broad categories, namely,

(a) General restrictions on imports or exports;

(b) Quantitative regulation of imports or exports;

and (c) Barter and clearing agreements.

(a) *General Restrictions.*—In this group, the chief instrument is the tariff which is regulated in accordance with the principle whether imports from a particular country or countries have to be discouraged or encouraged. The ideal of economic self-sufficiency has induced almost all countries to raise the tariff, to curtail imports of food stuff and raw materials as far as possible. So there is a general tendency for rising protective tariffs in all countries. Besides, in order to offset the reactions of depreciated currencies, many countries have had to raise tariff walls to protect indigenous industries.

While countries may individually pursue such a policy, there are groups of countries which have agreed to raise tariffs against outsiders in respect of specified commodities for the sake of their own mutual advantage. The scheme of preferences agreed upon at Ottawa partakes of the nature of such a tariff system. France and Italy also are following the same tariff policy in their trade relations with their respective colonies.

Other varieties of tax in the form of monopoly tax, license, *advalorem* primage duty, import certificate, etc., serve also as general restrictions. Germany has imposed a monopoly tax on the exports of rice and oilseeds from India, and they are also subject to license in France and Italy. In Denmark also India's rice, coffee, tea, hides and skins and groundnuts are subjected to license. In Ireland, again, imports of linseed cakes are prohibited except under license.

(b) *Quantitative regulation of imports.*—Quantitative regulation of imports is effected mainly by



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prohibitions, quotas and exchange control. License system also is employed for the purpose, but quotas and exchange control are the most patent methods of quantitative regulation of import trade. Countries with complicated currency troubles usually take to the method of exchange control and in modern days Germany is a remarkable example. In order to strictly regulate imports, Germany devised the system of doling out foreign exchanges to the intending importers, imposing thereby a definite check on imports from foreign countries. This practice may temporarily enable the conomic system to work, but it stores up troubles for the future.

Tariff walls, exchange control and license system no doubt regulate imports to a great extent, but quotas are the most effective weapons for the purpose and this effectiveness explains why it is being widely employed all over the world. Tariffs aim at regulation but quotas fix the exact quantity of imports allowable. But there are certain difficulties which render the quota system not practicable in all countries. A quota system requires elaborate governmental interference with the import trade. If any loopholes remain or if the administrative staff is inefficient, the object of the quota, namely the quantitative regulation of imports is sure to become defeated. One of the main arguments against quota is that it involves expensive governmental control which does not fit in with the administrative organizations of many countries, and indeed, in many cases the adoption of the quotas may render the entire system unworkable. France is the country which has developed the quota system most widely, but a recent report states that the cabinet has come to the conclusion that "the quota system makes extremely difficult the conclusion of commercial agreements conducive to the increase of France's foreign trade," and has, therefore, decided upon the creation of a tariff council on the model of the British Import Duties Advisory Committee, in order to revise the quota system. This goes to show that France has not yet been able to successfully adapt the system to her economy.

From the standpoint of consumers, it is stated that the quota system does not tend to raise the price so much as the tariff, for unless the quota is quite drastic, it directly cuts down the imports without entailing a burden on the producers and necessarily on the consumers. A tariff, on the other hand, tends to raise the price of the imported commodity or commodities by the higher margin of the duty. It is to be, however, admitted that as far as the interest of the consumers is concerned, a low import duty is better than a drastic quota which may not only lead to the deterioration of economic efficiency within the country, but also may provoke counter measures in other countries against the exports of the country adopting the quota system. Mr. Clucas, the President of the Manchester Chamber of Commerce observed in course of his address at the last half-yearly meeting that "it (quota) has not been accompanied by disadvantage to the consumers to anything like the extent which its critics foretold, and indeed the consumers will benefit from it in the long run. It has certainly been of great benefit to the Lancashire industry at a time of crisis." England has, under the 1933 Marketing Act, adopted the system of quota with regard to hops, milk, pigs, bacon and potatoes. If England has benefitted by the measure, as indicated by Mr. Clucas, it is because, England has not developed the system to such great lengths as France has done. The case for quotas is, therefore, that it may conduce to advantage to trade, if it is employed judiciously and to some extent sparingly. If other countries adopt the system widely, it is necessary that India should also participate in the system and obtain as much advantage from it as is possible, in consonance with the interests of her national economy.

Many commodities of India's export are subject to quota restrictions in foreign countries. For instances, all commodities are subject to quota regulation in Spain, oilseeds and gums and resins in France, hides in Italy, tea in Turkey and cotton goods and tea in Persia. India may not stand, at present, in great need of imposing quota restrictions on certain imports, but it is desirable on her part to seek quota

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preferences in those markets which offer possibilities for her manufactures.

(c) *Barter and Clearing Agreements.*—These forms of trade restrictions aim at direct exchange of commodities between two countries. Financial liabilities which can not be discharged in the usual course of mutual trade are sought to be met by special clearing agreements. Germany has had to make such arrangements on account of her liabilities with a number of countries. The barter principle is, of course, the basis of such arrangements. The Indo-Japanese Trade Agreement is the only instance in which India has adopted the barter principle.

The foregoing consideration of the main forms of trade restrictions drives home one important point and that is the desirability of adopting such measures as are necessary to offset the reactions of the economic policies of other countries on India's foreign trade. Many of the restrictions which are hampering India's exports abroad may have been adopted by the respective countries under the pressure of circumstances and not as retaliatory measures provoked by the Ottawa Agreement; but there is no doubt that the Agreement has provided a good plea for stiffening the attitude of many countries and for actually undertaking measures exercising a restrictive influence on India's exports.

### APPENDIX D

#### "EMPIRE TRADE BEFORE AND AFTER"

(*Empire Trade Supplement of the "Economist," November 3, 1934.*)

Sir George Schuster, ex-Finance Member of the Government of India, contributed some time ago a valuable article under the caption: "Empire Trade Before and After", as a supplement to the "Economist" of the 3rd November, 1934. This study of Empire trade as a whole, is significant at the present hour, in view of the growing interest that is being evinced in the working of the Ottawa Agreement. Sir George has taken a very long period view of Empire trade and compressed in his study the "trends" and tendencies of the trade of each principal country within the Empire, analysing them with the help of a mass of data that has indeed rendered the study very interesting and at the same time illuminating.

Sir George Schuster has himself admitted that the study was undertaken with only "a modest purpose" and that "it did not set out to defend any particular thesis or to reach final conclusions." Yet, against a wide back-ground he has set the picture of Empire

trade and drawn certain conclusions. I propose here to consider some of his conclusions—both with regard to their contents and the methods whereby those conclusions were reached.

The main conclusions, as far as India is concerned, emerging from his detailed study, are the following:—

1. For the Empire countries, the U. K. has proved to be the steadiest export market. So "the more a country has been dependent on foreign markets, more acutely has it felt the depression and the slower is its recovery proving".
2. "The Ottawa preferences have been of direct and immediate benefit to India."
3. Rationalization of Empire production is likely to conduce to the substantial advantage of Empire countries.

1. The first of these has been based on the following statistics:

#### India's Foreign Trade. (in £ millions.)

	From or to the United Kingdm		From or to other Empire Countries		From or to the Foreign Countries	
	Imports	Exports	Imports	Exports	Imports	Exports.
1913	83.39	38.93	7.27	24.06	36.88	103.02
1924-29 (Average)	91.98	59.14	14.54	37.44	81.59	164.15
1931	35.99	33.64	9.02	20.07	52.96	67.19
1933	35.99	34.93	7.67	15.76	43.42	59.03

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prohibitions, quotas and exchange control. License system also is employed for the purpose, but quotas and exchange control are the most patent methods of quantitative regulation of import trade. Countries with complicated currency troubles usually take to the method of exchange control and in modern days Germany is a remarkable example. In order to strictly regulate imports, Germany devised the system of doling out foreign exchanges to the intending importers, imposing thereby a definite check on imports from foreign countries. This practice may temporarily enable the conomic system to work, but it stores up troubles for the future.

Tariff walls, exchange control and license system no doubt regulate imports to a great extent, but quotas are the most effective weapons for the purpose and this effectiveness explains why it is being widely employed all over the world. Tariffs aim at regulation but quotas fix the exact quantity of imports allowable. But there are certain difficulties which render the quota system not practicable in all countries. A quota system requires elaborate governmental interference with the import trade. If any loopholes remain or if the administrative staff is inefficient, the object of the quota, namely the quantitative regulation of imports is sure to become defeated. One of the main arguments against quota is that it involves expensive governmental control which does not fit in with the administrative organizations of many countries, and indeed, in many cases the adoption of the quotas may render the entire system unworkable. France is the country which has developed the quota system most widely, but a recent report states that the cabinet has come to the conclusion that "the quota system makes extremely difficult the conclusion of commercial agreements conducive to the increase of France's foreign trade," and has, therefore, decided upon the creation of a tariff council on the model of the British Import Duties Advisory Committee, in order to revise the quota system. This goes to show that France has not yet been able to successfully adapt the system to her economy.

From the standpoint of consumers, it is stated that the quota system does not tend to raise the price so much as the tariff, for unless the quota is quite drastic, it directly cuts down the imports without entailing a burden on the producers and necessarily on the consumers. A tariff, on the other hand, tends to raise the price of the imported commodity or commodities by the higher margin of the duty. It is to be, however, admitted that as far as the interest of the consumers is concerned, a low import duty is better than a drastic quota which may not only lead to the deterioration of economic efficiency within the country, but also may provoke counter measures in other countries against the exports of the country adopting the quota system. Mr. Clucas, the President of the Manchester Chamber of Commerce observed in course of his address at the last half-yearly meeting that "it (quota) has not been accompanied by disadvantage to the consumers to anything like the extent which its critics foretold, and indeed the consumers will benefit from it in the long run. It has certainly been of great benefit to the Lancashire industry at a time of crisis." England has, under the 1933 Marketing Act, adopted the system of quota with regard to hops, milk, pigs, bacon and potatoes. If England has benefitted by the measure, as indicated by Mr. Clucas, it is because, England has not developed the system to such great lengths as France has done. The case for quotas is, therefore, that it may conduce to advantage to trade, if it is employed judiciously and to some extent sparingly. If other countries adopt the system widely, it is necessary that India should also participate in the system and obtain as much advantage from it as is possible, in consonance with the interests of her national economy.

Many commodities of India's export are subject to quota restrictions in foreign countries. For instances, all commodities are subject to quota regulation in Spain, oilseeds and gums and resins in France, hides in Italy, tea in Turkey and cotton goods and tea in Persia. India may not stand, at present, in great need of imposing quota restrictions on certain imports, but it is desirable on her part to seek quota

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preferences in those markets which offer possibilities for her manufactures.

(c) *Barter and Clearing Agreements.*—These forms of trade restrictions aim at direct exchange of commodities between two countries. Financial liabilities which can not be discharged in the usual course of mutual trade are sought to be met by special clearing agreements. Germany has had to make such arrangements on account of her liabilities with a number of countries. The barter principle is, of course, the basis of such arrangements. The Indo-Japanese Trade Agreement is the only instance in which India has adopted the barter principle.

The foregoing consideration of the main forms of trade restrictions drives home one important point and that is the desirability of adopting such measures as are necessary to offset the reactions of the economic policies of other countries on India's foreign trade. Many of the restrictions which are hampering India's exports abroad may have been adopted by the respective countries under the pressure of circumstances and not as retaliatory measures provoked by the Ottawa Agreement; but there is no doubt that the Agreement has provided a good plea for stiffening the attitude of many countries and for actually undertaking measures exercising a restrictive influence on India's exports.

### APPENDIX D

#### "EMPIRE TRADE BEFORE AND AFTER"

(*Empire Trade Supplement of the "Economist," November 3, 1934.*)

Sir George Schuster, ex-Finance Member of the Government of India, contributed some time ago a valuable article under the caption: "Empire Trade Before and After", as a supplement to the "Economist" of the 3rd November, 1934. This study of Empire trade as a whole, is significant at the present hour, in view of the growing interest that is being evinced in the working of the Ottawa Agreement. Sir George has taken a very long period view of Empire trade and compressed in his study the "trends" and tendencies of the trade of each principal country within the Empire, analysing them with the help of a mass of data that has indeed rendered the study very interesting and at the same time illuminating.

Sir George Schuster has himself admitted that the study was undertaken with only "a modest purpose" and that "it did not set out to defend any particular thesis or to reach final conclusions." Yet, against a wide back-ground he has set the picture of Empire

trade and drawn certain conclusions. I propose here to consider some of his conclusions—both with regard to their contents and the methods whereby those conclusions were reached.

The main conclusions, as far as India is concerned, emerging from his detailed study, are the following:—

1. For the Empire countries, the U. K. has proved to be the steadiest export market. So "the more a country has been dependent on foreign markets, more acutely has it felt the depression and the slower is its recovery proving".
2. "The Ottawa preferences have been of direct and immediate benefit to India."
3. Rationalization of Empire production is likely to conduce to the substantial advantage of Empire countries.

1. The first of these has been based on the following statistics:

#### India's Foreign Trade. (in £ millions.)

	From or to the United Kingdom		From or to other Empire Countries		From or to the Foreign Countries	
	Imports	Exports	Imports	Exports	Imports	Exports
1913	83.39	38.93	7.27	24.06	36.88	103.02
1924-29 (Average)	91.98	59.14	14.54	37.44	81.59	164.15
1931	35.99	33.64	9.02	20.07	52.96	67.19
1933	35.99	34.93	7.87	15.76	43.42	59.03

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Apparently, Sir George's thesis is corroborated by the above statistics, but it should be pointed out at the same time that its validity depends entirely on the assumption that the mutual trade relations between India and the U. K. were allowed to grow under the influence of unhindered economic forces of world trade and commerce. The real fact is, however, that for a very long period, India's political affiliation with Great Britain has always materially influenced economic relations between the two countries. Besides, through the policy of raising heavy loans in the U. K. for India, India's obligations to England have been always encouraged to increase and in order to meet these obligations, India could not but send more and more goods to the U. K. As Sir George Schuster himself admits, "there is one very important piece of machinery on which the development of trade throughout the world has in the past greatly depended—the machinery of finance working through the granting of loans from the highly developed to the less developed countries. As such, the comparative steadiness of the U. K. as an export market for India, is not a measure of the reliability of the U. K. in the export trade of India, but of the extent of economic interdependence that has grown up between the two countries as a result of the political connexion. Were the foreign trade of India allowed to proceed along the channels as determined by the inter-play of economic forces, it is difficult to ascertain what tendencies it would evince. In the circumstances, it is not quite safe to conclude that the U. K. has proved the steadiest export market for India, for this steadiness as indicated by Sir George's statistics denote the existence of regulation which was absent in the case of India's commercial relations with other countries and so may have in some way or other exercised a prejudicial influence on that portion of the trade shared by these countries. No wonder, therefore, that India's trade relations with such countries have undergone surprising changes. And more changes are likely to ensue unless India undertakes measures to regulate her commercial relations with non-Empire countries on scientific lines so that the regulations which influence her trade with the U. K.

which constitutes almost 39 per cent. of her entire foreign trade, may not affect the remaining portion.

Further, the collateral conclusion that reliance on non-Empire markets has aggravated depression, does not well fit in with the first. For, if the U. K. as an export market for India has remained steady enough, then the argument that India's reliance on foreign countries has meant for her worst sufferings under the depression does not carry force. On the contrary it shows that the U. K. and Empire countries, most of which are agricultural and as such competitive with India, were not economically fitted to absorb all the exports of India's raw products. If India's economic depression has been acute, it has been mainly due to the intense depression in her customer countries importing raw materials. As was revealed by the World Economic Survey by Mr. J. B. Condliffe, all countries exporting raw materials have been the worst sufferers in the depression.

Considered from another point of view, the argument of Sir George Schuster involves by implications, a charge against the economic policy of the Government of India. For, while the Government of India have been solicitous enough to regulate the trading relations of India with the U. K. in such a way that the latter country may reap distinct advantages, they have so far hardly made a constructive attempt to regulate India's foreign trade with the foreign countries in her best interests. The result has been that in the throes of the economic crisis, India's foreign trade has been allowed to languish, uncared for and unregulated. In a world where regulation of trade, commerce and industry has been the main instrument of combating the depression, India's *laissez faire* policy has naturally contributed to her sufferings. So, while Sir George's conclusion is factually true, the basis of his conclusion is wide off the mark. As he himself said: "It may of course be said, in answer to this presentation of the case, that the better position of Canada, Australia and New Zealand is due not so much to their greater reliance on the United Kingdom market as to the

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nature of the goods which they export, inasmuch as they rely to a greater extent than India on the export of foodstuffs, which have had a comparatively good market throughout the slump, especially in England, where the policy of unemployment relief has resulted in a remarkable maintenance of the standard of living. But to the extent that this is true, it merely serves to bring out one of the chief factors of stability in the U. K. market." So the steadiness of the U. K. market, as admitted by Sir George himself, is not so much the result of any general absorbing capacity of the U. K. as of the specific commodities she imports from the Empire countries. This explains, in reality, the whole argument of Sir George and as such can not be a fresh argument for the intensification of the Ottawa Agreement.

In order to show the stability of the U. K. market, Sir George has further quoted certain figures as follows. In comparison with 1913, India showed in 1933 a loss of only £4 millions to the U. K., while the loss of India's export trade with foreign countries has on the same basis been £44 millions. Or, making the comparison with the period of post-War prosperity, India has lost £105 millions of trade to foreign countries, as compared with a drop of only £24 millions in her exports to the United Kingdom. Obviously such comparisons on the basis of monetary value are extremely deceptive and in order to strengthen the thesis, the author's citation of such statistics is quite surprising. In such cases, comparison on the basis of percentages would be a rational attempt from the statistician's standpoint. On a percentage basis, we find that while the off-take of India's merchandise by the U. K. has advanced from 23.5 per cent. in 1913 to 31.8 per cent. in 1933-34, the off-take by the foreign countries has declined from 62 per cent. to 53.7 per cent. during the same period. The percentage comparison does not show such a large disparity as the comparison on the basis of monetary value.

2. With regard to the second conclusion of Sir George Schuster that the Ottawa Agreement has proved of direct and immediate benefit to India, it has already been demonstrated in great details to what

extent and in what manner the Agreement has affected India's foreign trade. I need not go over the same details again. But the methods by which Sir George has reached the conclusion are open to certain criticisms. The relevant statistics from which he has derived his conclusion are as follows:

### Trade of India :

Percentage distribution. (Excluding Gold)

	Imports from the U.K.	Exports to the U.K.
1913	65.4	23.5
1924-29		
(Average)	48.9	22.7
1931	36.7	27.8
1932	37.3*	27.5*
1933	41.2	31.8
	40.8*	29.9*

\* Excluding treasures.

The argument of Sir George runs thus: "In the case of India the percentage of her imports from the U. K. has gone up from 36.7 per cent. to 41.2 per cent. and of her exports to the United Kingdom from 22.8 per cent. to 31.8 per cent." From his presentation of the figures, it appears that while India's off-take of British exports has advanced by 4.5 per cent., the share of the U. K. in India's exports has advanced by as much as 9 per cent. Evidently the two periods compared are 1931 and 1933, but what strikes one most is that this basis of comparison has not been uniform in both the cases. While the export trade of the U. K. with India has been compared on the basis of 1931, the export trade of India with the U. K. has been compared on the basis of 1924-29 (average). This is admittedly an unscientific way of comparing things. Where the basis of comparison is not the same, the conclusion must necessarily be vitiated. Besides, in evaluating the effects of the Ottawa Agreement, the selection of 1931 as the basis of comparison does not appear quite happy, inasmuch as this year has hardly any proximate relation with the Ottawa Trade Agreement which commenced operation only from the beginning of 1933. The year 1932,

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therefore, just preceding the commencement of the Ottawa Agreement, should have been the right basis for an appraisal of its effects. The major economic crisis beginning from 1930 persisted throughout the period till 1933, since when world conditions have begun to evince signs of trade recovery. If during the year 1933 the foreign trade of India has undergone certain important developments, these are, to a great extent, to be attributed to the Ottawa Agreement. The Ottawa Agreement being concluded in 1932 and coming into operation in January, 1933, the year just preceding the latter period, is the right basis of calculation. Further, the 1924-29 average also can not serve as a basis of comparison, for a correlation between two isolated and distant periods like the 1924-29 and 1933 is not justified in view of the fact that the great depression intervening between the periods has very rudely disturbed normal commercial relations.

Accordingly, if we compare the results of the Ottawa Agreement on the basis of 1932, we find that, while the share of the U. K. in India's exports, has increased in 1933 by 2.4 per cent., the share of the U. K. in India's import trade has advanced by as much as 4.6 per cent. If we, again institute a comparison between the pre-Ottawa and post-Ottawa fiscal years namely, 1932-33 and 1933-34, the same conclusions present themselves with perhaps greater force. The share of the U. K. in India's imports has advanced by 4.4 per cent. in 1933-34, while India's exports to the U. K. in percentage share, have increased by 4.3 per cent. during the same period. These results are further corroborated by the trade figures for 1934-35. This disproportionate increase in the export trades of the two countries is indeed significant and argues against the conclusion of Sir George Schuster.

3. In Sir George Schuster's strong advocacy of a closer economic co-operation within the Empire, is set forth the plea that rationalization of Empire production will confer distinct advantage on the Empire countries. Obviously he means that "from the

generally complementary nature of their activities, there are special grounds for hoping that such a policy" (co-operation between the complementary economic activities of the countries) will lead to the creation of "an oasis of economic sanity" in the midst of the general movement for economic insularity as started by all countries. While credit is to be given to Sir George for the rational view he has taken of the future of inter-Imperial trade, it is to be said that he has perhaps missed some aspects of the real situation. He has not, for instance, taken into adequate consideration the implications of the fact that the economic activities of the various countries within the Empire are not entirely complementary, and that the special requirements of the different countries may not be reconciled with such a policy. Sir Francis Joseph, president of the Federation of British Industries, observed in his recent address at a luncheon party of the Manchester District Branch of the Federation, that an "Imperial trade unit is not possible of attainment to-day." He aptly remarked: "We have seen throughout the Dominions a growth of production of primary commodities so great that we are unable to absorb them, and they must seek expression for a considerable quantity of that production outside the British Empire. We have also seen a great development in their secondary industries. We could not live by Empire trade alone. Our trade has been built up not merely within the Empire but throughout the world, and that must continue. Neither can the Dominions exist without trade with countries outside the Empire." As far as India is concerned, it is doubtful whether in view of her underdeveloped industries and undeveloped resources, she will stand to gain by binding herself to an agreement which is likely to impose definite limitations to her industrial progress. Already, under the alluring name of industrial co-operation within the Empire, India has been persuaded to acquiesce in the Supplementary Steel Agreement, which though presenting for the present, certain advantages, imposes, nonetheless, certain obvious limitations on the possibilities of developing those varieties of steel in India, such as are now imported from the

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U. K., enjoying preference in Indian market. If this principle is further extended to some other industries, it will doubtless seriously jeopardise India's industrial progress. Needless to say that within the Empire, industrial co-operation of this description would not confer any real advantage on India. India's industrial aspirations will not brook any interference on this account. Even as a producer of raw materials India has to reckon with serious competition from Australia, New Zealand and several other countries of the Empire. This is not, however, to suggest that the existence of this competition necessarily precludes a course of action which may ensure closer co-operation among the members of the Empire. As Sir George rightly observes, "there is still a very wide field which can—given a broad outlook and a common purpose—be preserved for complementary activity in a way which will benefit the main interests of both sides. It is only, if trade within the British commonwealth can be developed in a way which leads to the greater prosperity of its members, that its encouragement by special measures can be justified, and on that condition each of its members will be the better able to trade with the rest of the world, for in the long run all countries are better for the prosperity of their neighbours." If these principles can be translated in to a constructive scheme, there will be hardly any thing to speak against a policy of rationalization of Empire production. But the difficulty lies in the very task of devising suitable schemes for giving effect to the theories suggested. This is particularly true of instances in which economic interests of entire nations clash. Still, a country of economic importance like India will not be slow to take her due share in the inter-Imperial economic co-operation, if it appears to her that her own interests will not suffer or at least her gains will not be offset by her losses. The consideration of India's major part of foreign trade

which is shared by non-Empire countries will no doubt be given due weightage in any negotiation of the nature just referred to; but the criterion which should guide her actions, as much as those of every other country in the Empire, should be an adequate *quid pro quo*.

As a principle, a closer inter-Imperial economic co-operation is to be welcomed, for, in the existing conditions of world trade and commerce, such a regional grouping for mutual trade has certain obvious advantages. But in the determination of such relations, she should be given free choice and the furtherance of her own interests should be the primary consideration.

In discussing the effects of the Ottawa Agreement on the export trade of India, I have shown how India's exports have had to give way to the competition of Empire countries. In every case where India had to compete with one or other countries of the Empire, she has inevitably been the loser. For instance, in the U. K. market India's exports of lead, coir yarn, hides undressed, coffee, groundnuts, coconut oil, etc., are steadily losing ground before the competition of the products of other Empire countries. In the circumstances, it will be better both for India and other Empire countries to come to some sort of understanding, with a view to minimise the competition amongst themselves which is proving so harmful both within and outside the Empire.

Sir George has done well to emphasise this aspect of the inter-Empire trade. His suggestion for a periodical survey of the Empire trade relations proposed to be made for forecasting or checking the probable reactions of any particular policy within the Empire will undoubtedly be approved by all, interested in inter-Imperial trade.