

VIEWS ON THE REPORT OF THE INDIAN

DELEGATION TO THE IMPERIAL

ECONOMIC CONFERENCE,

OTTAWA.

THE INDIAN MERCHANTS'

CHAMBER,

BOMBAY.

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Views on the Report of the Indian¹²⁵
Delegation to the Imperial
Conference, Ottawa.

The Indian Merchants' Chamber *Bombay*

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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 or 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 $\frac{1}{4}$ to $\frac{1}{6}$. 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 sorer 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, *nor* 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, has 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.