

**GOVERNMENT OF INDIA**  
**DEPARTMENT OF COMMERCE**



**MEMORANDA**  
**ON**  
**TRADE AND TARIFF POLICY**

NEW DELHI : PRINTED BY THE  
GOVERNMENT OF INDIA, 1958 11j?

C O N T E N T S

	PAGE
I. Memorandum on India's Post-War Tariff Policy . . . . .	1
II. Memorandum on India's Post-War Tariff Machinery . . . . .	16
III. Memorandum on India's Post-War Tariff Policy and Machinery . . . . .	28
IV. Memorandum on the U. S. Government's Proposals for the Expansion of World Trade and Employment . . . . .	43
V. Memorandum on the U. S. Government's Proposals relating to Inter- Governmental Commodity Arrangements . . . . .	60

## i—Memorandum on India's Post-War Tariff Policy

*Approach to problem.*—India's post-war trade problems have been briefly reviewed in the second report on Reconstruction Planning. It is proposed to consider below certain aspects of the tariff problem which have a bearing on India's industrial development. Other problems of trade policy will be examined in separate studies.

2. This memorandum is mainly concerned with the policy of protection—better known as discriminating protection—which was adopted over 20 years ago on the recommendation of the Fiscal Commission. The question whether this policy should be continued and, if so, with what modifications, in the post-war period, has been discussed below. The object of the memorandum is to consider the principles underlying the policy, the working of protection and the kind of policy that would suit India best in the conditions prevailing after the war. Conflicting views have been expressed about the soundness of the principles of discriminating protection and the part played by this policy in promoting India's industrial development. The suitability of the tariff as an instrument of trade control in the period after the war has also been questioned. There is a body of opinion which favours the use of more direct methods, *e.g.*, direct control of trade, **Or** measures of direct assistance to industry. These views have been examined below, but the conclusions are not in all cases final as a number of factors which are likely to influence post-war policy are still uncertain.

3. *Evolution of Policy.*—Before discussing the principles of protection, it will be useful to note (a) the main characteristics of the Indian tariff, and (6) the principal stages in the evolution of India's protective policy. Tariffs are ordinarily used for one or more of the following purposes :—(i) revenue, (ii) protection, (iii) preference, (iv) tariff bargaining and (v) the balancing of trade. In the U. S. A., Germany and many other countries, the tariff has been freely used in the past as an instrument of protection and is still so used, sometimes in combination with more stringent measures. The industrial foundations of most of these countries, including the U. K., as was pointed out in the report of the Fiscal Commission, have been laid under a system of high protective or prohibitory tariffs. In India, on the other hand the tariff was in the past a purely revenue tariff and, though its character has changed in the last 20 years as a result of the adoption of policies of protection and preference it is still primarily a revenue tariff. The import tariff imposes a moderate uniform rate of duties on all commodities subject, however, first, to the levy of a higher rate on particular articles, *e.g.*, articles of luxury ; secondly, to exemptions from duty or admission at low rates of certain articles where the national interests require such concessions ; and finally, to the imposition of protective duties in accordance with the principles explained below. There is a further distinction in the tariff between standard rates and preferential or differential rates which apply according to the country of origin of the goods ; this aspect of the tariff must be considered separately. Not more than 14 out of 100 items of the tariff schedule are protected items, and, due to the preponderance of revenue items, the average overall incidence of the tariff, as ascertained by linking all customs receipts to the appropriate tariff numbers, is at present only 33 per cent. The incidence is much higher in countries where the tariff is used mainly for protective purposes.

4. There are three well-defined stages in the development of the Indian tariff. Prior to the outbreak of the last war, India's tariff policy was based on a rigid interpretation of the doctrines of free trade. The policy was largely determined by the Secretary of State as the fiscal autonomy convention had not yet been established. There was, unceasing pressure from British exporting groups both on the Secretary of State and on the Government of India to check any rise in duties which might give the tariff a protective effect. The level of duties was low throughout the period

and for a number of years, *i.e.*, between 1882 and 1894, most of the duties were removed. The main concern of Government during this period was to avoid any form of interference with trade which might raise the price of imported goods and indirectly protect India's industries. Small increases in duty were sometimes necessary, *e.g.*, after the Mutiny and again in 1894, for strictly budgetary or revenue reasons, but on all such occasions the temporary character of the increase in duty was emphasized. In the late nineties, the new doctrine was evolved that in case,\* where manufactured goods were produced in India, the protective effect of a revenue duty should be nullified by a countervailing excise duty. It has been said that the influence of Manchester capitalists is written large in Indian tariff history : this is particularly true of the period ending with the outbreak of the last war when Government's fiscal powers were limited and the main object of tariff policy was to encourage an uninterrupted flow of trade.

5. The next stage in the evolution of the tariff is the period of the last war and the four post-war years, *i.e.*, from 1914 to 1922. During this period, several changes were made in the policy of the earlier period. There was no change in the fundamental character of the tariff, but for revenue reasons, especially after the war, large increases in duty were necessary. The new rates were sufficiently high to give some measure of protection to Indian industries. The protection was haphazard, casual and uncertain, but, as was pointed out by the Fiscal Commission, the necessity for raising a large revenue from customs and the obvious inexpediency of ignoring the effect of the enhanced revenue duties on industries in India inevitably led to the adoption of a protective policy. Another feature of India's tariff policy during this period was that the increase in revenue duties was not accompanied by a corresponding increase in the countervailing excise duties : this was a further departure from the principles of free trade as interpreted before the war. Thirdly, in May 1921 the Government of India were informed that His Majesty's Government had decided to accept the recommendation of the Joint Select Committee of Parliament in regard to the establishment of a fiscal autonomy convention. The working of this convention must be studied separately, but it may be noted here that the establishment of the convention marked an important stage in the evolution of the new policy. Finally, the report of the Industrial Commission and the difficulties of the war period arising from the fall in imports strengthened the demand for a change in the attitude towards industrialization. The question of preference for Empire goods was raised after the war and this set in motion a train of events which finally led to the appointment of the Fiscal Commission. The Commission was instructed to examine the problem of India's tariff policy in all its bearings, including the desirability of adopting the principle of Imperial Preference.

6. *Principles of protection*.—This brief review of India's tariff history gives some indication of the gradual stages in the development of the new policy. The final stage was marked by the publication of the Fiscal Commission's report and the acceptance by Government of the Resolution passed by the Indian Legislative Assembly in the Budget Session of 1923. The Resolution reads as follows :—

"That this Assembly recommends to the Governor-General in Council:—

(a) that he accept in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India :

(b) that in the application of the above principle of protection regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue :

(c) that the principle should be applied with discrimination, with *d.v.c.* repaid to the well being of the community and subject to the safeguards suggested in paragraph 97 of the Report of the Fiscal Commission " :

Part (d) of the Resolution refers to the constitution and powers of the Tariff Board which will be examined separately. The Resolution is important since it defines the scope of the policy of protection which was adopted by Government in 1923 and is still in force.

7. The Commission's recommendation was that Government should adopt a policy of protection to be applied with discrimination along the lines indicated in the report; part (c) of the Assembly's Resolution, however, mentioned only one paragraph, *viz.*, paragraph 97, which lays down the formula of discriminating protection. This formula on which the whole policy is based, sets out the conditions which must be fulfilled by an industry before it can qualify for protection. The conditions are as follows:—

(1) The industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and therefore the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principle which has led us to recommend protection. The main object of protection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity.

(3) The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the probabilities of this condition being fulfilled the natural advantages referred to in condition (1) will of course be considered carefully. The importance of this condition is obvious. The protection we contemplate is a temporary protection to be given to industries which will eventually be able to stand alone."

8. Certain other recommendations were included in the scheme of protection outlined in the report; these were not specifically referred to in the Assembly's Resolution, but the intention clearly was that the scheme should be accepted as a whole. In actual practice, the terms of the Resolution were liberally interpreted by the Tariff Board in the majority of the enquiries, though Government adopted a narrower view in many cases. The subsidiary recommendations were:—

(i) that favourable consideration should be given to the claims of industries which in course of time are likely to supply the whole needs of the country, or which lead themselves to large scale organisation;

(ii) that as a rule tariff protection should not be given to new industries, *i.e.*, industries yet to be established;

(iii) that industries essential for purposes of national defence (*e.g.*, leather goods, copper, zinc, sulphur, rubber goods, etc.), for which conditions in India are not unfavorable, should, if necessary, be adequately protected, irrespective of the general conditions laid down for the protection of industries;

(iv) that the question whether protection should be given to basic industries, other than those under (iii), should rest on considerations of national economics rather than on the economics of the particular industry;

(v) that the rate of protection should be "adequate to the purpose in view" and should take account of the relative cost of production in India and in foreign countries.

Other recommendations of a general character which were included in the scheme of protection need not be referred to here; the main arguments in favour of discrimination were that it would reduce the burden of protection on the consumer, ensure steady industrial progress and the maintenance of a favourable balance of trade and restrict the rise of prices.

9. *Working of policy.*—The working of India's policy of protection may now be briefly examined. The Commission's recommendations were not endorsed by a

minority of the members who in their Minute of Dissent pointed out that the policy was h'3dj)jd in with conditions and provisos which, were calculated to impair its ntiitiy-,T During the inter-war period there was a considerable expansion of industries in India, some of which were developed with the aid of protective tariffs. The expansion took place at a time when industrial production in other countries was showing a steady decline. From this the conclusion has been drawn by certain writers that India's policy of discriminating protection has justified itself by results.

While this view is partially correct, it does not take into account the rate of progress which might have been achieved under a more liberal policy. In the 20 years that the policy has been in operation, only 8 industries (or actions of an industry, e.g., Magnesium Chloride) have been developed or established under the shelter of protective tariffs. Judged by the experience of other countries, e.g., the U.S.A. and Germany, which have also pursued a protective policy, this is not a very substantial achievement. It does not, however, necessarily follow, as certain critics of the Indian policy have suggested, that protection as an aid to industrialization in India is a "chimerical proposition". The relatively slow progress of industrialization is explained by the conditions prevailing in India and elsewhere during the inter-war period and the hampering effect of the conditions attaching to India's policy of discriminating protection.

10. The following points which emerge from a study of the principles of protection and the working of the policy in the period before the war may be briefly noted:—

(i) The problem of India's industrial backwardness, as analysed by the Commission, suggested the need for a more liberal policy than the one recommended. There was a reference in the Report to List's well-known views on the subject of the development of productive power in industrially backward countries, the implications of which should have been studied more closely. The policy actually recommended by the Commission and adopted by Government was based on the infant industry argument which is more applicable to developed countries than to countries in the position of India. The Commission's main concern was that the pace of industrialization should not be "forced" and the conditions laid down were deliberately intended to slow down development. A bolder approach to the problem might have shown that in the long run, as in other countries, rapid industrialization (subject to necessary safeguards) would not only benefit the consumer by increasing the national wealth and redressing the balance between agriculture and industry, but also lead to an expansion of trade and Government's revenue from various sources.

(ii) The period between the two wars was one of great economic instability; the development of industries in India was affected by a number of disturbing influences, e.g., dumping and other forms of unfair competition. In other countries where laws exist for the control of dumping, quick action can be taken to safeguard domestic industry, but India had no anti-dumping law, apart from the Safeguarding of Industries Act, which for technical reasons remained a dead letter. Minimum specific duties were imposed in 1934 as a safeguarding measure, but most of these duties were withdrawn in March 1930. In the absence of effective anti-dumping legislation, the ordinary procedure for the grant of protection was applied in cases where speedier action was needed to safeguard the interests of the domestic manufacturer. In many cases, e.g., steel, cotton, silk, etc., protective duties were imposed after elaborate enquiries, although the problem was essentially one which called for speedy anti-dumping measures. There is some truth in the observation made by a critic of India's fiscal policy that while the intention underlying the new policy was to give "developmental protection" to industries, in actual practice the protection given in a majority of cases was of the safeguarding variety.

(iii) The triple formula suggested by the Commission and accepted by Government was unduly restrictive; in the later enquiries it was applied with a degree of rigidity, which placed a handicap on industries.

The first condition defines the advantages which an industry must possess if it is to qualify for protection. Raw material has been included in this condition, although in other countries where powerful industries have been built up, e.g., the

cotton textile industry of Japan and Lancashire, no such advantage exists. The possibility of developing an export market has not been mentioned although India is well situated for the development of industries for export. The factors mentioned in this condition are illustrative of the kind of natural advantages which an industry must possess and it is clearly laid down that the relative importance of the various advantages should be considered. In actual practice, a rigid interpretation was sometimes placed on this condition. In the cases of the glass industry the worsted section of the woollen industry and heavy chemicals, the Tariff Board took a liberal view and recommended protection on the ground that taking all three conditions together and considering the question of natural advantage with reference to the final costs of each industry, there was a good case for protection, though the principal raw materials were not produced in India. In the first two cases, however, the applications were rejected by Government on a narrow interpretation of the first condition, while in the case of heavy chemicals, the recommendation was accepted, but the duties were allowed to lapse after about 18 months.

(iv) The second condition is merely explanatory of the principles of protection and need not have been included in the formula. An industry which can develop without the help of protection is obviously not entitled to protection; this so-called condition merely implies that no recommendation for protection should be made in cases, where, according to the principles laid down for the grant of protection, including the cost formula, no case for protection exists. The third condition is vitally important as the principle of protection is that no industry which is likely to become a permanent burden on the community should be protected, except on broad grounds of national policy. It is difficult, however, to forecast future events and, as the Tariff Board remarked in the case of the Magnesium Chloride industry, it is "not possible to judge with any precision whether an industry will eventually be able to dispense with protection and, if so, after what period. The third condition should have been linked with the first and provision should have been made in the formula for examining the issues involved with reference to the costs of an industry. Certain observations were made on this point by the Tariff Board in its report on heavy chemicals which are briefly reproduced below :—

" The condition which requires that an industry claiming protection should possess sufficient natural advantages must not however be looked at by itself. We think it necessary to point out that, considered strictly from the economic point of view, the first condition ..... is explanatory of and not distinct from the third condition. The matters referred to therein, such as an abundant supply of raw material, cheap power and a sufficient supply of labour are intelligible only with reference to the costs of an industry.....".

(v) A dynamic policy of tariff protection should apply, in suitable cases, to all branches of an industry which are capable of development also, where necessary, to industries which are mutually dependent. The piecemeal treatment of each industry and each branch of an industry, which was the procedure followed by the Tariff Board in many of the enquiries, was based on a narrow interpretation of the principles of discriminating protection. In its report on the steel industry in 1934, the Board observed :—

The policy of protection operates in three ways : it governs the selection of the industries to be protected, it limits the amount of protection to be granted, and thirdly, it excludes from the protective scheme, those products which are not made and are not likely to be made in India. "

There is no reference to this third limitation in the Fiscal Commission's report ; the Board took a somewhat static view of the need for protection and in many cases, e.g., in the case of the paper and steel industries, recommended protection for such branches only as were actually in production. It has been pointed out by critics of India's fiscal policy, that this narrow interpretation of the principles of protection had the effect of encouraging manufacturers to concentrate on the protected branches and to neglect new lines of production.

(vi) The Commission's recommendation that ordinarily t«« industries and industries supplying only a small proportion of the country's requirements should not be enticed to tariff protection, was another handicap for Indian industries. In other countries, tariff protection and other measures of assistance have been freely extended to such industries ; in India, tariff protection was ordinarily refused during the period in question on the ground that the revenue tariff have sufficient assistance and until the industry was established it was not possible to determine with accuracy either the nature or the measure of protection required. The policy followed in India appears to have hampered the development of new industries. It is true that the revenue duties were fairly high, but the protection was uncertain and a more definite guarantee of long-term protection was needed in some cases for capital to be attracted to the industry. The cost factor presented a problem, but provision might have been made in suitable cases for the levy of an experimental or provisional duty on the basis of estimated costs, the final duty being fixed after production was established. Subsidies and direct import control are possible alternatives to tariff aid but as will be explained below, subsidies are limited in their operation and direct import control was not practised in India before the war.

(vii) The other recommendations of the Commission, *e.g.*, those relating to the protection of industries of national importance and basic industries, have remained practically a dead letter. It is clear that the principles of discriminating protection, however restrictive in themselves, were made doubly so by an over-cautious application of the policy. In part, this is explained by the inner conflicts of tariff policy, more particularly the clash between revenue needs and the policy of protection. The Indian tariff is primarily a revenue tariff and customs are a major source of the Government of India's revenue. Both in the Fiscal Commission's report and in the Resolution of the Assembly recommending the adoption of a policy of protection, pointed reference was made to the necessity of considering the revenue needs of Government in applying the new policy. It has been generally—though not quite *correctly*—assumed that a liberal extension of protective duties as part of the policy of industrialization will result in a permanent loss of revenue. This has stood in the way of a generous application of the policy of protection in the interest of India's industries. This question will be referred to again in connection with proposals for a revision of policy.

(viii) No specific recommendation was made by the Commission as to the procedure to be followed in determining the rate of protection. The Tariff Board, however, evolved a method in the first Steel enquiry which has on the whole worked satisfactorily. The procedure is to equate the price of the imported article with the selling price of the protected Indian article. The selling price is based on an analysis of the present and future costs of the industry, the unit of production chosen for the purpose being the normally efficient producer. This method ensures that tariff protection will ordinarily not exceed the minimum required for the development of the industry. High protective or prohibitory tariffs have thus been avoided and a moderate system of protection based on a scientific analysis of prices and costs has been evolved. It has not been possible to follow the principle of equalisation of costs as there are no means of ascertaining the costs of the foreign manufacturer with which Indian costs could be equated.

(ix) The procedure laid down for enquiries into applications for protection must be considered separately in connection with the constitution of the Tariff Board. The procedure has been condemned as dilatory and vexatious and it must in fairness be admitted that the criticism is not unjustified. Probably in no country in the world has so much time been taken in carrying out enquiries of this nature and in giving a decision on the need of an industry for protection as in India, in the case of certain industries, *e.g.*, glass (3 years), cotton textiles (2 years), matches (2 years) and many others. These long delays and other defects of procedure have attracted a larger volume of criticism than the policy of protection itself.

11. *The Post-war Problem.*—The working of the policy in the period before the war has been examined above ; a brief study may now be made of the problem of



protection after the war and the nature of the policy which India should adopt. During war-time, direct controls are in operation and imports have been reduced to a level which should give automatic protection to industry. The objects of import control are to conserve foreign exchange, make effective use of shipping and secure for India a reasonable share of certain classes of essential imports. Trade control, by means of the tariff or otherwise, for the specific purpose of protection of industry, is not an immediate war-time problem. Conditions may, however, change after the war, or even before the war has ended, and it is the purpose of this study to examine briefly the circumstances in which protective measures may again be required and the nature of the assistance which industries may need. The problem must be studied with reference to the objective of post-war policy, the trade policies of other countries and the changes in the technique of trade control. Some of the factors underlying the problem are still uncertain and it is necessary to emphasize once again that the conclusions of this memorandum are liable to modification in the light of future economic developments.

12. The main elements of the problem are briefly summarised below :—

(i) India's post-war plans of development envisage a large-scale expansion of industry. Details of the plan of industrialization have not yet been settled, but there is general agreement that post-war policy should be based on the principles of an expansive economy. This implies a rapid, all-round expansion of industry in accordance with the plan of development. The trade and tariff policies of the future must conform to the new requirements of industry. It has been shown that the policy of discriminating protection, and the procedure for enquiries were specifically designed to moderate the pace of industrialization. It was assumed that a rapid development of industries would react adversely on the Indian consumer, the primary producer, Government's revenue interests and, finally, on the industries themselves. The limited scope of the policy and the nature of the development which the Commission visualised are shown by the following remarks in the concluding chapter of the report :—

" India for many years to come is likely to concentrate on the simpler forms of manufactured goods, and these are precisely those in which the T. K. has the smallest interest ".

The whole outlook has now changed and the approach to the problem of India's industrial development must be made on different lines. Recent events have exposed the weakness of the Indian economy which is still dependent on foreign sources for a large variety of essential articles. Both from the national point of view and from the point of view of international trade, it is considered necessary that India's resources should be fully developed and the standard of living of her people should be raised. The new industrial policy has broader objectives than those set out in the Fiscal Commission's report. The urgency of the problem is also recognised and the demand is for some form of assistance which will encourage a rapid development of industry. If assistance is given in the form of tariff protection, it will still be necessary to exercise discrimination, but it is obvious that a restrictive policy which deliberately aims at slowing down development will not meet the requirements of the country.

(ii) As regards the need for protection, it has been suggested that in the period immediately after the war Indian industries will require direct assistance from the State in such matters as finance, scientific research, transport etc., but not the kind of indirect assistance which protective tariffs afford. It is true that the demand for consumer goods as well as capital goods in the transitional period will be enormous and in the ordinary course existing industries in all countries should be kept fully occupied. Direct import control should also help if it is applied with due regard to the interests of industries and not merely to the immediate interests of the consumer. But there are other considerations :—(a) From the long-term point of view, India is an important market and signs are not wanting that, irrespective of world demand in the period after the war, an effort will be made by the leading industrial nations to capture a share of the market. There has been a vast expansion of the productive-capacity of the U. S. A., the T. K., and Canada—to mention only the principal.

**countries—and a tentative search for export markets after the war has already** *commented.* A very considerable increase in exports from these countries is **likely to take place** in connection with the plans for the maintenance of full employment, **while** countries in the position of the V. K., will need to multiply their exports **in** order to balance their payment accounts which are seriously out of equilibrium. Certain classes of goods which India needs will remain in short supply after the war, **but** there are others which India is now producing, **or** is likely to produce in the **near future**, which are bound to experience the full impact of foreign competition when normal trade is resumed. (b) It has been suggested that Indian industries, **both new and old**, are now in a strong competitive position ; this is probably true of some industries, but there are many others which are short of plant and other equipment and even essential raw materials. Industries in the latter group will need some protection or assistance after the war until their competitive position has improved. A recent survey, carried out by the Department of Supply, of industries developed for war purposes shows that while considerable expansion has taken place and many industries can now supply the entire Indian demand, there are certain structural and other weaknesses which will have to be removed before the industries are able **to** compete freely with foreign suppliers, (c) Direct control of trade, if properly applied, is an adequate safeguard, but if the controls are lifted or relaxed after the war, or are administered in a way which does not take account of the interests of industry, the need for protective tariffs will become all the more urgent. A similar situation may arise during war-time if facilities are given for the import of foreign **goods** at low prices without regard to the effects on industry. The future **of the** war-time controls will be discussed at greater length below.

(Hi) Certain other aspects of the problem should be noted :—

(a) The demand for machinery, raw materials and other stores and technical assistance from abroad will be intensified after the war when new industries are set up in India. There will be a similar demand from other countries also and it is obvious that for the satisfaction of the demand in the conditions prevailing after the war, it will be necessary for India to retain the goodwill of the principal supplying countries. Some form of international co-operation in the sphere of trade is essential to the success of post-war plans of reconstruction and development, (b) The arrangements still to be made with the V. K., for the liquidation of war debts have an important bearing on India's future trade and tariff policies. If the agreement between the U. K. and India provides **for** a settlement based on increased imports **of** U. K. goods into India after the war, it will be necessary, first, to select the imports with the utmost care and, secondly, to adjust the tariff and/or quota arrangements to the provisions of the agreement, (c) The maintenance or expansion of India's export trade will also be necessary for two reasons : first, balancing the anticipated increase in imports and, secondly, for increasing the purchasing power of certain groups in this country on whose effective demand the new industries will mainly rely. However uncertain the post-war position may be in other respects, it is clear that in the early stages of industrialization, India will need to participate **to** an increasing extent in international trade. High protective or prohibitory tariffs or other restrictions which are obstructive of trade may react adversely on India's development in the immediate post-war period. India's policy should be **one**; **of** selective protection and should be liberally applied, but the aim should be to regulate imports in the interests of domestic industry and the consumer and not to shut out imports generally. The term selective protection does not, however, imply that each industry or each branch of an industry must necessarily be considered piecemeal **in** the light of certain narrow principles ; this question will be considered more fully in the paragraphs relating to the new policy.

(iv) It is not yet certain what part will be played by the State in the development of industry. If development is centrally planned and directed, it will **be** necessary to retain the existing controls, especially on imports, and the role of tariffs will be a quite subsidiary one. In the transitional period between war/ and peace, **direct** control of imports is likely to be retained in all countries and other methods **of** trade regulation, e.g., direct trading by the State or State-controlled organisations,

may also be increasingly resorted to. Price disparities may further weaken the competitive position of countries such as India where the relative increase of prices during the war has been higher than in the leading industrial countries. Quite plainly it is impossible for India, if the plan of industrialization is to be carried out successfully, to revert immediately after the war to the conditions of a free economy ; it will be necessary to give adequate protection to industries against foreign competition which may be much more severe and far-reaching in its effects than in pre-war days ; it will also be necessary to insulate India's economy, as far as possible, from the effects of boom and depression in other countries so that the working of the plan of industrialization may not be disturbed. This raises a problem of some difficulty, for India will be faced with two conflicting needs :—(a) protection or assistance to industry which must be adequate and elective and be given with minimum delay and (b) participation to an increasing extent in international trade during the process of industrialization. Selective protection and the regulation of trade are the obvious solutions, but tariffs by themselves may not be an adequate instrument for this purpose ; not only are they highly uncertain in their working, but in the conditions prevailing after the war their effects may to some extent be neutralised by bulk selling and other methods of trade adopted by foreign export organisation. If quick results are to be obtained, it is necessary that direct import control should be continued in India and used, where necessary in combination with tariffs and/or other measures of State aid. In the immediate post-war period (which is the period with which this memorandum is primarily concerned), an elastic policy should be followed, the method of trade control or protection varying with the needs of each industry and the changing requirements of the plan of industrial **developm3nt.**

13. *Post-war Policy.*—From the brief analysis above it is clear that India cannot give up the right of protecting her industries, where protection is needed, or assisting them in other ways. A policy based on the principles laid down in article VII of the Mutual Aid Agreement is not wholly suited to India's requirements. Certain industries which have come into existence during the war as a result of Government encouragement have been given a definite assurance that they will be protected against unfair competition from abroad ; the conditions are that they must be run on sound business lines and Government will be free to decide what kind of protection is needed. It is not necessary for such industries to make out a case for protection, but there are many other industries which are faced with the same or greater risks, though no similar assurance has been given to them. New industries may also be set up in the immediate future or the post-war period which will demand some measure of protection. The procedure followed in each case may differ, but the principle must be clearly recognized that industries are entitled to protection or assistance from Government if certain conditions are fulfilled. It is not possible for India to give a general undertaking, as is contemplated by the Agreement, that in the post-war period, tariffs and other trade barriers will be removed or relaxed, irrespective of any harm that may be caused to India's industries.

14. (a) *Creation of Tariff Board.*—The principles of the new policy of protection have been discussed in the paragraphs below ; the requirements of each industry or group of industries must be studied separately and it is necessary for this purpose that a body corresponding to the old Tariff Board, with wider powers, should be set up. A possible alternative is to examine each case departmentally, but this may not inspire the same confidence as a judicial enquiry by a Tariff Board. A policy of selective protection and trade\* control requires to be administered with the help of an independent body of expert<sup>3</sup> whose duty it should be to carry out the detailed investigations. The composition and powers of the Tariff Board will be examined in another memorandum ; if a larger body, e.g., a Planning Commission, is established to deal with the problem of industrialization, it will be a point for consideration whether the Board should form part of the Commission or remain a separate body. The creation of the Tariff Board is a necessary preliminary to the carrying out of the new policy of protection and it is essential that the Board should be set up in good time before the actual termination of hostilities. The enquiries should, if possible, be completed and provisional or final recommendations made for the grant

of protection or other forms of assistance before competition becomes acute. The constitution of the Board is, therefore, a matter of some urgency which calls for a quick decision.

15. (6) *Tariff Protection*.—The exact form which protection should take, or the nature of the assistance which should be given to industries, will be a matter for investigation by the Tariff Board. The choice will lie between a variety of measures and instruments of protection and, as stated above, it may be necessary to combine tariff protection with other methods of trade control. The Tariff Board should be authorised to recommend any measure of assistance, whether direct or indirect, which is consistent with Government's post-war trade and tariff policy and the policy of industrialization. In examining claims for tariff protection, however, the principles of the existing policy should be followed, subject to the modifications noted below. The policy of discriminating protection is based on a Resolution of the Assembly, but a fresh approach to the Assembly is not necessary for a revision of the policy. The principles and procedure underlying the new policy should be set out in the letter of instructions to the Board and a brief summary of the main provisions should be notified for public information. The modifications suggested are :—

(i) The expression "discriminating protection" is liable to be misunderstood; in certain quarters abroad, it has been interpreted as a policy of discrimination between countries, while Indian critics have objected to the use of a qualifying phrase which seems to limit the scope of protection. It is desirable that the new policy should be defined as a policy of protection to be applied in accordance with the instructions issued to the Tariff Board.

(ii) The instructions to the Board should be brief and precise. In dealing with claims for protection, it should be required to satisfy itself that the industry is one which, on a broad review of the advantages, if any, which the domestic producer may enjoy and the costs of the industry, has a reasonable chance of being able eventually to face world competition without protection. The illustrative list of advantages should include the possibility of the development of an export market. These instructions should replace the conditions laid down in paragraph 97 of the Fiscal Commission's report. The principle of selection should not be given up, but the conditions for protection should be liberalised.

(iii) The instructions should make it clear that the Board is expected to give favourable consideration to the claims of industries of national importance and basic industries. Special treatment was recommended for such industries by the Fiscal Commission, but the recommendations have not been fully implemented. The Tariff Board should be authorised to follow these recommendations in dealing with claims for protection. As regards industries which have not yet been established, the instructions should require each case to be considered on its merits; it is not desirable to exclude such industries from the scope of protection, though the Board should be free to recommend other measures of assistance if tariff protection is found to be unsuitable.

(iv) In examining a claim for protection, the Board should be authorised to make recommendations on a broad basis with a view to encouraging the development of all branches of an industry which are capable of being developed and also, where necessary, of other industries which are closely related to the applicant industry. The policy of protection should be liberally interpreted and the piecemeal treatment of each industry and each branch of an industry in insulation from others should, as far as possible, be avoided.

(v) The formula for determining the measure of protection required by an industry, *i.e.*, the equation of the price of the imported article with the fair selling price of the Indian article does not need any modification. In examining the costs of the Indian industry, however, due allowance should be made for such special factors as the high prices paid for capital and other equipment purchased during and immediately after the war. Replacement costs (which may be very much lower than the prices actually paid) will not provide a satisfactory basis for determining the fair selling price. The protection should ordinarily be just sufficient to enable

the industry to meet its competitors on terms of equality over a period of years ; the object should be to provide an incentive to the national industry to improve its technique and working arrangements with a view to expanding the output and/or lowering production costs. High protective or prohibitory tariffs which give a larger measure of protection than is strictly needed are liable to encourage inertia and inefficiency and are opposed to the consumer's interests. The defect of the formula is that the margin allowed is too small to make the protection effective in a period of falling prices. Anti-dumping or countervailing duties may be applied in such cases, but this is a cumbersome method of protecting industries when conditions are unstable and rapid protective action is needed. It has been suggested below that the correct remedy is to use the quota in combination with protective duties, or as an alternative to such duties, when competition from abroad threatens the existence of an Indian industry. The procedure for determining the rate of protection may thus safely be continued, but since the object of the formula is to give minimum protection after a careful enquiry, it is obvious that India cannot accept any proposal for an arbitrary cut in protective duties or an international ceiling on tariffs which would deprive her industries of the measure of protection to which they are entitled.

(vi) Conditions may be laid down for the grant of protection, or the continuance of protection, *e.g.*, the industry may be required to effect certain improvements in its working methods, and the period of protection may be defined. Questions of labour policy, *e.g.*, welfare arrangements for factory workers, etc., should, however, be treated as a separate issue affecting all industries and not protected industries alone. There are other matters falling within the purview of a Tariff Board or Planning Commission which have not been referred to here, as this memorandum is concerned with the question of import control by means of the tariff or otherwise, and not with the broader issues of industrial or social policy.

(vii) It is of the utmost importance that the enquiries should be carried out expeditiously and the decisions of Government should be given without undue delay. No scheme of protection can be successful if the dilatory methods which have hitherto characterised the working of this policy are not drastically revised : this question will be examined at greater length in connection with the constitution of the Tariff Board. A brief reference should also be made to Government's revenue needs which have discouraged the adoption of a liberal policy of protection ; some change of outlook in this matter is essential if the development of industry is accepted as a primary objective of post-war policy. Revenue needs will persist and customs duties, after the war, may continue to provide a substantial part of the Government of India's revenue. The principle should, however, be accepted that where a case for protection has been established after an enquiry by the Tariff Board, revenue and other considerations should not be allowed to influence unduly Government's decision on the claim of the industry for protection. The form which protection should take may, however, be considered with reference to Government's revenue needs. Revenue or non-protective duties are altered from time to time without regard to the possible effects on industry. This practice may have to be modified. It may not be possible to consult the Tariff Board before a revenue duty is altered, but if an established industry is adversely affected by the change, it should be given an opportunity of making out a case for the restoration of the old duty. A possible solution is that changes in the rate of a revenue duty should be made on a provisional basis, pending enquiries by the Tariff Board which should be completed within say, one month, on an application presented by the industry within a prescribed period, say, seven days from the date of alteration of the duty. It is not unlikely that a liberal extension of protective duties may cause some decrease in Government's revenue from this source; but the loss will be compensated by an increase in revenue from other sources and even customs duties may yield a larger revenue in course of time as the import trade expands with the development of industries, and the growth in demand for high-class goods of foreign origin.

On balance a policy of tariff protection as an aid to industrial development is not opposed to Government's revenue interests.

16. (c) *Subsidies*.—The policy of tariff protection has been discussed at some length in this memorandum as India has relied in the past almost exclusively on the tariff as an instrument of protection. The part which protective tariffs may play in the future will, however, largely depend on Government's industrial policy and the nature of the competition to which industries in India are exposed. Some of the factors underlying this problem are still uncertain and it has, therefore, been suggested that the Tariff Board should be authorised to consider each case on its merits and recommend such measures of assistance as may be needed by an industry. Two other types of measures which have been examined below are :—(a) the grant of a subsidy, and (b) the quantitative regulation of trade. Both have certain characteristics in common with tariffs, *e.g.*, all three seek to assist industry by regulating the movement of goods ; the difference, however, lies in the fact that while tariffs and subsidies influence trade indirectly through the price mechanism, the effect of quantitative control on the movement of goods is more direct.

17. Classical economists have shown a marked preference for bounties or subsidies as an instrument of protection which may be used in exceptional cases for the benefit of infant industries. The effect of a tariff is to raise the price of the imported article, while subsidies enable the domestic manufacturer to lower his prices so as to compete successfully with the foreign supplier. Direct financial assistance may be given to the manufacturer, or there may be a concealed subsidy in the form of guaranteed purchase by Government at agreed prices of a certain proportion of the industry's output. The advantages of the system are :—(a) Subsidies are specific in their application and more amenable to control than tariffs, (b) While the burden of tariffs falls on the consumer who is generally poor, the burden of subsidies can be shifted to the general tax-payer, (c) Subsidies are administratively more convenient than tariffs which involve the employment of a large staff to assess values, prevent smuggling, etc. Another advantage from the point of view of the orthodox free trader is that subsidies, being visible, are likely to be employed less frequently and for a shorter duration than tariffs and other import restrictions. In recent discussions of post-war plans for the regulation of trade, considerable prominence has been given to subsidies or bounties which are regarded in some quarters as the least objectionable of all measures for the protection of domestic industry.

18. The limitations of the system are, however, obvious :—(a) Countries in the position of India which are industrially undeveloped and have few sources of revenue cannot easily raise the enormous funds which may be needed for the payment of subsidies under a comprehensive scheme of development. This difficulty has perhaps not been experienced in the U. S. A. where opinion is strongly in favour of subsidies as opposed to other forms of protection, (b) Tariffs give equal assistance to all units of the industry and encourage the formation of new companies. Subsidies, however, usually limit the assistance to firms which are already in existence and encourage the trend towards monopolisation. "Where protection is given in the form of subsidies, adequate safeguards are necessary in the interest of new firms. (c) It is difficult to extend the benefit of subsidies to industrial products which are of varying size or quality ; the system is more easily applicable where the products are relatively homogeneous, *e.g.*, in the case of steel, cement, etc. Bounties or subsidies have a more limited scope than tariffs as an instrument of protection, (d) In India, the burden of protective duties falls largely on the well-to-do classes who are the principal consumers of imported goods. A system of bounties or subsidies may have the effect of transferring part of this burden to the less well-to-do classes. A shift in the burden of protection to the general tax-payer may not be equitable in all cases ; (e) In countries, *e.g.*, India, where the demand for imported goods is elastic, the possibility of shifting part of the burden to the foreign supplier is generally stronger under a system of tariff protection than under other methods. The foreign supplier will in many cases reduce his profits and keep the level of prices low in order to retain a share of the market. The burden of protective duties will

## IS

^aU, in such cases, partly on the foreigner, while the burden of a subsidy Or bounty is borne wholly by the national tax-payer. (/) A subsidy or bounty may sometimes lead to over-production or waste by providing an easy method of recoupment of losses at the expense of the tax-payer. This is avoided under a system of tariff protection where the losses due to over-production, etc., are borne by the manufacturer himself, (g) From the financial point of view, tariffs are preferable to subsidies as they provide a source of revenue, while subsidies involve an increase in the national expenditure. Import duties figure on the credit side of the *budget*, while bounties or subsidies constitute a debit item.

19. From the foregoing discussion it is clear that India is not in a position to make extensive use of bounties or subsidies as an instrument of protection. In certain cases, the grant of a subsidy may be justified on grounds of national policy but as experience shows the number of cases where protection can suitably take the form of a subsidy is comparatively small. The Fiscal Commission was fully aware of the limited use which could be made of subsidies in the conditions prevailing in India. Although one of the main objects of the scheme of protection recommended in the report was to reduce the burden on the consumer, the Commission realised that the normal method of protecting industries must be tariff assistance and that subsidies and bounties could only be given in special cases, e.g., **WIKTO** the industry is a new industry, or an industry of military value or a basic industry. Subsidies were also recommended in other cases, e.g., for the manufacture of machinery or partly finished goods. In all these cases, there are special difficulties in adhering strictly to the principles of tariff protection. The Commission's observations on this subject should be noted :—

" The whole question is essentially a practical one, and no definite principle can be laid down. The Tariff Board may sometimes have to decide which stage of an industry offers the best immediate results, and to give the necessary protection to that stage, either following out the results of that protection and giving whatever consequential protection may be necessary to other stages or deciding that the development of the other stages is not a matter of immediate practical politics. These considerations bring out clearly the difficulties of dealing with basic industries by means of import duties. An import duty on a basic industry may involve compensatory duties being placed on a number of products which in themselves may require no protection. In such cases, as we have stated already, the better way may be to assist industries by bounties."

20. In actual practice, subsidies or bounties have been granted to only two industries on the recommendation of the Tariff Board. These industries are the iron and steel industry and the wagon building industry, the products of which are relatively homogeneous. Subsidies were recommended for the cement industry also, but the recommendation was not accepted by Government. The difficulties referred to in the foregoing paragraphs have stood in the way of an extensive application of the system of subsidies and it is unlikely that in the period immediately after the war conditions will change to such an extent as to justify any departure from the policy. Tariff protection or other measures of assistance, e.g., import quotas, should, therefore, continue to be employed in the period after the war as the normal method of protection. Subsidies may be granted in suitable cases on the advice of the Tariff Board which should be instructed to follow the recommendations of the Commission in dealing with claims for assistance by means of a subsidy. It is not possible, however, to accept the suggestion which has been made in certain quarters that subsidies should be used in preference to tariffs and other import restrictions as the normal method of protecting domestic industry.

21. [d] *Quotas*.—In contrast to tariffs and subsidies which operate through the price medium, i.e., by making goods more or less expensive, quantitative controls influence trade directly by limiting the quantity—or in exceptional cases the value—of goods that may be imported or exported. Quota and licensing systems are the principal forms of direct quantitative control, but other methods are also used, e.g., quantitative limitation through the operations of export and import monopolies, tariff quotas under which any excess over a specified quantity is subject to a higher

## U

of direct import control, and indirect quantitative restriction by means of foreign exchange control. A brief reference has already been made to the policy of direct import control which has been adopted in India as a war-time measure. It has been pointed out that the control is being used not for purposes of protection, but to meet the emergency arising from the shortage of supplies, etc. Direct quantitative control and other methods of regimentation of foreign trade have been widely practised in Europe in the interests of domestic agriculture and industry. In India, on the other hand, the use of the quota has been largely confined to cotton manufacturer under the trade agreement with Japan and quantitative control for purposes of protection has been generally avoided. The future of the war-time control is, however, closely linked with the problem of industrial development; it is proposed, therefore, to consider briefly whether quantitative control should be continued after the war as part of the policy of protection.

22. Certain aspects of India's post-war policy have been discussed in the foregoing paragraphs; the conditions in which direct control may be applied as an instrument of protection have also been noted. The issues involved should, however, be examined in greater detail in view of the importance of the subject and the conflicting opinions which have been expressed about the future of the war-time controls. As in the case of tariffs and other devices for the protection of industry, with the exception of subsidies, the opposition to direct import control is strongest in countries which are industrially mature. Where domestic industries are securely established and the need for protection or some form of shelter for the national economy is less than for expanding markets abroad, public opinion is usually found to be in favour of the early abandonment of direct control, as in the U. S. A. quantitative control has been denounced as one of the devices which are "most destructive of international trade" and suggestions have been made that in any multilateral trade convention which may be adopted after the war, the use of prohibitions or quantitative restrictions for the purpose of protecting domestic industries should be totally proscribed. Opinion in the U. K. is no less critical of direct control as practised by other countries, but there is an obvious reluctance to give up this method (or other methods of controlled trade) in the U. K. itself until the difficult problems of the post-war period have been successfully tackled. Each country's attitude to the problem of trade control in the period after the war is determined wholly by the conception of its own interests and India must also consider this problem from the point of view of her own post-war industrial requirements.

23. The main objections to quantitative restrictions, as compared with tariffs, are considered to be (a) quotas introduce an element of rigidity into trade relationships by fixing the quantity of imports in the upper direction. The system has been described as a "non-conformable" type of interference with trade, as distinct from tariffs which are a conformable type since they do not destroy the price mechanism on the functioning of which a private enterprise economy depends. Effective quotas give rise to price differences between the importing and exporting country which are not covered by duty and transportation costs. Under a duty system, on the other hand, so long as the taxed commodity is still imported, there can be no lasting price difference greater than duty plus transportation costs. An extensive application of quotas may thus destroy the very basis of international trade in a world of free competitive economies. (b) There are numerous administrative complications arising from the allocation of quotas among individual importers. The usual solution is to allocate quotas according to the imports of each firm in some previous base year; but the choice of a base year is not an easy one and as time goes by the base becomes more and more obsolete. There is also the problem of finding room for new firms and preventing quota-holders from reaping big unearned profits. None of these difficulties arises under a tariff system which involves the minimum of interference with private enterprise. (c) In the field of international relations, quotas make it difficult to prevent discrimination between countries. The most favoured-nation clause is practically inapplicable to quotas and quantitative restrictions in general. Various systems of quota allocation have been proposed as non-discriminatory but none is considered to be satisfactory. Equal



quotas for all countries are clearly inequitable, while allocation in proportion to imports from different countries in some base year, *e.g.*, "the previous representative period" of the U.S. Reciprocal Trade Agreements, is also open to criticism. It has been suggested that quotas almost inevitably result in discrimination among suppliers, uneconomic diversion of trade, international friction and ill-will,

24. These objections may be considered briefly from the point of view of India's post-war needs. Broadly speaking, the case for the maintenance of direct control in the period after the war rests on the following arguments :—(a) In the immediate post-war period, direct control of trade will be continued in most countries due to the persistence of shortages of supplies, shipping and foreign exchange and the anticipated increase in demand for all types of imported commodities. The war will leave a legacy of disparate price levels, different degrees of inflation, altered balances of payments and an excessive diversion of resources to war industries in all countries. Under such conditions, any immediate reversion to peace-time methods of trade is unthinkable. The controls, if they are to be lifted at all, must be lifted gradually as supplies become more abundant. If there were no other consideration, this factor alone would prevent India from abandoning the controls or modifying them drastically until normal conditions are fully restored in the greater part of the world, (b) But there are other considerations which must be kept in view in determining India's future policy. It has been pointed out elsewhere in this memorandum that Indian industries may have to face acute competition from various sources after the shortages have been removed. New methods of trade involving bulk transactions and the use of State-controlled or State-aided organisations may be adopted by the U.K. and other industrial countries. Protective duties and anti-dumping and countervailing duties are a cumbersome method of dealing with a situation which will demand rapid and effective action. The quota must, therefore, be used after the war, sometimes in combination with the tariff, to protect Indian industries against unfair competition and dumping ; it will also be found useful in cases where other methods of protection, *e.g.*, tariffs or subsidies, are not readily applicable. In many cases, the import quota will give interim assistance to an industry pending enquiries by the Tariff Board, (c) To the extent that industrial development is centrally controlled under some scheme of national planning, the use of the quota and other methods of direct regulation of foreign trade must necessarily become more common. It is not yet clear what part will be played by the State in the development of industry but some form of central direction or control in the initial stages of industrialization appears to be inevitable. A planned economy must also have its system of planned foreign trade and in any such system tariffs and other methods of indirect control, the effects of which are relatively uncertain, are likely to play a less important part than direct quantitative trade control. Bilateral arrangements with individual countries for securing specific quantities of specific commodities in exchange for Indian products on the most economical terms may be increasingly resorted to and quantitative restrictions may be necessary to ensure that the anticipated increase in imports and exports is closely related to the objectives of the plan of development, (d) The principal objection to quotas is that they encourage discrimination and an uneconomic diversion of trade. It should be noted, however, that even free traders accept the use of quantitative restrictions to safeguard a country's balance of payments as a permissible use of the quota. The conditions are that the restrictions will be subject to the approval of some international body, *e.g.*, the proposed international commercial policy organisation, and will be imposed on a non-discriminatory basis. It is apparently conceded that the representative period formula or some similar guarantee, *e.g.*, the guarantee of non-discrimination given by the U.S.S.R. representative in 1931 before the League of Nations Commission of Enquiry for European union, is a useful safeguard against discrimination.

In the case of India, under a system of expansionist planning, there is even less risk of any conscious discrimination or uneconomic diversion of trade as the demand for essential imports will be much larger than in pre-war years and

supplies will be drawn from all available sources. A possible method is to fix the quotas without making any allocation by countries ; individual importers and trade organisations will then be free to buy in the most suitable market. This should further reduce the chances of discrimination. The exact form of the quota and the method of allocation should be prescribed on the recommendation of the Tariff Board which should be instructed to follow the principles of non-discrimination and minimum interference with the normal channels of trade. This does not preclude the application of discriminatory measures by means of the quota or otherwise, for purposes of realisation, (e) The administrative difficulties are not insuperable, though adequate safeguards must be provided in the interests of the consumer and new enterprises ; some form of price control will be necessary and part of the quota may have to be reserved for new applicants who have not imported before.

25. The broad conclusion is that quotas and other methods of direct import control cannot be abandoned after the war. It may even be necessary to continue direct control after the transitional period as part of the plan of India's post-war industrial development. Assuming that a scheme of less than total planning is adopted and the conditions are those of a mixed economy, *i.e.*, a mixture of private enterprise and partial State control, a mixed system of trade regulation should be followed. Protection may be given in the form of tariff aid, or a subsidy, or quota restrictions, or a combination of these methods, in accordance with the requirements of each industry. The Tariff Board should be free to recommend such measures of assistance as may be needed in each case. Existing quota restrictions should not be modified without prior consultation with the Board which should be required to study the effects of the proposed relaxation of direct control on Indian industries before making a recommendation. It may be noted, finally, that those so-called restrictions will not have the effect of reducing world trade if the object of the plan of post-war industrialisation is to develop Indian's resources with a view to raising the standard of living of the people and their purchasing power. Any attempt to restrict India's right to adopt a system of quantitative control for protective purposes in the period after the war should, therefore, be resisted.

R. K. NEHRU.

The 22nd October 1944.

## II. Memorandum on India's Post-War Tariff Machinery

*Approach to problem.*—The purpose of this Memorandum is to consider briefly whether India needs any special machinery for tariff making after the war, and if so, what kind of machinery. There is some reference to this problem in the second report on Reconstruction Planning which suggests *inter alia* that the resuscitation of the Tariff Board should have first claim on Government's attention as soon as normal competitive conditions are beginning to be restored. Certain aspects of the problem have also been discussed in the Memorandum on India's post-war tariff Policy. The principles underlying the policy, which has been described in the Memorandum as a policy of selective protection, have been briefly explained and the suggestion has been made that a body corresponding to the old Tariff Board should be set up in good time, before the cessation of hostilities, so that any investigations necessary may be carried out and protective measures applied before competition becomes acute. In the Memorandum below, this suggestion has been examined in greater detail in the light of experience of the Tariff Board of the inter-war period and of post-war development plans.

2. India's first Tariff Board was appointed in 1923, in conformity with a Resolution of the Assembly which recommended the adoption of a policy of protection.

Parts (a) to (c) of the Resolution denned the scope of the new policy (see Memorandum on post-war tariff policy), while part (d) referred to the composition, functions and period of appointment of the Board. The Resolution reads as follows :—

" That this Assembly recommends to the Governor-General in Council:

(a) that h\* accepts in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India;

(b) that in the application of the above principle of protection, regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue;

(c) that the principle should be applied with discrimination with due regard to the well-being of the community and subject to the safeguards suggested in paragraph 97 of the Report of the Fiscal Commission ;

(d) that in order that effect might be given to these recommendations, a Tariff Board should be constituted for a period not exceeding one year in the first instance, \*hat such Tariff Board should be purely an investigating and advisory body and should consist of not more than three members, one of whom should be a Government official, but with power, subject to the approval of the Government^, of India, to co-opt other members for particular enquiries

3. The Board was formed, not by an Act of the Legislature, but by executive order with the approval of the Assembly. In this it differed from similar bodies in other countries, *e.g.*, the U.S.A., and the British Dominions, where the tariff authority is constituted by law. In the U.K. a/so, an advisory Committee for the regulation of import duties was appointed in 1932, with powers defined by statute. India's first Tariff Board was constituted for a period not exceeding one year in the first instance, but the appointment was extended from time to time for carrying out specific enquiries. The terms of reference of each enquiry, read with the Assembly Resolution, defined the functions of the Board which was required to investigate such cases as were referred to it by Government. The procedure was briefly described as follows in a Government Resolution, dated the 10th July 1923, which constituted the first Board :

" The Government of India will select the industries to be taken up for investigation and determine the order of the enquiry and it will be the duty of the Tariff Board, after such examination as it thinks necessary, to make recommendations regarding the protection (if any) to be extended to these industries ar.d the nature and extent of the protection. Firms or persons (other than those referred to in the next paragraph) desiring that the industries in which they are interested should be investigated by the Tariff Board should apply to the Secretary to the Government of India in the Commerce Department. With their application they should send up a full statement of the reasons why they *consider* that protection should be extended to the industry ".

4. This was not exactly the kind of Board envisaged by the Fiscal Commission on whose recommendations the new policy was based. The Commission pointed out that the successful working of the scheme of protection depended on the existence of a thoroughly impartial and competent Tariff Board which would command the confidence *of* the country and be above suspicion of any subservience, to particular interests. The principle of discrimination on which great stres; was laid implied that protection, while serving the best interests of India, would be so applied as to make the inevitable burden on the community as light as was consistent with the due development of industries and avoid abrupt disturbances of industrial and commercial conditions. It was also necessary, in the Commission's view, to guard against other risks, *e.g.*, political corruption, combinations of manufacturers for the purpose of exploiting the consumer, encouragement of inefficient methods of production, etc. A strong and impartial tariff authority which would make enquiries into the condition of industries and recommend whether they should

be protected or not and if protected, what the rate of protection should be formed an integral part of the scheme of protection outlined in the Commission's report. "The existence of such a Board," the Commission observed, "is presupposed in all the details of our policy". The status, powers and functions proposed for the Board were specifically designed to enable it to play a much larger part in the implementation of the policy than was contemplated in the Assembly Resolution.

5. *Constitution of Pre-war Tariff Machinery.*—The Commission's proposals and the nature of the machinery which was set up by Government are briefly analysed below :—

(i) The policy of protection recommended by the Commission involved the creation of a tariff authority which was different in character from similar bodies in other countries, e.g., the U.S.A. or the U.K. Protection was to be applied with discrimination, subject to a number of safeguards and conditions. Each industry's claim was to be examined carefully, with due regard to the interests of all parties, e.g., other industries, the consuming public, exporters and importers and, finally, Government itself. The Board was to function as an economic tribunal and to adjudicate on the claims of various interests and groups. In countries, e.g., the U.S.A. or the U.K., where a "discriminating" policy has been followed, the main concern of the tariff authority is not so much to weigh conflicting claims and to give "impartial" findings as to ascertain whether a national industry is exposed to competition and, if so, to recommend an increase in the rate of duty. Under the Indian system of protection, however, a quasi-judicial authority was set up to deal with claims for protection.

(ii) It is not clear from the Commission's report whether the intention was to create a statutory authority. The Board was, however, modelled on the U.S. Tariff Commission and the Australian Tariff Board which are constituted by law. Further, the Board was to be a permanent body as consistency and continuity of policy were considered to be of primary importance and, in the Commission's view, these could not be secured except from a permanent Board. It may, therefore, be assumed that the Commission expected the Board to be both permanent and statutory. In the discussions that followed, it was fully recognized that there was something to be said for a permanent Board in that industries tend to grow up in groups and families and, if the policy was successful, it was very likely that there would be constant claims from infant industries. The objection to the proposal in Government's view, was that a permanent Board might "tend to create work in order to justify its existence and thus become an incubus rather than a help". The analysis of the Board's powers will show that these fears were exaggerated, but it was not unnatural that Government should move cautiously in the matter as this was a new experiment involving a break with the traditional policy. The Board was, therefore, appointed for one year in the first instance and it was announced in the course of the Assembly debate that at the end of the year Government would take stock of the position and consider what changes should be made in the machinery. No technical staff was appointed to assist the Board as the intention was that, unlike the U.S. Tariff Commission which is assisted by a number of permanent experts, the members of the Board should carry out personally all investigations referred to the Board.

(iii) As regards the Board's powers, the Commission's recommendation was that the Board should be an investigating body without the power to take decisions. This recommendation was accepted by Government. In the U.S.A. and the British Dominions also, the tariff authority is merely authorized to make enquiries in the majority of cases and to submit its recommendations to Government. The Commission, however, attached great importance to giving the widest publicity to the enquiries so that every interest might have a chance of representing its point of view. It was suggested in the report that the formal enquiry, but not necessarily the entire investigation, should be carried out in public. This recommendation was also accepted. A further point which was stressed in the

report was that the results of the enquiries should be published promptly whether Government agreed with the Board's conclusions or not, and that in cases where Government contemplated acting on the recommendation of the Board, the necessary legislation should be introduced with as little loss of time as possible. The necessity for quick decisions was recognized by the Government spokesman during the Assembly debate, but, as will be shown later, this recommendation of the Commission was seldom followed in practice.

(iv) The Commission made no recommendation on the point whether the Board should be given the power to summon witnesses or to order the production of documents, etc. This power was not conferred on the Board and the procedure followed was to invite firms and persons whose interests were affected to address their representations to the Board. A more important point which gave rise to serious differences of opinion in later years was whether applications for assistance should be addressed to Government in the first instance or to the Board itself. The Commission made no specific recommendation on this point, but Government recognized that public opinion would undoubtedly expect the Board to entertain applications direct and to undertake investigation of its own motion. In the U.S.A. and the British Dominions, with the exception of Canada, the tariff authority is fully empowered to initiate enquiries or to receive applications for protection, without seeking Government's prior approval; in Canada, apparently *all* applications are in practice referred to the Board by the Government Department concerned. In the course of the Assembly debate, Sir Charles Innes, then Commerce Member briefly referred to this point in the following terms: "The Board will be empowered to investigate the question which industries deserve protection..... In practice, this power was never delegated to the Board, except to the limited extent of entertaining direct applications about tariff inequality. From the discussions on this subject, it appears that Government's intention was to retain the power of scrutinizing applications in the first instance before referring them to the Board " but "as a matter of conciliation to agree to the proposition that no application shall be summarily rejected except with the concurrence of the Board "; it was also the intention that the Board should be allowed to propose subjects for investigation. It was considered that a preliminary investigation by Government would (a) be helpful to the Board as only such applications would be referred to it as were *prima facie* likely to succeed, and (b) avoid the risk of friction between Government and the Board. In actual practice, as will be shown below, Government made full use of its power to reject applications without seeking the Board's advice.

(v) The functions proposed for the Board have been listed separately (Appendix). It will be observed that the list is not confined to the investigation of claims for tariff protection, but includes such functions as watching the effects of protection, recommending assistance to industries essential for national defence, enquiring into allegations of dumping and complaints of discriminatory treatment in foreign countries, reporting on the effects of excise duties on Indian industries, advising on proposals for preferential agreements and studying the effects of tariff policy on the cost of living. In the U.S.A. and Australia, the tariff authority has certain administrative functions in connection with the working of the customs laws, but the Commission were strongly of the view that the Indian Tariff Board should be free of all administrative duties. No recommendation was, however, made as to which of the functions should be performed by the Board on its own initiative and which on Government's instructions. Many of these functions were really intended for a permanent Board and, as India's first Tariff Board was set up on a temporary basis, the question of assigning larger functions to it, while it was still temporary, did not arise. As will be shown later, the question of enlargement of the Board's functions was linked with the demand (which was strongly voiced by Indian opinion) for converting the temporary Board into a statutory and permanent organization.

(vi) The composition of the Board was one of the points on which a minority of the members of the Commission (comprising the majority of the Indian members) differed from their colleagues. The Commission recommended the formation of a Board of not less than three members who were to be appointed on the strength of their general qualifications, rather than any special or expert knowledge. The members were to be men of ability, integrity and impartiality and other "desirable qualifications" mentioned in the report were a knowledge of economics and a practical acquaintance with business affairs. A Board representing definite interests, as in Australia, was considered to be quite unsuitable to the functions contemplated, for the Indian Tariff Board. "The various interests", the Commission observed, "whether of manufacturers or traders or consumers will have the opportunity of placing their special views before the Tariff Board during its enquiries, and will further have a chance of pressing their claims in the legislature before a final decision is taken. What is required from the Tariff Board is a perfectly impartial consideration and review of the various interests\* . . . . . which will appeal to it for judgment." It was considered advisable, therefore, to follow the American system under which members of the Tariff Commission "appear to be men of wide general attainments". In their minute of dissent, the minority, however, proposed a combination of the American and Australian models so as to secure the representation of important interests without altering the judicial character of the Board ; their recommendation was that the Board should consist of a chairman who should be a man with actual experience as a High Court Judge, two members elected by non-official members of the Assembly and two assessors elected by the leading Chambers and Mercantile association. The inclusion of elected members in a body which was entrusted with technical enquiries into tariff rates was considered by Government to be "thoroughly bad in principle" as it was likely to give the Board a partisan character. Even in the U.S.A. where conditions are in any case different, the members of the Tariff Commission are appointed by the President, subject, however, to the Senate's confirmation. The majority recommendation was accepted, but to avoid the delays which might be involved if the Board were entirely separate from and independent of Government, it was decided to include a Government officer in it to act as a Liaison officer. Although the object was to expedite decisions by placing the point of view of Government prominently before the Board, it will be observed from what followed that in practice this result was not achieved.

6. To sum up : the Indian Tariff Board was constituted by executive order on a temporary basis and was given certain duties of an investigatory or advisory character. The intention was that, with further experience, the powers of the Board should be enlarged, if necessary, but although the Board's constitution was desired in the Assembly debate as 'purely experimental' no attempt appears to have been made to assess the results of the experiment. There was a growing cleavage during the inter-war period between Indian opinion the bulk of which favoured a more intensive application of the protective policy and certain interests which held the opposite view. This was the main consideration which induced Government to adhere to the accepted policy of discriminating protection and to make no change in the Board's constitution until a general fiscal enquiry could be held. The Tariff Board thus continued to operate on a basis which was intended to be temporary and subject to revision on further enquiry.

7. Certain defects which were noticed in the Board's constitution and procedure and in Government's handling of the enquiries are briefly summarized below:—

*Working of Pre-war Tariff Machinery*

(i) For the first 10 years, i.e., from 1923 to 1933, the Board was in continuous operation and its personnel also maintained a substantial degree of permanence. Some measure of uniformity was thus preserved in its methods of work and general approach to the problems referred to it by Government. The enquiries of this period did not suffer, as in later years, from repeated changes of personnel. During the remaining 6 years of its existence, however, there was a marked change in the Board's character. Although certain individual members continued to serve on successive

Boards, the personnel in the main began to vary with each enquiry and by degrees the Board assumed the character of an *ad hoc* body.

(ii) This change was, however, not deliberate, but was occasioned largely by the following circumstances :—(a) The effect of the policy of discriminating protection was to slow down the development of new industries. Various conditions and safeguards were prescribed which proved a stumbling block for industries applying for protection. No rapid increase could thus be expected in the number of cases for investigation. On completion of the earlier enquiries, therefore, the Board's work was *largely confined to* dealing with claims for the renewal of protection. There were increasing gaps of time between successive enquiries in the later period which made the continuous retention of the Board's personnel difficult for practical reasons. (b) Applications from new industries were first examined by the Commerce Department and were in many cases rejected on a rigid interpretation of the principles of the new policy. This further reduced the number of cases which might have qualified for investigation by the Board. It has been pointed out that Government did not intend to accept the *proposition* that no claim for protection should be rejected except with the concurrence of the Board : in practice, however, the Board was seldom consulted and Government freely exercised the power of rejecting applications summarily. (c) There were only two important functions assigned to the Board, *viz.*, investigation of claims for protection referred to it by Government, and enquiries into complaints of tariff inequality. It is evident that there was not enough work, and certainly not enough *regular* work, for a permanent organization, and in the conditions then existing the Board created *ad hoc* for specific enquiries was considered by Government to be more suitable.

(iii) Certain handicaps from which the Board suffered due to its *ad hoc* character should be briefly noted. It was not easy for a temporary body which was constituted afresh for each enquiry, or group of enquiries, to adhere to "consistent decisions and continuity of policy" which was the objective under the Commission's scheme. Although the *ad hoc* Boards of this period made every effort to follow a consistent policy and to liberalize the interpretation of the principles of discriminating protection, their task would have been less difficult if they had enjoyed a permanent character. Quick changes of personnel which marked the working of the *ad hoc* Boards had a two-fold effect ; first delays were caused in completing the enquiries as many of the new members needed time to familiarize themselves with the work ; secondly, frequent changes created a sense of insecurity and gave rise to the apprehension that members might be tempted to sacrifice their independence of judgement in order to secure re-appointment. "It is notorious" says a critic of the policy, "that the method of constituting the Board has made certain persons who are already members of the Board and desire their re-appointment and others who are seeking appointment to the Board, dependent on the executive". That this suspicion was not justified is evident from the fact that in many cases the Board's recommendations were rejected by Government and in others an open conflict between the Board and Government was avoided with difficulty. The Board's capacity to influence decisions was, however, greatly affected by its temporary character and the short terms for which members were appointed. The remedy for this defect was that the Board should be given a permanent constitution, which was all the more necessary as the Board did not have a permanent technical staff which might have supplied the element of continuity. Government was, however, disinclined to consider any proposal which might lead to the emergence of the Board as a rival tariff-making authority. Since the Board would have remained an advisory body, like the permanent Boards of other countries, it is obvious that the fears entertained by Government were not justified.

(iv) In an earlier paragraph, it has been pointed out that the Commission expected the Board to be both permanent and statutory. The demand was, however, primarily for a Board of a permanent character, although it was recognised that a statutory constitution would add to the Board's prestige and clarify the position in regard to the Board's functions and powers. A statutory constitution might have

(vi) It will be necessary for India to participate to an increasing extent in international trade in the earlier stages of industrialization ; a large inertia in imports and exports may be expected, but the character of the trade cannot be left wholly to private choice ; a planned development of industries most necessarily involve some system of planned foreign trade.

(vii) A policy of discriminating protection is not likely to meet the requirements of the post-war period. The policy must be revised on the lines indicated in the Memorandum on post-war tariff policy. The principle of selection must, however, be preserved as it forms the basis of all planned development.

(viii) Whatever investigations are necessary for giving effect to the new policy of trade control must be completed in good time before normal competitive conditions are restored. Any machinery to be set up for assisting Government in the implementation of the policy must be brought into existence before the termination of the war so that protective measures may be applied as soon as the threat to an industry becomes serious.

9. The points mentioned above give some idea of the kind of problem that is likely to arise in the immediate post-war period and the nature of the policy that India may find it necessary to adopt. The question of machinery has a two-fold aspect:—(a) It is not possible for a number of Administrative Departments, e.g., Finance, Commerce, Industries, etc., to administer such a policy successfully without the active assistance and advice of a body which can devote its time to the intensive study of each problem. Technical enquiries may be necessary in many cases involving a visit to factories, examination of costs and discussions with industrial leaders and others. The fiscal, industrial and commercial aspects of a proposal will require the most careful scrutiny. Expert assistance from a body which is not immersed in the day-to-day routine of administration will, therefore, be needed by the Departments of Government.

(b) Apart from any question of detailed study of the technical aspects of a case, it will be in the country's interests if the Departments are advised on all matters pertaining to commercial and industrial development and questions of fiscal policy by an authoritative body which can take a broad view of the problem of national development as a whole. Co-ordination of policies and plans will be necessary so that the actions of Government may fit into a consistent scheme which is designed to further the economic interests of the country. Without the support and assistance of a body which is capable of taking a comprehensive view of the problem as a whole, Government's energies may be dissipated in giving departmental decisions which are not properly correlated, and the plan of development may be stultified. Both in the carrying out of specific investigations and in assisting Government to formulate a policy for the economic development of the country, the proposed organization has a valuable and constructive part to play.

10. *Constitution of proposed Board of Trade and Industries.*—In the light of the foregoing discussion certain proposals of a tentative character have been made below for the constitution of a Board which will take the place of India's pre-war tariff machinery :—

(i) The Board should be a statutory body. It should have a recognized place in the constitutional machinery for the formulation of industrial and commercial policy and the enactment of legislation on these subjects. A statutory constitution will not merely define the powers and functions of the Board and set out its procedure clearly, but will also lay down the principles of protection about which some doubt has existed in the past. It will have the further advantage of giving the Board a high standing and making its membership attractive for men whose advice will be of value to the State.

(ii) The Board should be permanent so that full benefit may be derived from an experienced personnel and some element of consistency and continuity may



be preserved in its operations. Only a permanent and statutory Board can undertake the functions mentioned below and play a suitable role in the economic administration of the country. This does not, however, imply that the members should hold office for indefinite periods or be irremovable. The proposal is that the Board should be a full-time Board, comprising a Chairman and not less than five members, who should hold office for a period of three years, subject to re-appointment for a period of two years. The appointment or re-appointment of the members should provide for their retirement by rotation and Government should have power to suspend or remove a member for misbehaviour or incapacity.

(iii) Proposals have been made in the past that in order to establish contact between the Board and Government, the Chairman of the Board should be given the powers and status of an Additional Secretary and be attached to the Commerce Department with the designation of Tariff Commissioner. While contact is essential, the proposed arrangement is open to the objection that it reduces the Board to the status of an attached office or a branch of one of the Departments, although the functions proposed for it below entitle it to a much higher status. The Board should, therefore, be an independent body and its relations with Government should be defined by statute.

(iv) Government officers should not be debarred from membership of the Board but the Act should provide that not less than two-thirds of the members, including the Chairman, shall be men who at the time of their appointment were not holding office under the Crown. It is not necessary to prescribe the qualifications of the members by statute, but in selecting the personnel, Government should be guided by the recommendations of the Commission, viz., that the members should be "men of ability, of integrity and of impartiality, and other desirable qualifications and a knowledge of economics and a practical acquaintance with business affairs". The expression "men of impartiality" does not, however, imply that a candidate for appointment should be free of all attachment to any economic doctrine and should have an open mind on India's fiscal, industrial or commercial problems. On the contrary, it is important that members of the Board should be men of conviction and progressive ideas who have fully accepted the broad aims of a policy of rapid industrialization. The Act should provide for the appointment of assessors, representing business and industry, to assist in tariff investigations.

(v) The Board should be an advisory body, but it may be useful to provide that certain administrative functions may also be assigned to it at Government's discretion. It should further be provided that claims for assistance may be presented either to the Board or to Government, and if presented to Government in the first instance, they shall invariably be referred to the Board. There should also be provision for the initiation of enquiries by the Board of its own motion if the subject of the enquiry is included in its list of duties. In all cases, the recommendations of the Board should be submitted to the appropriate Department of Government.

(vi) It will be seen from the functions proposed for the Board that it is not the intention that it should operate mainly as an "impartial authority", like the pre-war Board, to carry out quasi-judicial investigations; the intention is that it should play an active part in recommending measures for the development of industry and trade and the readjustment of the fiscal system. Tariff investigations and other enquiries involving a scrutiny of costs, and the examination of witnesses will, however, still be necessary and it is essential, therefore, that the Board should be armed with the power to send for witnesses and documents and to order the production of samples. At a later stage, perhaps, if experience shows this to be necessary, further powers of a judicial character, e.g., the power to administer oaths, might also be conferred on the Board.

(3) To investigate the relations between the rates of duty on raw materials, partly finished products and finished products ; to make recommendations for adjustments in these rates, and to suggest solutions for conflict\* of interest between different industries.

(4) To report which industries need assistance on the ground that they are essential for purposes of national defence, and in what manner such assistance can most conveniently be given.

(5) To enquire into allegations that dumping is taking place to the detriment of any Indian industry, or that any Indian industry is being injured by competition resulting from the depreciated exchange of any foreign country or from export bounties, and to make recommendations for any action necessary.

(6) To consider the effects of excise duties on Indian industries.

(7) To report on what commodities revenue export duties can safely be levied and at what rates.

(8) To consider the effects of *ad valorem* and specific duties and tariff variations on various articles, and to make recommendations for any changes that may be desirable.

(9) To consider to which articles preferential rates of import duty in favour of the United Kingdom might be extended and what the preferential rates should be.

(10) To report on proposals for preferential agreements with any of the British Dominions or Colonies.

(11) To investigate questions in connection with treatment of Indian products by foreign countries and the advisability of taking any retaliatory action in special cases.

(12) To investigate any complaints regarding combinations of manufacturers to the detriment of the Indian consumer and to make recommendations for any necessary action.

(13) To watch generally the effects of the tariff policy on the cost of living.

(14) To study the tariff systems of other countries.

### III—Memorandum on India's Post-War Tariff Policy and Machinery

#### I

In their statement of Industrial policy, the Government of India have announced that " the formulation of a tariff policy appropriate to the postwar needs and conditions of the country is under active consideration". This question was examined some months ago at the instance of the Reconstruction Committee of Council. Commerce Department were asked by the Committee to prepare a memorandum on India's tariff policy " with reference to postwar industrial development ". Two memoranda were accordingly prepared, the first of which dealt with tariff policy, with special reference to postwar protection , and the second with the allied question of postwar tariff machinery. These studies were of a preliminary character, embodying certain tentative conclusions on which the views of other Departments have been obtained. A further attempt must, therefore, be made to examine this problem from the point of view of Government's postwar, development plans.

2. When the first memorandum was under preparation, there was some uncertainty about these plans. It was, however, assumed that intensive industrialization would be the leading postwar objective. On that assumption, the suggestion was made that "the trade and tariff policies of the future must conform to the new requirements of industry ", The necessity of safeguarding other interests, *e.g.*, the interests of the consumer and the exporter, was strongly emphasized

in the memorandum. Nevertheless, the criticism has been made that " the first memorandum lays undue stress on industrialization ..... and conveys the impression that the development of industry is the main factor in determining the various policies and measures....". The answer to this will be found in Government's Statement of Industrial policy which fully confirms the basic assumption of the memorandum. No final decisions have been taken in this matter, but Government have given some indication of the lines on which postwar economic problems will be tackled

3. Certain points from the Statement of Industrial policy which have a bearing on tariff and trade problems are briefly summarized below:

(a) Industrial development is necessary in order (i) to increase the national wealth by the maximum exploitation of the country's resources ; (n) to make the country better prepared for defence ; and (Hi) to provide a high and stable level of employment.

(6) Government must take positive steps to encourage and promote the rapid industrialization of the country to the fullest extent possible, particular importance being attached to the development of those industries which constitute the basis of modern industrial life.

(c) A number of industries for which a common policy is desirable must be brought under central control and the field for State enterprise must be considerably widened.

(d) The development of industry must be planned by Government in cooperation with the industries concerned- It may be necessary to fix "targots" for each industry to prevent excessive competition and waste. Controls (which should be the very minimum required) may be necessary to secure *inter alia* that all available resources are utilized on a balanced plan of agricultural, industrial and other development, and that inside the field *ci* industrial development a balance is kept between the manufacture of capital and consumer goods. Agricultural development must be undertaken almost wholly under the auspices of the State.

4. The broad principles underlying this declaration of policy are:—(i) that economic progress depends on a fuller exploitation of the country's resources; (ii) that excessive dependence on primary production must be corrected by the intensive development of manufactures ; (Hi) that certain basic industries must be set up with a view to strengthening the economic structure ; and (iv) that development must be controlled by the State and planned in consultation with the interests concerned. Over a wide area, private enterprise will have free play and State intervention will be reduced to a minimum ; but important sectors of industry will be controlled and Government's policy will be, as far as possible, to regulate the development of industry and agriculture in accordance with some order of priorities. An economy which is largely planned needs the support of a system of controlled foreign trade. India's tariff policy will, therefore, require some modification so that the working of the plans may not be disturbed by adverse trade conditions.

5. Before discussing the nature of these modifications, some reference should be made to India's trade requirements and other factors which are likely to influence the formulation of tariff policy. The plans of controlled industrialization will give rise to new demands which may have far reaching effects on every aspect of economic life. Some of these factors (which have already been discussed in the first memorandum) are summarized below

(a) The new industries will require heavy equipment, machinery and raw material from abroad. A large increase in imports of these commodities may be expected, but in the early postwar years there will be a shortage of supplies and foreign exchange which may hamper India's import trade. Both direct and indirect assistance will, therefore, be needed from Government to facilitate imports of essential commodities from the most convenient sources. Arrangements for the liquidation of the wartime balances which have accumulated in the U. K. and the

SO

release of dollars from the Empire pool fall under this head. The method of liquidation of the wartime balances in particular, will exercise a powerful influence on postwar trade and tariff policy.

(r) Certain types of consumer goods will be in great demand from the more prosperous classes whose numbers are likely to increase with the expansion of industry. It is assumed that the additional wealth created by industrial development will be so distributed as to raise the income and purchasing power of a growing section of the population. Control of imports of consumer goods will, however, be necessary to conserve foreign exchange for more essential imports and as a measure of protection for domestic industries in the earlier stages of industrialization. The relatively higher rise of prices in India has intensified the need for protection.

(c) In the past, India has found it necessary to maintain a high level of exports in order to achieve a favourable balance of trade for the purpose of meeting interest and other charges on the nation's external debts. The war has, however, changed India's status to that of a creditor nation. The pressure to export has thus been relaxed, but the maintenance or expansion of India's export trade will still be necessary for two reasons: first, for balancing the anticipated increase in imports, and secondly for raising the purchasing power of certain groups in this country on whose effective demand the new industries will mainly rely. To the extent, however, that India is able to operate freely on the wartime balances which have accumulated in the U. K., or to obtain foreign loans for purposes of development, the pressure to export will be still further relaxed.

(d) India's capacity to export certain types of goods, e.g., raw materials and foodstuffs, will be progressively reduced as a result of increased domestic consumption. Other classes of goods of which India is a leading producer will be in steady demand, but it will be necessary to diversify India's export trade and to develop new markets. The trend will be for exports of manufactures and processed goods to increase at the expense of primary commodities and semi-manufactures. Trade prospects are good, owing to the elimination of Japan as a possible competitor, but existing price disparities may weaken India's competitive position when normal conditions are beginning to be restored. Government action will be needed for the removal of this handicap and for the organization of India's export trade on a fully competitive basis.

(e) Measures of control will be necessary in order that trade may develop on lines which will promote industrialization without causing undue hardship to the consumer or serious injury to other interests. Some loss is inevitable, e.g., the consumer may be deprived for a temporary period of the benefit of imports of cheap foreign goods, and Government may lose customs revenue; but if industrial development is planned on the basis recommended in this memorandum, i.e., with due regard to the principle of natural or economic advantage, the ultimate gain to the community as a whole will fully outweigh any temporary loss. Further reference has been made to this point in part II of this memorandum.

6. Certain critics have found fault with the plans of industrial development on the ground that they "..... appear to aim at self-sufficiency—the reduction in the imports of consumption goods which can be made in India and the deliberate discouragement of others by high tariffs, and a change in agricultural production from those commercial crops, such as tea, jute, cotton and oilseeds, which are mainly exported, in favour of increasing production of the staple food crops" (*CAPITAL* 7-6-45). This has been described as a case of "autarchy pure and simple" and the observation has been made that "India's general outlook on foreign trade is not notorious for its devotion to any creed other than self-sufficiency". It is not easy to convince critics who have been bred in traditions of hostility to the industrialization of the backward regions of the East. Two points should, however, be noted. In the first place, India's plans of development are in substantial accord with the first of the three objectives of Article 7 of the Mutual Aid Agreement. The Article provides

Joint "agreed action by the U.S.A., and the U. K., open to participation by all countries of like mind" directed to the attainment of certain objectives, the first of which is "the expansion by appropriate international and domestic measures of production, employment, and the exchange and consumption of goods". Secondly, while it is a fact that India's import and export trade will be subject to regulation, the total value and volume of both imports and exports are likely to expand. The aim is to attain self-sufficiency, but only in those classes of goods which India is capable of producing on an economic basis, or which should be produced in India for reasons of national policy. No industrial economy, as the experience of other countries shows, can be wholly self-sufficient and India's foreign trade may, therefore, be expected to increase with the growth of industrialization.

7. Foreign trade is, however, not an end in itself, but a means to an end which may be briefly described as the promotion of India's economic interests in accordance with the plans of development. The other objectives of Article 7, especially the one relating to the removal of trade barriers and the reduction of tariffs, should, therefore, be considered in the light of the development plans. From the foregoing discussion, it is clear that India cannot pursue an isolationist policy during the process of industrialization; trade relations will have to be developed with all countries which are capable of meeting India's essential requirements and absorbing her surplus output. A system of multilateral exchange will suit India best, but this should not preclude bilateral negotiations or trade agreements which are specifically designed to promote trade with individual countries. Cooperation with other countries does not, however, imply that India should abandon the right to protect her industries or to regulate trade in accordance with the requirements of the plans. Under such conditions, there could be no substantial increase in the purchasing power of the Indian people and any contribution that India might make to world trade would be negligible. The conclusion, therefore, is that while India is prepared to cooperate with other countries, the terms of cooperation should not be such as might hamper industrial development. This question will be examined separately, in greater detail, in connection with the proposal for the adoption of a multilateral trade convention based on the provisions of Article 7.

8. Another point which calls for an explanation is the scope of the measures discussed below. The tariff as an instrument of trade policy has been largely superseded by direct State control under conditions created by the war. In the immediate postwar period, direct control of trade and other restrictions are likely to continue in most countries and the tariff will play a subsidiary role. The period of transition is expected to last until "normal peace conditions" have been restored; the length of this process will, however, vary in accordance with the extent of dislocation suffered by each country's economy. In many countries, industries have been totally wrecked, while in others, e.g., India, inflationary conditions and other factors may delay the transition. The problem should also be considered from the point of view of long-term objectives. In the leading industrial countries, e.g., the U.S.A., and the U.K., which have attained a high level of production and are faced with the need for an expansion of exports as a means of maintaining full employment, the reversion to prewar methods of trade may not perhaps be greatly delayed. The main concern of the industrial powers is to hasten the change from wartime conditions of restricted trade to conditions of free enter-

prise. In India, however, the process of transition is likely to continue until the objectives of the plans of postwar development have been substantially realized. The distinction between short-term and long-term measures for the control of trade which has figured prominently in discussions of international trade policy has less significance for a developing country than for the advanced industrial powers.

It is, necessary, therefore, to include in this study of tariff policy certain methods of trade control which are in operation at present but may be gradually abandoned by the leading industrial countries after the war.

## II

9. It is proposed in this memorandum to consider, first, the principles of tariff policy in relation to the plans of postwar industrialization and, secondly, certain

proposals for the constitution of a tariff authority. These questions have been examined in detail in the first two memoranda the main conclusions of which have been summarized below.

The first memorandum traced the evolution of the Indian tariff and referred to the working of the policy of discriminating protection. The main characteristics of the policy were discussed and attention was drawn to certain defects of procedure. India's tariff, it was pointed out, was originally a revenue tariff and, although its character has changed in the last twenty years as a result of the adoption of a policy of protection and the grant of preference to Empire products, it is still primarily a revenue tariff. Not more than 14 out of 100 items of the customs schedule are protected items and, due to the preponderance of revenue items, the average overall incidence of the tariff, as ascertained by linking all customs receipts to the appropriate tariff numbers, is at present only 33 per cent. The policy of protection is based on a resolution of the Assembly which was adopted in the Budget session of 1923. The following principles were set out in the resolution :—

(a) Government's fiscal policy may legitimately be directed towards fostering the development of industries in India ;

(b) in the application of the principle of protection, regard must be had to the financial needs of the country and the present dependence of the Government of India on import, export and excise duties for a large part of their revenue ;

(c) protection should be applied with discrimination, with due regard to the well-being of the community and subject to the safeguards suggested in paragraph 97 of the Fiscal Commission's Report.

Full details of the formula of protection and other suggestions made by the Commission will be found in paragraphs 7 and 8 of the first memorandum. The enquiry into the working of protection disclosed that the relatively slow progress of industrialization during the interwar period was due in part to " the restrictive effects of the triple formula " and in part to " the inner conflicts of tariff policy, more particularly the class between Government's revenue needs and the policy of protection. "

10. If Government's intention is to play an active part in the planning and execution of schemes of postwar industrialization, it is evident that this policy must be modified. " Discriminating protection " it has been pointed out " has no relevance at all to the planned industrialization which is now in prospect " (*EASTERN ECONOMIST*, 9-3-45). The reasons given are that—

" Under a planned economy, the duty of the State is clear. It should plan the lines of development, lay down what industries should be established and developed and indicate the priorities involved in industrialization, fix targets and finally ensure that all the objectives are fulfilled. The drawing up of a plan in itself implies that certain industries should be developed fast or slow and that the volume of protection should be varied so as to conform to the plan. Hence all discussion as to how far the principles governing the selection of industries for the grant of protection should be liberalized is irrelevant."

This statement, however, overlooks the fact that the plans of development must be framed on some principle of selection if the cost of industrialization to the community is to be kept within bounds. Moreover, planning and State control will be confined to certain sectors of industry while other sectors will be left to the free operation of private enterprise. India's resources are limited and it is clearly undesirable that they should be frittered away by encouraging development on lines which are not economically sound. It is necessary, therefore, to lay down the principles which should be followed by Government—(i) in selecting an industry for the grant of protection or other forms of assistance, and (ii) in determining the measure of protection or assistance required and the conditions on which this should be given. In view of the doubts which exist in regard to Government's policy, a brief statement should be issued giving some indication of the principles on which

the new policy will be based. Any action which Government may propose to take in the near future, *e.g.*, in connection with the establishment of a tariff authority should be explained in the statement. In the second memorandum, the suggestion has been made that the case of each industry should be examined by the tariff authority, *viz.*, the proposed Board of Trade and Industries, and recommendations should be submitted to Government. The constitution and functions of the Board will be discussed later; if a planning authority is also set up to advise Government, the results of these enquiries should be considered by that body before final decisions are taken.

11. The principles of selection have been outlined briefly in paragraph 15 of the first memorandum; these suggestions are confined to tariff aid, while other forms of assistance to industry, *e.g.*, subsidies and quotas, have been examined in paragraphs 16 to 25 of the same memorandum. These three methods of trade control have certain characteristics in common, *e.g.*, all three seek to assist industry through the movement of goods; the difference between them lies in the fact that while tariffs and subsidies influence trade indirectly through the price mechanism, the effect of quotas or quantitative control on the movement of goods is more direct. The first memorandum recommended that, during the process of industrialisation, Government should follow "an elastic policy, the method of trade control or protection varying with the needs of each industry and the changing requirements of the plans of industrial development". It was further suggested that "the exact form of Protection or nature of assistance to be given to an industry will be a matter for investigation by the Board; the choice will be between a variety of measures and instruments of protection and, as stated above, it may be necessary to combine tariff protection with other methods of trade control". The views expressed in the first memorandum have been generally accepted by the Departments concerned, subject to a few minor criticisms. In the light of these criticisms, fresh proposals have been made in the paragraphs below for the enunciation of a policy which is suited to India's postwar requirements.

12. The proposals relating to the principles of protection and the use of the tariff for protective purposes are briefly outlined below;—

(a) As a corollary to the declaration of industrial policy, an announcement should be made to the effect that tariff aid or other forms of assistance will be extended by Government to any industry which is included in the scheme of development or satisfies certain necessary tests. The term 'industry' should not be held to exclude other branches of production, *e.g.*, agriculture. The protective aspect of the tariff will thus gain in importance over other aspects, *e.g.*, revenue or preference, but as will be explained later, in a scheme of planned development, tariff protection by itself may be found to be an unsuitable method of assisting industry.

(b) It follows from (a) that a policy of protection which is "hedged in with conditions and provisos" (see minute of dissent appended to the Commission's Report) is not suited to postwar requirements. The expression "discriminating protection" is liable to be misunderstood; the qualifying phrase should, therefore, be dropped and the policy should be defined as a policy of protection which will be applied in accordance with the instructions issued to the Board. The question whether these instructions should be embodied in an Act of the Legislature will be discussed later. The point to be stressed is that the plans of industrialization require the adoption of a more deliberate and purposeful policy of protection than has been the case, previously.

(c) While rigid conditions are out of place in a scheme of rapid industrialization, some criteria must be laid down for determining whether an industry should be protected. Tariff protection has an immediate effect—(i) on the consumer who is required to pay a higher price for the imported article; (ii) on other industries which may be adversely affected by the rise in price of the imported article; and (iii) on Government's revenue from customs duties. This effect may be successfully countered if the price of the imported articles is reduced; in general, however, tariff protection causes some immediate loss to certain domestic interests. The sacrifice

might be fully justified if the immediate gain to other interests, or the ultimate gain to the community as a whole, is likely to exceed any temporary loss; but no final verdict on this issue is possible unless the circumstances of each industry are examined in the light of the criteria prescribed.

(d) Industries fall in three groups— (i) basic industries the development of which is necessary for strengthening the economic structure; (H) industries essential for purposes of national defence; and (Hi) all other industries, especially those producing consumer goods. Some of these may be established industries which are faced with the prospect of foreign competition, while others will be new industries, i.e., industries which are in need of some guarantee of protection, or other form of State aid, as a condition precedent to their establishment. On the subject of protection to new industries, the Commission observed that "the general level of revenue duties would give a new industry as much tariff assistance as it would require at the start and further assistance, if needed, could be given in the form of bounties". The Commission were, however, careful to add that this did not mean that "never under any circumstances should tariff protection be granted to a new industry, but we have no doubt that in ordinary cases other forms of assistance are far preferable." This is a sound rule, but under postwar conditions some modification of the policy is essential. Revenue duties are an uncertain factor which cannot give the kind of assurance needed by a new industry. Moreover, in the postwar period, there will be a large number of new industries in need of some assurance of protection and it is evident that the use of subsidies will not be practicable in all cases. It is, therefore, suggested that while new industries should be considered eligible for protection, the Board should have discretion to recommend any form of protection or assistance, including direct control of imports or a combination of protective measures, which would meet the requirements of the CAJO while minimizing the danger of loss to the community on which the Commission laid stress. In particular, the South African device of suspended duties which are intended to give an indication to prospective investors and industrialists as to the classes of industry to which the State is prepared to render assistance, and the extent of the assistance should be freely made use of.

(e) The new principles of selection should apply equally to all industries in group (Hi), whether these industries are new industries, or industries already in existence. Before a decision is taken to protect such industries, or include them in the scheme of development, the Board should be required to investigate and report the following points:—

(a) whether, having regard to the natural or economic advantages enjoyed by the industry and its actual or probable cost, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance;

(b) the desirability from the national point of view of protecting or assisting the industry, the probable costs to the consumer, and the ultimate gain that is likely to accrue from the full development of the industry.

These instructions should replace the conditions laid down in paragraph 97 of the Commission's Report. It is not necessary to define the advantages which an industry must possess and the Board should have discretion to interpret this term liberally. Ordinarily, an industry in group (Hi) should only be protected or actively developed with Government's assistance if the enquiry shows that there is a reasonable prospect of the industry being able to dispense with assistance. Consumer goods industries which are of an uneconomic character would not ordinarily qualify for protection.

(f) As regards industries in groups (i) and (ii), the Commission's recommendations were— (i) that the decision whether protection should be given to basic industries should rest rather on considerations of national economics than on the economics of any particular industry; and (ii) that industries which are essential



for purposes of national defence, and for which the conditions in India are **not** unfavourable, should, if necessary, be adequately protected, irrespective of any general conditions which might be laid *down* for the protection of industries. These recommendations have not been followed in actual practice and the tendency has been to apply the same principles to each industry, regardless of its place in the national economy. Government's postwar plans, however, envisage the development of a number of basic industries. These industries must be adequately protected or assisted in other ways, irrespective of the considerations set *out* in (a) of subparagraph (e), but it is necessary that all relevant facts concerning each industry, including the cost factor, should be carefully examined before a decision is taken to develop such industries. A report from the Board should, therefore, be called for, as in the case of group (Hi) industries, but the conditions should be less rigidly applied and greater emphasis should be placed on the national importance of the industry than on considerations of cost. The enquiry procedure may, however be dispensed with in the case of war industries, *e.g.*, manufacture of armaments which are operated by Government or under Government control.

(g) In examining a case for protection, the Board should be authorized to make recommendations on a broad basis with a view to encouraging the development of all branches of an industry which are capable of being developed and also where necessary, of other industries which are closely related to the protected industry. The policy of protection should be liberally interpreted and the piecemeal treatment of each industry and each branch of an industry, in isolation from others should, as far as possible, be avoided. It should be open to Government on the recommendation of the Board, to lay down conditions for the grant of protection, or the continuance of protection, and to fix the period of protection. The protected industry may thus be required to effect certain improvements in its methods of working, to regulate the quality of its products and to charge a fixed price to the consumer. The last condition is of vital importance in any scheme of planned industrialization. Questions of labour policy, technical assistance, etc., should, however, be treated as a separate issue affecting all industries and not protected industries alone.

(h) The formula for determining the measure of protection required by an industry, *i.e.*, the equation of the price of the imported article with the fair selling price of the Indian article, does not need any modification. In examining the costs of an industry, however, due allowance should be made for such special factors as the high prices paid for capital and other equipment purchased during and immediately after the war. Replacement costs (which may be very much lower than the prices actually paid) will not provide\* a satisfactory basis for determining the fair selling price. The protection should ordinarily be just sufficient to enable the industry to meet its competitors on terms of equality over a period of years; the object should be to provide an incentive to the national industry to improve its technique and working arrangements with a view to expanding the output and/or lowering production costs. High protective or prohibitory tariffs which give a larger measure of protection than is strictly needed are liable to encourage inertia and inefficiency and are opposed to the consumer's interests. The defect of the formula is that the margin allowed is too small to make the protection effective in a period of falling prices. Anti-dumping or countervailing duties may be applied in such cases, but this is a cumbersome method of protecting industries when conditions are unstable and rapid protective action is needed. The correct remedy as has been suggested below is to use the quota in combination with protective duties, or as an alternative to such duties, when competition from abroad threatens the existence of an Indian industry.

(i) Other aspects of the tariff should also be considered. The revenue aspects has been examined in the first memorandum and Finance Department's comments are that they " must continue to insist that in formulating tariff policy the revenue needs of Government must not be overlooked " ; they, however, agree that " in computing the effect of protective action on revenue, due account should be taken

## M

*inter alia* of fresh sources of revenue or expansion of revenue in other directions resulting from the development of a protected industry ". It has been explained above that India's tariff is at present primarily a revenue tariff and that the resolution of 1923 on which the existing policy is based lays stress on " the financial needs of the country and the present dependence of the Government of India on import, export and excise duties for a large part of their revenue ". The position has, however, changed since the resolution was adopted and the tendency now is for increasing reliance to be placed on direct taxes and excise duties. The further expansion of these sources of revenue depends on the progressive industrialization of the country. Moreover, industrialization, by increasing the demand for certain classes of imported goods, may help to maintain the level of revenue accruing from import duties. A rough estimate of the total revenue from various sources during the postwar period was prepared some months ago by Finance Department. The figures are reproduced below :—

		1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52
Customs	Crores Rs.	35,00	45,00	60,00	60,00	55,00	50,00	45,00
Central Excise	do	40,00	45,00	50,00	60,00	70,00	80,00	85,00
Corporation & Incoms Tax	do	115,00	95,00	80,00	85,00	90,00	90,00	90,00
Other heads	do	11,50	11,80	11,70	11,95	11,20	13,00	13,00
TOTAL		201,50	196,80	201,70	216,95	227,20	233,00	233,00

It is evident from these figures that Government's revenue interests will not be adversely affected by a policy of large scale and rapid industrialization, provided that due care is exercised in the choice of industries for development. This does not mean that revenue considerations can be ignored, for as Finance Department have pointed out " the importance of paying attention to the revenue aspect of the matter will be particularly vital in the postwar period during which Government will require all the funds that can be mustered in order that they may be able to implement the widespread development measures which they now have under consideration. " But the new conditions demand acceptance of the principle that where a case for protection has been established after an enquiry by the Board, revenue considerations will not be allowed to influence unduly Government's decision on the *question* whether the industry should be protected; in determining the method of assistance, however, Government may freely consult their revenue needs and interests. It has been suggested that " the expression ' unduly ' is likely to make this recommendation rather halting in practice. " The intention, however, is not to exclude revenue considerations, but to remove the emphasis from this, so that the use of the tariff for protective purposes may present fewer obstacles. The protective aspect has been further emphasized by the suggestion that if an established industry is affected by a change in the rate of a revenue duty, it should be given an opportunity of making out a case for the restoration of the old duty. As some doubt exists in regard to Government's attitude to the revenue factor, a brief reference should be made to the new principles in the statement of tariff policy.

(:/) The preferential aspect will be considered separately in connection with the proposal for India's adherence to a multilateral trade convention. Thus is a controversial issue on which opinions differ and discussions as to the future of preference and other forms of discriminatory treatment are still proceeding at expert level between the Governments of the U. K. and the U. S. A. It is not proposed to express any views on the merits of the question until some concrete scheme has emerged, but in view of the past history of the case, it is desirable to give some assurance to Indian interests that *no preference* will be granted in future on any article unless

•certain conditions are fulfilled. The following conditions were suggested by the Commission—(i) that the approval of the legislature should be taken ; (ii) that preference should not in any way diminish the protection given to Indian industries ; and (iii) that on balance no appreciable loss should be caused to India. In view of the possible repercussions of preference on the plans of industrialization and India's postwar trade, the conditions should be made more stringent. The statement of tariff policy should make it clear that no decision has been reached in regard to the future of Empire preferences, but Government have decided that any proposal for the conclusion or renewal of a preferential agreement shall first be scrutinized by the Board whose report shall be placed before the legislature and that the verdict of the non-official members of the legislature shall be accepted.

13. The general principles of protection and the use of the tariff for protective purposes have been discussed above. There are other methods, however, of assisting industry through trade channels which should also be considered. A detailed study of measures of direct assistance has been made in the first memorandum and the proposals are briefly reviewed below :—

(a) Paragraph 16 to 20 of the first memorandum deal with the question of subsidies ; the case for and against subsidies as an instrument of protection has been discussed at length and the following conclusions have been recorded :—

" India is not in a position to make extensive use of bounties or subsidies as an instrument of protection . . . . . Tariff protection or other measures of assistance, e.g., import quotas, should, therefore, continue to be employed after the war as the normal method of protection. Subsidies may, however, be granted in suitable cases on the advice of the Board which should be instructed to follow the recommendations of the Fiscal Commission in dealing with claims for assistance by means of a subsidy ".

It is not necessary to repeat the arguments which have been put forward in support of this view. Certain objections have been raised by the Departments, the main burden of the criticism being that subsidies should not be ruled out "as in many cases they will be the only correct method of assistance that Government should give". The proposal made in the first memorandum has evidently been misunderstood. It is not the intention that subsidies should be "ruled out", but in view of the pressure to which India and other countries will be exposed after the war to abandon all forms of protection, other than direct financial assistance to industry, it is necessary to emphasize that subsidies cannot be used in preference to tariffs and other import restrictions as "the normal method of protecting Indian industry". Whether or not a subsidy should be regarded as the "correct method" in a particular case is essentially a practical question which must be considered with reference to the circumstances of each industry. The determining factors are Government's financial resources, the nature of the industry, the number and character of the industrial units, the relative advantage, if any, of spreading the burden of protection on the community as a whole, the effects of a subsidy on various domestic interests, etc. As a rule, direct financial assistance by the State is a more suitable method in the case of basic industries and industries of national importance than of consumer goods industries. The burden of protection in the case of group (?) or (n) industries \* "legitimately be shifted to the general tax-payer since the community as a whole gains by the development of such industries. Moreover, as the Fiscal Commission has pointed out, an import duty (as distinct from a subsidy) on a basic industry may involve compensatory duties being placed on a number of products which in themselves may require no protection. Each case must, therefore, be considered on its merits by the Board which should be authorized to recommend such measures of protection or assistance, including the grant of a subsidy, as will meet the requirements of the case.

(£) Another method of assisting industry is direct quantitative control of trade. Paragraphs 21 to 25 of the first memorandum deal with the proposal for the

continuance of the quota and licensing system in the postwar period- The main points-are:—

(i) In the immediate postwar period, direct control will be necessary in most countries due to the shortage of supplies, shipping and foreign exchange and the anticipated increase in the demand for all types of commodities. The war will leave a legacy of disparate price levels, different degrees of inflation, altered balances of payments and an excessive diversion of resources to war industries in all countries. The controls, if they are to be lifted at all, must, therefore, be lifted gradually as supplies become more abundant.

(ii) Indian industries may, however, have to face acute competition from various sources after the shortages have been removed. New methods of trade involving bulk transactions and the use of State-controlled or State-aided organizations, may be adopted by the U. K. and other industrial countries. Protective duties and anti-dumping and countervailing duties are a cumbersome method of dealing with a situation which will demand rapid and effective action. The quota must, therefore be used after the war, sometimes in combination with the tariff, to protect Indian industries from unfair competition and dumping. In many cases, the import quota will give temporary assistance to an industry, pending an enquiry by the Board.

(iii) To the extent that industrial development is centrally controlled under some scheme of national planning, the use of the quota and other methods of direct regulation of foreign trade must necessarily become more common. In a planned economy, tariffs and other methods of indirect control, the effects of which are relatively uncertain, are likely to play a less important part than direct quantitative trade control. Bilateral arrangements with individual countries for securing specific quantities of specific commodities in exchange for Indian products on the most economical terms may be increasingly resorted to and quantitative restrictions will be necessary to ensure that the anticipated increase in imports or exports is closely related to the objectives of the plans of development.

(iv) The administrative and other difficulties are not insuperable: and since the use of quantitative restrictions to safeguard a country's balance of payments is regarded by the leading industrial powers as a permissible use of the quota, it is unfair to deny the use of this instrument to countries which have no balance of payments problems, but are anxious to develop their industries and trade on the basis of a long-term plan.

The suggestion has accordingly been made in the first memorandum that quotas and other methods of direct trade control should not be abandoned after the war. The exact form of the quota and the method of allocation should be prescribed on the recommendation of the Board which should be instructed to follow the principle of non-discrimination and minimum interference with the normal channels of trade. Existing quota restrictions should not be modified without prior consultation with the Board which should be required to study the effects of the proposed relaxation on Indian industries before making a recommendation. In many cases, it will be found that if the quota is combined with other protective measures, e.g., subsidies and tariffs, a moderate use of the instruments of protection will give the desired measure of assistance to industry at minimum cost to the consumer. The proposal for the continuance of this system has been accepted by the Departments concerned with the exception of Finance Department who have advised that a decision "on this contentious issue... must be deferred until the results of international discussions on commercial policy are known". It is evident, however, that the schemes of planned industrialization cannot be successfully carried out if India gives up the right to use the quota as an instrument of trade regulation. In the immediate post-war period, this system must be continued for the reasons already explained. It is desirable that Indian industrialists should have a firm assurance, which should be given in the statement of tariff policy, that direct control, while it is in operation, will be applied with due regard to the interests of Indian industries. In the absence of such an assurance, the suspicion will gain ground that the controls are being improperly used for the purpose of assisting the U. K.'s export trade. An announcement

to the effect that the controls will be gradually lifted in the postwar period would be premature at this stage and might give rise to some uncertainty in regard to Government's postwar industrial plans. The statement should, however, mention that the long-term policy has not yet been finally determined.

(c) It has been suggested that "Commerce Department should examine the practicability of making bulk purchases from Indian producers as well as importers in respect of industries which supply a comparatively small proportion of the total home demand, with a view to selling their products under a Government monopoly at a cost lower than that which would prevail if the imports were subject to a heavy import tariff". This is an alternative to tariff assistance and other methods of protecting industry. The advantage of this method is that the domestic manufacturer receives a fair price for his product, while the price charged to the consumer is based on an average of domestic and foreign prices. Domestic industry is thus protected without causing any loss to the State or imposing an excessive burden on the consumer. Postwar plans should, therefore, make provision for a limited use of State trading, subject, however, first, to an examination by the Board of the circumstances of the industry concerned, and secondly, to the provisions of any international cede which may be mutually agreed upon by the participating powers for the regulation of State trading. Without making any commitment as to long-term policy, it might be useful to indicate in the proposed statement that during the immediate postwar period, when price levels and trade conditions generally are expected to be unstable, Government propose to continue the bulk purchase procedure, in suitable cases, with the object of securing essential supplies on reasonable terms\* and assisting Indian Industries.

### III

14. It is clear from the foregoing discussion that the constitution of an Advisory Board is a necessary preliminary to the implementation of the new policy. Certain proposals have been made in this connection in the memorandum on postwar tariff machinery. Government have also announced in the second report on Reconstruction planning that "the resuscitation of the Tariff Board will have first claim on their attention as soon as normal competitive conditions are beginning to be restored". If by this is meant that a decision on the proposal to establish a Board will be deferred until competition has begun to make itself felt, then all hopes of giving timely assistance to Indian industries may well be abandoned. The constitution of a Board will take some months and by the time the new organization has been set up and has completed some of its investigations, many industries will have lost ground to foreign manufacturing interests. It is necessary, therefore, as the second memorandum has pointed out, that the Board should be established without delay and should commence its enquiries and take provisional decisions *before* competitive conditions have been restored. In other countries, *e.g.*, Australia and South Africa, the question of postwar protection for industries is under active consideration and the measures to be taken in individual cases are being determined in advance.

15. The constitution and working of India's prewar Boards which were appointed *ad hoc* to deal with specific enquiries have been examined in the second memorandum. The handicaps from which the Boards suffered and certain defects in their procedure have been discussed at length and the question of postwar machinery has been considered from the point of view of the industrialization plans. The broad considerations which govern the approach to this question are—(i) It is not possible for a number of administrative Departments, *e.g.*, Finance, Commerce, Industries, etc., to administer the new policy of industrialization and planned trade effectively without the *assistance* and advice of a Board which can devote its time to the intensive study of specific problems. Technical enquiries will be necessary in many cases involving a visit to factories, examination of costs and discussions with industrial leaders and others. The fiscal, industrial and commercial aspects of each proposal will require the most careful scrutiny. Expert assistance from a body which is not immersed in the day-to-day routine of administration will, therefore, be needed by the Departments of Government. (ii) Apart from the importance of a detailed study of the technical aspects of each case, it will be in the country's interest

if the Departments are advised on all matters pertaining to trade and industrial development and questions of fiscal policy (to the extent that such questions have a "bearing on trade and industrial problems) by an authoritative body which can take a broad view of the problem of national development as a whole. Coordination of policies and plans will be necessary so that the actions of Government may fit into a consistent scheme which is designed to further the economic interests of the country. Without the support and assistance of a body which is capable of taking comprehensive view of the problem as a whole, Government's energies will be dissipated in giving departmental decisions which are not properly correlated, and the plans of development will be stultified. Both in the carrying out of specific investigations and in assisting Government to formulate a policy for the economic betterment of the country, the proposed organization has a valuable and constructive part to play.

16. In the light of these considerations and the experience of the working of the prewar Boards, certain tentative proposals have been made in paragraph 10 of the second memorandum for the constitution of a tariff authority. The assumption is that if these proposals are accepted in principle, Commerce Department will be asked to take immediate steps to implement Government's decision. It is suggested that some reference should be made to the decision to constitute a Board in the statement of tariff policy and the broad characteristics of the proposed Board should be briefly outlined. Further consideration of these proposals would involve a study of the mechanism of the tariff authorities of other countries, *e.g.*, Australia, South Africa and the U. S. A., from which India has something to learn, and the drafting of a bill which would provide for the constitution of a Board of the type described below. The final proposals accompanied by the draft bill would be submitted to the Reconstruction Committee of Council for its approval and orders.

17. The following is a brief summary of the proposals and the comments of the Departments consulted :—

(a) There is a general agreement that the Board should be a permanent body, but Industries & Civil Supplies Department have demurred to the creation of a statutory authority. Other Departments have, however, agreed that the Board should be constituted by law. A statutory constitution will give the Board a recognized place in the constitutional machinery for the formulation of industrial and commercial policy and make its membership attractive for men whose advice will be of value to the State. The "risk" to which Industries & Civil Supplies Department have drawn attention, *viz.*, that "a statutory body may tend to constitute itself into a rival tariff making authority" does not appear to have much substance. The Federal Public Service Commission is a statutory body, but this has not led to its claiming powers beyond the scope of the statute. Nor are these fears supported by the experience of other countries, *e.g.*, Australia, Canada, etc., where statutory Boards are in existence. The Board will be an *advisory* body and it is not fair to assume that, because of its creation by an Act of the legislature, it will be encouraged to arrogate to itself the powers of a "tariff making authority". The principle may, therefore, be accepted that "the Board should be a permanent body constituted by law.

(b) As regards membership of the Board, the proposal is that there should be a Chairman and not less than 5 members, each of whom should hold office for a period of 3 years, subject to reappointment for a period of 2 years. The appointment or reappointment of the members should provide for their retirement by rotation (so that some continuity of membership may be preserved) and Government should have power to suspend or remove a member for misbehaviour or incapacity. These proposals are based on the provisions of certain Dominion statutes which appear to have worked satisfactorily in practice. If the principle of short-term appointment and reappointment and retirement by rotation are accepted, a more detailed scheme will be prepared and the final proposals will be embodied in the draft bill.

(c) It has been suggested that Government officers should not be debarred from membership, but the Act should provide that not less than 2/3rds of the members, including the Chairman, shall be men who at the time of their appointment were holding office under the Crown. Planning Department are of the view that

Government officers should be ineligible for appointment to the Board, while Industries & Civil Supplies Department would remove all restrictions on the appointment of Government officers. It is not desirable to exclude persons from membership merely on the ground that they are holding office under the Crown ; this would deprive the Board of the services of men whose administrative experience may be of value to their colleagues and who on merit alone would be considered a good choice. The number of Government officers should, however, be limited so that the Board may not lose its independent character and members may be drawn from the widest possible field.

(d) As regards qualifications of the members, it has been suggested (and the Departments have agreed) that the Fiscal Commission's recommendation should be followed. The Board should not be composed of representatives of definite interests or communities, but the "best men available" should be appointed. "The members should be men of ability, of integrity and of impartiality, other desirable qualifications being a knowledge of economics and a practical acquaintance with business affairs". In certain cases however, the Board may find it necessary to seek the advice and assistance of representatives of commercial or industrial interests while formulating its recommendations. It has, therefore, been suggested that the Act should provide for the appointment of two or more assessors representing trade, commerce and industry to assist the Board at all stages of the enquiry. The assessors would act as advisers to the Board and would be selected by the Chairman for specific enquiries from a panel of names submitted by the leading Chamber of Commerce and industrial and mercantile associations. Another alternative is to empower Government to appoint temporary members, for the purpose of any investigation, to assist the Board in an advisory capacity. These are tentative suggestions which, if accepted in principle, will be examined more fully when the draft will be being prepared.

(e) In the second memorandum, the suggestion has been made that the principles of the new policy of protection should be embodied in the Act constituting the Board. There is some opposition to this idea and, on further consideration, it has been decided to drop the proposal. India's tariff policy is likely to undergo some modification as a result of changing conditions and a statutory definition of postwar policy might not perhaps be advisable at this stage. It is, therefore, agreed that the policy should be laid down in the instructions to the Board, as was suggested in the first memorandum. The instructions should require the Board to complete each enquiry with the utmost expedition and a convention should be established to the effect that ordinarily Government's findings on the Board's reports will be made available to the public within a month of the submission of each report. It is of vital importance that the delays which characterized the enquiries of the prewar period and Government's scrutiny of the recommendations are not allowed to occur again.

(f) The Departments have accepted the proposal that the Board should be empowered to hold enquiries in public, to summon witnesses and call for documents and to take evidence on oath. Evidence may, however, in exceptional cases be taken *in camera* if the Board considers that a public enquiry will not be in the public interest or will prejudicially affect any firm or party. These provisions and others relating to the suspension of members for misbehaviours or incapacity, penalties for failing to attend or produce documents or refusing to give evidence, bribery of witnesses and the general procedure of the Board will be incorporated in the draft bill which will be submitted for the further consideration of the Reconstruction Committee of Council.

(g) Most important of all is the question of functions to be assigned to the Board on which there is some difference of opinion. Arising from this are two subsidiary questions, *viz.*, the organization of the Board's secretariat and the question of the Board's designation. On the assumption that the functions proposed for the Board will be approved, it has been suggested that the Board should have the assistance of a staff of technical experts attached to three branches which will be responsible (a) for carrying out enquiries into the condition of industries, including the question

of costs, (b) for the study of trade problems and (c) for the maintenance of statistics. Finance Department have pointed out that if the Board is to fulfil the functions proposed for it, a number of other branches will be required. This is, however, a point of detail which will be considered more fully in the light of experience of the working of the Tariff Boards of other countries after a decision has been reached with regard to the Board's functions. The designation of the Board will also depend on the nature of the work assigned to it. The proposed designation, viz., the Board of Trade and Industries, has been borrowed from the South African statute which is considered to be a suitable model for Indian legislation. Since the Board's work will not be confined to tariff investigations, but will cover a much wider field, the old designation, viz., the Tariff Board, will not be quite appropriate.

(/;) Turning to the question of functions, while the Departments are agreed that the Board should be an investigating and Advisory body without the power of taking final decisions, opinions differ as to whether it is desirable to entrust to it the wide range of functions proposed in paragraph 10 (vii) of the second memorandum. Finance Department have suggested that the proposal is "too widely drawn and that it would be cumbersome and impracticable to load one Board with the duties and functions for the fulfilment of which it would have to cut across the spheres of several Departments. This is not the experience of other countries, however, where the Board is entrusted with a large range of functions, including in the case of the South African Board the power to advise Government on all matters concerning the economic development of the country and its industries and trade. In Australia, the Board has certain administrative functions also, but no such function has been proposed for the Indian Board. Finance Department's criticism that "the memorandum imperfectly appreciates the range and complexity of the multiplicity of functions with which it is proposed to harness the Board" cannot, therefore, be accepted; nor are Industries and Civil Supplies Department correct in assuming that "the power to enquire into and advise Government on all matters pertaining to the economic development of India and its industries and trade would constitute the Board into a sort of Economic Parliament". These observations appear to be based on a misunderstanding of the institutional requirements of the new industrial policy. If a purely passive policy is to be followed, it might suffice to give the Board the power to carry out tariff investigations on receipt of applications for protection; but if the intention is to make a more positive, dynamic and comprehensive approach in regard to the planning and encouragement of industrial development, then the Board must be invested with a wider range of functions, as suggested in the memorandum. These functions are closely interrelated and have been deliberately proposed in order to raise the status of the Board to that of adviser to Government on the technical aspects of questions relating to postwar economic development, with special reference to industries and trade.

Of the 18 items listed in paragraph 10 (vii) of the second memorandum, Finance Department have selected 8, viz., (a) (so far as the grant of protection or subsidies is concerned), (b), (d), (e), (f), (i), (j), and (k), as suitable subjects for the Board. As regards (a), it is obvious that if "other forms of State aid to industries" is excluded from the list, the scope of the enquiries will be unduly restricted and the Board's usefulness will be proportionately reduced. It is not reasonable to deny the Board the power to make a recommendation in regard to railway freights or technical assistance to an industry if, on a careful investigation of the facts, it finds that such a recommendation should be made. Item (c) is vitally important, for it is an integral part of the new policy proposed in this memorandum that active steps should be taken to encourage the establishment of new industries, including industries of national importance, and the determination of tariff or other forms of assistance which such industries might need is a condition precedent to their establishment. Items (g) and (h) have an important bearing on trade and industrial development and if a consistent and fully effective policy of protection is to be followed, it is necessary that the Board should have the power to enquire into and advise Government on matters falling under these heads. It is not quite clear why the omission of items (l) to (r) has been suggested. In the absence of any other authority which



could be charged with the duty of supervising the operations of monopolies and combinations, or of non-Indian firms, it is obvious that this important task must be entrusted to the Board. The ultimate object of items (l) and (m) is the prevention of unfair practices and exploitation under the shelter of protection and the misuse of facilities extended by Government for the development of industries. Items (n) to (q) are designed to give the Board an opportunity of assisting industries with its advice on problems of organisation and development and of taking part, in an advisory capacity, in the framing of commercial legislation. These items might be excluded for the present if it is considered that the Board should not be overloaded but item (r) should remain, subject to the deletion of the word "standards of living of the people" and the substitution thereof of the words "national income". The Board is the proper authority to watch the effects of the new policy in raising the national income which is one of the primary objects of postwar development.

R. K. NEHRU,

The 18th August 1945

**IV.—Memorandum on the U. S. Government's Proposals for the Expansion of World Trade and Employment**

**I**

The proposals discussed below have been published by the U. S. Government in preparation for an International Conference on Trade and Employment. Part I of this memorandum explains—

(£) the genesis of the proposals which have been put forward for consideration by the people of the United States and by the Governments and peoples of other countries; and

(ii) the requirements of India's commercial policy, in the light of which the proposals have been examined.

Part II consists of detailed comments on the proposals.

2. It is expected that the proposals will be discussed in a series of meetings, the provisional dates for which are—

(i) Commonwealth talks in October 1946 and January 1947;

(ii) preliminary meeting of drafting countries, of which India is one, in March 1947; and

(Hi) plenary conference to be summoned by U. N. O. after the preparatory work has been completed.

3. The dates have been changed from time to time and further postponements are not unlikely. Invitations for the Commonwealth talks have not yet issued, but India has agreed to attend the meeting of drafting countries which will discuss—

(£) concrete plans for the reduction of tariffs and the removal of trade barriers, and

(ii) the other proposals of the U. S. document.

There is still some uncertainty, however, as to the future course of these inter-government discussions, arising from—

(i) the delay in the ratification of the Anglo-U. S. Loan Agreement which is integrally connected with the trade proposals;

(ii) the increasing likelihood of Russia and the group of countries within her sphere of influence keeping aloof from the proposed arrangements; and

(Hi) the apparent reluctance of the U. S. Government to commence negotiations for the reduction of tariffs until economic conditions have settled down.

4. In spite of these unfavourable factors, it seems likely that an effort will be made to keep interest in the proposals alive by initiating a general discussion between the Governments concerned under the auspices of U. N. O., in preparation for the

later meetings. For the purpose of this study, it has been assumed that occasion will arise at no distant date for India to express her views on these proposals at an international gathering. India's delegates will require a brief, in the preparation of which it is hoped that this study will be of some assistance.

5. The genesis of the proposals may be considered briefly. Although formulated by " a technical staff within the Government of the U. S. A. ", they represent, in the words of the British Prime Minister, " not only the constructive thought of the U. S. Government, but the culmination of a long process of study and exchange of ideas between our own experts and those of the U. S. A. " The scheme is a sequel to the Atlantic Charter and the Mutual Aid Agreement the economic clauses of which embody the principles and objectives underlying this joint approach to the problems discussed. The clauses are reproduced below—

(?) The two Governments will endeavour, with due respect for their existing obligations, to further enjoyment by all States of access on equal terms to the trade and raw materials of the world.

(ii) The terms and conditions of the final settlement between the two countries of mutual aid furnished during the war will be such as not to burden commerce, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations.

(in) More specifically, the final settlement will provide for agreed action by the two countries (which will be open to participation by all other countries of like mind) in regard to the following matters—

(a) the expansion by appropriate international and domestic measures of production, employment and the exchange and consumption of goods,

(b) the elimination of all forms of discriminatory treatment in international commerce, and

(c) the reduction of tariffs and other trade barriers.

6. Informal discussions (better known as the Article VII discussions) between the two Governments were initiated in 1943 for the purpose of " determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and by seeking the agreed action of other like-minded Governments." It is not necessary to give a detailed account of the discussions which lasted until the winter of 1945 ; for a full understanding of the proposals, however, some reference should be made to the economic objectives of the two Governments and to the points of identity and of difference of outlook between the experts which were brought out in the course of the discussions. The main points are—

(i) The problem which faces the U. K. and the U. S. A. is not primarily one of expansion or development but of preservation of the levels of production and employment which have already been attained. As leading industrial powers, the prosperity of both depends on the ready supply of cheap raw materials and on expanding markets for manufactured goods. Exports on an ever-increasing scale, rather than internal development, is the primary objective of both. The insistence on world-wide reduction of tariffs and the removal of trade barriers and on " equal access to the markets and raw materials of the world " which has characterized every statement of policy made by either Government, whether during or after the War period, is thus easily explained.

(ii) Throughout the discussions, the emphasis was mainly on the removal of trade " restrictions ", and little concern was shown for the problems facing an undeveloped country which might find it necessary to apply such restrictions or regulatory devices for the development of its resources. Under pressure exerted by countries of the British Empire, the U. K. made a half-hearted attempt to assert the right of undeveloped countries to apply tariffs " for a limited period under adequate safeguards for the protection of infant industries." The U. S. A., however, forgetful of its own history, was not prepared to concede even this limited " right " /

(Hi) With regard to quotas, it was agreed by both countries that their use for protective purposes should be prohibited, but a country faced with balance of payments difficulties should be allowed to apply such restrictions. The object was clearly to help the U. K. in tiding over her special difficulties, while denying the use of this effective instrument for the regulation of trade to other countries which are faced with a different set of problems.

(iv) As a wealthy industrial power, the U. S. A. is in a position to aid its industries by means of cash subsidies. In the course of the discussions, therefore, the U. S. representatives showed unwillingness to agree to a complete prohibition of export subsidies and supported the use of general production subsidies as a legitimate method of protection of "infant industries". In this matter also, little consideration was shown for the interests and requirements of undeveloped countries whose financial resources are limited. The U. K. pursued a middle course, opposing the use of export subsidies which are calculated to injure British trade, while agreeing with the U. S. view that protection to infant industries should ordinarily be given by means of production subsidies.

(v) The main point of conflict between the two countries arose in connection with the proposal to eliminate all forms of discriminatory treatment in international commerce. The U. K., while no less anxious than the U. S. A. that other countries should lower the barriers to trade so that expanding markets might be found for manufactured goods, was reluctant to give up the sheltered position enjoyed by British traders in certain Empire countries. The Atlantic Charter itself contained the seed of future conflict, for acceptance of the principle of "equal access to the markets and raw materials of the world" was subject to the proviso, which was apparently inserted at the instance of the U. K., that "existing obligations" must be respected. These obligations refer to the preferential agreements concluded by the U. K. with certain Empire countries. Throughout the discussions, the U. S. attack was concentrated on the preferential system which places American traders at a disadvantage *vis a vis* the British in Empire markets. The U. K. had agreed to the elimination of all forms of discriminatory treatment as an objective of post-war policy, but was unwilling to implement this undertaking without an adequate return in the shape of a world-wide lowering of trade barriers.

The agreement finally reached between the experts of the two countries is embodied in the proposals. The analysis shows that the experts were concerned almost exclusively with the problems of their respective countries and the scheme which has emerged from their talks represents a compromise between the interests and policies of the U.K. and the U.S.A.

7. In the light of these facts, it is essential that India's requirements in respect of a long-term commercial policy should be clearly defined so that the value of the scheme to a developing economy may be correctly assessed. In the Statement on Industrial Policy issued by the Government of India in April 1945 it was mentioned that a "Tariff policy" appropriate to the post-war needs and conditions of the country is under active consideration. This question has attracted an increasing volume of discussion in recent months, but the actual formulation of proposals for a long-term policy has been deferred for the reasons stated below:—

(i) Although the preparation of development plans has made some progress there is still some uncertainty as to the future "needs and conditions" of the country and of the world as a whole which must determine the character of long-term commercial policy.

(ii) The uncertainty has been heightened by the constitutional recommendations which envisage a "division of responsibility for economic development in the India of the future between a number of autonomous Groups, whether India will remain a single customs territory" for the purpose of Section 3 of Chapter III, Part C of the U.S. document is an open question.

(iii) It is wrong to expect a developing country which is faced with the prospect of constant changes in economic and political conditions both at home and abroad to commit itself in advance to a specific policy in commercial matters.

8. The policy must in any case be based on a study of the results and recommendations of the International Conference; but if India is to take part in the Conference and in the preliminary meetings and to make some contribution to the debate, the proposals must first be examined in the light of India's own requirements. In this matter, India's interests coincide with those of other industrially backward countries which have similar ambitions and plans. At the Conference, therefore, India might take the lead in presenting the case of all undeveloped economies and in suggesting changes in the scheme to safeguard their vital interests. Bearing in mind the importance of the part which India may be expected to play in these international discussions, an attempt has been made to analyse the broad objectives which must govern the formulation of a long-term policy:—

(i) Until recently, the accepted policy of the Government of India, based on the report of the Fiscal Commission and on a resolution adopted by the Central Assembly in 1923, was "to foster the development of industries in India" by fiscal and other measures. The application of this principle was, however, hedged in by conditions and provisos which greatly impaired its effectiveness and hampered the development of industries. Hostile influences, mainly of foreign origin, were also at work behind the scenes to put a brake on industrial progress.

(ii) The new policy of Government (as laid down in the Statement of April 1945) is "to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible" with a view to achieving the three-fold objects of industrialisation, viz., (a) The maximum exploitation of the country's resources in order to increase the national wealth, (b) better preparation for defence, and (c) a high and stable level of employment, more particularly a substantial increase in industrial employment, including employment in ancillary trades and professions.

(iii) It is not likely that the government or governments of the future will revert to the prewar policy of hesitating and reluctant support of India's industrialisation. On the contrary, rapid and large-scale development of the entire economy under the direction or control of the State, on the basis of a detailed plan, may be expected to become a normal feature of India's economic life. Public opinion, judging from present trends, will insist on increasing participation by the State in industrial and commercial activities and on regulation of private enterprise to ensure that maximum results are obtained (a) at minimum cost to the community and (b) in the quickest possible time.

(iv) For the success of such a policy, it is essential that trade, both external and internal, should be carefully regulated. This memorandum is not concerned with internal trade, but only with measures needed to ensure that India's external trade fits in with the requirements of the development plans. These plans may be expected to lay down targets for production and to indicate a programme of development for each industry or section of an industry. It would be obviously impossible to carry out such plans if exports and imports were left to the discretion of the individual trader, subject to such control as may be indirectly exercised through tariffs.

(v) Direct regulation and control of trade must, therefore, be accepted as an integral part of a system of planned economic development. In the special conditions facing India during the period of transition, i.e., the period during which the new industrial economy will be built up, the planning of trade will be all the more essential. During this period, India's requirements of foodstuffs, capital equipment and machinery, materials and essential consumer goods will greatly exceed prewar imports. A considerable expansion of exports will be necessary to pay for these imports but unless non-essential imports are reduced to a minimum and essential imports regulated in accordance with some order of priorities, the development plans may be completely stultified. It will be necessary also to control imports and exports in order to conserve supplies of essential materials and to protect such industries threatened by foreign competition.

(vi) Quantitative restrictions on imports and exports are thus unavoidable and in suitable cases, State monopoly of trade may be necessary. What forms

-these restriction? or monopolies will take cannot be determined in advance, but it is clear that any international agreement India may enter into must make provision for the exercise of such powers by the State. Tariffs are uncertain in their effects and under a system of a planned trade their use will be restricted to a minimum. The power to impose protective tariffs must, however, be retained for the actual method of regulation will depend on the circumstances of each industry.

(vii) Subsidies are also a useful method of assisting certain classes of industry—*e.g.*, industries essential for national defence or basic industries, the cost of developing which should be borne by the community as a whole. India, must, therefore retain the right to grant production subsidies in suitable cases, but she cannot agree to limiting herself to the use of a single protective device. In many cases, it will be found that a combination of one or more devices, *e.g.*, quantitative restrictions and tariffs or subsidies, or both, will be more economical and effective from every point of view.

(viii) Some reference should also be made to the principles of discrimination and other restrictions which have governed the application of India's protective policy. Under a system of planned development, the whole approach to this question must be changed, for the decision to establish a new industry or to develop an established industry will be taken on grounds of national policy in the light of all relevant considerations, *e.g.*, the existence of national advantages, the cost to the consumer, the effect on revenue, etc. But these factors will not be treated as *conditions* for the grant of protection, but merely as a guide to the planning or other executive authority which is responsible for the development of industries. Under such conditions, the Tariff Board of the future will form a subordinate branch of the planning organisation; it will continue to play a useful role, but not as a quasi-judicial authority of independent status which is expected to enquire into "claims" for protection from individual industries.

(ix) Two further questions should be considered—(a) Is India in a position to adopt a purely autonomous policy in commercial matters, and (b) what should be her attitude to the proposal for the restoration of fully multilateral trading? As regards (a), India will need assistance from other countries in the shape of imports and technical assistance in connection with the development plans. An isolationist policy will not suit her interests, the more so as a considerable expansion of exports will be necessary to pay for the imports. Some form of constructive international co-operation is, therefore, essential for the success of the plans. But the trading position of India has strengthened enormously by the change in her status from a debtor to a creditor nation. The pressure of the unilateral transfer of funds, estimated roughly at Rs. 50 crores per annum, which has exercised a depressing effect on India's external trade in the past, has been wholly eliminated. It is no longer *obligatory* for this country, in order to balance its international accounts, to aim at an annual export surplus. The practical effect is that—(a) other things being equal, the terms of trade may be expected to move in India's favour, and (b) the commercial policy of the future may be planned under conditions of relative freedom. Having regard also to the character of India's exports which are in world-wide demand and to the fact that for a period of years she may be a net importing country, India is clearly in a position to adopt a commercial policy of her own choice, provided it is consistent with the principles of an expansive economy, without incurring the risk of seriously injuring her long-term interests. In other words, India's bargaining position is strong and she should not hesitate to make full use of it at the Conference in the interest of all undeveloped countries.

(x) As regards (b), India's interest clearly lies in the elimination of all forms of discrimination which divert trade from its natural channels. The point at issue is whether the preferential agreements to which India is a party should be continued. These agreements constitute a departure from the principle of multilateral and non-discriminatory trading and tend to canalise trade between certain British Empire countries. Past experience shows that even under conditions of declining trade resulting from a depression of world-wide character, India's gain from the preferences

must be negligible because of the limited capacity of the T.J. K. to absorb India's exports. The long-term effect of discrimination is that countries which are excluded from the Indian market due to the grant of preference to the T.J. K. tend to restrict their purchases of Indian products and India's export trade suffers. Under conditions of expanding trade, India has no need for sheltered markets and if the plans of industrialisation are to succeed, it is necessary that she should have free access on equal terms with other countries to all markets both for making purchases and for selling her own products. A system of triangular trade under which import surpluses from the leading industrial countries will be balanced by export surpluses to countries of the Indian Ocean area (which constitute India's principal markets for manufactured goods) is the kind of trade which will suit India best. Tariff preferences and other methods of discrimination tend to restrict the scope for multilateral trading and thereby lessen India's capacity to buy and sell in the most favourable area.

It may be objected, however, that for the purpose of securing liquidation of the sterling balances India may find it necessary to take special measures for developing an import surplus with the T.J. K. Discrimination may have to be practised for this purpose and provision has been made for such an eventuality in the proposals of the T.J. K. document relating to quantitative restrictions. This is, however, a recognized exception to the general rule that under conditions of expanding production and employment, a non-discriminatory, multilateral system of trading is preferable to any form of *restrictive* bilateralism. Bilateral agreements which are non-restrictive and which do not discriminate against other countries should not, however, be excluded from the scope of a multilateral trading system.

9. Some of the points mentioned above have been discussed more fully in the comments on the proposals in Part II of this memorandum.

## II

The proposals have been grouped under three heads—

- (A) Need for international economic co-operation.
- (B) Proposals concerning employment.
- (C) Proposals concerning an international trade organisation.

(A) and (B) set forth certain principles or undertakings for the acceptance of the signatory nations; while the main body of the proposals is collected under (C) which is divided into a number of Chapters and Sections dealing with various aspects of general commercial policy, restrictive business practices, international commodity arrangements and the question of organization. The document is prefaced by a Foreword by the T.J. S. Secretary of State and an Analysis which gives a broad indication of the line of approach to the problems of trade and employment favoured by the experts.

2. The prefatory remarks may be considered briefly. It has been explained in Part I that India has little to gain by "the separation of the world into economic blocs"; the U. S. Secretary of State's observations on this subject should, therefore, have India's support. The aims and objectives broadly outlined in the Analysis are equally unexceptionable: it is in the interest of all countries that the United Nations should "work together in every field of common interest, in particular the economic" and that every endeavour should be made "to harmonise the policies of the United Nations with respect to international trade and employment". These objectives emphasize the need for international co-operation which is fully recognized by every section of Indian opinion. The co-operation must, however, be genuine if a scheme sponsored by the industrial powers is to command the support of a country in the position of India; the later paragraphs will, however, show that in recommending specific measures, the experts have shown less understanding of the problems of industrially backward countries than of those confronting a highly developed economy such as the United States of America.

3. The view has been expressed that trade connects employment, production and consumption and facilitates all three. India may accept this view which implies that trade is not an end in itself, but a subordinate instrument of national economic policy. If not misdirected, trade is capable of playing a valuable part in raising the level of production and consumption and of securing higher standards of employment. It follows that commercial policy must be determined, not on the basis of any preconceived principles, but in the light of each country's actual requirements. The experts recognize that " we live in a world of many countries with a variety of economic systems ". National needs differ and it is wrong to assume that " release from restrictions imposed by Governments " will prove of benefit to every country. The Analysis is, however, correct in stating that " excessive " restrictions can do no good to any country and that restrictions which discriminate between countries are liable to create bad feeling. Restrictions and regulatory devices which are suite! to the needs of the country and are essential for the purpose of development mt>t, therefore, continue to be applied ; and all-round reduction of tariffs and trad<sup>n</sup> barriers, without regard to the vital requirements of the domestic economy, cannot be accepted as an "objective of international action

4. There are two further statements made in the Analysis which call for some comment. The experts have suggested that it is important that nations should not seek to obtain full employment for themselves by " exporting unemployment to their neighbours." There are other ways of obtaining full employment which are equally undesirable, e.g., when a country with highly eleveloped industries seeks to maintain or to develop its exports by resisting the establishment or development of industries in other countries which might prove dangerous competitors because of special advantages enjoyed by them, e.g., availability of raw material, existence of a large domestic market, etc. The second statement is to the effect that the purpose of the Conference is " to make real the principle of equal access to the markets and the raw materials of the world ". In this matter also, prominence is given to the needs of the leading industrial powers whose anxiety to secure cheap raw materials anef expanding markets for their manufactured goods has already been stressed in Part I. Countries in the position of India can only accept this principle if their right to control exports of raw materials in the interests of their own industries is fully recognised, and whatever measures may be adopted to secure " equality of access " are applied not only to raw materials but also to other vital commodities, e.g., machinery and equipment. This question has been discussed further under (C), Chapter I. It is presumed that the expression " equality of access " is used in this document in the sense of non-discrimination betwee one *foreign* country and another.

5. Detailed comments on the proposals are made below; f-peeific amendments have been suggested on, the assumption that the proposals will form the basis of an International Chartei to be drafted at the pieliminary meeting :—

(A) *Need for international economic co-operation.*

India may support tho view expressed in para. (1) that collective measures to safeguard the peuples of the world against threats to peace depend as much on machinery to prevent aggression as on 'economic co-opeiation among the nations with the object of preventing and removing economic and social maladjustments, of achieving fairness and equity in economic relations between States, and of raising the level of economic well-being among all peoples." In para. (2), reference is made to the objectives of the Atlantic Charter and of Article VII of the Mutual Aid Agree-ment. India is not a paity to the Agreement and is not bound to accept these objectives ; but if an organization is set up which, though based on the principles embodied in the Charter and the Agreement, satisfies the essential requirements of this country, there iseverything to be gained by India's participation in it. On this understanding, therefore, India may readily subscribe to the views expressed under (A) on the subject of " co-operative action".

(B) *Proposals concerning Employment  
Governing Principles.*

(1) (n). The principle may be accepted that full employment is a necessary condition for an enlarged volume of trade, but the expression "full employment" needs to be defined. In this sub-para the signatory nations are called upon "to recognize that high and stable employment is a main condition for the attainment of satisfactory levels of living". This is not wholly in accord with India's conception of a progressive employment policy. India should make it clear that from the point of view of an industrially backward country with low standards of production, high and stable employment by itself cannot lead to an appreciable rise in the national standard of living. It is the *quality* of the employment that matters much more than the actual numbers employed and although the point may appear somewhat academic to an expert whose vision is bounded by the interests of an advanced industrial economy, it should be clearly understood that a country in the position of India can only accept this as a really significant objective if the words used are amplified to read—"high and stable levels and rising standards of employment".

(1) (b). It cannot be assumed that in all cases and under all circumstances, the "full prosperity" of every country will depend on the expansion of international trade. This sub-para, as worded, has dangerous implications for countries not classed as "leading industrial and trading nations", for it may lead to a subordination of their interests to those of countries which are so classed. India should suggest the omission of the words "on which the full prosperity of these and other nations depends", in the alternative, it should be made clear that India cannot accept the view that her "full prosperity" must necessarily depend on the expansion of international trade.

(2>). While this principle may be accepted, it would be advisable to suggest insertion of the words "as far as possible" between "should" and "be" in the first line of this paragraph. If India is able to carry out successfully her plans of large-scale industrialization, there may be complaints from certain countries with which she has had trade relations in the past that their "economic well-being" has been adversely affected. Obviously, India cannot give up her development plans for the sake of certain vested interests in other countries, but she should have no hesitation in accepting the principle that in giving effect to these plans everything possible should be done to minimize any adverse repercussions on the economic well being of other nations.

(3) and (4). No comments.

*Effectuation of Aims*

(1). The expression "full employment" should be amplified as suggested above to make this undertaking significant from the point of view of industrially backward countries.

[2]. An undertaking on the lines proposed in this paragraph cannot be given by India. The effect of this would be to freeze the existing pattern of production and to hamper changes in the economic structure of backward countries. If any measure for the maintenance or promotion of employment is considered necessary from the point of view of India's interests, it would be wrong to give it up on a complaint made by some other country that it is "likely to create unemployment" in that country. An undertaking on this subject is quite unnecessary in view of the fact that under para. (2), "Governing Principles," each signatory nation will have "recognized" that domestic programmes to expand employment should as far as possible be compatible with the economic well-being of other nations. Any further commitment would tie India's hands and interfere with her development programme. As regards the second part of the proposed undertaking, viz. that members should refrain from adopting measures for the maintenance of employment if they are "incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative



efficiencies of production", it should be made clear that India cannot be a party to such "international undertakings". If strictly interpreted, this clause would have the effect of nullifying a scheme of economic development in a backward country which involves the establishment of new industries. Whatever the future potentialities of such industries, it is obvious that, at first they will not satisfy the test of "comparative efficiency". India should, therefore, suggest that the second part of the proposed undertaking should also be omitted, or in the alternative, that for the words "comparative efficiencies of production", the words "rules to be framed by the International Trade Organization" should be substituted.

(-?) and (4). No comments.

(C) *Proposals concerning an International Trade Organization.*

*Need for an International Trade Organization.*

(1) and (2). Under given conditions, measures designed to effect an expansion of trade may be essential for raising the level of production, employment and consumption. In the earlier stages of planned economic development, such conditions are likely to exist in India. There will be a growing demand for imported goods of specified types, e.g. machinery and equipment, and to pay for these goods it will be necessary to expand the export trade to the maximum limit. The principle that measures for the expansion of trade are "essential" may, therefore, be accepted, on the understanding that commercial policy will remain subject to the needs of internal economic development. A departure from this principle would be justified if conditions change and a *restriction* of trade or of specified categories of trade is found to be necessary for raising the level of production, employment or consumption.

It may also be accepted that "since an expansion of trade can only be attained by collective means, in continuous operation and adaptable to economic changes, it is necessary to establish permanent machinery for international collaboration in matters affecting international commerce". India should support the proposal for the creation of an International Trade Organization, the members of which would undertake to conduct their international commercial policies and relations in accordance with agreed principles to be set forth in the articles of the Organization." The assumption of course is that the "agreed principles" are fair to all concerned and take full account of the needs of undeveloped countries. The principles have been discussed later.

*Proposed International Trade Organization.*

CHAPTER I

PURPOSES

(i) and (2) may be accepted.

(3) and (4) call for some comment. It has been explained in Part I that these provisions (which have been borrowed from the Atlantic Charter and the Mutual Aid Agreement) form the basis of the entire scheme. In an earlier paragraph, it has been mentioned that, although India is not a party to the Mutual Aid Agreement, she has everything to gain by adhering to the scheme, provided that her essential interests are safeguarded. The "purposes" outlined in (3) and (4) may, therefore, be accepted, on the understanding that—

(i) as stated in the paragraph mentioned above, (a) "equality of access" will apply to all categories of goods and not merely to raw materials, and (b) each country will retain the right to restrict exports of essential commodities in the interests of its own industries, subject to such rules governing the exercise of this right as may be framed by the Organization and to acceptance by all exporting countries of the principle of non-discrimination in this matter as between two *foreign* countries ;

(ii) the three "purposes" mentioned under (4) will be treated as parts of a single whole : thus reduction of tariffs and other trade barriers will only be regarded as a valid purpose to the extent that it may be expected to lead to an expansion of production, exchange and consumption of goods in the importing country and to a rise in the purchasing power and standard of living of the people.

#### CHAPTER H

##### MEMBERSHIP

No comments.

#### CHAPTER III

##### GENERAL COMMERCIAL POLICY

###### Section A.—*General Commercial Provisions.*

A number of undertakings have been suggested for member States—

(1), (2), (3), (4), (5), (6), (7) and (8) embody provisions which will be of value to all member States and may safely be accepted by India. A word may be added about (5). If protection is needed for domestic products, it should be given openly by direct methods rather than by imposing "unnecessary requirements" on imported goods by making customs formalities mere stringent and complex. This tortuous method is open to objection on administrative grounds.

(1). In matters affecting internal taxation, e.g., levy of municipal dues, some discrimination between foreign and domestic goods should be permitted. This seems to be the recognised practice in India. The exact implications of the expression "regulation of trade" are not clear, but there seems to be little objection in agreeing to this provision.

(7). India could only give such an undertaking if it were decided that the entire import trade should be rigidly controlled or monopolised by the state so that only such goods of foreign origin are permitted to enter the country as are wholly non-competitive with similar goods of domestic origin. Since the likelihood is that India's import trade will not be so controlled and competition from abroad will continue to some extent, the government of the future may find it necessary and desirable, in order to make the plans of industrialisation a success to encourage the consumption of domestic products in preference to foreign products by means of government ally financed or organized campaigns conducted on the lines of the "Swadeshi" or "Buy British" movements. Whatever may be the American ideas on this subject, there is nothing immoral or inherently wrong in government supporting or directing such a movement. India cannot, therefore, accept this proposal unless the undertaking is confined to boycotts or campaigns specifically directed against a specified member State with which she has trade relations.

(8). The first part of the proposed undertaking may be accepted ; as regards the second, the proposal seems to be sound in principle, but the matter is one for consideration by the Department of Finance.

###### Section B.—*Tariffs and Preferences.*

(1) Negotiations for the reduction of tariffs and the elimination of preferences are to take place at the meeting of drafting countries which India has agreed to attend. The arrangements suggested in this paragraph represent a compromise between the British and American points of view which showed considerable divergence on this subject in the article VII discussions. The British view was that a multilateral formula of general application should be evolved for the purpose of carrying out substantial reductions in both tariffs and preferences, but the Americans expressed doubt whether a practicable and equitable formula could be found and suggested that, failing the adoption of a specific formula, the proposed Convention might include merely an undertaking on the part of the countries concerned to negotiate bilateral agreements for tariff reductions. India could not in any case

have accepted a formula involving an arbitrary reduction in tariff rates. The method now proposed which has been accepted both by the U. K. and the U. S. A. is better suited to her requirements. The proposed negotiations will apparently be conducted in groups of countries which are the principal suppliers and consumers of a specified product. Each country will then be in a position to form some idea of the total effect of the reductions on its industry and trade before making a final commitment.

The actual concessions which India can make, or which may be needed by her, are being examined separately. Detailed lists are being prepared, based on a study of tariff rates and the probable trend of exports and imports. A final decision in this matter will be taken in due course, but it may be useful at this stage to draw attention to the following points—

(1) India's exports are principally raw materials and other commodities which are either duty-free or liable to low rates of duty in the principal importing countries.

(ii) Articles of Indian origin which are liable to high rates of duty in such countries are mostly articles the demand for which is inelastic.

(iii) It follows from (i) and (ii) that India has not much to gain by a substantial reduction of tariffs in the principal importing countries. Any reductions made will be equally applicable to India's principal competitors, and the relative position of India in these markets is likely to remain unchanged. There may, however, be some exceptions to this rule and reductions of duty in such cases should be asked for.

(iv) On the import side, India has certain concessions to offer, e.g., on raw materials, semi-manufactures, machinery and equipment and essential foodstuffs. So far as possible, tariff reduction in such cases should be deferred until the date of the preliminary meeting. Certain concessions have, however, already been made and India's bargaining power has to some extent been reduced. The scope for substantial reductions is in any case limited in view of the facts that (a) the average overall incidence of the tariff is already lower than in many other countries; (b) India is still dependent on customs revenue and, bearing in mind the uncertainties of the constitutional future, any substantial sacrifice of Central revenue at this stage would be extremely unwise; and (c) India is on the eve of a period of industrial development and it cannot be foreseen which industries would require assistance in the shape of tariff protection.

(v) The position with regard to preferences has been discussed in Part I of this memorandum. Under conditions of full employment and expanding trade in the leading industrial countries, India has everything to gain by the reduction or removal of preferences. There may be some loss in a few cases where India needs a sheltered market, but this will be more than balanced by the increased demand for Indian goods, resulting from the expansion of trade. If the colonial preferences are, however, continued in favour of the U. K., India will stand to lose by discrimination against her exports, especially of cotton and other manufactures. India's interest, therefore, lies in supporting the move for the complete elimination of preferences and she should readily agree to the "initial steps in the process of elimination" suggested under (a), (b) and (c).

(2) The proposal with regard to export tariffs also represents a compromise between the British and American points of view. In the article VII discussions, the Americans took the stand that export taxes and restrictions should be totally abolished, or in any case should cease to be protective. On the British side, the view was expressed that there was no reason why protective export duties should not be treated on the same footing as protective import duties and that the abolition or reduction of export duties would leave the colonial processing industries without defence against importing countries which might wish to take over the processing themselves. In India, export duties have been applied to some extent, but only for revenue purposes. A protective and preferential export duty was applied in the case of raw hides and skins after the last war, but the

results were not encouraging and the accepted view, based on the recommendations of the Fiscal Commission, is that export taxes should as far as possible be avoided. For revenue purposes, however, the government of the future may find it necessary to impose duty at moderate rates on selected exports; but an undertaking may safely be given that any export duties which may be imposed will be non-discriminatory and will be open to negotiation in the same way as duties on imports. If discrimination is to be applied (*e.g.*, in the case of a country such as South Africa) provision to cover such cases should be made in the section relating to general exceptions. This point will be discussed later,

(3) The proposed escape clause may suit the requirements of a country such as the U. S. A., but it will not give India the right to raise the level of a duty (which has been specifically reduced in the course of the negotiations) for the purpose of protecting an industry. It is vitally necessary that India should have the power to increase the rate of a duty where such increase is found to be necessary for protective purposes. India's interest demands the addition of a clause which would enable her to take corrective action in respect of duties which have been specifically reduced in the course of the negotiations, subject, however, to any rules or procedure which may be laid down in connection with this matter by the International Trade Organization.

#### Section C.—Quantitative Trade Restrictions

On this subject, there was a large measure of agreement, throughout the discussions, between the American and British experts. Both took the view that quantitative restrictions, such as quotas and licensing systems, are among the devices most destructive of international trade, since they "introduced an element of rigidity into trade-relationships which frequently lends itself to speculative manipulations and erratic price fluctuations, and almost inevitably result in discrimination among suppliers, uneconomic diversion of trade, international friction and ill-will." It was, therefore, suggested that "as part of a multilateral convention, the use of prohibitions or quantitative restrictions, except in special cases, should be prohibited." In particular, it was the experts' view that "the use of such methods for protecting home industries, including infant industries and industries deemed necessary on grounds of national security, should be proscribed."

India's experience of the war-time controls has not been too happy, but certain facts should be noted in this connection—

(i) The object of these controls was not to protect Indian industries or to develop Indian resources for the purpose of increasing the national wealth and raising the national standard of living. The controls were specifically devised to meet war requirements, *e.g.*, conservation of shipping, etc., and the needs of the Indian economy were subordinated to these requirements.

(ii) There was criticism of the administrative arrangements which suffered from defects which are partly explained by the conditions in which the controls were applied—

(H) In view of the exceptional conditions, it cannot be assumed that the system itself is unsound; and in any case, as has been pointed out in Part I, under conditions of planned development of the country's resources, direct control of trade will be essential and tariffs and other indirect measures will fall short of India's requirements.

Discrimination, diversion of trade and the other evil effects which have been catalogued by the experts are not wholly unavoidable and the real test to be applied in such cases is the purpose of the restrictions, *i.e.* whether they are designed to restrict or to increase national production and employment. Taking;

a long-term view, it would be disastrous for India to give up the right to impose quantitative restrictions on exports or imports for the purpose of ensuring the protection of industries and the selective use of available resources to the best advantage of the country. The third purpose, *viz.* to ensure that, financially, the country lives within its means, has been accepted by the proposals.

(1) (a), (b), (c), (d) and (e).—The use of quantitative trade restrictions for the purposes stated has been agreed to. India may accept these proposals, subject to two modifications—

(i) Under (a), the period has been fixed at 3 years but provision has been made for extension of the period with the concurrence of the Organization. An initial period of 5 years would be more suitable, having regard to the extent of economic dislocation caused by the war.

(ii) Under (e), import quotas on agricultural products necessary for the enforcement of measures which operate to restrict the quantities of like domestic products which may be marketed or produced are required to be such as would not "reduce imports relating to domestic production as compared with the proportion prevailing in a previous representative period", due account being taken of certain special factors. In other words, the quotas may not be used for the purpose of increasing the relative share of the domestic producer in the home market. India cannot agree to this proviso which conflicts with the interests of the domestic producer.

(2). Restrictions to safeguard the balance of payments have been agreed to in order to enable the U. K. to tide over her special difficulties. It might be asked whether these provisions could not be applied in cases where direct control of trade is necessary as part of a scheme or planned development. The answer is that this will not meet India's requirements. The restrictions proposed can only be applied, subject to certain conditions, "as a aid to the restoration of equilibrium in the balance of payments". India's balance of payments during the period of development will not, however, *necessarily* be adverse: on the contrary, the balance may continue to be favourable if imports, as is likely, are hampered by such factors as inadequate supplies of equipment, etc. Quantitative restrictions would, however, still be necessary for the purpose of ensuring (a) the development of industries at the rate envisaged by the plan, or (b) the selective use of funds and other national resources which [may be available for purposes of development in accordance with some order of priorities. Moreover, in a scheme of planned development, both imports and exports should be subject to control. The proposed restrictions are, however, confined to imports and no provision has been made for the control of exports.

India should, therefore, insist that the proposals should be amplified to enable member countries desiring (a) to bring their external trade under the control or direction of a central planning organization, or (b) to develop or to establish industries which are exposed to special difficulties, to impose direct quantitative restrictions on exports or imports, subject, however, to the following conditions—

(i) that there will be previous consultation with the International Trade Organization;

(ii) that there will be "equality of treatment", as provided for in para (3); and

(iii) that the purpose of the restrictions will be, not to restrict, but to expand production and employment with a view to increasing the purchasing power of the people and raising their standard of living.

(3) The proposals made in this paragraph are designed to ensure that *direct* quantitative restrictions will be applied on a non-discriminatory basis. The

principles should apply not only to restrictions made on balance of payments grounds, but also to restrictions imposed for development purposes. Subject to this qualification and the further qualifications suggested in paras. (4) and (5), the provisions may be accepted.

(4) and (5). These provisions may also be accepted. It may be necessary for India to apply quantitative restrictions on a discriminatory basis as part of a programme for the liquidation of the sterling balances, or in pursuance of certain provisions of the International Monetary Fund Agreement of which India is a signatory.

#### **Section D.—Subsidies**

Throughout the discussions, there was agreement between the experts that subsidies are in general preferable to tariffs and other import restrictions as a means of protecting industries because (a) they do not impose burdens on consumers, and (6) being visible, they are likely to be employed less frequently and for shorter duration than direct trade restrictions. On the question of export subsidies however, there was some difference of opinion: while the British experts urged that export subsidies and other government action which result in the sale of goods in foreign markets at prices lower than those corresponding to the prices charged for like products in the home market, should be totally prohibited, the Americans were unable to accept this view since "American opinion has still to be won over to the elimination of two-price systems". It was agreed, however, that *in principle* export subsidies are objectionable, since they cause economic diversions of trade work unjust hardships on competitors and engender international ill-will.

India might find it useful in certain cases to subsidize exports, but since the effect of such a policy must be to encourage other countries to take similar measures, and India could not possibly enter into competition with countries like the U. S. A. in policies of this kind, it is in her interest that export subsidies should be prohibited or brought under control. As regards production subsidies, while India, for reasons already explained, cannot agree that they are "preferable" to tariffs and other import restrictions in all cases, the right to grant subsidies as a means of protecting or developing industries should of course be retained. India has, however, everything to gain by the adoption of a procedure which would ensure that subsidies are limited in all countries to an essential minimum and uneconomic competition in this matter between the principal trading nations is avoided.

The proposals under (D) which represent the largest common measure of agreement between the American and British experts should be examined in the light of the above remarks.

(1) India may accept the principle laid down in this paragraph that, while subsidies which operate to increase exports or reduce imports, may be granted (subject to certain exceptions considered below), member States must undertake to furnish certain information to the Organization and be prepared "to discuss possible limitations on the quantity of the product to be subsidized" with other member States, if the subsidy is likely to cause serious injury to international trade.

(2) India may also agree that "members should undertake not to take any action which would result in the sale of a product in export markets at a price lower than the comparable price charged for the like product to buyers in the home market", due allowance being made for certain special factors affecting price fixation. This is an important safeguard against dumping and other forms of unfair competition which are calculated to injure India's trade. The proviso, inserted to satisfy American interests, somewhat lessens the value of this safeguard, but some compromise in this matter is necessary and it would be a mistake to insist that these provisions should take immediate effect.

(3) The provisions relating to commodities declared to be in "burdensome world supply" are an additional safeguard against dumping and uneconomic competition. India should welcome these provisions which are designed to regulate production and trade in a manner conducive to the interests of both producers and consumers. The alternative to regulation is a form of competition which may prove disastrous for the weaker producers. It is evident, however, that the value of these provisions would depend largely on the interpretation placed by the Organization on the terms "burdensome world supply" and "uneconomic production". The provisions of (b) and (c) of this paragraph are necessary and unavoidable and should also be accepted.

#### Section E.—State Trading

The British and American views on this subject were almost identical and the main concern of the experts in the course of the article VII discussions was to devise a scheme which would leave room for State-trading (in order to make it possible for countries such as Russia to join the Organization), but "would prevent this freedom from being misused in such a way as to confer an excessive degree of protection upon domestic industries, or to discriminate between external markets and sources of supply". The objectives underlying the provisions of this section are—

(i) that the interests of State-trading countries and private enterprise countries should be harmonised, so that both might participate on equal terms in the activities of the Organization ;

(ii) that the methods and arrangements for trading between the two groups of countries should be such as would maximise the economic use of resources by (a) the elimination of discrimination and (A) the expansion of trade on a multilateral basis ;

(iii) that government action in private enterprise countries in connection with the regulation of trade with State-trading countries should be confined to ordinary trade control measures within the limits of the commercial policy proposals and counter-monopolies should not be encouraged.

India is interested in these provisions for two reasons—

(i) The new export plans visualise an expansion of trade with all countries, including countries such as Russia where trade is a monopoly of the State.

(ii) Although a private enterprise country at present, India is not unlikely to adopt new techniques for the control of trade in connection with the plans of industrialization. If other methods, e. g. quantitative regulation of imports and exports, fail to achieve the desired end, the Government of the future may, to an increasing extent, undertake direct trade activities through Corporations and Boards appointed or controlled by the State. If quantitative regulation is disallowed by the Organization, it will be more than ever necessary, under a scheme of planned development, for government to assume direct control of trade by eliminating private transactions altogether.

The minimum requirements in this connection, from India's point of view are—

(i) that the right to protect or to develop industries should not be restricted ;

(ii) that discrimination should be ruled out; and

(iii) that the arrangements should give full scope for the expansion of trade, subject to the essential requirements of the plans of national economic development.

The proposals have been examined below in the light of these observations.

(1) The principle of equality of treatment, i.e. non-discrimination, may be accepted. India may also agree that the foreign purchases or sales of State-trading enterprises should be governed solely by commercial considerations. A country with limited resources desiring to achieve rapid industrialisation cannot fail to benefit by the acceptance of this principle, but commercial considerations cannot be confined to short-term interests, e.g. price, quality, etc., but should include long-term interests, e.g. the need for the development of trade with a specified country because of the other commercial benefits which may result from such a development.

(2) The object of this provision is to restrict the protective effect of State-trading or of State monopolies of individual products. There can be no objection to giving an undertaking "to negotiate a maximum protective margin", but as in the case of tariffs, India should make it clear that if further experience shows that the margin should be increased, she will be free to increase the margin, subject, however, to prior consultation with the Organization and with the other members concerned. A similar provision would be necessary in the case of new monopolies. India may however, agree that if the product is not subject to rationing, the monopoly should offer adequate quantities of it for sale.

(3) It is not clear how effect is to be given to the provisions of this paragraph. Is the proposed global purchase arrangement to be made with the Organization or with other members, individually or collectively? And if with the Organization, on what basis will distribution of quotas be made among members? Surely, an undertaking of this nature cannot have much practical effect, for the arrangement would in any case be subject to periodic modifications. For securing the object in view, it would be preferable, therefore, to rely on the general purpose of the Organization, *viz.* the expansion of employment and trade, which all members are bound to accept before they become parties to the Agreement. On the whole it would be advisable to omit this paragraph.

#### **Section F.—*Exchange Control***

These provisions are necessary to ensure that discriminations which have been ruled out by the trade proposals are not imposed through exchange techniques and that equality is secured by members in the matter of exchange treatment. India may accept these provisions.

#### **Section G.—*General Exceptions***

These provisions may also be accepted, but item (9) needs to be amplified. India may find it necessary to discriminate against a specified member for reasons of high policy. The case of South Africa is in point. Unless provision is made to cover such cases, India may be compelled to withdraw from the Agreement in order to apply trade sanctions against the member concerned. Item (9) should, therefore, permit of the adoption of measures at variance with the undertakings, in exceptional cases, not only on a recommendation of the Organization, but also by a member State on its own initiative, provided that due notice has been given, with a full explanation of the circumstances, both to the Organization and to the other member or members concerned.

#### **Section H.—*Territorial Application***

India may accept these provisions which ensure (a) that special tariff concessions may be exchanged with countries such as Afghanistan and Nepal on the ground of geographical contiguity, and (b) that each customs territory will enjoy full rights of membership of the Organization.

### CHAPTER IV

#### RESTRICTIVE BUSINESS PRACTICES

Control of national or international combines of manufacturers or producers is a fundamental objective of American economic policy and in the course of the discussions much stress was laid by the American experts on the necessity of prohibiting restrictive business practices in view of the fact that inter-governmental agreements for the general welfare might easily be frustrated by private agreements. The British took a less extreme view, resisting the demand for compulsory action which might have the effect of legalising all types of private agreements, including such as are not contrary to the general interest. The proposals contained in this chapter represent a compromise between the two points of view.



The undertaking to make individual and concerted efforts to curb restrictive practices is to be confined to practices " which have the effect of frustrating the /objectives of the Organization to promote expansion of production and trade, equal access to markets and raw materials and **the** maintenance in all countries of high levels of employment and real income". This is a definite improvement on the original American proposal. India's interest in this matter arises from the fact that, in connection with the development plans, it may be necessary for Indian manufacturers **to** enter into arrangements—

(i) with Indian producers for the restriction of exports of raw material in the interests of a domestic industry, or

(ii) with foreign manufacturers for such purposes as the gradual transfer of manufacturing processes to India so as to encourage industrialisation.

If cartels, combines and restrictive agreements were totally prohibited, it would not be possible for Indian manufacturers to enter into such arrangement\*. Para .(I) of Chapter IV does not, however, invalidate a restrictive private agreement if the object of the restriction is to expand national production and to raise the level of employment and real income. Subject to this condition, India may safely agree that every effort should be made to curb restrictive practices which are specifically directed against the consumer or against rival interests in other countries. As already explained in an earlier paragraph, equal access to raw materials and markets cannot be held to imply that exports may not be controlled or restricted in the interests **of** domestic production.

Paras (2) to (4) lay down a procedure for co-operation among members and the enforcement of laws and other arrangements directed towards the elimination of such practices. These provisions are unexceptionable and India may agree to **Abide** by them.

#### CHAPTER V

##### INTER-GOVERNMENTAL COMMODITY ARRANGEMENTS

(See memorandum V below)

#### CHAPTER VI

##### ORGANIZATION

The proposed Organization is to consist of 4 organs—

- (i) **the** Conference,
- (ii) the Executive Board,
- (in) three Commissions, and
- (iv) the Secretariat.

All member States are to be members of **the** Conference which is to meet once a year. Each member is to have one vote and decisions are to be reached by a simple majority vote. The Executive Board is to consist of 18 members some of whom are to have permanent seats. It **is** to be authorized to take provisional decisions between meetings of the Conference and to exercise **such** powers **as** may be delegated to it **by** the Conference. The Commissions on Commercial Policy, Business Practices and Commodity Policy are to be responsible to the Executive Board and the Secretariat which is to serve all the organs is to consist of three or more offices and is to be headed **by** a Director-General. The functions of the Organization **as** a **Whole** and **of** the three Commissions which are detailed in Section A and Section E respectively are to be mainly recommendatory.

These provisions are suitable from India's point of view, but the membership **of** the Board raises **an** important question. Members of " chief economic importance it **is** stated, **are** to have permanent seats on the Board. As **the** Board **is** the main executive authority of the Organization, it **is** necessary that the qualifications for a permanent seat should **be** more clearly defined. How will " economic importance " be determined ? If on the basis of present " importance " **or** the actual volume **of**

external trade, India cannot accept such a definition. The potential economic importance of a country, judged by the nature of its resources, the size of the market the financial position and the economic objectives of the policy which is likely to be followed over a period of years must also be considered. India would be entitled to a permanent seat on the Board if the criteria are correctly applied.

R, K. NEHRU

The 6th July 1946

**V.—Memorandum on the U. S- Government's Proposals relating to Inter-Governmental Commodity Arrangements**

(PART C. CHAPTER V)

The scheme presented in this part of the proposals deals mainly with commodities in burdensome world surplus. It will be observed that the authors have scrupulously refrained from putting forward anything like a comprehensive commodity policy. In fact, the expression "International Commodity Policy" which figured prominently throughout the earlier discussions has now been dropped and the proposals, have been confined to the purely negative aspect of that policy which concerned the formulation of a code of principles to govern inter-governmental commodity arrangements. The commodity policy discussed at the earlier stages between British and American experts visualised international action, not merely to deal with cases of chronic disequilibrium between supply and demand, but also to mitigate violent short-term price fluctuations and thus to help counteract business cycles. For this purpose a combination of buffer stocks and quantitative controls was proposed. The present proposals are conspicuous for absence of any reference to the short-term aspect of the problem, except for the fact that the question of buffer stocks has been set aside as a subject of study and investigation by the Commodity Commission. [See Chap. VI, Section E, Paragraph 4 (c) (1)].

2. Excessive fluctuations in primary prices constitute an important source of insecurity to primary producing countries. It is now widely recognised that such fluctuations also form a serious element of instability in the entire world economy in so far as the demand for industrial products depends largely on the purchasing power of primary producing countries. There can be no security of livelihood for these countries and no efficient control over the trade cycle until some means are devised to curb these fluctuations and to even out the sharp variations in output which accompany them. Overproduction in individual lines of production which the above proposals seek to deal with is only one of the causes of fluctuations in primary prices. The other and perhaps, from the short period point of view, more important causes are to be found in certain inherent characteristics of primary production which make it singularly irresponsive to cyclical changes in demand. A cyclical change in demand involves simultaneous 'over-productitm' or 'under-production' in the economy as a whole (as distinct from over-production in particular commodities which alone are touched by the above proposals). Owing to the scattered nature of production, the existence of a large number of small and ignorant producers and the time-lag in production, a quick adaptation of output to changing conditions becomes virtually impossible and consequently the impact of cyclical forces on primary prices is often much greater than on other prices. Since primary industries as a class, owing to certain inherent weaknesses in their organisation suffer a grater measure of dislocation during trade cycles than other industries, some special measures are required to deal with their difficulties during such periods. It is true that the policies suggested in other parts of the proposals will, if adopted, result in an expansion of world demand and a better control of the trade cycle ; but it is vain to hope that the trade cycle will be eliminated altogether. Indeed, the absence of any provision for controlling the short-period fluctuations in primary

prices may easily prove to be the most vulnerable spot in the whole defensive mechanism which these proposals seek to erect against world-wide recessions.

3. Apart from cyclical influences, various other factors may also operate to impair the stability of primary prices and not all of them can be expected to be neutralised by a general policy of expansion. Even seasonal or very short term causes operating within the span of single year or crop season, as distinct from cyclical forces or forces connected with the long term relationship of supply and demand, which operate over a period of years, can cause quite an astonishing degree of instability in primary prices. Lord Keynes, in an article entitled "The Policy of Government Storage of Foodstuffs and Raw Materials" published in the *Economic Journal* in September 1938, gave figures to show that during the ten years ending 1938, the average excess of the year's high over the year's low was of the order of 96 per cent for rubber, 42 per cent for cotton, 70 per cent for wheat and 61 per cent for lead. The average annual price range for these commodities worked out to 67 per cent. According to the figures given in a pamphlet issued by the World Trade Alliance (quoted by Beveridge in his "Full Employment in a Free Society"), in the twelve months of 1937-38, wheat fell in price from 7s. 5d. to 3s. 4d. per bushel, copper from £75 to £35 per ton, cotton from 8d. to 4d. per pound and wool from 170rf. to 48d. per pound. In the post-war period, the range of short term fluctuations may be even wider, owing to the possibility of a larger measure of unco-ordinated Government interference and the increased threat of substitutes (for shellac, mica, jute, rubber, etc.).

4. Expert opinion in Britain has long been in favour of a combination of buffer stocks and quantitative controls, the former as an instrument of short period policy and the latter for dealing with emergencies created by burdensome surpluses\*

If the responsibility for evening out short-period fluctuations is shared by several nations, the working of national policies of price support would be very much facilitated; it may even become unnecessary to adopt such policies. Of course, the success of a buffer stock scheme depends on the extent to which the controlling authority is able to adjust its pivotal price to the long-term equilibrium level; political difficulties in the way of reducing the price may be far more serious than the technical difficulties in determining the extent of reduction required to restore the long-period equilibrium. Neither of these, however, need be insuperable.

5. The general aversion to quantitative controls which lies at the back of these proposals arises from a genuine fear that a widespread use of such controls would hamper the operation of an expansionist economic policy. It cannot be denied that past experience of international restriction schemes was not altogether happy. The authorities which administered the schemes were frequently accused of indulging in monopolistic practices. The production and/or export quotas which accompanied

\*At a meeting of the War Cabinet Committee on Commodity Policy held in March 1944 Lord Keynes was reported to have observed "Buffer stocks are valuable in two ways: firstly, for the stabilisation of short-term prices, where national restriction schemes are of little help, secondly, for their steadying influence on the credit cycle as a result of stabilising the incomes of primary producers. These points are particularly important to countries dependent on a small range of products". Lord Keynes regarded buffer stocks as "an essential part of the whole policy".

In general, British economists have laid considerable stress of late on the need for joint action, to mitigate the instability of primary prices and output. See Part VI, Section IV and Appendix A of Sir William Beveridge's "Full Employment in a Free Society" (1944). Sir William writes. "If there is any substance in the suggestions made here—and the main facts cannot be denied—one of the inner secrets of the trade cycle is to be found, not in banker's parlours or the board rooms of industry, but on the prairies and plantations, in the mines and oil-wells. The new sign-post points clearly to the need for joint action by many nations to bring order into the production and marketing of primary commodities" (Page 305). See also the following remarks by P. Lamartine Yates in his "Commodity Control: A Study of Primary-Products" (1943) "We want the cushion which buffer stocks provide against short period ups and downs in supply or in demand. At the same time, we want to be able, if need be, to reduce output without beggering thousands of individual producers; and this seems a job for which quotas are well suited." (P. 231) "Everyone will welcome the stress laid by the (Hotsprings Conference on expansionism as the central postwar objective, but it would be folly to suppose, that this will in itself provide a full solution of the difficulties of primary producers." (P. 243)

the schemes tended to stabilise the *status quo*, protected the high cost producer by giving him a guaranteed share in the world market and prevented new production from springing up in previously undeveloped areas. Most of the schemes were not equipped with a buffer stock arrangements and were, therefore, unable to deal with unforeseen developments which often upset the calculations on which their quotas were based. Some of them, *viz.*, The Szeevenson Rubber Restriction Scheme and the Tin Restriction Scheme did not succeed even in stabilising prices which was their avowed objective. The International Tea Committee took special measure to encourage consumption, but the same cannot be said of many other similar bodies which paid little attention to correcting the basic maladjustments which had made the restriction schemes necessary. The proposals under consideration seek to remove these various defects (1) by permitting the adoption of such schemes only after measures for increasing consumption have been shown to be inadequate (para 4-b), (2) by providing for equal representation of importing and exporting countries, which would act as a healthy check on any monopolistic tendencies (paras 4-a and 5-b), (3) by providing for increasing opportunities to be given to low cost producers (para. 5-d), (4) by providing for admission of new members on equal terms (para 5-a) (5) by requiring arrangements to be made where necessary for assuring the availability of adequate supplies at all times (a variant of the buffer stock system) (para. 5-c). and (6) by making the adoption of a programme of adjustment a condition precedent to the introduction of a scheme (para. 4-b) (3).

6. We may agree that no inter-governmental commodity arrangement should be entered into except for the purpose of dealing with a burdensome surplus. At the same time, in view of the considerations set forth in the earlier paragraphs of this note, we should strongly press for the formulation of positive international measures for the mitigation of excessive short period price fluctuations.

7. If there is to be no provision for international co-operation in regard to the short period aspect of primary prices, apart from wider action towards promoting an expanding world economy, the primary producing countries will have to devise their own means to deal with the problem. It is highly doubtful whether national policies of price support could function successfully on a fully autonomous basis; but it cannot be denied that there will be strong political pressure from producing interests in favour of such policies. The question of price stabilisation is at present under examination in this country also. If there is no co-ordination between the price support policies of different countries, occasions may arise when the countries concerned have to resort to tariffs, quotas, subsidies and other barriers to international trade to make their policies effective. In order that the adoption of such measures in connection with domestic price policies (whatever form such policies may take) may not be regarded as incompatible with the basic objectives of commercial policy, it would be desirable if in the "Purposes" set forth in Chapter I of Part C of the Proposals, some such phrase as "to mitigate violent fluctuations in prices of primary commodities" could be included. Further, under "Quantitative Trade Restrictions", [Chapter III, Section C, Paragraph 1 (c)], import quotas on agricultural products are permitted when they are necessary to the enforcement of measures designed "to restrict the quantities of like domestic products which may be marketed or produced". The introduction of such quotas may, however, become necessary in connection with a domestic price policy, even when no restriction is imposed on the production or market supply of like domestic products. The passage quoted above, therefore, needs to be amended by the addition of the words "or to support the prices of such products".

8. The detailed provisions of Chapter V may now be examined.

Paragraphs 1, 2 and 3 do not call for any comment.

In paragraph 4-b (2) (a), we may suggest the deletion of the words "and is accompanied by widespread distress to small producers accounting for a substantial proportion of the total output". The provision, as it stands, implies that even when

a burdensome surplus has been shown to exist, no quantitative limitation should be imposed until widespread distress has actually developed among producers. This is obviously unreasonable.

Paragraph 5 : The principles set forth in this paragraph would make important improvements in the pattern of restriction schemes hitherto adopted- (See Paragraph 6 of this note). Sub-para, (c) embodies the concept of "the universal granary of the world" which was a prominent feature of the Draft Wheat Agreement circulated by the U.S. Government in 1942. Under the scheme presented in that draft, exporting countries were required to carry reserves within prescribed maximum and minimum limits. The intention was probably two-fold. Firstly, the reserve stocks provided a guarantee to consumers that export quotas would always be filled. Secondly, within limits they could act as buffer stocks absorbing unforeseen fluctuations in demand during the course of the quota period and thus affording additional protection to producers also. Under the Tea Regulation Scheme, stocks amounting to 3 to 6 months' supply were normally held in bonded warehouses and the successful operation of the scheme was in some measure due to this factor.

The principle laid down in sub-para (d) that low cost producers should be allowed increasing opportunities to participate in world trade, is sound, but much will depend on how it is proposed to give effect to the principle. Judging from the discussions which recently took place in the Study Group of the International Cotton Advisory Committee, it would appear that the U.K. experts would like the quotas to be revised periodically during the life of an agreement. Since, however the whole purpose of the scheme is to afford a breathing space to producing countries, we may suggest that quotas once fixed should remain unchanged during the period of an agreement and that the principle referred to above should be taken into account at the time of renewing the agreement. Quotas are the heart of an agreement and any revision in them would entail difficult and prolonged negotiations. If such negotiations are undertaken periodically during the life of an agreement, there will be recurrent threats of a breakdown, which will jeopardise the success of the whole scheme. Incidentally the inclusion of the proviso "with due regard to the transitional need for preventing serious economic and social dislocation" marks an improvement over the version originally contemplated.

The remaining paragraphs seem unexceptionable. We are at present a party to the International Tea Agreement which has been extended up to the 31st March 1948. Under paragraph 7, this agreement will have to be submitted for review to the International Trade Organization.

B. N. ADARKAR.

*The 20th July 1946.*

GOVERNMENT OF INDIA  
DEPARTMENT OF COMMERCE



**COMMENTS**  
on  
**U. S. Proposals for Expansion  
of World Trade and Employment**

NEW DELHI: PRINTED BY THE MANAGER  
GOVERNMENT OF INDIA PRESS: 1946

## FOREWORD

The U.S. Proposals which have been developed by a group of experts within the Government of the U.S.A. have been examined in India by officials of the Department of Commerce and by a Sub-Committee of the Consultative Committee of Economists. Since the Proposals are likely to be discussed at a meeting of the Preparatory Committee which has been set up by the Economic and Social Council of the United Nations Organisation, the Government of India considers that it may be helpful if the notes prepared by the Indian experts are circulated for consideration to representatives of the various participating countries. The views expressed in these notes are the personal views of the experts concerned but they have found considerable support in India and are likely to play an important part in the formulation of the Government of India's policy.

CONTENTS

	<b>Page</b>
<b>I. Memorandum on the U. S. Proposals for the Expansion of World Trade and Employment . . . . .</b>	<b>1</b>
<b>II. Memorandum on the U. S. Proposals relating to Inter-Governmental Commodity Arrangements . . . . .</b>	<b>1 8</b>
<b>III. Report of the Trade and Tariffs Sub-Committee of the Consultative Committee of Economists on the U.S. Proposals for Expansion of World Trade and Employment . . . . .</b>	<b><i>tl</i></b>



**I.—Memorandum on the U. S. Proposals for the Expansion of World Trade  
and Employment**

**I**

The proposals discussed below have been published by the U. S. Government in preparation for an International Conference on Trade and Employment. Part I of this memorandum explains—

(i) the genesis of the proposals which have been put forward " for consideration by the people of the United States and by the Governments and peoples of other Countries and

(ii) the requirements of India's commercial policy, in the light of which the proposals have been examined.

Part II consists of detailed comments on the proposals.

2. It is expected that the proposals will be discussed in a series of meetings, the provisional dates for which are—

(i) Commonwealth talks in October 1946 and January 1947 ;

(ii) preliminary meeting of drafting countries, of which India is one, in March 1947 ; and

(iii) plenary conference to be summoned by U. N. O., after the preparatory Work has been completed.

3. The dates have been changed from time to time and further postponements are not unlikely. Invitations for the Commonwealth talks have not yet issued, but India has agreed to attend the meeting of drafting countries which will discuss—

(i) concrete plans for the reduction of tariffs and the removal of trade barriers and

(ii) the other proposals of the U. S. document.

There is still some uncertainty, however, as to the future course of these inter-government discussions, arising from—

(i) the delay in the ratification of the Anglo-U. S. Loan Agreement which is integrally connected with the trade proposals ;

(ii) the increasing likelihood of Russia and the group of countries within her sphere of influence keeping aloof from the proposed arrangements ; and

(iii) the apparent reluctance of the U. S. Government to commence negotiations or the reduction of tariffs until economic conditions have settled down.

4. In spite of these unfavourable factors, it seems likely that an effort will be made to keep interest in the proposals alive by initiating a general discussion between the Governments concerned under the auspices of U. N. O., in preparation for the later meetings. For the purpose of this study, it has been assumed that occasion will arise at no distant date for India to express her views on these proposals at an international gathering. India's delegates will require a brief, in the preparation of which it is hoped that this study will be of some assistance.

5. The genesis of the proposals may be considered briefly. Although formulated by a technical staff within the Government of the U. S. A. they represent, in the words of the British Prime Minister, " not only the constructive thought of the U. S. Government, but the culmination of a long process of study and exchange of ideas between our own experts and those of the U. S. A. " The scheme is a sequel to the Atlantic Charter and the Mutual Aid Agreement the economic clauses of which embody the principles and objectives underlying this joint approach to the problems discussed. The clauses are reproduced below—

(i) The two Governments will endeavour, with due respect for their existing obligations, to further enjoyment by all States of access on equal terms to the trade and raw materials of the world.

(it) The terms and conditions of the final settlement between the two countries of mutual aid furnished during the war will be such as not to burden commerce, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations.

(Hi) More specifically, the final settlement will provide for agreed action by the two countries (which will be *open to* participation by all other countries of like mind) in regard to the following matters—

(a) *the expansion* by appropriate international and domestic measures of production, employment and the exchange and consumption of goods,

(b) the elimination of all forms of discriminatory treatment in international commerce, and

(c) the reduction of tariffs and other trade barriers.

b\ Informal discussions (better known as the Article VII discussions) between the two Governments were initiated *in* 1943 for the purpose of "determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and by seeking the agreed action of other like-minded Governments." It is not necessary to give a detailed account of the discussions which lasted until **the** winter of 1945; for a full understanding of the proposals, however, some reference should be made to the **economic** objectives of the two Governments and to the points of identity and of difference of outlook between the experts which were brought out in the course of the discussions. The main points are—

(i) The problem which faces the U. K. and **the** U. S. A. is not primarily **one** of expansion or development but of preservation of the levels of production **and** employment which **have** already been attained. As leading industrial powers, the prosperity of both depends on the ready supply of **cheap** raw materials and on expanding markets for manufactured goods. Exports on **an** ever-increasing scale, rather than internal development, is the primary objective **of** both. The insistence on **World-**wide reduction **of** tariffs and the removal of trade barriers and on "equal access to the markets and raw materials **of** the world" which **has** characterized every statement of policy **made** by either Government, whether during or after **the** war period, is thus easily explained.

(ii) Throughout the discussions, the emphasis was mainly **on** the removal of trade "restrictions", and little concern was shown for the problems facing an undeveloped country which might find it necessary to apply such restrictions or regulatory devices for the development **of** its resources. Under pressure exerted by countries **of** **the** British Empire, the U. K. made a half-hearted attempt to assert the right **of** undeveloped countries to apply tariffs "for a limited period under adequate safeguards for the protection of infant industries." The U. S. A., however forgetful of its own history, was not prepared to concede even this limited "right".

(Hi) With regard to quotas, it was agreed by both countries that their use for protective purposes should be prohibited, but **a** country faced with balance of payments difficulties should **be** allowed to apply such restrictions. The object was clearly to help the U. K. in tiding over her special difficulties, while denying the use of this effective instrument for the regulation of trade to other countries which are faced with **a** different set of problems.

(iv) As a wealthy industrial power, the U. S. A. is in a position to aid its industries by means of cash subsidies. In the course of the discussions, therefore, the U. S. representatives showed unwillingness to agree to **a** complete prohibition of export subsidies and supported **the** use of general production subsidies as a legitimate method of protection of "infant industries". In this matter also, little consideration was shown for the interests and requirements of undeveloped countries whose financial resources are limited. The U. K. pursued a middle course, opposing the use of export

subsidies which are calculated to injure British trade, while agreeing with the U. S. view that protection to infant industries should ordinarily be given by means of production subsidies.

(v) The main point of conflict between the two countries arose in connection with the proposal to eliminate all forms of discriminatory treatment in international commerce. The U. K., while no less anxious than the U. S. A. that other countries should lower the barriers to trade so that expanding markets might be found for manufactured goods, was reluctant to give up the sheltered position enjoyed by British traders in certain Empire countries. The Atlantic Charter itself contained the seed of future conflict, for acceptance of the principle of "equal access to the markets and raw materials of the world" was subject to the proviso, which was apparently inserted at the instance of the U. K., that "existing obligations" must be respected. These obligations refer to the preferential agreements concluded by the U. K. with certain Empire countries. Throughout the discussions, the U. S. attack was concentrated on the preferential system which places American traders at a disadvantage *vis a vis* the British in Empire markets. The U. K. had agreed to the elimination of all forms of discriminatory treatment as an objective of post-war policy, but was unwilling to implement this undertaking without an adequate return in the shape of a world-wide lowering of trade barriers.

The agreement finally reached between the experts of the two countries is embodied in the proposals. The analysis shows that the experts were concerned almost exclusively with the problems of their respective countries and the compromise which has emerged from their talks represents a compromise between the interests and policies of the U.K. and the U.S.A.

7. In the light of these facts, it is essential that India's requirements in respect of a long-term commercial policy should be clearly defined so that the value of the scheme to a developing economy may be correctly assessed. In the Statement on Industrial Policy issued by the Government of India in April 1945 it was mentioned that a tariff policy "appropriate to the post-war needs and conditions of the country" is under active consideration. This question has attracted an increasing volume of discussion in recent months, but the actual formulation of proposals for a long-term policy has been deferred for the reasons stated below;—

(i) Although the preparation of development plans has made some progress there is still some uncertainty as to the future "needs and conditions" of the country and of the world as a whole which must determine the character of a long-term commercial policy.

(ii) The uncertainty has been heightened by the constitutional recommendations which envisage a division of responsibility for economic development in the India of the future between a number of autonomous Groups. Whether India will remain a single "customs territory" for the purpose of Section H, Chapter III, Part C of the U.S. document is an open question.

(iii) It is wrong to expect a developing country which is faced with the prospect of constant changes in economic and political conditions both at home and abroad to commit itself in advance to a specific policy in commercial matters.

8. The policy must in any case be based on a study of the results and recommendations of the International Conference; but if India is to take part in the Conference and in the preliminary discussions and to make some contribution to the debate, the proposals must first be examined in the light of India's own requirements. In this matter, India's interests coincide with those of other industrially backward countries which have similar ambitions and plans. At the Conference, therefore, India might take the lead in presenting the case of all undeveloped economies and in suggesting changes in the scheme to safeguard their vital interests. Bearing in mind the importance of the part which India may be expected to play in these international discussions, an attempt has been made to analyse the broad objectives which must govern the formulation of a long-term policy:—

(i) Until recently, the accepted policy of the Government of India, based on the report of the Fiscal Commission and on a resolution adopted by the Central

Assembly in 1923, was " to foster the development of industries in India " by fiscal and other measures. The application of this principle was, however, hedged in by conditions and provisos which greatly impaired its effectiveness and hampered the development of industries. Hostile influences, mainly of foreign origin, were also at work behind the scenes to put a brake on industrial progress.

(it) The new policy of Government (as laid down in the Statement of April 1945) is " to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible " with a view to achieving the three-fold objects of industrialisation, viz., (a) The maximum exploitation of the country's resources in order to increase the national wealth, (6) better preparation for defence, and (c) a high and stable level of employment, more particularly a substantial increase in industrial employment, including employment in ancillary trades and professions.

(iii) It is not likely that the government or governments of the future will revert to the prewar policy of hesitating and reluctant support of India's industrialisation. On the contrary, rapid and large-scale development of the entire economy under the direction or control of the State, on the basis of a detailed plan, may be expected to become a normal feature of India's economic life. Public opinion, judging from present trends, will insist on increasing participation by the State in industrial and commercial activities and on regulation of private enterprise to ensure that maximum results are obtained (a) at minimum cost to the community and (6) in the quickest possible time.

(iv) For the success of such a policy, it is essential that trade, both external and internal, should be carefully regulated. This memorandum is not concerned with internal trade, but only with measures needed to ensure that India's external trade fits in with the requirements of the development plans. These plans may be expected to lay down targets for production and to indicate a programme of development for each industry or section of an industry. It would be obviously impossible to carry out such plans if exports and imports were left to the discretion of the individual trader, subject to such control as may be indirectly exercised through tariffs.

(v) *Direct* regulation and control of trade must, therefore, be accepted as an integral part of a system of planned economic development. In the special conditions facing India during the period of transition, i.e., the period during which the new industrial economy will be built up, the planning of trade will be all the more essential. During this period, India's requirements of foodstuffs, capital equipment and machinery, raw materials and essential consumer goods will greatly exceed prewar imports. A considerable expansion of exports will be necessary to pay for these imports but unless non-essential imports are reduced to a minimum and essential imports are regulated in accordance with some order of priorities, the development plans may be completely stultified. It will be necessary also to control imports and exports in order to conserve supplies of essential materials and to protect such industries as are threatened by foreign competition.

(vi) Quantitative restrictions on imports and exports are thus unavoidable and in suitable cases a State monopoly of trade may be necessary. What forms these restrictions or monopolies will take cannot be determined in advance, but it is clear that any international agreement India may enter into must make provision for the exercise of such powers by the State. Tariffs are uncertain in their effects and under a system of a planned trade their use will be restricted to a minimum. The power to impose protective tariffs must, however, be retained for the actual method of regulation will depend on the circumstances of each industry.

(vii) Subsidies are also a useful method of assisting certain classes of industry, e.g., industries essential for national defence or basic industries, the cost of developing which should be borne by the community as a whole. India, must, therefore, retain the right to grant production subsidies in suitable cases, but she cannot agree to limiting herself to the use of a single protective device. In many cases, it will be found that a combination of one or more devices, e.g., quantitative restrictions

and tariffs or subsidies, or both, will be more economical and effective from every point of view.

(viii) Some reference should also be made to the principles of discrimination and other restrictions which have governed the application of India's protective policy. Under a system of planned development, the whole approach to this question must be changed, for the decision to establish a new industry or to develop an established industry will be taken on grounds of national policy in the light of all relevant considerations, *e.g.*, the existence of national advantages, the cost to the consumer, the effect on revenue, etc. But these factors will not be treated as *conditions* for the grant of protection, but merely as a guide to the planning or other executive authority which is responsible for the development of industries. Under such conditions, the Tariff Board of the future will form a subordinate branch of the planning organisation; it will continue to play a useful role, but not as a quasi-judicial authority of independent status which is expected to enquire into "claims" for protection from individual industries.

(ix) Two further questions should be considered—(a) Is India in a position to adopt a purely autonomous policy in commercial matters, and (b) what should be her attitude to the proposal for the restoration of fully multilateral trading? As regards (a), India will need assistance from other countries in the shape of imports and technical assistance in connection with the development plans. An isolationist policy will not suit her interests, the more so as a considerable expansion of exports will be necessary to pay for the imports. Some form of constructive international co-operation is, therefore, essential for the success of the plans. But the trading position of India has strengthened enormously by the change in her status from a debtor to a creditor nation. The pressure of the unilateral transfer of funds, estimated roughly at Rs. 50 crores per annum, which has exercised a depressing effect on India's external trade in the past, has been wholly eliminated. It is no longer *obligatory* for this country, in order to balance its international accounts, to aim at an annual export surplus. The practical effect is that—(a) other things being equal, the terms of trade may be expected to move in India's favour, and (b) the commercial policy of the future may be planned under conditions of relative freedom. Having regard also to the character of India's exports which are in world-wide demand and to the fact that for a period of years she may be a net importing country, India is clearly in a position to adopt a commercial policy of her own choice, provided it is consistent with the principles of an expansive economy, without incurring the risk of seriously injuring her long-term interests. In other words, India's bargaining position is strong and she should not hesitate to make full use of it at the Conference in the interest of all undeveloped countries.

(x) As regards (b), India's interest clearly lies in the elimination of all forms of discrimination which divert trade from its natural channels. The point at issue is whether the preferential agreements to which India is a party should be continued. These agreements constitute a departure from the principle of multilateral and non-discriminatory trading and tend to canalise trade between certain British Empire countries. Past experience shows that even under conditions of declining trade resulting from a depression of world-wide character, India's gain from the preferences must be negligible because of the limited capacity of the U. K. to absorb India's exports. The long-term effect of discrimination is that countries which are excluded from the Indian market due to the grant of preference to the U. K. tend to restrict their purchases of Indian products and India's export trade suffers. Under conditions of expanding trade, India has no need for sheltered markets and if the plans of industrialisation are to succeed, it is necessary that she should have free access on equal terms with other countries to all markets both for making purchases and for selling her own products. A system of triangular trade under which import surpluses from the leading industrial countries will be balanced by export surpluses to countries of the Indian Ocean area (which constitute India's principal markets for manufactured goods) is the kind of trade which will suit India best. Tariff preference

and other methods of discrimination tend to restrict the scope for multilateral trading and thereby lessen India's capacity to buy and sell in the most favourable area.

It may be objected, however, that for the purpose of securing liquidation of the sterling balances India may find it necessary to take special measures for developing an import surplus with the U. K. Discrimination may have to be practised for this purpose and provision has been made for such an eventuality in the proposals of the U. K. document relating to quantitative restrictions. This is, however, a recognized exception to the general rule that under conditions of expanding production and employment, a non-discriminatory, multilateral system of trading is preferable\* to any form of *restrictive* bilateralism. Bilateral agreements which are non-restrictive and which do not discriminate against other countries should not, however, be excluded from the scope of a multilateral trading system.

9. Some of the points mentioned above have been discussed more fully in the comments on the proposals in Part II of this memorandum.

## II

The proposals have been grouped under three heads—

- (A) Need for international economic co-operation.
- (B) Proposals concerning employment.
- (C) Proposals concerning an international trade organisation.

(A) and (B) set forth certain principles or undertakings for the acceptance of the signatory nations ; while the main body of the proposals is collected under (C), which is divided into a number of Chapters and Sections dealing with various aspects of general commercial policy, restrictive business practices, international commodity arrangements and the question of organization. The document is prefaced by a Foreword by the U. S. Secretary of State and an Analysis which gives a broad indication of the line of approach to the problems of trade and employment favoured by the experts.

2. The prefatory remarks may be considered briefly. It has been explained in Part I that India has little to gain by " the separation of the world into economic blocs " : the U. S. Secretary of State's observations on *this* subject should, therefore, have India's support. The aims and objectives broadly outlined in the Analysis are equally unexceptionable : it is in the interest of all countries that the United Nations should " work together in every field of common interest, in particular the economic " and that every endeavour should be made " to harmonise the policies of the United Nations with respect to international trade and employment ". These objectives emphasize the need for international co-operation which is fully recognized by every section of Indian opinion. The co-operation must, however, be genuine if a scheme sponsored by the industrial powers is to command the support of a country in the position of India ; the later paras will, however, show that in recommending specific measures, the experts have shown less understanding of the problems of industrially backward countries than of those confronting a highly developed economy such as the United States of America.

3. The view has been expressed that trade connects employment, production and consumption and facilitates all three. India may accept this view which implies that trade is not an end in itself, but a subordinate instrument of national economic

policy. If not misdirected, trade is capable of playing a valuable part in raising the level of production and consumption and of securing higher standards of employment. It follows that commercial policy must be determined, not on the basis of any preconceived principles, but in the light of each country's actual requirements. The experts recognize that " we live in a world of many countries with a variety of economic systems ". National needs differ and it is wrong to assume that " release from restrictions imposed by Governments " will prove of benefit to every country. The Analysis is, however, correct in stating that " excessive " restrictions can do no good to any country and that restrictions which discriminate between countries are liable to create bad feeling. Restrictions and regulatory devices which are suited to the needs of the country and are essential for the purpose of development must, therefore, continue to be applied ; and all-round reduction of tariffs and trade barriers, without regard to the vital requirements of the domestic economy, cannot be accepted as an " objective of international action ".

4. There are two further statements made in the Analysis which call for some comment. The experts have suggested that it is important that nations should not seek to obtain full employment for themselves by " exporting unemployment to their neighbours." There are other ways of obtaining full employment which are equally undesirable, *e.g.*, when a country with highly developed industries seeks to maintain or to develop its exports by resisting the establishment or development of industries in other countries which might prove dangerous competitors because of special advantages enjoyed by them, *e.g.*, availability of raw material, existence of a large domestic market, etc. The second statement is to the effect that the purpose of the Conference is " to make real the principle of equal access to the markets and the raw materials of the world ". In this matter also, prominence is given to the needs of the leading industrial powers whose anxiety to secure cheap raw materials and expanding markets for their manufactured goods has already been stressed in Part I. Countries in the position of India can only accept this principle if their right to control exports of raw materials in the interests of their own industries is fully recognised, and whatever measures *may* be adopted to secure " equality of access " are applied not only to raw materials but also to other vital commodities, *e.g.*, machinery and equipment. This question has been discussed further under (C), Chapter I. It is presumed that the expression " equality of access " is used in this document in the sense of non-discrimination between one *foreign* country and another.

5. Detailed comments on the proposals are made below ; specific amendments have been suggested on the assumption that the proposals will form the basis of an International Charter to be drafted at the preliminary meeting :—

(A) *Need for International Economic Co-operation*

India may support the view expressed in para. (1) that collective measures to safeguard the peoples of the world against threats to peace depend as much on machinery to prevent aggression as on " economic co-operation among the nations with the object of preventing and removing economic and social maladjustments, of achieving fairness and equity in economic relations between States, and of raising the level of economic well-being among all peoples." In para. (2), reference is made to the objectives of the Atlantic Charter and of Article VII of the Mutual Aid Agreement. India is not a party to the Agreement and is not bound to accept these objectives ; but if an organization is set up which, though based on the principles embodied in the Charter and the Agreement, satisfies the essential requirements of this country, there is everything to be gained by India's participation in it. On this understanding, therefore, India may readily subscribe to the views expressed under (A) on the subject of " co-operative action".

(B) *Proposals concerning Employment  
Governing Principles*

(1) (a). The principle may be accepted that full employment is a necessary condition for an enlarged volume of trade, but the expression "full employment" needs to be defined. In this sub-para the signatory nations are called upon to recognize that high and stable employment is a main condition for the attainment of satisfactory levels of living". This is not wholly in accord with India's conception of a progressive employment policy. India should make it clear that from the point of view of an industrially backward country with low standards of production, high and stable employment by itself cannot lead to an appreciable rise in the national standard of living. It is the *quality* of the employment that matters much more than the actual numbers employed and although the point may appear somewhat academic to an expert whose vision is bounded by the interests of an advanced industrial economy, it should be clearly understood that a country in the position of India can only accept this as a really significant objective if the words used are amplified to read—"high and stable levels and rising standards of employment".

(b). It cannot be assumed that in all cases and under all circumstances, the "full prosperity" of every country will depend on the expansion of international trade. This sub-para, as worded, has dangerous implications for countries not classed as "leading industrial and trading nations", for it may lead to a subordination of their interests to those of countries which are so classed. India should suggest the omission of the words "on which the full prosperity of these and other nations depends", in the alternative, it should be made clear that India cannot accept the view that her "full prosperity" must necessarily depend on the expansion of international trade.

(2). While this principle may be accepted, it would be advisable to suggest insertion of the words "as far as possible" between "should" and "be" in the first line of this paragraph. If India is able to carry out successfully her plans of large-scale industrialization, there may be complaints from certain countries with which she has had trade relations in the past that their "economic well-being" has been adversely affected. Obviously, India cannot give up her development plans for the sake of certain vested interests in other countries, but she should have no hesitation in accepting the principle that in giving effect to these plans everything possible should be done to minimize any adverse repercussions on the economic well-being of other nations.

(3) and (4). No comments.

*Effectuation of Aims*

(1). The expression "full employment" should be amplified as suggested above to make this undertaking significant from the point of view of industrially backward countries.

(2). An undertaking on the lines proposed in this paragraph cannot be given by India. The effect of this would be to freeze the existing pattern of production and to hamper changes in the economic structure of backward countries. If any measure, for the maintenance or promotion of employment is considered necessary from the point of view of India's interests, it would be wrong to give it up on a complaint made by some other country that it is "likely to create unemployment" in that country. An undertaking on this subject is quite unnecessary in view of the fact that under para. (2), "Governing Principles," each signatory nation will have "recognized" that domestic programmes to expand employment should as far as possible be compatible with the economic well-being of other nations. Any further commitment would tie India's hands and interfere with her development programme. As regards the second part of the proposed undertaking, *viz.* that members should refrain from adopting measure" for the maintenance of employment if they are "incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative



efficiencies of production", it should be made clear that India cannot be a party to such "international undertakings". If strictly interpreted, this clause would have the effect of nullifying a scheme of economic development in a backward country which involves the establishment of new industries. Whatever the future potentialities of such industries, it is obvious that at first they will not satisfy the test of "comparative efficiency". India should, therefore, suggest that the second part of the proposed undertaking should also be omitted, or in the alternative, that for the words "comparative efficiencies of production", the words "rules to be framed by the International Trade Organization" should be substituted.

(3) and (4). No comments.

(C) *Proposals concerning an International Trade Organization*

*Need for an International Trade Organization*

(1) and (2). Under given conditions, measures designed to effect an expansion of trade may be essential for raising the level of production, employment and consumption. In the earlier stages of planned economic development, such conditions are likely to exist in India. There will be a growing demand for imported goods of specified types, e.g. machinery and equipment, and to pay for these goods it will be necessary to expand the export trade to the maximum limit. The principle that measures for the expansion of trade are "essential" may, therefore, be accepted, on the understanding that commercial policy will remain subject to the needs of internal economic development. A departure from this principle would be justified if conditions change and a restriction of trade or of specified categories of trade is found to be necessary for raising the level of production, employment or consumption.

It may also be accepted that "since an expansion of trade can only be attained by collective means, in continuous operation and adaptable to economic changes, it is necessary to establish permanent machinery for international collaboration in matters affecting international commerce". India should support the proposal for the creation of an International Trade Organization, the members of which would "undertake to conduct their international commercial policies and relations in accordance with agreed principles to be set forth in the articles of the Organization." The assumption of course is that the "agreed principles" are fair to all concerned and take full account of the needs of undeveloped countries. The principles have been discussed later.

*Proposed International Trade Organization*

CHAPTER I

PURPOSES

(1) and (2) may be accepted.

(3) and (4) call for some comment. It has been explained in Part I that these provisions (which have been borrowed from the Atlantic Charter and the Mutual Aid Agreement) form the basis of the entire scheme, in an earlier paragraph, it has been mentioned that, although India is not a party to the Mutual Aid Agreement, she has everything to gain by adhering to the scheme, provided that her essential interests are safeguarded. The "purposes" outlined in (3) and (4) may, therefore, be accepted, on the understanding that—

(i) as stated in the paragraph mentioned above, (a) "equality of access" will apply to all categories of goods and not merely to raw materials, and (b) each country will retain the right to restrict exports of essential commodities in the interests of its own industries, subject to such rules governing the exercise of this right as may be framed by the Organization and to acceptance by all exporting countries of the principle of non-discrimination in this matter as between two foreign countries ;

(ii) the three "purposes" mentioned under (4) will be treated as parts of a single whole : thus reduction of tariffs and other trade barriers will only be regarded as a valid purpose to the extent that it may be expected to lead to\* an expansion of production, exchange and consumption of goods in the importing country and to a rise in the purchasing power and standard of living of the people.

## CHAPTER II

### MEMBERSHIP

No comments.

## CHAPTER III

### GENERAL COMMERCIAL POLICY

#### Section A.—*General Commercial Provisions*

A number of undertakings have been suggested for member States—

(2), (3), (4), (5), (6), (9) and (10) embody provisions which will be of value to all member States and may safely be accepted by India. A word may be added about (5). If protection is needed for domestic products, it should be given openly by direct methods rather than by imposing "unnecessary requirements" on imported goods by making customs formalities more stringent and complex. This tortuous method is open to objection on administrative grounds.

(7). In matters affecting internal taxation, e.g., levy of municipal dues, some discrimination between foreign and domestic goods should be permitted. This seems to be the recognised practice in India. The exact implications of the expression "regulation of trade" are not clear, but there seems to be little objection in agreeing to this provision.

(7). India could only give such an undertaking if it were decided that the entire import trade should be rigidly controlled or monopolised by the state so that only such goods of foreign origin are permitted to enter the country as are wholly non-competitive with similar goods of domestic origin. Since the likelihood is that India's import trade will not be so controlled and competition from abroad will continue to some extent, the government of the future may find it necessary and desirable, in order to make the plans of industrialisation a success to encourage the consumption of domestic products in preference to foreign products by means of governmentally financed or organised campaigns conducted on the lines of the "Swadeshi" or "Buy British" movements. Whatever may be the American ideas on this subject, there is nothing immoral or inherently wrong in government supporting or directing such a movement. India cannot, therefore, accept this proposal unless the undertaking is confined to boycotts or campaigns specifically directed against a specified member State with which she has trade relations.

(8). The first part of the proposed undertaking may be accepted ; as regards the second, the proposal seems to be sound in principle, but the matter is one for consideration by the Department of Finance.

#### Section B.—*Tariffs and Preferences*

(1) Negotiations for the reduction of tariffs and the elimination of preferences are to take place at the meeting of drafting countries which India has agreed to attend. The arrangements suggested in this paragraph represent a compromise between the British and American points of view which showed considerable divergence on this subject in the article VII discussions. The British view was that a multilateral formula of general application should be evolved for the purpose of carrying out substantial reductions in both tariffs and preferences, but the Americans expressed doubt whether a practicable and equitable formula could be found and suggested that, failing the adoption of a specific formula, the proposed Convention might include merely an undertaking on the part of the countries concerned to negotiate bilateral agreements for tariff reductions. India could not in any case

have accepted a formula involving an arbitrary reduction in tariff rates. The method now proposed which has been accepted both by the U. K. and the U. S. A. is better suited to her requirements. The proposed negotiations will apparently be conducted in groups of countries which are the principal suppliers and consumers of a specified product. Each country will then be in a position to form some idea of the total effect of the reductions on its industry and trade before making a final commitment.

The actual concessions which India can make, or which may be needed by her, are being examined separately. Detailed lists are being prepared, based on a study of tariff rates and the probable trend of exports and imports. A final decision in this matter will be taken in due course, but it may be useful at this stage to draw attention to the following points—

(1) India's exports are principally raw materials and other commodities which are either duty-free or liable to low rates of duty in the principal importing countries.

(ii) Articles of Indian origin which are liable to high rates of duty in such countries are mostly articles the demand for which is inelastic.

(iii) It follows from (i) and (ii) that India has not much to gain by a substantial reduction of tariffs in the principal importing countries. Any reductions made will be equally applicable to India's, principal competitors, and the relative position of India in these markets is likely to remain unchanged. There may, however, be some exceptions to this rule and reductions of duty in such cases should be asked for.

(iv) On the import side, India has certain concessions to offer, e.g., on raw materials, semi-manufactures, machinery and equipment and essential foodstuffs. So far as possible, tariff reduction in such cases should be deferred until the date of the preliminary meeting. Certain concessions have, however, already been made and India's bargaining power has to some extent been reduced. The scope for substantial reductions is in any case limited in view of the facts that (a) the average overall incidence of the tariff is already lower than in many other countries; (b) India is still dependent on customs revenue and, bearing in mind the uncertainties of the constitutional future, any substantial sacrifice of Central revenue at this stage would be extremely unwise; and (c) India is on the eve of a period of industrial development and it cannot be foreseen which industries would require assistance in the shape of tariff protection.

(v) The position with regard to preferences has been discussed in Part I of this memorandum. Under conditions of full employment and expanding trade in the leading industrial countries, India has everything to gain by the reduction or removal of preferences. There may be some loss in a few cases where India needs a sheltered market, but this will be more than balanced by the increased demand for Indian goods, resulting from the expansion of trade. If the colonial preferences are, however, continued in favour of the U. K., India will stand to lose by discrimination against her exports, especially of cotton and other manufactures. India's interest, therefore, lies in supporting the move for the complete elimination of preferences and she should readily agree to the "initial steps in the process of elimination" suggested under (a), (b) and (c).

(2) The proposal with regard to export tariffs also represents a compromise between the British and American points of view. In the article VII discussions, the Americans took the stand that export taxes and restrictions should be totally abolished, or in any case should cease to be protective. On the British side, the view was expressed that there was no reason why protective export duties should not be treated on the same footing as protective import duties and that the abolition or reduction of export duties would leave the colonial processing industries without defence against importing countries which might wish to take over the processing themselves. In India, export duties have been applied to some extent, but only for revenue purposes. A protective and preferential export duty was applied in the case of raw hides and skins after the last war, but the

results "WPTP not encouraging and the accepted view, based on the recommendations of the Fiscal Commission, is that export taxes should as far as possible be avoided. For revenue purposes, however, the government of the future may find it necessary to impose duty at moderate rates on selected exports ; but an undertaking may safely be given that any export duties which may be imposed will be non-discriminatory and will be open to negotiation in the same way as duties on imports. If discrimination is to be applied (*e.g.*, in the case of a country such as South Africa) provision to cover such cases should be made in the section relating to general exceptions. This point will be discussed later.

(3) The proposed escape clause may suit the requirements of a country such as the U. S. A., but it will not give India the right to raise the level of a duty (which has been specifically reduced in the course of the negotiations) for the purpose of protecting an industry. It is vitally necessary that India should have the power to increase the rate of a duty where such increase is found to be necessary for protective purposes. India's interest demands the addition of a clause which would enable her to take corrective action in respect of duties which have been specifically reduced in the course of the negotiations, subject, however, to any rules or procedure which may be laid down in connection with this matter by the International Trade Organization.

#### Section C—Quantitative Trade Restrictions

On this subject, there "was a large measure of agreement, throughout the discussions, between the American and British experts. Both took the view that quantitative restrictions, such as quotas and licensing systems, are among the devices most destructive of international trade, since they " introduced an element of rigidity into trade-relationships which frequently lends itself to speculative manipulations and erratic price fluctuations, and almost inevitably result in discrimination among suppliers, uneconomic diversion of trade, international friction and ill-will." It was, therefore, suggested that "as part of a multilateral convention, the use of prohibitions or quantitative restrictions, except in special cases, should be prohibited." In particular, it was the experts' view that "the use of such methods for protecting home industries, including infant industries and industries deemed necessary on grounds of national security, should be proscribed."

India's experience of the war-time controls has not been too happy, but certain facts should be noted in this connection—

(i) The object of these controls was not to protect Indian industries or to develop Indian resources for the purpose of increasing the national wealth and raising the national standard of living. The controls were specifically devised to meet war requirements, *e.g.*, conservation of shipping, etc., and the needs of the Indian *economy* were subordinated to these requirements.

(ii) There was criticism of the administrative arrangements which suffered from defects which are partly explained by the conditions in which the controls were applied.

(iii) In view of the exceptional conditions, it cannot be assumed (that the system itself is unsound ; and in any case, as has been pointed out in Part I, under conditions of planned development of the country's resources, direct control of trade will be essential and tariffs and other indirect measures will fall short of India's requirements.

Discrimination, diversion of trade and the other evil effects which have been catalogued by the experts are not wholly unavoidable and the real test to be applied in such cases is the purpose of the restrictions, *i.e.* whether they are designed to restrict or to increase national production and employment. Taking

a long-term view, it would be disastrous for India to give up the right to impose quantitative restrictions on exports or imports for the purpose of ensuring the protection of industries and the selective use of available resources to the best advantage of the country. The third purpose, *viz.* to ensure that, financially, the country lives within its means, has been accepted by the proposals.

(1) The use of quantitative trade restrictions for the purposes stated has been agreed to. India may accept these proposals, subject to two modifications—

(i) Under (a), the period has been fixed at 3 years but provision has been made for extension of the period with the concurrence of the Organization. An initial period of 5 years would be more suitable, having regard to the extent of economic dislocation caused by the war.

(ii) Under (e), import quotas on agricultural products necessary for the enforcement of measures which operate to restrict the quantities of like domestic products which may be marketed or produced are required to be such as would not "reduce imports relating to domestic production as compared with the proportion prevailing in a previous representative period", due account being taken of certain special factors. In other words, the quotas may not be used for the purpose of increasing the relative share of the domestic producer in the home market. India cannot agree to this proviso which conflicts with the interests of the domestic producer.

(2). Restrictions to safeguard the balance of payments have been agreed to in order to enable the U. K. to tide over her special difficulties. It might be asked whether these provisions could not be applied in cases where direct control of trade is necessary as part of a scheme or planned development. The answer is that this will not meet India's requirements. The restrictions proposed can only be applied, subject to certain conditions, "as an aid to the restoration of equilibrium in the balance of payments". India's balance of payments during the period of development will not, however, be adversely affected: on the contrary, the balance may continue to be favourable if imports, as is likely, are hampered by such factors as inadequate supplies of equipment, etc. Quantitative restrictions would, however, still be necessary for the purpose of ensuring (a) the development of industries at the rate envisaged by the plan, or (b) the selective use of funds and other national resources which may be available for purposes of development in accordance with some order of priorities. Moreover, in a scheme of planned development, both imports and exports should be subject to control. The proposed restrictions are, however, confined to imports and no provision has been made for the control of exports.

India should, therefore, insist that the proposals should be amplified to enable member countries desiring (a) to bring their external trade under the control or direction of a central planning organization, or (b) to develop or to establish industries which are exposed to special difficulties, to impose direct quantitative restrictions on exports or imports, subject, however, to the following conditions—

(i) that there will be previous consultation with the International Trade Organization ;

(ii) that there will be "equality of treatment", as provided for in para (3); and

(iii) that the purpose of the restrictions will be, not to restrict, but to expand production and employment with a view to increasing the purchasing power of the people and raising their standard of living.

(3) The proposals made in this paragraph are designed to ensure that direct quantitative restrictions will be applied on a non-discriminatory basis. These-

principles should apply not only to restrictions made on balance of payments grounds, but also to restrictions imposed for development purposes. Subject to this qualification and the further qualifications suggested in paras. (4) and (5), the provisions may be accepted.

(4) and (5). These provisions may also be accepted. It may be necessary for India to apply quantitative restrictions on a discriminatory basis as part of a programme for the liquidation of the sterling balances, or in pursuance of certain provisions of the International Monetary Fund Agreement of which India is a signatory.

#### Section D.—Subsidies

Throughout the discussions, there was agreement between the experts that subsidies are in general preferable to tariffs and other import restrictions as a means of protecting industries because (a) they do not impose burdens on consumers, and (b) being visible, they are likely to be employed less frequently and for shorter duration than direct trade restrictions. On the question of export subsidies however, there was some difference of opinion: while the British experts urged that export subsidies and other government action which result in the sale of goods in foreign markets at prices lower than those corresponding to the prices charged for like products in the home market, should be totally prohibited, the Americans were unable to accept this view since "American opinion has still to be won over to the elimination of two-price systems". It was agreed, however, that *in principle* export subsidies are objectionable, since they cause economic diversions of trade work unjust hardships on competitors and engender international ill-will.

India might find it useful in certain cases to subsidize exports, but since the effect of such a policy *must be to encourage* other countries to take similar measures, and India could not possibly enter into competition with countries like the U. S. A. in policies of this kind, it is in her interest that export subsidies should be prohibited or brought under control. As regards production subsidies, while India, for reasons already explained, cannot agree that they are "preferable" to tariffs and other import restrictions in all cases, the right to grant subsidies as a means of protecting or developing industries should of course be retained. India has, however, everything to gain by the adoption of a procedure which would ensure that subsidies are limited in all countries to an essential minimum and uneconomic competition in this matter between the principal trading nations is avoided.

The proposals under (D) which represent the largest common measure of agreement between the American and British experts should be examined in the light of the above remarks.

(1) India may accept the principle laid down in this paragraph that, while subsidies which operate to increase exports or reduce imports, may be granted (subject to certain exceptions considered below), member States must undertake to furnish certain information to the Organization and be prepared "to discuss possible limitations on the quantity of the product to be subsidized" with other member States, if the subsidy is likely to cause serious injury to international trade.

(2) India may also agree that "members should undertake not to take any action which would result in the sale of a product in export markets at a price lower than the comparable price charged for the like product to buyers in the home market", due allowance being made for certain special factors affecting price fixation. This is an important safeguard against dumping and other forms of unfair competition which are calculated to injure India's trade. The proviso, inserted to satisfy American interests, somewhat lessens the value of this safeguard, but some compromise in this matter is necessary and it would be a mistake to insist that these provisions should take immediate effect.

(3) The provisions relating to commodities declared to be in "burdensome world supply" are an additional safeguard against dumping and uneconomic competition. India should welcome these provisions which are designed to regulate production and trade in a manner conducive to the interests of both producers and consumers. The alternative to regulation is a form of competition which may prove disastrous for the weaker producers. It is evident, however, that the value of these provisions would depend largely on the interpretation placed by the Organization on the terms "burdensome world supply" and "uneconomic production". The provisions of (b) and (c) of this paragraph are necessary and unavoidable and should also be accepted.

#### Section E.—*State Trading*

The British and American views on this subject were almost identical and the main concern of the experts in the course of the article VII discussions was to devise a scheme which would leave room for State-trading (in order to make it possible for countries such as Russia to join the Organization), but "would prevent this freedom from being misused in such a way as to confer an excessive degree of protection upon domestic industries, or to discriminate between external markets and sources of supply". The objectives underlying the provisions of this section are—

(i) that the interests of State-trading countries and private enterprise countries should be harmonised, so that both might participate on equal terms in the activities of the Organization ;

(ii) that the methods and arrangements for trading between the two groups of countries should be such as would maximise the economic use of resources by (a) the elimination of discrimination and (b) the expansion of trade on a multilateral basis;

(iii) that government action in private enterprise countries in connection with the regulation of trade with State-trading countries should be confined to ordinary trade control measures within the limits of the commercial policy proposals and counter-monopolies should not be encouraged.

India is interested in these provisions for two reasons—

(i) The new export duties visualise an expulsion of trade with all countries, including countries such as Russia where trade is a monopoly of the State.

(ii) Although a private enterprise country at present, India is not unlikely to adopt new techniques for the control of trade in connection with the plans of industrialization. If other methods, e. g. quantitative regulation of imports and exports, fail to achieve the desired end, the Government of the future may, to an increasing extent, undertake direct trade activities through Corporations and Boards appointed or controlled by the State. If quantitative regulation is disallowed by the Organization, it will be more than ever necessary, under a scheme of planned development, for government to assume direct control of trade by eliminating private transactions altogether.

The minimum requirements in this connection, from India's point of view are—

(i) that the right to protect or to develop industries should not be restricted ;

(ii) that discrimination should be ruled out; and

(iii) that the arrangements should give full scope for the expansion of trade, subject to the essential requirements of the plans of national economic development.

The proposals have been examined below in the light of these observations.

(1) The principle of equality of treatment, *i.e.* non-discrimination, may be accepted. India may also agree that the foreign purchases or sales of State-trading enterprises should be governed solely by commercial considerations. A country with limited resources desiring to achieve rapid industrialisation cannot fail to benefit by the acceptance of this principle, but commercial considerations cannot be confined to short-term interests, *e.g.* price, quality, etc., but should include long-term interests, *e.g.* the need for the development of trade with a specified country because of the other commercial benefits which may result from such & development.

(2) The object of this provision is to restrict the protective effect of State-trading or of State monopolies of individual products. There can be no objection to giving an undertaking " to negotiate a maximum protective margin " but as in the case of tariffs, India should make it clear that if further experience shows that the margin should be increased, she will be free to increase the margin, subject, however, to prior consultation with the Organization and with the other members concerned. A similar provision would be necessary in the case of new monopolies. India may however, agree that if the product is not subject to rationing, the monopoly should offer adequate quantities of it for sale.

(3) It is not clear how effect is to be given to the provisions of this paragraph. Is the proposed global purchase arrangement to be made with the Organization or with other members, individually or collectively ? And if with the Organization, on what basis will distribution of quotas be made among members ? Surely, an undertaking of this nature cannot have much practical effect, for the arrangement would in any case be subject to periodic modifications. For securing the object in view, it would be preferable, therefore, to rely on the general purpose of the Organization, *viz.* the expansion of employment and trade, which all members are bound to accept before they become parties to the Agreement. On the whole it would be advisable to omit this paragraph.

#### **Section F.—Exchange Control**

These provisions are necessary to ensure that discriminations which have been ruled out by the trade proposals are not imposed through exchange techniques and that equality is secured by members in the matter of exchange treatment. India may accept these provisions.

#### **Section G.—General Exceptions**

These provisions may also be accepted, but item (9) needs to be amplified. India may find it necessary to discriminate against a specified member for reasons of high policy. The case of South Africa is in point. Unless provision is made to cover such cases, India may be compelled to withdraw from the Agreement in order to apply trade sanctions against the member concerned. Item (9) should, therefore, permit of the adoption of measures at variance with the undertakings, in exceptional cases, not only on a recommendation of the Organization, but also by a member State on its own initiative, provided that due notice has been given, with a full explanation of the circumstances, both to the Organization and to the other member or members concerned.

#### **Section H.—Territorial Application**

India may accept these provisions which ensure (a) that special tariff concessions may be exchanged with countries such as Afghanistan and Nepal on the ground of geographical contiguity, and (b) that each customs territory will enjoy full rights of membership of the Organization.

## CHAPTER IV

### RESTRICTIVE BUSINESS PRACTICES

Control of national or international combines of manufacturers or producers is a fundamental objective of American economic policy and in the course of the discussions much stress was laid by the American experts on the necessity of prohibiting restrictive business practices in view of the fact that inter-governmental agreements for the general welfare might easily be frustrated by private agreements. The British took a less extreme view, resisting the demand for compulsory action which might have the effect of illegalising all types of private agreements, including such as are not contrary to the general interest. The proposals contained in this chapter represent a compromise between the two points of view.



The undertaking to make individual and concerted efforts to curb restrictive practices is to be confined to practices " which have the effect of frustrating the objectives of the Organization to promote expansion of production and trade, equal access to markets and raw materials and the maintenance in all countries of high levels of employment and real income". This is a definite improvement on the original American proposal. India's interest in this matter arises from the fact that, in connection with the development plans, it may be necessary for Indian manufacturers to enter into arrangements—

(i) with Indian producers for the restriction of exports of raw material in the interests of a domestic industry, or

(ii) with foreign manufacturers for such purposes as the gradual transfer of manufacturing processes to India so as to encourage industrialisation.

If cartels, combines and restrictive agreements were totally prohibited, it would not be possible for Indian manufacturers to enter into such arrangements. Para. (1) of Chapter IV does not, however, invalidate a restrictive private agreement if the object of the restriction is to expand national production and to raise the level of employment and real income. Subject to this condition, India may safely agree that every effort should be made to curb restrictive practices which are specifically directed against the consumer or against rival interests in other countries. As already explained in an earlier paragraph, equal access to raw materials and markets cannot be held to imply that exports may not be controlled or restricted in the interests of domestic production.

Paras (2) to (4) lay down a procedure for co-operation among members and the enforcement of laws and other arrangements directed towards the elimination of such practices. These provisions are unexceptionable and India may agree to abide by them.

#### CHAPTER V

##### INTER-GOVERNMENTAL COMMODITY ARRANGEMENTS

(See memorandum II below)

#### CHAPTER VI

##### ORGANIZATION

The proposed Organization is to consist of 4 organs—

- (i) the Conference,
- (ii) the Executive Board,
- (iii) three Commissions, and
- (iv) the Secretariat.

All member States are to be members of the *Conference which is* to meet once a year. Each member is to have one vote and decisions are to be reached by a simple majority vote. The Executive Board is to consist of 18 members some of whom are to have permanent seats. It is to be authorized to take provisional decisions between meetings of the Conference and to exercise such\* powers as may be delegated to it by the Conference. The Commissions on Commercial Policy, Business Practices and Commodity Policy are to be responsible to the Executive Board and the Secretariat which is to serve all the organs is to consist of three or more offices and is to be headed by a Director-General. The functions of the Organization as a whole and of the three Commissions which are detailed in Section A and Section E respectively are to be mainly recommendatory.

These provisions are suitable from India's point of view, but the membership of the Board raises an important question. Members of " chief economic importance ", it is stated, are to have permanent seats on the Board. As the Board is the main executive authority of the Organization, it is necessary that the qualifications for a permanent seat should be more clearly defined. How will " economic importance " be determined ? If on the basis of present " importance " or the actual volume of

external trade. India cannot accept such a definition. The potential economic importance of a country, judged by the nature of its resources, the size of the market the financial position and the economic objectives of the policy which is likely to be followed over a period of years must also be considered. India would be entitled to a permanent seat on the Board if the criteria are correctly applied.

R. K. NEHRU

The 6th July 1946

*Joint Secretary to the Government of India,  
Commerce Department.*

**11.—Memorandum on the U. S. Government's Proposals relating to Inter-Governmental Commodity Arrangements**

(PART C. CHAPTER V)

The scheme presented in this part of the proposals deals mainly with commodities in burdensome world surplus. It will be observed that the authors have scrupulously refrained from putting forward anything like a comprehensive commodity policy. In fact, the expression "International Commodity Policy" which figured prominently throughout the earlier discussions has now been dropped and the proposals have been confined to the purely negative aspect of that policy which concerned the formulation of a code of principles to govern inter-governmental commodity arrangements. The commodity policy discussed at the earlier stages between British and American experts visualised international action, not merely to deal with cases of chronic disequilibrium between supply and demand, but also to mitigate violent short-term price fluctuations and thus to help counteract business cycles. For this purpose a combination of buffer stocks and quantitative controls was proposed. The present proposals are conspicuous for absence of any reference to the short-term aspect of the problem, except for the fact that the question of buffer stocks has been set aside as a subject of study and investigation by the Commodity Commission. [See Chap. VI, Section E, Paragraph 4 (c) (1)].

2. Excessive fluctuations in primary prices constitute an important source of insecurity to primary producing countries. It is now widely recognised, that such fluctuations also form a serious element of instability in the entire world economy in so far as the demand for industrial products depends largely on the purchasing power of primary producing countries. There can be no security of livelihood for these countries and no efficient control over the trade cycle until some means are devised to curb these fluctuations and to even out the sharp variations in output which accompany them. Overproduction in individual lines of production which the above proposals seek to deal with is only one of the causes of fluctuations in primary prices. The other and perhaps, from the short period point of view, more important causes are to be found in certain inherent characteristics of primary production which make it singularly irresponsive to cyclical change in demand. A cyclical change in demand involves simultaneous 'over-production' or 'under-production' in the economy as a whole (as distinct from over-production in particular commodities which alone are touched by the above proposals). Owing to the scattered nature of production, the existence of a large number of small and ignorant producers and the time-lag in production, a quick adaptation of output to changing conditions becomes virtually impossible and consequently the impact of cyclical forces on primary prices is often much greater than on other prices. Since primary industries as a class, owing to certain inherent weaknesses in their organisation suffer a greater measure of dislocation during trade cycles than other industries, some special measures are required to deal with their difficulties during such periods. It is true that the policies suggested in other parts of the proposals will, if adopted, result in an expansion of world demand and a better control of the trade cycle; but it is vain to hope that the trade cycle will be eliminated altogether. Indeed, the absence of any provision for controlling the short-period fluctuations in primary

prices may easily prove to be the most vulnerable spot in the whole defensive mechanism which these proposals seek to erect against world-wide recessions.

3. Apart from cyclical influences, various other factors may also operate to impair the stability of primary prices and not all of them can be expected to be neutralised by a general policy of expansion. Even seasonal or very short term causes operating within the span of single year or crop season, as distinct from cyclical forces or forces connected with the long term relationship of supply and demand, which operate over a period of years, can cause quite an astonishing degree of instability in primary prices. Lord Keynes, in an article entitled "The Policy of Government Storage of Foodstuffs and Raw Materials" published in the *Economic Journal* in September 1938, gave figures to show that during the ten years ending 1938, the average excess of the year's high over the year's low was of the order of 96 per cent for rubber, 42 per cent for cotton, 70 per cent for wheat and 61 per cent for wool. The average annual price range for these commodities worked out to 07 per cent. According to the figures given in a pamphlet issued by the World Trade Alliance (quoted by Beveridge in his "Full Employment in a Free Society"), in the *twelve months* of 1937-38, wheat fell in price from 7s. 5d. to 3s. 4d. per bushel, copper from £75 to £35 per ton, cotton from 5d. to 4½d. per pound and wool from 10d. to 48c. per pound. In the post-war period, the range of short term fluctuations may be even wider, owing to the possibility of a larger measure of unco-ordinated Government interference and the increased threat of substitutes (for shellac, mica, jute, rubber, etc.).

4. Expert opinion in Britain has long been in favour of a combination of buffer stocks and quantitative controls, the former as an instrument of short period policy and the latter for dealing with emergencies created by burdensome surpluses\*.

If the responsibility for evening out short-period fluctuations is shared by several nations, the working of national policies of price support would be very much facilitated; it may even become unnecessary to adopt such policies. Of course, the success of a buffer stock scheme depends on the extent to which the controlling authority is able to adjust its pivotal price to the long-term equilibrium level; political difficulties in the way of reducing the price may be far more serious than the technical difficulties in determining the extent of reduction required to restore the long-period equilibrium. Neither of these, however, need be insuperable.

5. The general aversion to quantitative controls which lies at the back of these proposals arises from a genuine fear that a widespread use of such controls would hamper the operation of an expansionist economic policy. It cannot be denied that past experience of international restriction schemes<sup>^</sup> was not altogether happy. The authorities which administered the schemes were frequently accused of indulging in monopolistic practices. The production and/or export quotas which accompanied

**\*At a meeting of the War Cabinet Committee on Commodity Policy held in March 1944 Lord Keynes was reported to have observed " Buffer stocks are valuable in two ways : firstly, for the stabilisation of short-term prices, where national restriction schemes are of little help, secondly, for their steadying influence on the credit cycle as a result of stabilising the incomes of primary producers. These points are particularly important to countries dependent on a small range of products ". Lord Keynes regarded buffer stocks as " an essential part of the whole policy ".**

In general, British economists have laid considerable stress of late on the need for joint action to mitigate the instability of primary prices and output. See Part VI, Section V ~ and Appendix A of Sir William Beveridge's " Full Employment in a Free Society " (1944). Sir William writes, " If there is any substance in the suggestions made here—and the main facts cannot be denied—one of the inner secrets of the trade cycle is to be found, not in banker's parlours or the board rooms of industry, but on the prairies and plantations, in the mines and oil-wells. The new sign-post points clearly to the need for joint action by many nations to bring order into the production and marketing of primary commodities " (Page 305). See also the following remarks by P. Lamartine Yates in his " Commodity Control : A Study of Primary Products " (1943) " We want the cushion which buffer stocks provide against short period ups and downs in supply or in demand. At the same time, we want to be able, if need be, to reduce output without beggaring thousands of individual producers ; and this seems a job for which quotas are well suited. " (P. 232) " Everyone will welcome the stress laid by the (Hotsprings Conference on expansionism as the central postwar objective, but it would be folly to suppose that this will in itself provide a full solution of the difficulties of primary producers." (P. 243

he schemes tended to stabilise the *status-quo*, protected the high cost producer by giving him a guaranteed share in the world market and prevented new production from springing up in previously undeveloped areas. Most of the schemes were not equipped with a buffer stock arrangements and were, therefore, unable to deal with unforeseen developments which often upset the calculations on which their quotas were based. Some of them, *viz.*, The Steevonson Rubber Restriction Scheme and the Tin Restriction Scheme did not succeed even in stabilising prices which was their avowed objective. The International Tea Committee took special measures to encourage consumption, but the same cannot be said of many other similar bodies which paid little attention to correcting the basic maladjustments which had made the restriction schemes necessary. The proposals under consideration seek to remove these various defects (1) by permitting the adoption of such schemes only after measures for increasing consumption have been shown to be inadequate (para 4-b), (2) by providing for equal representation of importing and exporting countries, which would act as a healthy check on any monopolistic tendencies (paras 4-a and 5-b), (3) by providing for increasing opportunities to be given to low cost producers (para. 5-d), (4) by providing for admission of new members on equal terms (para 5-a) (5) by requiring arrangements to be made where necessary for assuring the availability of adequate supplies at all times (a variant of the buffer stock system) (para 5-c). and (6) by making the adoption of a programme of adjustment a condition precedent to the introduction of a scheme (para. 4-b) (3).

6. We may agree that no inter-governmental commodity arrangement should be entered into except for the purpose of dealing with a burdensome surplus. At the same time, in view of the considerations set forth in the earlier paragraphs of this note, we should strongly press for the formulation of positive international measures for the mitigation of excessive short period price fluctuations.

7. If there is to be no provision for international co-operation in regard to the short period aspect of primary prices, apart from wider action towards promoting an expanding world economy, the primary producing countries will have to devise their own means to deal with the problem. It is highly doubtful whether national policies of price support could function successfully on a fully autonomous basis; but it cannot be denied that there will be strong political pressure from producing interests in favour of such policies. The question of price stabilisation is at present under examination in this country also. If there is no co-ordination between the price support policies of different countries, occasions may arise when the countries concerned have to resort to tariffs, quotas, subsidies and other barriers to international trade to make their policies effective. In order that the adoption of such measures in connection with domestic price policies (whatever form such policies may take) may not be regarded as incompatible with the basic objectives of commercial policy, it would be desirable if in the "Purposes" set forth in Chapter I of Part C of the Proposals, some such phrase as "to mitigate violent fluctuations in prices of primary commodities" could be included. Further, under "Quantitative Trade Restrictions", [Chapter III, Section C, Paragraph 1 (c)], import quotas on agricultural products are permitted when they are necessary to the enforcement of measures designed "to restrict the quantities of like domestic products which may be marketed or produced". The introduction of such quotas may, however, become necessary in connection with a domestic price policy, even when no restriction is imposed on the production or market supply of like domestic products. The passage quoted above, therefore, needs to be amended by the addition of the words "or to support the prices of such products".

8. The detailed provisions of Chapter V may now be examined.

Paragraphs 1, 2 and 3 do not call for any comment.

In paragraph 4-b (2) (a), we may suggest the deletion of the words "and is accompanied by widespread distress to small producers accounting for a substantial proportion of the total output". The provision, as it stands, implies that even when

## 21

a burdensome surplus has been shown to exist, no quantitative limitation should be imposed until widespread distress has actually developed among producers. This is obviously unreasonable.

Paragraph 5 : The principles set forth in this paragraph would make important improvements in the pattern of restriction schemes hitherto adopted. (See Paragraph 6 of this note). Sub-para, (c) embodies the concept of "the ever-normal granary of the world" which was a prominent feature of the Draft Wheat Agreement circulated by the U.S. Government in 1942. Under the scheme presented in that draft, exporting countries were required to carry reserves within prescribed maximum and minimum limits. The intention was probably two-fold. Firstly, the reserve stocks provided a guarantee to consumers that export quotas would always be filled. Secondly, within limits they could act as buffer stocks absorbing unforeseen fluctuations in demand during the course of the quota period and thus affording additional protection to producers also. Under the Tea Regulation Scheme, stocks amounting to 34- to 6 months' supply were normally held in bonded warehouses and the successful operation of the scheme was in some measure due to this factor.

The principle laid down in sub-para (d) that low cost producers should be at low and increasing opportunities to participate in world trade, is sound, but much will depend on how it is proposed to give effect to the principle. Judging from the discussions which recently took place in the Study Group of the International Cotton Advisory Committee, it would appear that the U.K. experts would like the quotas to be revised periodically during the life of an agreement. Since, however the whole purpose of the scheme is to afford a breathing space to producing countries, we may suggest that quotas once fixed should remain unchanged during the period of an agreement and that the principle referred to above should be taken into account at the time of renewing the agreement. Quotas are the heart of an agreement and any revision in them would entail difficult and prolonged negotiations. If such negotiations are undertaken periodically during the life of an agreement, there will be recurrent threats of a breakdown, which will jeopardise the success of the whole scheme. Incidentally the inclusion of the proviso "with due regard to the transitional need for preventing serious economic and social dislocation" marks an improvement over the version originally contemplated.

The remaining paragraphs seem unexceptionable. We are at present a party to the International Tea Agreement which has been extended up to the 31st March 1948. Under paragraph 7, this agreement will have to be submitted for review to the International Trade Organization.

B. X. ADARKAH.

*Deputy Economic Adviser to the*

*The 20th July 1946.*

*Government of India*

**m.—Report of the Trade and Tariffs Sub-Committee of the Consultative Committee of Economists on the U. S. Proposal for Expansion of World Trade and Employment.**

At the sixth meeting of the Consultative Committee of Economists held at Simla on the 12th and 13th August, 1946, it was decided to reconstitute the Trade and Tariffs Sub-Committee by adding the following members :—

1. Br. B. N. Ganguli.
2. Dr. A. I. Qureshi.
3. Mr. D. Ghosh.

The Sub-Committee was charged with the function of preparing a detailed report on the " Proposals for Expansion of World Trade and Employment " published by the United States Government in the light of the discussion on the subject at the meeting of the full Committee referred to above. The Sub-Committee held a preliminary meeting at Simla on the 13th August, 1946, and elected Dr. P. S. Lokanathan as Chairman. It met again at Simla on the 14th August and its subsequent meetings were held at New Delhi. The Sub-Committee had the advantage of having before it the memorandum on the U. S. Government's Proposals prepared by the Department of Commerce and found it extremely useful.

2. Since 1943 discussions have taken place between the experts of the United Kingdom and the United States Government as to the best means of giving effect to the principles set forth in the Atlantic Charter and Article 7 of the Mutual Aid Agreements. The proposals published by the United States Government are the outcome of those discussions and are intended to serve as a basis of discussion at an International Conference on Trade and Employment to be held shortly. The text of the relevant sections of the two documents is reproduced below :—

*Article 4 of the Atlantic Charter :—*

They (the United States and the United Kingdom Governments) will endeavour, with due respect for their existing obligations to further enjoyment by all States, great or small, victor or vanquished of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

*Article 7 of the Mutual Aid Agreement of February 23, 1942 :—*

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples ; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers ; and in general, to the attainment of all the economic objectives set forth in the Joint Declaration (Cmd. 6321) made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom. At an early convenient date conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

Perhaps the background of these proposals will be better understood if we reoaii the history of the tariff negotiations conducted by the United States Government before the war. Since 1934, the United States Government have pursued a policy of securing reductions in tariffs on a reciprocal basis under the Reciprocal Trade Agreements Act, 1934. These reductions, though negotiated on a reciprocal basis were generalized under the most-favoured-nation clause. The progress thus, achieved, however, did not come up to expectations and the present American move is probably inspired by the hope that better results **Would** be obtained if, in place of the piecemeal process of bargaining with individual countries, negotiations for tariff reductions took place simultaneously between several countries on a mutually advantageous basis. The special circumstances arising from the war have also created a favourable atmosphere for making a more comprehensive and concerted attempt to liberalise the conditions of world trade. At the same time, the exigencies of the war have led to a chaotic growth of trade restrictions all over the world sheltering vested interests of various kinds, and some attempt must be made to rationalise these restrictions (and indeed others imposed before the war) with due regard to the genuine needs of the countries concerned and the interest of the **World** economy as a whole. Moreover, the experience of the inter-war period, during which a blind pursuit of militant nationalistic policies resulted in a virtual strangulation of international trade, gives sufficient reason to fear that there may be a recrudescence of similar tendencies unless active and positive steps are taken to counteract them.

3. Before proceeding to a detailed analysis of the American Proposals, it is necessary to state briefly what we consider to be the essentials of an appropriate commercial policy for India. Such a policy should be shaped primarily with reference to India's own needs as a country on the eve of rapid economic development which is necessary for the raising of the standard of living of her people. The policy must also take account of wider considerations. It should be so adapted as to enable India to take her place in the world economy on a cooperative basis with a view to assisting the constructive effort which is being made for economic *harmony* and all-sided progress. We believe that these two objectives are not mutually inconsistent, but are essentially complementary. To the extent to which India succeeds in raising the standard of living of her people, she will be making her greatest contribution to the recovery of world trade and employment. But the task of securing a rapid and substantial rise in India's national income necessarily involves the adoption of a programme of planned economic development and for this purpose, India must equip herself with all the necessary instruments of regulation, control and direction of trade and enterprise. The American Proposals, with their emphasis on "the release from restrictions imposed by Governments" do not seem to recognise this need. Emanating from a country like the United States and accepted in principle by the United Kingdom, these proposals obviously reflect the needs and attitudes of advanced industrial countries and do not take sufficient note of the special difficulties and problems of undeveloped countries like India. Indeed, the difference between the outlook revealed in the proposals and the policies necessary for the economic uplift of undeveloped countries is so fundamental that misgivings have naturally been expressed as to whether the freedom of these countries to develop themselves would not be seriously curtailed by the acceptance of these proposals. There is also a widespread feeling that India should retain full liberty to pursue a policy of vigorous economic development unhampered by any international obligations of the kind proposed. While these feelings are understandable we consider that *it* will not be in India's long-term interest to miss the opportunity of placing her point of view before a world conference both on behalf of herself and in the interest of other countries similarly situated.

4. In this connection we wish to draw attention to certain special features of India's present economic position which reinforce the general conclusion in favour of participation. As a creditor nation anxious to secure a smooth and speedy liquidation of her claims, India is vitally interested in the expansion of world

trade on a non-discriminatory basis. • The changing pattern of India's export trade would also make the multilateral trading system more suited to her needs, enabling her to utilise the proceeds of her exports to some countries for the purchase of her requirements of capital goods from others. In spite of our large domestic market and our plentiful natural resources, we shall continue to depend on the outside world for the supply of capital goods, and for the profitable disposal of some of our produce, and cannot, therefore, afford to ignore the considerations of international goodwill and cooperation. Further, the success of our own expansionist programme is also dependent on the prevalence of a high level of employment and activity in the rest of the world. We do not think that India can insulate herself completely from the economic developments in other countries and hence any measures designed to mitigate the fluctuations in world economic activity should have our support. We are also glad to note that since the Proposals were released, there has been evidence of a genuine desire on the part of their sponsors to fill up the lacuna in respect of the claims and requirements of undeveloped countries. The following directive given by the United Nations Economic and Social Council to the Preparatory Committee appointed by it to prepare a Draft Agenda (including a Draft Convention) for consideration by the International Conference, is significant on this point:—

"(The Economic and Social Council) requests the Preparatory Committee, when considering the foregoing items (i.e., the topics to be included in the Agenda), to take into account the special conditions which prevail in countries whose manufacturing industry is still in its initial stages of development, and the questions that arise in connection with commodities which are subject to special problems of adjustment in international markets".

The same awareness of the special needs of backward countries is reflected in the final settlement of the Lend/Lease obligations between India and the United States, which contains the following words:—

"This Government (i.e., the United States Government) sincerely hopes that the conclusion of an over-all lend-lease and surplus property settlement which represents a necessary post-script to the joint war effort of the two countries, will be a prelude to increasingly cooperative and cordial peace time relations between, the U.S.A. and India. The comprehensive programmes of industrial and agricultural advancement now being formulated in that great Asiatic country are viewed sympathetically by this Government. The U.S. stands ready to assist the carrying out of these programmes in the various ways which would prove of mutual benefit to the two countries."

Apart from the considerations set forth above, we are also influenced by the fact that while the advantages likely to accrue to India from the forthcoming discussions of trade and employment may not be appreciable, the disadvantages involved in her keeping out of the discussions may in certain circumstances be considerable. We recommend, therefore, that India should participate in the proposed International Conference and take her full share in working out plans for expansion of world trade and employment.

5. We now come to an examination of the principles set forth in the American Proposals. To start with, certain general considerations need to be stressed. In the first place, as already stated, the proposals suffer from an inadequate appreciation of the needs and difficulties of undeveloped areas. Secondly, their entire approach is of a negative rather than a positive character. The proposals tell us what countries should not do rather than what they should do to help one another. We believe that if the basic objective of promoting world trade and employment is to be attained, the proposals must be recast in a positive mould, and must, *inter alia*, place an obligation on the more advanced countries to assist the development of backward areas. The advanced countries can render such assistance, partly



by providing the capital goods and other means of economic development needed by the backward areas, and partly by being prepared to carry out the necessary re-adaptation of their own economies. We are convinced that there can be no sounder basis for international economic cooperation than a clear recognition of the need for doing everything possible to lessen the disparities in the living standards prevailing in different countries. Thirdly, it should be borne in mind that international trade is not, as seems to have been assumed in these Proposals, an end in itself but a means to an end, the end being the maintenance of high and stable employment and an improvement in the standards of living. In a world in which different countries are in different stages of economic development, free trade or freer trade will not necessarily be to the advantage of all. In fact, it may create new stresses which it should be the object of these proposals to avoid. Freer trade by itself can only result in a fuller exploitation of the advantages of the existing pattern of international division of labour, which will thus tend to be accentuated; it will not necessarily help backward countries to realise their full economic potentialities. The high degree of economic development attained by certain countries has been in no small measure due to the use of tariffs and other regulatory devices; and it is only proper that the use of these instruments should not be denied to countries which have just started on the path of development.

fi. It is true that the experience of the interwar period in regard to trade restrictions was not happy, but it should not be forgotten that the widespread use of such restrictions during that period was more the effect than the cause of a fundamental disequilibrium which had come into existence as the result of other factors. In framing a policy for the future, care must be taken to see that no obsession with past experience is allowed to blind us to the valuable part which trade restrictions can play in the development of the world's economic resources, provided such restrictions are employed for constructive purposes. It is not difficult to devise adequate safeguards against their abuse, and we suggest that instead of treating all trade regulation as an unmixed evil, its use in any particular case should be judged by the purpose it is designed to serve and the effect it is likely to produce in the long run on the economic well-being of the world as a whole.

We shall now examine the Proposals paragraph by paragraph and indicate the amendments required.

#### A. NEED FOR INTERNATIONAL ECONOMIC CO-OPERATION

7. We accept the need for international economic cooperation, subject to a clear recognition by Member countries of their obligation in respect of the development of backward areas, and for this purpose we recommend that the following words be added at the end of paragraph 3 :—

"and by positive measures designed to promote the economic development of backward countries and to raise the standards of living of their peoples".

#### B. PROPOSALS CONCERNING EMPLOYMENT

8. We believe that a high and stable level of employment by itself will not meet India's requirements unless it is also made clear that a high level of employment will be accompanied by a high level of real income through diversification of employment. For this purpose we suggest the addition of the words—

"accompanied by effective development of resources" after the words "high and stable levels of employment".

9. *Governing principles.—Paragraph 1 (a).*—The suggestion made by us in paragraph T above would entail the addition of the words—

"accompanied by effective development of resources" after the word "employment".

as

*Paragraph 1 (b).*—We cannot accept the idea that full employment in the major industrial countries alone would be enough to bring about full prosperity to other nations. For this purpose it is equally essential that the purchasing power and the standards of living of the peoples of the primary producing areas should also improve. We, therefore, suggest the insertion of the words—

" and also the achievement of a rising scale of employment in primary producing countries, through, among other measures, the maintenance of their purchasing power "

after the words " assured basis ", and the substitution of the words " the world " for the words "these and other nations ".

*Paragraph 2.*—While the general principle underlying this paragraph is unexceptionable, occasions may arise when the compatibility of the policies of individual nations with the economic wellbeing of other nations may not be beyond controversy. There should be an opportunity in such cases of resolving the differences by mutual adjustment. In order to cover such instances, we suggest the insertion of the words " as far as possible " between " should " and " be ".

We accept paragraphs 3 and 4.

10. *Effectuation of Aims.*—*Paragraph 1* is accepted.

*Paragraph 2.*—We are strongly opposed to paragraph 2 as it stands, as its acceptance may lead to perpetuation of the existing international division of labour and existing patterns of production. There is also the implication that the present distribution of industry in the world conforms to *real* comparative efficiencies. These assumptions cannot be accepted. It should be recognized that attempts on the part of undeveloped countries to promote their own economic development and industrialization may create unemployment in particular lines of production and in particular countries over a short period of time, but that such attempts cannot be given up on this ground alone. The general expansion of trade which accompanies industrialization of undeveloped countries would leave sufficient scope to the countries adversely affected to restore employment in their territories by carrying out the necessary measure of internal adjustment. We, therefore, believe that the only reasonable criterion is whether the steps taken by individual countries to maintain employment would bring about a net reduction in employment in the rest of the world as a whole. We accordingly recommend the following modification in paragraph 2 :—

*For the words " measures which are likely to create unemployment in other countries," substitute " policies which are likely to result in a net loss of employment in the rest of the world as a whole " and delete the words " in accordance with comparative efficiencies of production*

We suggest, further, that corresponding to the modification suggested above in 1 (b) of the " Governing Principles ", an additional paragraph should be added under " Effectuation of Aims " to the following effect:—

" 2A. Each of the signatory nations will take positive measures to maintain the purchasing power of primary producing countries and to assist the effective development of their resources."

*Paragraphs 3 and 4* are accepted.

C. PROPOSALS CONCERNING AN INTERNATIONAL TRADE ORGANIZATION

11. We accept the need for an International Trade Organization.

12. *Chapter I. Purposes.*—We accept paragraphs 1 and 2.

We consider it desirable to make it clear that the Organization should have as one of its purposes the development of economically backward areas and the raising

## 27.

of the standards of living of their peoples. We, therefore, recommend the addition of a new paragraph :—

" 2 A. To facilitate the development of economically backward areas and to raise the living standards of their peoples, thus enabling them to participate more usefully in international trade."

*Paragraph 3.*—Although in the past, on account of their scarcity, discrimination was practised in respect of raw materials only, it cannot be said with certainty that at present or in future the scarcity of capital goods may not lead to discrimination. It is, therefore, necessary to make the principle of equal access applicable to capital goods as well as raw materials by modifying paragraph 3 as follows :—

" 3. To facilitate access by all members, on equal terms, to the trade, the raw materials and capital goods of the world which are needed for their economic prosperity and development."

We, of course, interpret " access by all members on equal terms " to mean only equality of treatment to *foreign* buyers *inter se*, leaving the right of the producing countries to give priority to their domestic consumers intact.

*Paragraph 4.*—We accept paragraph 4 ; but it should be understood that the reduction of tariffs and other trade barriers is acceptable only in so far as it will contribute to the expansion of the production, exchange and consumption of goods.

13. *Chapter II. Membership.*—We accept Chapter II.

14. *Chapter II. General Commercial Policy. Section A. General Commercial Provisions.* We accept paragraphs 1—6, for the following reasons : (a) that in deciding to participate in an international conference for expansion of trade, we implicitly accept the desirability of eliminating all unnecessary or excessive impediments to trade ; and (6) that if and when a differential treatment is rendered necessary by national interests it should be given in a more open and direct manner.

*Paragraph 7.* We are in favour of deleting the whole paragraph for the following reasons :—

- (o) that a member of an international organization is not expected to indulge in boycotts and other campaigns against the products of other members, and
- (b) that the paragraph, as it stands, would preclude a country from undertaking even campaigns like " Buy Swadoshi " or " Buy Indian " directed to encourage the consumption of home produced goods.

Should, however, this clause be retained, we suggest that the words " or indirectly " should be deleted, so as to ensure that a country's freedom to encourage the consumption of home produced goods remains unimpaired.

*Paragraph 8.* The latter half of this paragraph contains the proposal " to maintain or establish national tribunals of an independent character to review and correct administrative customs action ". This raises the wider issue of the desirability of establishing independent tribunals to hear appeals against the actions of administrative authorities (*e.g.* valuation of goods by Collectors of Customs), and we would prefer to leave this issue to be examined by the Departments concerned from the administrative point of view.

• *Paragraphs 9 and 10.* We accept.

15. *Chapter III. Section B. Tariffs and Preferences.*—With regard to *paragraph 7*, while we recognize the obligation of members to enter into arrangements for reduction of tariffs and tariff preferences, we cannot admit the principle that any country should be called upon to agree to a substantial reduction of tariffs or to a complete elimination of tariff preferences irrespective of its position. In the case of undeveloped countries, it is necessary to take into account certain special factors, which make it impossible for them to accept the general position stated

in paragraph 1. With regard to India in particular, the following considerations are relevant and must be borne in mind :—

(i) Tho protective duties in India are feu- in number and in every ease are imposed after a judicious examination of the needs and requirements of the industries concerned. They are also subject to a review both in regard to their levels and duration.

(H) The general level of our tariff is also moderate and would not admit of a substantial reduction.

(Hi) Revenue duties provide a substantial proportion "of-the tax revenues of the Central Government and cannot safely be reduced without unduly curtailing the resources available to Government for its functions.

(iv) While India is prepared to surrender some of the preferences now enjoyed by her, such surrender should be effected only on a mutually advantageous basis. We, therefore, recommend that in order adequately to safeguard India's interests, the following words be added at the end of sub-paragraph 1 of paragraph 1, namely :—

" In the case of industrially undeveloped countries, the arrangements for the reduction of tariffs should be subject to the following conditions :

- (1) Tariffs imposed by such countries for protective purposes should be outside the scope of negotiation.
- (2) Any modifications in the negotiated tariffs of such countries which may be needed for protective purposes should be permitted, provided due notice is given to the parties concerned."

*Paragraphs 2 and 3 are accepted.*

16. *Chapter III. Section C. Quantitative Trade Restrictions.—Paragraph 1*  
We have already stated that in future India will adopt some kind of regulated economy, and if that be so, the use of quantitative restrictions cannot be completely avoided. We agree in principle that such restrictions should be used as sparingly as possible, but we consider that suitable exceptions should be devised to permit their use for constructive purposes. For example, it may be necessary to impose import quotas for giving effective protection to a domestic industry where other means are not regarded as adequate. We, therefore, suggest the following addition to this paragraph :—

" (/) Import and export restrictions imposed for constructive (as opposed to exploitative) purposes."

If this provision is accepted, we may, in order to ensure its proper use, agree to the following conditions :—

- (i) that there will be previous consultation with the International Trade Organization ;
- (ii) that there will be " equality of treatment as provided for in paragraph 3 of Section C ; and
- (Hi) that the purpose of the restriction will be, not to restrict, but to expand production and employment with a view to increasing the purchasing power of the people and raising their standard of living.

In sub-paragraph (e). import quotas on agricultural products are permitted when they are necessary to the enforcement of Governmental measures which operate " to restrict the quantities of like domestic products which may be marketed or produced ". It is possible, however, that import quotas on agricultural products may become necessary to implement a scheme of stabilizing prices or domestic products even when no restriction is imposed on the production or marketing of such products. In order to cover such case-, we recommend the insertion of the words " or to support the prices of such products " between the words " produced " and " or " in (a) of this sub-paragraph.

We accept paragraphs 2—6,

17. *Section D. Subsidies.*—Our attitude to subsidies is that they are an effective method of giving protection. In some circumstances they are even superior to protective tariffs. We are, therefore strongly in favour of giving production subsidies both to agriculture and to industry, whenever required. The case of export subsidies is different. Where an export subsidy results in under-selling of foreign products, it certainly gives rise to international friction and should, therefore, be avoided as far as possible. India being a poor country, her ability to employ subsidies on a wide scale is obviously limited. Even so, production subsidies will be of value to her because of the necessity of keeping down the burden on the consumer.

*Paragraph 1.*—We accept the first sentence of paragraph 1. As regards the second sentence, we should make it clear that where a subsidy is given as an alternative to a protective duty and is intended to enable internal requirements to be met more fully by home production, there should be no "limitations on the quantity of the domestic product subsidized". We, therefore, suggest the addition of a third sentence to paragraph 1 as follows

"This undertaking should not apply when the subsidy is given as an alternative to a protective duty and is intended to enable internal requirements to be met more fully by home production."

*Paragraph 2.*—With regard to export subsidies we feel that they are not the proper method of supporting internal incomes or prices and that other methods should be explored for such purposes. However, in view of the fact that export subsidies are already in operation in certain countries, it is reasonable that a period of time should be allowed to abolish them, but the period should be as short as possible and should not exceed one year. We, therefore, recommend that the words "one year" be substituted for "3 years" in this paragraph.

*Paragraph 3.*—We accept.

18. *Section E. State Trading—Paragraph 7.*—We accept paragraph 1 on the assumption that the term "commercial considerations" will be widely interpreted so as to permit long-term bulk purchase contracts and contracts under which specially favourable terms are given to particular countries in order to obtain commodities in short supply, e.g., food (provided the same terms are offered to other countries willing to buy or sell the same commodities).

*Paragraph 2.*—We have recommended in Section B that in the case of industrially undeveloped countries, the arrangements for the reduction of tariffs should be subject to certain conditions. We suggest that the same conditions should apply in the case of protective margins maintained by state monopolies in undeveloped countries. As regards other margins which are not intended to serve a protective purpose, we see no objection to accepting the provisions of this paragraph. We accordingly recommend that the word "protective", wherever it occurs in this paragraph, should be deleted.

*Paragraph 3.*—We accept the underlying purpose of this paragraph, as it is only fair that countries having a complete state monopoly of foreign trade should also be called upon to contribute to the expansion of international trade on a non-discriminatory basis.

19. *Section F. Exchange Control.*—In view of the fact that we have already provided for the use of quantitative restrictions for constructive purposes and since exchange restrictions will continue to be permissible during the transitional period under the Articles of Agreement of the International Monetary Fund (to which we are a party) we have no objection to accepting Section F.

20. *Section G. Paragraphs 1—3*—are accepted.

We recommend the insertion of the following after paragraph 2 :—

" 2A. necessary to conserve the exhaustible natural resources of a country provided such measures conform to criteria to be agreed upon".

*Paragraph 4.*—We believe that silver should be treated only as an article of commerce and that the exemption from the provisions relating to restrictions and discrimination which is sought to be given in respect of silver under this paragraph should not be allowed. We, therefore, recommend the deletion of the words " or silver".

*Paragraphs 5—8.*—We accept.

In the light of contemporary experience, we feel it necessary that India should reserve to herself the freedom to apply economic sanctions when the necessity arises, and we, therefore, recommend the following addition:—

" 8A. imposed as part of economic sanctions applied for political purposes after due notice to the United Nations Organization and the International Trade Organization ; or".

This involves the deletion of the word " or" in paragraph 8.

*Paragraph 9* is accepted.

21. *Section H. Territorial Application of Chapter III.*—We accept.

22. *Chapter IV. Restrictive Business Practices.*—We accept Chapter IV. We are strongly in sympathy with the point of view expressed in Section 2 of this Chapter and are, generally speaking, in favour of strong international measures being taken to curb restrictive business practices. In the absence of effective measures to this end, there is a danger of India's industrialisation being seriously hampered by the activities of international cartels and combines.

23. *Chapter V. Intergovernmental Commodity Arrangements.*—*Paragraphs 1—4* are accepted.

*Paragraph 5. Sub-paragraph (d).*—We are not clear as to how it is proposed to give effect to this provision. If it is intended to make a periodical revision of quotas with a view to affording increasing opportunities to sources from which world requirements can be supplied most effectively, we suggest that such revision should take place only at the time of renewing the agreement. Any attempt to revise the quotas during the period of the agreement would introduce a serious element of uncertainty, as it would almost involve renegotiating the agreement. We recommend, therefore, that sub-paragraph (d) of this paragraph be deleted and the second sentence in a paragraph 6 be modified by substituting the words " the additional principles" for the words " the additional principle" and by adding the following words at the end, namely :—

" and that (c) the renewed agreement should, with due regard to the transitional need for preventing serious economic and social dislocation, afford increased opportunities for satisfying world requirements from sources from which such requirements can be supplied most effectively".

The remaining provisions in this Chapter are suitable so far as they go. We believe, however, that the purpose of inter-governmental commodity arrangements should be much wider than the mere orderly disposal of articles or commodities in burdensome world surplus ; it should also include the elimination of excessive fluctuations in the prices of primary commodities and their maintenance at a fair level in relation to the prices of manufactured articles. We are well aware, however, of the difficulties involved in operating an international scheme of buffer stocks and other similar measures and recognize that the problem needs further study. We accordingly suggest the addition of the following paragraph at the end of Chapter V :—

" 10. *Prices.*—The organization should, as early as practicable, arrange consultations among members with a view to formulating positive international measures for eliminating excessive fluctuations in the prices of primary commodities and maintaining them at a fair level in relation to the prices of manufactured articles."

24. *Chapter VI. Organization.*—We accept *Section, A-C.* With regard to *Section D*, it has been proposed that the permanent seats on the Executive Board should be allotted to member states of "chief economic importance". The economic importance of a country for the purpose of determining its share in the management of the International Trade Organization should be judged, among other things, by reference to the following criteria:—

- (a) foreign trade;
- (b) total national income ; and
- (c) population.

To those, however, should be added certain other factors which are intangible, but are, nevertheless, real and highly significant. So far as India is concerned, it is necessary to lay stress on her economic potentialities and her place as the leading Asiatic nation. We think that India's position in an international organization should not be judged exclusively or mainly by reference to her existing status, but that adequate account should be taken of the possibilities of development which are indicated by the magnitude of her resources. Moreover, no international trade organization can function properly which fails to accord a rightful position to Asiatic countries, among which India occupies a leading place. We believe, therefore, that India is fully entitled to a permanent seat on the Executive Board of the International Trade Organization.

As regards *Section E*, sub-paragraphs 1—3 do not call for any comment. Under sub-paragraph 4, we accept (a) and (b), but as regards (c), we suggest an addition of the following clause to the functions proposed to be assigned to the Commodity Commission, namely :—

- " (1A) Make recommendations to the Executive Board in regard to measures to be taken for the elimination of excessive fluctuations in the prices of primary commodities and their maintenance at a fair level in relation to the prices of manufactured articles "

This is in conformity with the recommendation made by us under Chapter V.

We see no objection to *Sections F-H.*

25. We have set out above our observations in general and in detail on the U. S. Government's proposals. Whether India will ultimately wish to join the International Trade Organization or not would depend upon what final shape these proposals will take as a result of the discussions which are to take place. We have, however, no doubt that at this stage it is to India's advantage to participate in the International Conference and press her point of view. Should, however, the result be unsatisfactory to India, we should be free to review the position in the light of relevant circumstances and decide whether to join the Organization or to keep out of it. There will, no doubt, be certain disadvantages if India abstains from joining the Organization, but we consider that India's bargaining position in the world trade and her general economic position are not such as to compel her to acquiesce in any international arrangements or conditions which are likely to injure her interests.

P. S. LOKANATHAN.

(Chairman)

GYAN CHAND.

B. N. GANGULI.

ANWAR IQBAL QURESHI.

D. GHOSH.

B. N. ADARKAR.

(Members).

M. A. MULKY,

(Secretary),

NEW DELHI,  
19th August, 1940 ] }

CD 67

**GOVERNMENT OF INDIA**  
**COMMERCE DEPARTMENT**

**REPORT**  
**OF THE**  
**TRADE MISSION TO CHINA**

PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI.  
Printed by THE MANAGER GOVERNMENT OF INDIA PRESS, NEW DELHI  
1046.



\*' The world is a commonwealth "

•—*Confucius,*

" Even the individual State has not sufficient in itself for its own *need?* \*-  
but the whole of humanity must enter into relations with every part.  
International commerce thus increasingly develops itself. All commerce  
arises from man's necessities. One seeks to supply one's own lack from  
the superabundance of others and at the same time to dispose of his  
own superfluity in like manner. This is true whether of natural pro-  
ducts or of industrial manufactures."

*'enciwi*

## TABLE OF CONTENTS

Map showing Route . . . . .	iii
Introduction . . . . .	1
CHAPTER I.—General Information . . . . .	4
CHAPTER II.—The Textile Industry in China . . . . .	7
CHAPTER III.—Raw Cotton Requirements of the Textile <b>Industry in China</b> . . . . .	11
CHAPTER IV.—Tobacco . . . . .	17
CHAPTER V.—Currency and Exchange . . . . .	20
CHAPTER VI.—Resumption and Development of India's Trade <b>with China</b> . . . . .	25
CHAPTER VII.—Miscellaneous . . . . .	34
CHAPTER VIII.—Conclusions and Recommendations . . . . .	40

## ANNEXURES

ANNEXURE A.—Cotton Mills in <b>China (1936)</b> . . . . .	44
ANNEXURE B.—Foreign Exchange Control Regulations . . . . .	46
ANNEXURE C.—Complementary Foreign Trade Regulations . . . . .	61
ANNEXURE D.—Details of India's Trade with China . . . . .	65
ANNEXURE E.—Details of Chinese Customs Duties <b>leviable on Cotton and Tobacco</b> . . . . .	60
ANNEXURE F.—Direct Taxes in China . . . . .	66
ANNEXURE G.—Receiving and Storing Tariff applicable to <b>Warehouses in Shanghai</b> . . . . .	72
ANNEXURE H.—Storage Tariff applicable to Warehouses in <b>Shanghai</b> . . . . .	81
ANNEXURE I.—Cotton Mills in Shanghai . . . . .	88



## REPORT OF THE INDIAN TRADE MISSION TO CHINA

### INTRODUCTION

The growing surpluses of cotton and tobacco in India due to the closure of European and other markets, during the war, particularly the Japanese market in the case of cotton—Japan used to be the largest consumer of Indian short staple cotton in pre-war days—rendered it imperative for the Government of India to examine the question of finding alternative markets in which to dispose of these accumulated surpluses, and it was therefore decided towards the middle of January 1946 that a Trade Mission should be despatched to China for the purpose of making a survey of the potentialities of that country as a market for Indian cotton and tobacco, and particularly—

(1) for ascertaining the facts with regard to the following, *viz* :

(a) The state of the textile industry in China both as regards Chinese and British owned mills as also the condition of the mills previously owned by the Japanese ;

(b) The present raw cotton requirements of textile mills in China;

(c) The present production of raw cotton in China ; and

(d) Currency conditions, and more particularly the possibility of an exchange relationship being established between the Chinese dollar and the Indian rupee;

and (2) for examining the possibility of—

(a) the renewal of export business, mainly cotton and tobacco, from India to China, and

(b) the resumption and development of trade between India and China.

The way for the Mission had been cleared to some extent in that export restrictions on cotton from India had been removed before its departure, and there was nothing therefore to prevent either cotton or tobacco being shipped to Shanghai provided the Indian shipper was prepared to accept the financial risk.

2. We assembled in New Delhi on the 11th of February and were able to leave for Calcutta two days later. Unfortunately, the Indian National Army riots that broke out in Calcutta about this time rendered the transshipment of passengers from Dum Dum aerodrome to Calcutta proper unsafe, with the result that we were diverted to the R. A. F. aerodrome at Chakulia, some 120 miles away from Calcutta. Here, we were forced to stay for two days in the uncongenial surroundings of an R. A. F. transit camp, and it was not until February 15 that we were allowed to reach our destination. The city showed evident signs of having passed through a difficult time, curfew being still in force in the city up to the time of our departure. Insistence by the Air Priorities Board in Calcutta, however, on the clearance of back-logs delayed us further, and it was not until the 20th that we were able to leave for Hong Kong via Rangoon, Bangkok and Saigon. We reached Saigon the same evening—it appeared to us that the atmosphere in the city was tense—and left for Hong Kong the following morning where we were met by Mr. K. P. S. Menon, Agent General to the Government of India in China. We expected to leave the following morning for Shanghai, but the fine weather which China had been enjoying for the previous five months—exceptionally mild winter conditions had prevailed, we gathered—broke, giving way to rain and heavy mists, with the result that our departure was delayed till the 25th, as visibility in Shanghai was reduced to such an extent as to render it dangerous, if not impossible, for aircraft to land or take off in safety.

ii. We did not regret our enforced stay in Hong Kong, however, as it gave us the opportunity to explore this beautiful city, situated as it is on a hilltop—at night a veritable fairyland of lights and illuminated buildings. While in Hong Kong we made it a point to meet leading merchants as well as the official in charge of the Civil Affairs Administration, namely Brigadier McDougall and Colonel Thompson, with whom we had discussions bearing on supplies of textiles, gunny bags and groundnuts to the colony. This was followed by an interview with His Excellency the Governor, Vice Admiral Sir Cosmo Gordon Lloyd. Conditions in Hong Kong impressed us favourably. Rehabilitation work proceeding apace, the exchange problem had been satisfactorily solved, and though the city showed evident signs of having passed through troublous times, indications were not waiting that the Civil Affairs Administration in the colony had spared no pains to get the city back into working order as soon as possible. Indeed, had it not been for the scars of war, the funnels and masts of ships sticking out of the harbour and a Japanese monument erected on the top of the hill, it would have been difficult to believe that Hong Kong had suffered from the ravages of war or actual occupation by the Japanese.

4. We reached Shanghai on the 25th evening and spent the following three weeks in seeing officials of the City Government, leading industrialists and business men, various Chambers of Commerce, the Exchange Banks, the Governor and Deputy Governors of the Central Bank of China, the Bank of China, representatives of the Foreign Economic Affairs Association and others too numerous to mention. We were also accorded the privilege of an interview by Dr. T. V. Soong, Prime Minister and President of the Executive Yuan, with whom we discussed various matters of general interest, particularly those bearing on exchange and currency and economic problems of importance to both countries. These discussions as well as the warmth and hospitality shown to us by Chinese business men and officials rendered it well-nigh impossible for us to leave Shanghai earlier than March 13th, though the weather continued to be our bete noire and notwithstanding the fact that the trip originally planned to Tientsin had to be postponed, as the American Air Transport authorities refused to allow us to fly in that weather, it was not until March 17th that we were able to start for Peiping which we reached the following day. Messrs. Kot A and J. V. were unable to accompany us on this visit in view of the prevailing conditions in this area and the likelihood of the weather worsening in the future—a forecast which later turned out to be only too true.

5. While there were no large-scale industries of any consequence in Peiping and our visit to this place was dictated by considerations other than anything else, being on the way to Tientsin, we availed ourselves of the opportunity to get into touch with the city officials and business men and devoting some part of our spare time in Tientsin to a study of the more important of the innumerable picturesque and historic spots in this city. After a stay of a couple of days, we left for Tientsin by train, on the 15th March, reaching there the same evening. Here also we had discussions with the various Chambers of Commerce and city officials and representatives of industry and trade. One of the things that struck us forcibly during our air journeys over China was the extreme greenness of the land in the North where wintry conditions prevailed, and the regularity with which the fields all over China were laid out—barring the arid and sterile fields in Szechwan Province—and the almost complete absence of draught or wild cattle of any kind. Horses and ponies, mules and donkeys were, however, in some evidence in the North though in very small numbers. The weather,

however, which all along had been unpleasant, now took a turn for the worse, heavy snowfalls being experienced. Snow fell to a depth of over a foot in places which were considered good for the crops, though the local farmers, like their brethren elsewhere in the world, took a most pessimistic view, preferring to see in this an unfavourable omen, as a snowfall of somewhat the same dimensions—which, we gathered, was unusual in this part of the country at this time of the year—was said to have preceded the Marco Polo Bridge "Incident" of 1937.

6. We returned to Petping on the 27th, "traversing country completely covered in a mantle of white, and, after a brief stay of a couple of days, returned to Shanghai on the 19th of the month. Jupiter Pluvius, however, showed no signs of relenting, and though the sun came out for a brief space, rain and mist were once again the order of the day; and it was in depressing weather of this kind that we finally took off for Chungking on the 25th March, reaching there the same afternoon on a day which will always be remembered for very poor visibility, uncomfortable air pockets, depression and general gloom, only relieved by the sight of the Chialing and the Yangtze rivers coming together at Chungking and the panorama of green hills and terraced paddy fields seen in all their varied beauty and exotic pattern in the fitful rays of a wayward sun. We understood then why Chungking—citadel of China's hope and symbol of her years of loyal and stout-hearted resistance—had been chosen for the purpose, set as it is between the hills and the rivers and invisible from the air for seven months of the year—the Szechwan dogs, so runs a 2,000 year old Chinese proverb, bark at the sun—besides being situated in a Province which grows three crops a year and is lush all the year round. We were privileged to see her under blue skies also—the weather was kind to us the last two days of our stay—which transformed the landscape, revealing the beauty of hill and valley and river and the host of boats and junks and sampans that ply the waters of the two rivers betwixt which the city stands.

7. We spent 4 days in Chungking, during the course of which we met the Minister and Vice Ministers for Foreign Affairs, the Minister for Education, the Minister for Communications, the Minister and Vice Ministers for Agriculture and Forestry, the Minister and Vice Ministers for Economic Affairs, the Minister for Finance and the Minister for Information. We had also the privilege of meeting Dr. Sun Fo, head of the Legislative Yuan, and were honoured by the grant of an interview by Generalissimo Chiang Kai-Shek, who displayed a keen interest in Indian affairs. We also took the opportunity of visiting the British Ambassador and contacting officials in the British Embassy and prominent business men and the several trade associations which have their headquarters in the city. Having completed our visit, we left for Calcutta on the 29th March *v'a* Hsu-Chow, Kunming and Bhamo, reaching Calcutta the same evening after a fairly bumpy and tiring journey. We left Calcutta the *following* morning, reaching Delhi on the 30th afternoon—the contrast between the green lands of China and the dry arid plains of India was striking—having been away from India for a period of one month and 18 days and having covered by air a distance of approximately 8,000 miles.

8. Our terms of reference required **U3** to consider the general question of the possibility of disposing of our accumulated surpluses of cotton and tobacco and ascertaining the possibilities of reviving the export business with China in these commodities and generally Sino-Indian trade. We have given these matters our careful consideration, though our survey had of necessity to be a rapid one, considering the area to be covered and the number of places to be visited in such a short space of time and the conditions obtaining in the country

which had just recovered from the devastating effects of a prolonged and merciless war. Though our examination of the problems put to us has therefore had to be of a cursory character, it is our hope that the material we have collected will be of assistance to the business community in India. We have stressed in particular the need for assisting China in her rehabilitation programme, particularly in view of the role cast upon India in Asia, and trust that this aspect of the problem will be kept fully in mind when any questions of importance affecting India's future trade relations with China are under consideration.

9. We should like to add that in the short time at our disposal, it would have been quite impossible for us to obtain the information we were successful in collecting but for the invaluable assistance rendered by the representatives of the Ministry of Foreign Affairs and the Ministry of Economic Affairs in Shanghai and Government and Municipal officials in the places which we visited and the hearty co-operation of the local Chambers of Commerce and various business and trade Associations. Their old-world courtesy and hospitality in particular touched us greatly. Wherever we went, we were overwhelmed by the sincerity and kindness of the welcome we received and by the keen interest displayed in our work and in Indian affairs generally, and it gives us therefore the greatest pleasure to take this opportunity of expressing our most sincere thanks to all those who assisted us so generously in our task. In particular, we wish to place on record our gratitude to the Mayor and the Deputy Mayors of Shanghai, Peking and Tientsin and their Secretaries-General for their assistance and co-operation as also to the local Indian communities who overwhelmed us with their hospitality.

10. This introduction cannot also be complete without our grateful acknowledgments to Mr. K. P. S. Menon, Agent General to the Government of India in China, but for whose inspiration, advice and assistance it would not have been possible for us to carry out our work and to Mr. Bahadur Singh, Indian Attache in Shanghai, who spared no pains to make the visit of the Mission a success and whose tact, energy and ability contributed in no small measure to the speedy and satisfactory conduct of our business. We were greatly impressed by the wide range of the contacts he had made in Shanghai and the friendships he had cultivated—friendships and contacts which stood us in good stead and enabled us to cover greater ground than we had imagined possible.

11. Our grateful acknowledgments are also due to Miss Josephine Yao for the efficient and satisfactory management of our office work and for keeping charge of the large mass of papers we had accumulated during our tour.

## CHAPTER I

### •GENERAL INFORMATION \*

12. *The frontiers of China* march with Korea, Siberia, Soviet Turkestan, Afghanistan, India, Burma and Indo-China, the Pacific Ocean *forming a* natural boundary in the East.

13. *Population*.—Estimates of the population of China vary considerably, as no census has ever been taken, but the latest report places it at about 459 millions inclusive of the inhabitants of Tibet, Mongolia as also overseas Chinese.

14. *Area*.—The total area of the Chinese Republic is estimated to be about 4,457,000 miles.

15. *Coastal Configuration*.—The coastline of China covers a distance of about 5,430 miles from the mouth of the Yalu River in Liaoning to Thunging in South Western Kwantung. Along the two northern peninsulas and southern

coast are to be found innumerable inlets, harbours and islands. 'The northern coast is also fringed by shoals, and navigation depends to a very large extent on channels cut by rivers. A chain of volcanic isles, the Kuriles, Japan, Ryukyu, Formosa and the Philippines separate China from the Western Pacific, the seas immediately around China being the Yellow Sea, the East China Sea and the South China Sea. •1

16. *Topography*.—Mountains, plateaux, highlands and hills occupy roughly 64 per cent of the national area, plains and valleys 26 per cent, while the rest is composed of steppes and oases. Three large rivers, the Yellow River, the Yang-tze and the Sikiang River run through China.

17. *Production and industry*.—China, like India, is essentially and predominantly an agricultural and pastoral country, and until modern times China's industrial enterprise was a by-product of the farm. *More than 80 per cent of the Chinese population is engaged in agriculture and an overwhelming majority of its population live in villages.* Agriculture is therefore the pivot round which the economic life of China revolves. The war, however, has considerably affected the cultivation of crops and the rearing of cattle. Wheat, maize, barley, millets and other cereals are grown in the North, and rice and sugar in the southern provinces, rice being the most important summer crop and wheat the winter crop. Cotton, tea, groundnuts, hemp, jute flax, maize and tobacco are also important crops. Rice is the staple food of the inhabitants. Sericulture is one of the oldest industries in the country, and cotton, silk and woollen goods are manufactured in large quantities. Oil of excellent quality is to be found in Kanzu, Sinkiang, Sikiang and South Manchuria. Coal of excellent quality is also mined all over the country as also iron ore of good quality. Tungsten, molybdenum, bismuth, tin, wolfram and nickel are also found in addition. Emeralds, rubies and sapphires are found in the South, and the Sikiang and Sinkiang provinces are famous for their jade.

18. *Weights and Measures*.—The weights and measures in common use are :

LINEAL MEASUREMENT

Meter	Shih Chih	English foot	Kilometer	Shih Li	Mile
1	3	3-2808.	1	• 2	0-6214
0-3000	1	•0936	0-5-000	1	0- 3107
0-3048	0 9144	1	•6093	3-2157	1

AREA

CAPACITY;

Area	Shih Mow	Acre	Litre and Shih Sheng	English Gallon	American Gallon (liquid measure)	American Gallon (dry measure)
1	0-1500	0 0247	1	0-2200	0-2642	0-2270
6-6000	1	0-1647	4-5460	1	1 -2009	1 0321
40-4685	6-0703	1	3-7853	0-8327	1	0-8594
			4-4048	0-9689	1-1636	1



## WEIGHTS

Kilogram	Shih Chia (Xew Catty)	Pound	Tonne	Picul	English Ton (long ton)	American Ton (short ton)
1	2	2-2046,	1	20	0 9842	11023
0-5000	1	1 1023	0-0500	1	0-0492	0-0551
0-4536	0-9072	1	1-0160	20-3209	1	1-1200
			0-9072	15-1437	0-8929	1

19. *Currency and Exchange.*—These are matters of sufficient importance to warrant their consideration in a chapter to themselves and are dealt with later on in the report.

20. *Communications.*—As the major portion of China consists of tablelands and mountainous districts, travel and communication are difficult. The Burma Road, which was constructed from Lashio in Burma to Kunming in Yunan in 1937-39, forms the chief highway connecting the two countries. The new road from Assam to Szechwan which joins the Burma Road was completed some time before the end of the Japanese war. It is not proposed to continue this road in view of the heavy cost of maintenance and difficulties in upkeep. There are also numerous roads, over which a vast internal trade is carried on, as also canals and navigable rivers. The total highway mileage stood in 1940 at 78,940 miles. Many important highways of strategic and commercial significance have also been built during the war, of which the more important are the Szechwan-Hunan, Hanchung-Paiho, Szechwan-Yunan, Sichang-Hsiangyun, Loshan-Sichang and the Kweilin-Sansui highways. Though about 10,000 miles of railway were in operation before the war, they have suffered grievously as the result of hostilities. Reconstruction is also being greatly delayed owing to the considerable difficulty in securing adequate supplies of railway ties and other construction material. Indeed, the Chinese Government have been forced to resort to the destruction of feeder lines to restore the main lines to some kind of running order.

21. *Sea Ports.*—The main sea ports in China are Tientsin, Tsing Tao, Shanghai, Swatow, Canton and Kowloon. Shanghai is, however, the most important port in China, handling as it did in normal times over 50 per cent of China's foreign trade and the bulk of India's exports to China. In the year 1938, the total imports into China from India were 6.9 million Chinese gold units, of which 5.3 million were brought to Shanghai, while out of a total export from China to India of 19.7 million Chinese standard dollars, 16.1 million dollars worth of goods were exported from Shanghai. In the year 1939, the percentage of Shanghai's exports to and imports from India, to China's total import and export from India, amounted to 99 and 86 per cent respectively. Shanghai's strategical position at the mouth of the Yang-tze River undoubtedly gives it a remarkably privileged position in China, and though doubts have been expressed regarding its future industrial and commercial greatness, there is no reason to apprehend that industry and commerce will shift from Shanghai to other ports to any appreciable extent, though there is the danger that failure to solve the many outstanding and grave problems of Shanghai might induce business men and industrialists to transfer their concerns to more congenial spheres where power, labour, food and the numerous amenities necessary for the successful pursuit of trade and industry are more readily forthcoming.

## CHAPTER II

### THE TEXTILE INDUSTRY IN CHINA

22. It has not been easy to obtain figures anywhere near accurate with regard to textile productive capacity in China in view of the long period of travail through which the country has passed, the destruction of records, the dispersal of industry leading to the transfer of some portion of the spindle and loom capacity to Free China following the advance of the Japanese armies, the loss in destruction of spindles due to bombing and removal by the Japanese and other causes. Indeed, the position regarding Manchuria was still extremely obscure at the time of our visit, as the question of the Soviet withdrawal loomed largely in men's minds. We have, however, subjected our estimates to careful checks and are satisfied that they represent as reasonable an appreciation of the position as was possible in the circumstances *obtaining* at the time of our arrival.

23. The textile industry in China is only a little over half a century old\* having been started about 1890. Japanese capital has assisted to a large extent in the development of the industry which at present is the largest industry in the country. In 1913 China had 34 cotton mills (of which 10 were foreign-owned) possessing 8,36,828 spindles. In 1934 the number of spindles had risen to 46,80,000 distributed between 136 mills (of which 41 were Japanese and 3 British), whilst in January 1936 there were 49,52,000 spindles, most of them ring spindles, the greater portion of which were imported from Great Britain and the United States. Though the absolute number of spindles rose, it declined relatively to the world total, and though in the five year period between 1930-35 the number rose by a million, in 1935 China still possessed only about half the number in use in Japan or India. In 1935 China possessed 1.6 per cent, of the world total of 154 million spindles, although her population was nearly a quarter of that of the world. The number of looms in China were also very small, about 44,000 in all. This lack of balance of the number of spindles and looms *vis-a-vis* the population *can* be explained to some extent by the fact that an appreciable quantity of cotton—about 8,00,000 bales—was converted into cloth in the homes of the people under the Chinese system of domestic economy, the balance being made up by imports from abroad. In 1933, 19,081 of the looms were owned by Chinese, 17,592 by Japanese and 2,891 by British subjects, 60% of the total number of spindles and about 90% of the looms being located in Shanghai. The cotton mills, like other important industrial concerns, are located in the Kiangsu Province (mostly in Shanghai), and in 1930, 67% of the total number of cotton mills were to be found in this province. Kiangsu is the largest industrial and commercial province in China, containing as it does two of its largest industrial towns, *viz.* Shanghai and Wusih. Cotton cultivation is also greatest in this province, 66% of the cotton goods being manufactured in Kiangsu, 9% in Shantung, 8% in Hopei, 7% in Hupel, 3% in Liaoning (in Manchuria) and 7% in the remaining provinces. The reasons for such localization are not far to seek. With an abundance of raw cotton near to hand, easily available supplies of coal and electric power, transport and port facilities, the existence of a large market, the promise of commercial and financial facilities and the early growth of mills in these towns, it is not surprising that the textile industry in China should have been concentrated in these centres. The total number of workers employed in the cotton industry was estimated to be 2\ lakhs, of whom 1,60,000 were employed in Chinese owned mills.

24. In 1936, it is estimated that there were about 50,22,397 spindles and 51,897 looms in the whole of China and Manchuria distributed as follows :—

	No. of mills	Spindles	Looms
CHINA			
Chinese Mills . . . . .	86	25,32,530	23,231
British Mills . . . . .	5	2,61,148	3,021
Japanese Mills . . . . .	44	19,97,231	23,622
	135	47,90,909	50,874
MANCHURIA			
Chinese Mills . . . . .	2	1,15,808	500
Japanese Mills . . . . .	3	1,15,680	505
	5	2,31,488	1,005
' Total	140	50,22,397	51,879

(For a more detailed analysis of these figures the reader is invited to refer to Annexure A to the report.)

It may safely be assumed, therefore, that before the outbreak of hostilities, China had about 140 cotton spinning mills with about 5 million to 5½ million spindles and about 52,000 looms, 88 of these mills with over 1 million spindles and 22,000 looms being owned by the Chinese, 5 mills with a capacity of 2½ lakhs spindles and 4,000 looms by the British and over 2 million spindles and 24,000 looms by the Japanese. 75% of the production, it is estimated, was in coarser counts, about 20% in medium counts and the remainder in counts up to 80s.

25. A fair number of spindles and looms were, however, removed from the coastal areas and re-installed in the interior provinces during the war, the number of spindles so removed being estimated at about 1½ to 2-30 lakhs. During the Japanese occupation many mills in occupied China were also deprived of spindles, a large portion of which were removed to Japan or used for repairs or reconditioning other mills. It is estimated that about 5 to 7 per cent, of the total pre-war spindleage was utilised in this fashion. It is also estimated that in all about 2,80,000 Chinese spindles and 2,000 looms were completely destroyed or seriously damaged and that 4,00,000 Japanese spindles with 4,000 Japanese looms were also completely put out of commission as the result of hostilities. Of the British-owned mills, only one mill is now stated to be in order with about 30,000 spindles, the other four mills having been completely deprived of all their spindles and machinery. The total spindles now in existence in China and Manchuria may therefore be estimated at about 4 million, of which 28,00,000 may be said to be in Shanghai, about 5 lakhs in Tientsin and 4 lakhs in Tsingtao and the rest spread over the other provinces and Manchuria. The former Japanese-owned mills, of which there are about 20 in existence, have now been taken over by the Chinese Government who have formed a company called "The China Textile Industries Incorporated" to work and administer these factories. It is estimated that roughly about 17 lakhs spindles are to be found in these factories,

26. We have found it even more difficult, in view of the unsettled conditions in the country, to estimate even approximately the present productive

capacity of the industry. Of the 4 million spindles said to be in working order, it would appear that at the time of our visit less than 50% of the full productive capacity was being utilized, less than 2 million spindles being in operation all over China. We were also given to understand that of the 28 lakhs spindles in Shanghai, about 10 lakhs only were in operation while only a fourth of the spindles in Tientsin and Tsingtao were being utilised, in all-roughly about 18 lakhs of spindles.

27. We also ascertained that before the war the mills were working 13 shifts a week of 11 hours each and that at present only 6 shifts a week of 10 hours each were being worked. Some mills had, however, started working night shifts also owing to the slight improvement in working conditions. Along with the expected improvement in working hours, it was also expected that difficulties with regard to labour and supplies of food and raw materials would be resolved, if not eased to an appreciable extent, enabling 24 lakhs spindles to be worked within a period of six months. The millowners whom we met were also confident that in a year's time they would have succeeded in getting 4 million spindles working and that adequate supplies of cotton, coal and spindle spare parts would be forthcoming by this time. They anticipated considerable improvement regarding labour also, which had dispersed into the country and had taken to farming following the approach of the advancing Japanese armies and the uncertainty with regard to the industrial future, particularly in the main manufacturing centres like Shanghai. With improved transport facilities and better supplies of labour, food and raw materials, particularly coal, the mills were confident that they would soon reach some degree\* of normalcy.

28. We were also given to understand that the mills had a substantial expansion programme in view, partly to offset the losses caused by the war as also with a view to capturing markets in South East Asia formerly held by the Japanese and that a substantial order for new spindles and looms had been placed for supply during the next three years. Efforts were also being made, we gathered, to resuscitate the spindle manufacturing industry in China which had received a severe setback during the war. We have found it difficult, however, to estimate the extent of the expansion likely to be achieved, though it would not be unsafe to hazard the estimate that a doubling of the existing spindle and loom capacity is envisaged within a 3 year period. We were told that about 12 lakhs spindles and 15,000 looms were expected from Japan by way of reparation and that orders for a further 17 lakhs spindles and 25,000 looms had been placed with U.K. and U.S.A. suppliers, the major portion of which was to be delivered within a year and the balance to be made available within two years. What reliance can be placed upon these figures it is difficult to say, though the assumption may safely be made, as stated above, that China has a substantial expansion programme in view and is likely

to double her existing spindle and loom capacity in the near future with a view not only to satisfy her internal market but also to capturing foreign market! now lost to Japan, who is now left with only about a quarter of her pre-war spindleage and is now only at liberty to manufacture sufficient for her own consumption and for paying for those goods which she must import if she is to survive.

29. There is no doubt that everyone in China is agreed as to the importance of the textile industry in the economic structure of the country. Japan came to the fore in the industrial world through her textile industry, but this colossus now no longer straddles the Far Eastern textile markets, which demand textiles of cheaper qualities and more conveniently suited to the slender resource and smaller purchasing power of the inhabitants of these

areas. Besides, it is expected that the re-opening of the cotton mills will go a long way towards solving unemployment in China itself, apart from meeting the enormous demand for textiles in the country which can hardly be satisfied at present from production within the country itself, or by import from without. It would appear, therefore, that the time is now ripe for China to take up where Japan has for the moment been forced to leave off, though it may well turn out to be one of the greatest fallacies of our time that Japan has been knocked out of world markets permanently—it should not be forgotten in this connection that a large proportion of the goods forming the Japanese export trade were the products of small industry—which can easily adapt itself to changed conditions' and whose capacity for survival can be greatly underestimated. A great deal will, of course, depend on the policy which the United Nations decide should be followed with regard to that country's industrial future, but it should be remembered that Japan is still an industrial force to be reckoned with, and that given access once again to raw materials and freedom to direct her own destinies in her own fashion, she may well stage a come-back and that too, within a limited period of time—and she would be a rash man, indeed, who would dare to prophesy as to what the future holds for the inhabitants of Nippon. They have had experience of years in large-scale trading, they have had the best laboratories and research facilities, the largest regulated group of skilled workers and the best technical brains in Asia. However, given planning on a rational basis and the means to execute them, a cheap supply of labour, assistance and subsidies from Government, large-scale research and technical skill and a keen appreciation of the needs of the markets, and last but not least, settled political conditions, there is no reason why China should not fill some of the gap left by Japan in Far Eastern markets. Even otherwise, there would be considerable scope for expansion of the industry, as spindle for spindle China is poorly off compared to other countries of the world. If her population is taken as 460 millions and her present spindle capacity as 4 million, it would mean that there is only one spindle for every 115 Chinese as against 13 or more spindles (our figures may be out of date) for every person in the entire world. Analogies like the one drawn above, or like the one in which it has been claimed that the addition of one inch to the shirt sleeves of the Chinese population would keep the whole of Lancashire working to satisfy the Chinese demand for cotton fabrics, may be pressed too far, but they add emphasis to the point that the potentialities for the development of the industry in China are immense and that sceptics who continue to shed tears over the demise of King Cotton have not fully appreciated the intensity of the demand for cheap cotton fabrics in Asia at a price which is well within the reach of the low-income consumer in these countries.

30. It has been argued that a number of factors chiefly of a social character stand in the way of the large-scale development of China's cotton industry or the wide development of the capitalistic system in industry itself, if regard is had to the limitations imposed by the highly individualistic nature of Chinese enterprise to-day. The dependence on the family and family solidarity has had, it is stated, a somewhat restrictive influence on the growth of that degree of individual initiative and enterprise which is so essential to economic progress, and it remains to be seen, therefore, how far China in the piping days of peace and the abandonment of extra-territoriality will succeed in breaking away from her old traditional ways and in embarking upon her new policy of industrial advancement which will undoubtedly call for a high degree of initiative, independence, technical knowledge, research, greater efficiency on the part of labour, ample supplies of capital, sound management, and what is more important, settled political conditions, without which no industry can ever hope to survive or thrive.

## CHAPTER III

## RAW COTTON REQUIREMENTS OF THE TEXTILE INDUSTRY IN CHINA

31. China was the world's third largest producer of cotton, being preceded only by the U. S. A. and by British India. The cotton producing centres of China lie between 20° and 40° north latitude and east of 100° longitude, and consist chiefly of the basins of the Yellow River in the north and the basin of the Yangtze River in the centre—a little is also grown in the basin of the Sikiang River in the south. Among these three regions, practically two-thirds of the cotton grown is in the Yangtze basin, namely in the Provinces of Kiangsu, Chekiang, Anhwei, Kangsu, Hopei, Honan, and Szechwan, and a third in the north in the province of Hupeh, Shantung, Shansii, Honan and Shensi. Little cotton is grown in the Sikiang basin due to the severe competition from silk and tea. The larger cotton producing areas in the two important regions, namely the Yang-tze basin and North China, are located where transportation facilities are available, thereby rendering it possible for the cotton to be marketed at the milling centres at a reasonable cost.

32. Chinese production has been known for its short-staple and poor spinning quality. Briefly, the grades may be distinguished as American Upland Cotton, Chinese White Seed Short Staple and Chinese Black Seed Long Staple. Many qualities and lengths of staples are grown, though there is no reliable information as to the qualities and quantities of the various grades produced. The staple lengths vary from 1/2" to 1 1/2". Varieties of American cotton are also cultivated, and the supply to the farmers of improved American and Chinese cotton seed has resulted in a marked increase in production of staples ranging from 1/2" to an inch in length. The special characteristic of the Chinese cotton is that it has a short, strong and clean fibre without any leaf and with a high ginning percentage suitable for counts below 20s for thick thread spinning, stuffing and for making wollen and cotton mixtures. King and Trice are the chief American Upland varieties of cottons which are grown. These varieties ripen early, the fibres are longer than the Chinese variety and can be used for spinning up to 30s and 40s counts.

33. It is estimated that the distribution between the American Upland type and the Asiatic types over a period extending from 1920 to 1944 was as follows ;—

(In thousands of bales)

Years	American Upland	Asiatic type
1920-24	100	2906
1925-29	200	2352
1930-34	250	2480
1935-39	300	2555
1940-44	300	2200

We have found it extremely difficult in this connection to obtain figures which can be considered *m* anywhere near accurate, as the statistical data to be found in various books of reference differ widely, not only from the point of view of the weight of the bales, but also from the point of view of the period the statistics are supposed to cover. We do not therefore claim any great

accuracy for our figures, though we have attempted to bring together and reconcile figures appearing in various publications. In doing so, we have found the statements attached to the recent report of the International Cotton Advisory Committee of considerable use, and it is our sincere hope that one of the important measures which the International Cotton Study Group **will** seriously take up for consideration is the question of arriving at uniformity in the periods adopted for comparison, size of bales, grades, staples, as also other matters affecting cotton production and its use. The task of reconciling the various periods adopted as also weights and bales and in drawing a correct picture of the position has therefore by no means been an easy one.

34. We have attempted to give below, however, a statement showing the\* production, imports, exports and total mill consumption from the years 1933-34 to 1941-42, as it has not been possible for us to obtain any later figures in view of the statistical black-out imposed as the result of the war and the destruction of records.

Statement showing the production, Imports, Exports and Total Mill consumption of cotton in China

Year	Acreage (in millions of acres),	Production (bales of 400 lbs.)	Imports (bales of 400 lbs.) from all countries	Exports (bales of 400 lbs.) to all countries	CONSUMPTION (bales of 400 lbs.) Pro- duction + import minus Export		China's consumption of	
					Total	MiU consump- tion	American Cotton	Indian Cotton
1	2	3	4	5	6	7	8	9
1933-34	6-7	3,562,500	895,000	201,250	4,256,250	2,978,750	448,125	337,500
1934-35	6 2	2,625,000	283,750	100,000	2,808,750	3,098,750	128,750	142,500
1935-36	8-4	3,187,500	201,250	240,000	3,148,750	2,925,000	71,700	108,750
1936-37	9-3	4,625,000	101,250	317,500	4,408,750	● 1,972,500	16,250	72,100
1937-38	5-6	4,250,000	128,750	511,250	3,867,500	1,812,500	25,000	68,750
1938-39	4-9	2,750,000	1,145,000	341,250	8,553,750	2,212,500	487,500	192,500
1939-40	6 1	2,250,000	1,571,250	218,750	3,602,500	2,000,000	123,750	681,250
1940-41	6 1	2,812,500	1,300,000	25,000	4,087,500	1,875,000	Not available	753,750
1941-42		2,875,000	845,000	25,250	3,513,750	1,187,500		72,500



35. It is important in perusing these figures to bear in mind firstly that till 1936-37 China had before her a cotton programme aimed at self-sufficiency which she very nearly achieved ; secondly, that this programme of hers was badly thrown out of gear as the result of the war with Japan, since which date there has been a reduction in her crop ; thirdly, that the heavy floods of 1940-41 led to a substantial reduction in crop necessitating a very large increase in imports, to which the re-opening of the mills both in the occupied areas and in the International Settlement in Shanghai also gave a fillip ; and lastly, that a fall in mill consumption followed the entry of Japan into the war in 1941 and the destruction that followed of a proportion of spindleage and loom capacity in the country.

36. The offtake of Indian cotton by China should be studied, therefore, against the background of China's raw cotton policy adopted a few years before the outbreak of war with Japan and designed with a view to making China self-sufficient with regard to this commodity. This policy was pursued with remarkable vigour and persistence and resulted in an astonishing degree of success. As one Chinese authority (Chinese Year Book 1938-39 : page 468) remarks ;

" Cotton in China was formerly of poor quality. Raw cotton of a superior quality had to be imported from abroad to feed the Chinese cotton centres. Since the Government took an interest in the product, improved seeds had been selected and extended. The extensive work has been so rapid that China would have been almost self-sufficient had not the war with Japan started in July 1937.... In 1937, as the result of the war, many cotton fields were turned over to food production and the acreage of cotton plantations suffered a decline. With the return of normal times, it is certain **that the Tapid** progress made in the production of superior cottons will be kept up."

It is not surprising, therefore, that imports of cotton from abroad declined from year to year until it reached the low figure of 81,000 bales in 1936-37 as compared with the peak production figure of 3,700,000 bales in that year. The Chinese Year Book, 1938, regards the year 1936 as an " exceedingly interesting one for the Chinese cotton merchants, the cotton mills and the farmer as well as from the purely economic point of view. It marks the turning point when China declared her independence from foreign countries as to supplies of raw cotton and manufactured goods. So recently as 1931, China imported 2.81 million quintals\* of raw cotton. Imports have since declined to 2.2 million quintals in 1932, 1.2 million quintals in 1933, 0.5 million quintals in 1935 and 0.4 million quintals in 1936 . . . . . These figures are significant, and it appears that in the future, volume imports of foreign growths are out of the question and that demands will be restricted to the longer staples, although in this connection also strenuous efforts are being made by the National Economic Council to improve the length of the Chinese staple."

37. War-time trends were for this reason clearly in the direction of increases in imports, though not for the first two years immediately following the onset of Sino-Japanese hostilities. Substantial increases were, however, registered from 1938-39 onwards, due mainly to the reduction by the Japanese of the cotton growing areas in the north as also to heavy floods in these areas and to the heavy demands from mills in the occupied areas and in the International Settlement in Shanghai. Cotton was therefore considered as an essential import by the National Government, and in 1941 China decided to treat raw cotton as an essential article, imports of which were freely allowed anywhere into Free China, irrespective of the place of origin or destination.

\*] Quintal = about 1/10th ton.

38. Two different trends in policy can therefore clearly be distinguished: the long-term and pre-war policy and the short-term and wartime policy, the former to increase local production in raw cotton and make China self-sufficient with regard to her requirements of this valuable raw material and to confine imports of foreign cotton to the finer qualities and longer staples, and the latter with a view to the more satisfactory prosecution of the war and encouraging the free imports of raw cotton and other essential commodities for adequately feeding her essential and growing industries which would also allow of large areas of land being switched over to the cultivation of food crops. This wartime trend in Chinese raw cotton policy gives a definite clue as to the immediate policy which China is likely to pursue in the coming years. Large areas of China now lie ravaged; there is an acute shortage of food; many industries have been wrecked, and with practically the whole of China now tired and waiting to be clothed and fed, there is little doubt that the National Government will, while expanding their food production programme, enlarge their cotton import programme also with a view to keeping their loom and spindle capacity fully employed, which will mean that imports at a fairly substantial rate will have to be maintained for at least a period of 3 to 5 years. We have elsewhere estimated the future mill production capacity at double the existing spindle figure; and there is every prospect within the next 3 to 5 years of China's textile production doubling itself, if not increasing even beyond this figure; and for all this she will require cotton, both *long* and short staple, which it will be beyond her capacity to produce, considering the emphasis she is bound to place on food crops for feeding her large and growing population and the need for increasing her exports for financing those imports which her large construction and rehabilitation programme will of necessity involve. It should not be forgotten also that a great portion of the spindles in China are better suited for the utilization of Indian cottons—the largest quantity of yarns spun in the past were 20s and 21s—that yarns of this count will call for Indian cotton of staple length of 3/4 to 7/8" staple and that 75% of India's crop is in staples of 3/4" and over, which can be offered at prices which are competitive compared with cottons of similar grade and staple.

39. The position, therefore, with regard to cotton for 1945-46 seems to be fairly clear, having regard to the short-time policy and to the fact that a crop of about 5 million piculs, *i.e.*, about 1,677,000 bales of 400 lbs. alone can be expected during the year which is considerably less than the 1939-40 crop. As against this, the total consumption of the mills in Shanghai in January 1946 was estimated at 38,000, in February 50,000 and in March 63,000 bales\*. The total consumption for the year of the Shanghai mills, having regard to the upward trend in consumption, may therefore be estimated at about 11 lakhs and for the rest of China at 5 lakhs, making a total in all of 16 lakhs bales. Besides, there are no appreciable stocks either with the mills or godowns, and as the mills and the trade would like to lay in a stock of at least 4 to 6 months as a provision to meet any emergencies, a further demand of 6 to 8 lakhs bales may be expected, making a total of about 22 lakhs bales for the year. In addition, there is the demand from her handloom industry for padding and other industrial purposes which may be estimated at about 2 million bales, leading to a deficit of 25 lakhs bales a year. As against this, we understand that the following supplies of raw cotton have been arranged for:

U.N.R.-Pv.A . . . . .	683,000 bales
Against American loan . . . . .	375,000 bales
Private business . . . . .	438,000 bales
<b>Total</b>	<b>1, 501,000 bales</b>

\*All quantities stated in terms of 400 lbs. bales..

We gathered that the bales acquired from private sources, about **1,00,000** bales, were of Indian origin. A balance of 10 lakhs requires therefore to be made up, and it is not unlikely that Indian cotton may be preferred to an appreciable extent because of its comparative cheapness, and what is more important, the fact that a large proportion of the spindles and looms, particularly those in the Japanese-owned mills, are better suited to Indian cotton. Though American cotton is now being used for the purpose, it is not very much in favour because of its greater cost and the fact that some of it is very old cotton and too superior a quality for the purpose in view.

40. We discovered, however, to our surprise that mills in China were not acquainted with recent types of Indian cottons, though we were able to enlighten them in this regard by the exhibition of some representative types selected by the Textile Commissioner and the East India Cotton Association, Bombay, which we had taken with us, viz., M. G. Fine Khandesh Jarilla, M.G. Fine Berar Jarilla, Muglai Jarilla, Central India Jarilla M.T. The mills were greatly interested in these samples, of which some small quantities of representative types were left behind. The position was different, however, with regard to American cotton, as the Chinese mills were acquainted with the various standard grades and bought their requirements largely on description.

41. We were satisfied, however, from a careful study of market conditions that there is a fair demand for Indian cotton and that a fair proportion of the 10 lakhs bales deficit will be made up from Indian cotton in spite of the assistance American cotton has received in Chinese markets in the shape of supplies, from U.N.R.R.A., the credit of 33 million dollars from the U.S.A. for the purchase of 300,000 bales of American cotton and also the export subsidy of 4 cents per lb. granted by the U.S.A. Government.

42. It is a matter for congratulation in this connection that raw cotton has been placed on the unrestricted list in the new exchange control regulations issued by the Chinese Government and that there is now no bar to their free import. It is to be hoped, however, that difficulties with regard to the grant of visas, postal and air communications, which have stood in the way of merchants visiting the country and the free despatch of samples to China, as also exchange and shipping difficulties, will soon be resolved leading to the early resumption of free and unfettered trade between the two countries.

43. While China's peace-time policy has been one of self-sufficiency—and we may expect on all hands that the Chinese Government will hark back again to their old programme as soon as possible—it remains to be seen how far they can fit this in with their ambitious expansionist programme for the capture of Japanese markets. Japan had over 13 million spindles before the war and over 400,000 looms (including handlooms) and was the largest consumer of Indian cotton. China's hope of reaching the 8 million spindle mark at the end of 3 to 5 years will necessitate a mill consumption figure of about 4J million bales of cotton; and even allowing for a crop of the 1936-37 size which seems problematical, she will still have to import, if regard is had to the fact that about 2 million bales will be consumed in the handloom industry and for domestic purposes like padding, etc. About 2\$ million bales will still therefore be required from outside, as every increase in spindleage and loom capacity, unaccompanied by a corresponding rise in production, must involve a corresponding increase in imports. China's bid for Japanese markets will perforce commit her to substantial imports from abroad unless she can increase her production which must of necessity be restricted by her food requirements as also other factors of no less importance.

44. But whatever the future may bring forth, it seems to us certain that there is a vast demand in the Pacific area countries and in South East

*It*

Asia, and even nearer home, for cheaper and coarser textiles of the kind previously supplied by Japan which must be satisfied and that, though in the initial stages there may be difficulties and some degree of maladjustment due to factors not foreseeable at this stage or capable of immediate solution, we have little doubt that attempts to fill that vacuum must and will be made, involving as the result the use of our cheaper and shorter staples or similar cheap staples by the utilisation of which alone China and/or other competing countries (and Japan will still be in the market for Indian cotton though to a smaller extent) can hope to keep prices down to that level which will allow of purchase being effected by the low-income consumer in these countries, though it is problematic whether prices will ever come down to that low level reached by the Japanese which was largely achieved by the modernness of their equipment, cheap and efficient labour, by carefully calculated currency depreciation, a highly integrated Government sponsored sales and distribution arrangement, coupled with a willingness to accept a low-unit profit on their coarser fabrics.

45- We see no reason, therefore, for despondency with regard to our surplus cotton production ; indeed, we are convinced, on the contrary, having regard to the conditions which we have witnessed for ourselves in the South East Asia territories and in China, that King Cotton has come into his own again and that the stage is now set for a boom in the textile industry which is likely to last for some considerable length of time and that given careful planning, agreement between the countries concerned, the interests of the industry as also the interests of cotton producers all over the world can be so brought together as to enable all parties to benefit in the era of peace and prosperity which now undoubtedly lies ahead.

CHAPTER IV

TOBACCO

46. Tobacco is grown in practically all the provinces in China, though it is not so important a crop as cotton, though like cotton it is grown over a wide area with commercial production concentrated in a relatively few districts, Shanghai taking the lead in this matter also as in the case of cotton. Production, however, is sufficiently large to place China along with the U.S.A. and India as one of the world's largest producers of this commodity. Practically all of it is grown on small farms of about 7/10th of an acre, the average yield in pre-war years being 1030 lbs. to an acre.

47. The three main groups of Chinese tobacco are sun-cured, cigar and flue-cured tobacco, of which it is estimated that 47% of the production is sun-cured, 40% cigar and 13% flue-cured. Tobacco is used in China principally for pipe-smoking, for which both sun-cured and flue-cured tobacco are freely used. The use of cigarettes made largely of flue-cured leaves has, however, become popular during the last 40 years, though cigarette consumption is confined to the cities and pipe-smoking to the interior. With the increase in Chinese production of this type of tobacco and the higher cost of American and Indian leaf as the result of the import duty, the proportion of the Chinese leaf for the manufacture of cigarettes has greatly increased. American seed Virginia tobacco is chiefly grown in Huchow, Shantung, Tsingtao and Anhwei. Sun-cured tobacco is grown largely throughout China except in the North. The quantity of tobacco produced was as follows :—

<b>1931-37 average.</b>	<b>9,277,000 piculs</b>
<b>1938</b>	<b>8,934,000</b>
<b>1939</b>	<b>9,811,000</b>
<b>1940</b>	<b>10,269,000</b>
<b>1941</b>	<b>8,560,000</b>

Average 1930 — 41 = 9,880,000 picula or 1,251,667,000 lbs

Of this amount, the average production of flue-cured tobacco during the years 1931-37 was about 151 million lbs. The average consumption of flue-cured tobacco in these years was about 175 million lbs., the difference being met by imports from outside which varied from 78 million pounds to 18 million pounds in the pre-war years. The tendency, however, was towards diminishing imports against a rising production figure which had reached 200 million lbs. in 1937.

48. The estimated crop of this type of tobacco for 1946 is placed at about 65 million lbs. only—the quality of this crop has also suffered from improper curing due to lack of fertilisers and unsatisfactory seed. Stocks of China flue-cured leaf in the hands of dealers are also small and are estimated at about 2 million lbs. though surplus stocks are believed to be substantially larger. Unsettled renditions have also prevented the free movement of leaf from the producing centres in Henan, Anhwei and Shantung to Shanghai which manufactures 75% of the cigarettes produced in China. About 50% of the crop is consumed by the Mosquito factories in the interior which use hand-driven plant. These are spread throughout China and it is difficult to obtain statistics regarding their size and capacity.

49. While there were two medium sized plants for cigarette manufacture one at Tientsin and the other at Tsin-tao and two more in Tsinan and Ningpo operating before the war, the output was very small as compared with the production of the Shanghai factories which at present number 72, possessing in all, we were told, a total of 600 cigarette manufacturing machines, of which 400 were in operation at the time of our visit to Shanghai. These were estimated to turn out 2,000 cases of cigarettes per day, each containing 50,000 cigarettes and containing 125 pounds of tobacco per case. The daily consumption was, therefore, in the neighbourhood of 150,000 lbs. Two shifts were being worked in winter though less hours would have to be worked in the rainy season and some factories closed down altogether during this period. The average consumption therefore for the year may be taken at about 75 million lbs., of which about 52 million lbs. would have to be imported from outside in view of the shortfall in the crop, the lack of transport facilities and the very large proportion of the local crop required for the Mosquito factories in the interior.

60. The following are among the big cigarette manufacturing factories in operation in Shanghai:—

Nanyang Bros.  
 Hwa Ching Co.  
 Foo Shing Co.  
 China Tobacco Co.  
 Dah Tung Co.  
 Hwa Da Co.  
 Dah Tung Nan Co.  
 Hwa Ming Co.  
 Foo Hwan Co.  
 The Forward Co.  
 The Yu Li Co.  
 The Ming Chung Co.  
 Linshing Co.  
 B.A.T. Co.

The largest tobacco factory in China to-day is the British American Tobacco Co. whose products are generally to be found all over the market and are more or less equal in quantity and value to the products of all the Chinese factories. The B.A.T. Co. has also the monopoly of the marketing of the higher grade cigarettes, the markets in North China being full of their products. Chinese cigarettes have large sales in Kiangsu, Chekiang, iViehow, Kwangtung and the upper portion of the Yang-tze valley.

51. The chief qualities of tobacco imported from the U.S.A. are Denver, Rock Mountain tobacco, Virginia and Georgian tobacco. American imports in pre-war days used to be in the neighbourhood of 3,000 to 4,500 hogsheads per year, each hogshead being equal to 1,000 lbs. which works out to about 3 million to 4-1/2 million lbs. per year. Imports of Indian tobacco, which were not large in pre-war years, however, received a fillip between 1939-40 when China imported large quantities, about 4 million lbs. in 1939 and about 19 million lbs. in 1939-40. Indian tobacco is considered strong to the taste, however, and has a thinner leaf than the American and Chinese leaf, the standard mixture in Shanghai being 30% American and 70% Chinese, only 10% of Indian tobacco being used with Chinese tobacco because of its strong taste. On this basis, there is good reason to believe that Indian tobacco to the extent of about 7 to 10 million lbs. may be required this year. The determining factor, however, is of course price, and Indian tobacco will sell if prices range at about 60% of the American tobacco prices—and high grade Indian tobacco is not required. Before the war, Hue-cured and sun-cured tobacco and sometimes mixed tobacco were imported from India which did not meet with success because of dissatisfaction with regard to quality, but with competitive prices as also graded qualities now available in India to-day, there is a good prospect of Indian tobacco having a good market in China for some more years to come.

52. There is an import duty on tobacco of 10% plus 5% surcharge as also a 30% commodity tax which applies to all tobacco, whether Chinese or foreign. Tobacco has been placed on the restricted list under the new exchange control regulations, to which reference has been made elsewhere in the report. We were, however, assured in our discussions that Indian tobacco would be allowed to be imported freely.

53. As American tobacco is the only other tobacco, of which large imports are brought into the country, it would not be out of place to mention that this tobacco was being imported, before the war, at 0-40 U.S. dollars per lb., the lowest quality 'stumps' being brought in at U.S. dollars 0-07 per lb. U.S.A. leaf prices, for c.i.f. without duty deliverable in Shanghai, at the time of our visit were as follows :—

Grade	V	U.S.A.	80
	VI		75
	VII		60
	VIII		60
	IX		50
	X		40
„	XI		35
	XII		32
	XIII		25-30
	XIV		25-30
	XV		20

Our enquiries in the local market also revealed that the highest grade American tobacco ex-bond and after payment of all duties did not cost more than a dollar.

We were also informed that manufacturers in Shanghai were not prepared to pay in advance for tobacco supplies in view of exchange difficulties. American tobacco was being paid for 1 to 3 months after arrival of the goods in Shanghai, and we were told that importers would require the same terms from Indian shippers also.

54. It is difficult to assess the prospects for Indian tobacco in the Chinese market in the future. On the one hand, there is a distinct tendency for a slow and steady increase in the production of flue-cured tobacco in China itself accompanied by a gradual decrease in imports of that type from the United States and outside, though the two years immediately preceding the hostilities with Japan showed some increase, though nothing like the quantities imported in 1931 which was the peak year for imports from America. It may be presumed, however, that in view of the unsettled conditions in Northern China and the lack of transport facilities and the disruption in economic life that has resulted due to the war, it will be yet some time before the agricultural economy of the country can be restored, and during this period it will be necessary for China to make up the decrease in her production by imports from outside of the flue-cured types, and incidentally of the low grade types from India. It is difficult, however, to estimate the amount of the tobacco that may be required from India, though it may safely be assumed that a quantity approximately 7 to 10 million pounds may be required now as also in the years immediately ahead, though the demand may gradually taper off as China's plans for agricultural rehabilitation and for self-sufficiency proceed apace.

#### OHAPSER V

##### CURRENCY AND EXCHANGE

55. It is outside the scope of this report to dwell upon the many vicissitudes through which Chinese currency has passed in the war years, or to trace the many forms and modes currency in the country has assumed in its stately and leisured progress through the ages, fascinating though such a study would have been. Suffice it to say that we found on our arrival in Shanghai something approaching chaos. The Chinese National Dollar, for which the official rate was fixed at 20 to the U. S. dollar, was quoted on the black market at rates varying between 2,000 to 2,700. Puppet currencies also circulated freely side by side with Chinese national currency, though it had been decided to withdraw them from circulation. They added, however, not a little to the inflationary conditions which were rife to an extent unknown in any other country in the world. Trade was virtually at a standstill, and the normal flow of merchandise within China, and between China and the outside world, had been more or less disrupted. Commodity prices were fantastically high and steadily rising—the dire result of China's inability to finance the war out of taxes or loans or savings, and her resort to the printing press to extricate herself from her financial difficulties reflected in the inordinately high rates of interest which stood at about 20 per cent, to 30 per cent, per mensem though the maximum official bankrate was only 3.6 per cent, per mensem. The strain of eight years of bitter warfare, the instability of political and military conditions, the closure of factories in the war years, the lack of raw materials, the shortage of food-stuff, the desperate position of industry in the hinterland, the destruction of transport facilities and of shipping, the acute shortage of coal, had all contributed towards the worsening of economic conditions which had made itself generally felt in every part of the body politic. That the seriousness of the problem had been fully appreciated by the Chinese Government was evident by the issue, on the day of our arrival, of new foreign exchange control regulation

-{please see Annexure **B**) which may be said to have marked the first step in the rehabilitation and reconstruction programme of the Chinese Government.

56. The more important of these regulations provided—

- (1) control of exchange by the Central Bank of China ;
- (2) for the abolition of the official rate of 20 C. N. C. to the U. S. dollar and supplements;
- (3) that certain banks and brokers alone would be allowed to deal in foreign exchange ;
- (4) that appointed banks might sell exchange only for imports authorised under the new import and export regulations for legitimate personal requirements and for other legitimate purposes authorised by the Central Bank ;
- (5) that appointed banks were at liberty to buy foreign exchange arising from exports or re-exports from China, remittances from abroad and foreign exchange sold for expenditure in China ;
- (6) that exchange transactions would not be permitted for export of capital or speculative or arbitrage purposes ;
- (7) that inter-bank transactions would be permitted only in Shanghai branches of authorised banks elsewhere obtaining cover from Shanghai offices ;
- (8) that penalties in the shape of the fines by courts and temporary suspension by the Central Bank would be levied for breaches of the regulations ;
- (9) that gold might be bought and sold freely ; and

<(10) that import and export of foreign currency notes would be prohibited unless a licence were granted by the Ministry of Finance though an equivalent of 200 T. S. dollars might be imported or exported without let or hindrance.

57. The complementary foreign trade regulations which were subsequently Issued provided for three import categories, namely unrestricted, licensed and prohibited, of which lists were published. (For full details please see Annexure •C). Exports were to be generally free upon presentation of invoice showing that foreign exchange accruing had been contracted by an appointed bank. A Temporary Import Programme Committee was also set up under the Supreme Economic Council with Dr. T. V. Soong as Chairman and Dr. Wong Wen Hao, Minister for Economic Affairs, as Vice-Chairman. In addition, a Foreign Exchange Reserve Fund of 500 million U.S. dollars was allotted by the National Treasury, additional funds to be provided by the Central Bank as and when required for ensuring the satisfactory working of the new exchange measures. Briefly put, the old official rate of exchange which was completely divorced from reality was abandoned and exchange thrown open under the general control of the Central Bank. On March 4 the Central Bank for the first time under the new regulations announced its official rate for T. Ts. on New York at CNC 2020 for T. S. dollar 1, and with the re-opening of the foreign exchange markets in Shanghai, the first step towards the revival of international trade may be said to have been well and truly taken.

58. This is not the first occasion on which such measures have been promulgated for the comprehensive control of foreign exchange. In 1933-34, at the time of the silver crisis and again in 1941, in the last few months of the pre-war year, efforts were made to tackle the problem but without success, as



such measures were not capable of enforcement due to the fact that banks and business houses, particularly in the International Settlement in Shanghai, were free to go their own way. The position is different now, as Japan has ceased to be a factor of importance; and extra-territoriality, the existence of Treaty Ports, the control of Customs and the right to maintain warships in Chinese territorial waters are now things of the past, and all banks, business firms and individuals in China, whether Chinese or foreigners, are now subject to Chinese law and must obey the regulations imposed by the Central Bank in respect of foreign exchange business, with the Central Bank retaining to itself the power to punish offenders for breach of these regulations.

59. The list of items under the new import regulations classifies imports into three categories, namely absolute necessities which can be imported without restriction, semi-necessities for which licences have to be obtained, and luxuries the imports of which have been completely prohibited. Under these new arrangements, importers can apply for foreign exchange with which to pay for their foreign goods to their regular commercial banks, through which they normally negotiate their documents. These banks are now entitled to sell foreign exchange for necessities without delay and for import licensing of goods following the grant of import licences by the Customs authorities. The banks, however, are required to satisfy themselves through investigation of pertinent and original commercial documents such as order forms accepted from abroad, invoices, bills of lading, insurance policies, etc. that there is evidence that the goods to be imported will be shipped within three months of payment (or spot) or the fixation of (forward) exchange and on condition that the documents in question will be negotiated by the bank which is selling exchange to the prospective importer. Importers are required to apply in prescribed application forms and state that they contemplate *bona fide* imports customary in their line of business, that they would not be going in for new imports and that their imports would be used for immediate consumption in the country or that they would be prepared to release from present stocks a volume of goods corresponding to their new imports. Importers are required to specify in their applications the Customs Tariff Number under which their prospective imports are classified, the country of origin, shipper, manufacturer or producer, the foreign exchange beneficiary, the terms of payment and in particular, their foreign exchange holdings. All importers are also required, when sending applications for exchange, to specify what foreign exchange they already own and are about to require for other arrangements, the idea being that all foreign exchange already owned or about to be owned by importers must first be used to meet import obligations before they receive additional foreign exchange from the Central Bank. Besides granting exchange for imports to licensed businessmen, commercial banks are also permitted to send telegraphic transfers for personal requirements also; e.g. receivers of foreign exchange salaries for living expenses abroad or of a dependant up to a maximum of \$250 per month as also in the case of students. The banks are also free to allow foreign exchange sufficient to cover passage money and halting charges for a period up to six months as also insurance premium up to any extent provided the applicant has no foreign exchange resources of his own.

60. We have little doubt that the re-opening of the door to overseas trade in this manner marks a definite stage of no small importance in the economic and social rehabilitation programme which the National Government has in view, but it is equally clear that without balanced budgets, substantial reductions in expenditure, restoration of transport facilities, adequate provision of food supplies, restoration of industry and the encouragement of exports, the measures of exchange control now promulgated are not likely to be as complete a success as they might well otherwise be. That the Chinese Government are

fully alive to these problems is evident from the pronouncements made by the Minister of Finance and Dr. Soong, President of the Executive Yuan, at the second session of the P. C. C. Among the measures announced on this occasion were the steps taken for balancing of the budgets—the Chinese Government have secured the services of an American expert for this purpose—the simplification and re-adjustment of China's rent and tax system in accordance with the economic reconstruction programme aiming at equal distribution of wealth by means of taxation, reduction of the salt tax and the acceptance of the principle of progression in taxation. It was proposed to levy income-tax also on Government and private enterprise alike, the rate varying according to the nature of the income. The probability of having to resort to protective tariffs in some respects for the protection of Chinese infant industries was also mentioned, though it was conceded that the principle of free trade would generally be adhered to. These statements on policy clearly indicate the desire of the Chinese Government to get down to the new economic problems which await their solution in this transitional period.

61. It is a matter for regret, however, that the Central Bank has not prescribed a T. T. rate for sterling as also the rupee, though in discussion it was agreed that exchange facilities should be made available in the interest of the two countries. The prevailing position was that while the cross rate between London and New York was 4.02—4.03 dollars to the £, some small amounts of sterling were offered in Shanghai for local U. S. dollar notes at a 3.50 cross rate. The only buyers for sterling were either speculators or people who had floundered pre-war obligations in sterling to meet and who found it more profitable to convert their dollars into sterling in Shanghai than in London. Indeed, those who managed to purchase sterling *via* Hong Kong, in spite of the Colony's exchange restrictions, were able to secure an even more favourable cross rate, because the Hong Kong dollar which is officially pegged to sterling had depreciated to a greater extent than sterling in terms of the Chinese National dollar. In Shanghai, the value of the rupee also in terms of the U. S. dollar was based on a cross rate of 33 to 3£ to the £ instead of 4.02£ to 4.03 to the £. Thus while Rs. 332 were required in Bombay to purchase 100 U. S. dollars, in Shanghai 400 rupees were required. The fixation of the exchange rate between the Chinese National Dollar and the U. S. dollar has improved matters in so far as trade with U. S. A. and other dollar bloc countries are concerned, but stability of exchange is also an essential pre-requisite for the revival of trade with other countries. The possible explanation why the Chinese monetary authorities have not thought it essential to fix a rate with sterling is that most of China's foreign trade is at present done with the United States and much of the remainder is financed in terms of the U. S. currency. No large demand for sterling has also, so far as we are aware, yet developed for financing imports from the sterling area, but the development of trade with the sterling area is itself impeded by the absence of a stable ratio between sterling and the Chinese currency. It may be also that the Chinese Government have small sterling resources on which to fall back or that they are unwilling to utilise their sterling balances at this stage for financing general trade in view of the heavy demands likely to devolve on them in the fulfilment of their rehabilitation and reconstruction programme. The only satisfactory way, however, in which this vicious circle can be broken is by the speedy resumption of imports from the sterling area by the grant, if necessary, of substantial credit facilities to China by both the U. K. and India.

62. So far as the revival of trade between India and China is concerned, the fixation of an exchange rate between sterling or the rupee on the one hand and the Chinese National Dollar on the other is certainly an essential step. But this by itself is not likely to meet the requirements of the case. Indeed, there are strong reasons why it may not be advantageous to India *to do* business with

Ghina on a sterling or even on a dollar basis, because in either case so long as the sterling area and the Empire Dollar Pool arrangements last (and it looks as if they are going to last for quite some time to come), the proceeds of the export trade with China would merely go to swell the sterling balances which are already sufficiently large to prove a source of embarrassment. Barter may provide a solution, but only to a very limited extent, in view of its inherent difficulties, the necessity for a simultaneous balancing of exports and imports (which conflicts with China's need for credit) and the difficulty of reaching a satisfactory basis for the evaluation of one another's goods at any given moment of time. Nor can great importance be attached to the rupees in the blocked accounts of Chinese nationals in India which were recently released as these balances are not very large and are likely to be required for various purposes unconnected with the financing of trade. We have not also overlooked in this connection the probability of goods being sold against local currency (Chinese dollars). Unless, however, the local currency so accumulated can be quickly converted into Chinese goods (which does not seem probable in the present circumstances) the transaction will in effect amount to a grant of credit to China without the various safeguards (against depreciation or freezing for an indefinite period, for example) which are usually attached to a properly negotiated credit arrangement.

63. We have no doubt that whatever method she adopts for conducting business with China, India will not be able to utilise the whole of the proceeds of her export trade with China immediately, and some provision of credit to China will therefore be required if any substantial export trade is to be built up with that country at all, though it would be necessary at the same time that any arrangements for the grant of credit should be so devised that the credit will not remain outstanding for a longer period than is absolutely necessary. For this purpose some kind of special account arrangement with China may be more suitable than the procedure of financing exports *via* sterling, dollar or Chinese currency, and it may be arranged by agreement that all exchange transactions between India and China will be financed through the medium of special accounts, the *modus operandi* being somewhat as follows :

Indian exporters to China will be paid in rupees out of a special account maintained by the Reserve Bank of India against payment by Chinese importers in their own currency into a special account maintained by the Central Bank of China. When exports from China to India are resumed, Indian importers will pay the cost of imports from China into the special account with the Reserve Bank, while Chinese exporters will receive payment out of the Chinese dollar balances accumulated in the special account with the Central Bank of China. The amount of Chinese dollar balance standing to the credit of the Reserve Bank in the books of the Central Bank of China in any specified period will be subject to an agreed limit. It should be agreed that after the expiry of a specified period, China will take steps to liquidate the balance by making specified categories of goods available to India. In this way, the arrangement, while meeting China's immediate need for credit, will prevent the proceeds of India's exports to China from being locked indefinitely. In view of her own need for imports, India can hardly afford to extend credit to China except for a fairly short period. Her credit arrangements with China will thus be fundamentally different from those by the U. S. A. and Canada which have granted credits for periods extending to 25 years or more. The fixation of a definite agreed rate of exchange between India and China will, of course, be part and parcel of this arrangement. We are convinced that a special account arrangement of this kind would provide by far the most satisfactory way out of the present impasse, and negotiations with the Chinese Government towards this end should, we feel, be taken up as soon as possible.

64. We consider such an arrangement to be of the utmost importance not only from the point of view of the revival of our trade relations with China but also from the point of view of our future political, cultural and economic relations with that country and the need for retaining the goodwill of a neighbour like China whose economy has been seriously dislocated by the war and by ruthless exploitation. Repeatedly during our travels was it brought to our notice in public discussions as also in informal conversation that the future of the two countries was closely and inextricably linked together and that by mutually assisting each other in the task of recovery and rehabilitation that lay ahead would the two countries be laying the foundations of an enduring peace in Asia and providing thereby for the greater happiness and well-being of more than two-fifths of the human race.

## CHAPTER VI

### RESUMPTION AND DEVELOPMENT OF INDIA\*

65. Our talks in Shanghai and elsewhere in China were conducted in an atmosphere surcharged with the acutest pessimism on the one hand as also with the most abounding optimism on the other, two different schools of thought being encountered, the first maintaining that with the abandonment of extra territoriality, the treaty ports and the other "Me-too" privileges that had been acquired by foreigners in China, the days of China, particularly Shanghai, as the centre of trade and industry were over—virtually a cry of 'sauve-qui-peut' and a desire to withdraw forthwith to the safe anchorages of Hong Kong where the old order was expected to prevail—it was not a little interesting to note that this feeling was shared by quite a few of the Chinese merchants with whom we had some acquaintance. The opposite school of thought—and there were not a few Americans who shared this view—swung completely over to the other extreme and maintained that given a fair wind, China was now well set for an era of industrial and commercial prosperity of a kind never before witnessed in her long and chequered history. The true position, however, seemed to us, as in other cases, to lie somewhere between these two extremes. As observed elsewhere in this report, China has just emerged from a long-drawn-out war, greatly weakened and impoverished, deprived of transport facilities and food supplies, without shipping, with large areas lying fallow and in addition to all these troubles, an ominous civil war looming dangerously ahead which, if not wisely tackled, is bound to cause incalculable harm to the country and set back the clock of her industrial and economic progress. On the other hand, she is now completely mistress in her own house and is prepared to maintain this position in the future, is adjudged one of the great Powers of the world and able with her resources and her manpower to live up to that capacity. But she has to go quite some way before she can reach that objective, and the road lies uphill a good deal of the way. She has had substantial credits from the U. S. A. with hints of more to follow, assistance from U. N. R. R. A. to an appreciable extent, but with inflation rampant in the country, a high commodity price level—prices were about 1,900 times the pre-war level when we were in Shanghai—puppet and Japanese currencies circulating freely, shortages of food and transport, with difficulties of various kinds and her industries paralysed, it would not be surprising if she takes some time to find her feet. What little we saw in Shanghai and elsewhere, however, convinced us that the Chinese Government were aware of the shortcomings and were prepared to do their best to overcome them and that given time and assistance, they were likely to be in a position, having regard to their remarkable staying and recuperative powers, to set their house in order at an early date. But in the transitional period difficulties may be expected in resuming trade connections, though as against

this, it must not be forgotten that the Chinese are one of the most industrious peoples in the world and that given the tools, they will deliver the goods ; and it is therefore in a sober mood of optimism that we pen this part of our report, for we have no doubt that China has a great industrial and commercial future before her. While restoration of trade with China may not proceed at the pace we desire, there is no reason to think that there are no prospects or that the prospects are illusory and far from satisfactory.

66. With the issue of the new exchange control regulations and the linking of the Chinese national currency to the American dollar, the first step in economic and commercial rehabilitation has been taken, and though no link with sterling has yet been established, we do not think that its absence is likely to be an insuperable obstacle in the way of resumption of trade. Whether such a rate is fixed or not, it seems to us essential that trade between China and India should be fostered and financed in a manner that will be most beneficial to the interests of the two countries, and we trust that the proposal we have made earlier in this report will receive the early attention of Government.

67. There are no doubt difficulties with regard to transport as also shipping facilities between India and China. The first is a real one brought about as the result of war and the shortage of river boats and rolling stock on the railways. Fair supplies of goods are, however, available in the main sea port towns, and there are welcome signs that in the near future improvement in road, railway and river communications will enable larger quantities of goods to be brought into the main sea ports. The main ocean-going steamer companies in Shanghai seemed alive to these problems, particularly the Chinese concerns, and it is expected, with the release of a large number of Liberty and other ships, that this bottleneck will soon be a thing of the past.

68. A point which was brought to our notice over and over again in China was the difficulty with regard to the granting of visas both in India and China to merchants desirous of visiting either country. We were particularly assured that in principle the Chinese Government had not the least desire to refuse entry permits to India businessmen but that in view of the incredible delays that had occurred in India in the grant of visas to Chinese nationals desirous of visiting India, they were being forced to take retaliatory steps. We do not know what degree of credence to attach to this complaint, but it is important that no stone should be left unturned to see that all facilities are afforded to Chinese merchants intending to visit India.

69. Much criticism was also levelled regarding postal and telegraphic delays, and officials of the Chinese Government, with whom we discussed this matter fully, saw the need for removing these obstacles. In doing so, they stated that India was also largely responsible for the confusion, and they hoped that we would do what we could at our end to obviate such difficulty. It was within our knowledge that samples intended for China had taken months to reach and that some samples had not even now reached even though they had been despatched some months ago. We hope that immediate steps will be taken by the Chinese Government as also by the Government of India whereby such inordinate delays will be avoided in the future.

70. We have dealt with the immediate difficulties that confront Indian merchants in the matter of resuming trade with China, but the question of the resumption and development of our trade with that country must also be considered against the broad background of the following further factors, namely :

- (1) The progress of industrialization in India and her capacity to spare surplus goods for export to China and her capacity to absorb goods from China ;
- (2) The possible lines of development of China's economy in the future >

- (3) The extent to which Germany and Japan have been eliminated from Chinese markets and the capacity of India to fill this gap ; and  
 (4) The extent of the competition which India will have to face in Chinese markets in the future.

71. It is no truism to say that trade radiates from industrial regions, and India's position in the past as a supplier of raw materials has perforce limited the quantum of the goods she could exchange with other raw materials producing countries in the East. This position is not likely to be changed in the immediate future unless her policy of industrialization\*soon bears fruit and she is in a position to produce and supply those consumer and other goods which are so greatly needed by her Asiatic and other neighbours. Delay in the supply of consumer goods making plant and the great potential demand in the country itself will, however, operate to some extent as a bar to any large export of manufactured or semi-manufactured articles, though at some date in the future she may be in a position to meet the demand from Far Eastern markets in the range of low-priced goods in which Japan held the field. Also during the war India has added greatly to the number and productive capacity of her industries, and although the output of many of these industries still falls short of domestic requirements, it is possible that when imports of superior varieties are resumed, India will be in a position to export several classes of consumer goods, such as glass, paper, provisions, buttons, apparel, hosiery, boots and shoes, other leather manufactures, etc. Even so, for some time to come, manufactured goods in the aggregate can form only a small proportion of the total export trade, and India will have to rely mainly on the export of raw materials.

72. Previous to the war the India-China trade was not of great consequence, exports and imports amounting to about 2 crores of rupees each. The total value of exports to China amounted to Rs. 2-2 crores in 1934-35, Rs. 1-88 crores in 1935-36, Rs. 1-25 crores in 1936-37, Rs. 1-98 crores in 1937-38 and Rs. 2-47 crores in 1938-39. Of the 2-47 crores exports in 1938-39 raw cotton exports amounted to 34,400 tons worth about Rs. 1-47 crores. About 4 million lbs. of manufactured tobacco were also exported, the other important articles being raw jute, jute manufactures, cotton yarn, piecegoods, coal, coir manufactures, myrobalams, hides and skins, pig iron, sandalwood oil, etc. Indirectly also, China was being supplied by Japan with large quantities of Indian cotton in order that the Japanese controlled cotton mills in China might be kept going. The total value of imports from China during the same period amounted to Rs. 2-06 crores in 1934-35, Rs. 1-05 crores in 1935-36, Rs. 1-39 crores in 1936-37 and Rs. 1-75 crores in 1937-38, the more important items of import being cotton yarn raw silk and silk manufactures which, between themselves, constituted more than 75 per cent of the total value. In 1938-39, out of the total value of Rs. 1-75 crores of imports, the value of these three commodities amounted to 66 lakhs, 32 lakhs and 30 lakhs respectively, or 128 lakhs in all; i.e., about 75 per cent of the total imports. (For details please see Annexure D.)

73. The percentage share of India, however, in China's foreign trade was small, India being sixth in the list, as the following figures will show :

	Value in Million (net Ira-	Per cent, to the total value of trade (Imports net)
*. "	185	iy-tJb
2. Japan	.153	... 9
3. Germany	.150	13.94
4. Great Britain	no	H-72
5. Netherlands East Indies	7.4	7'90
6: British India (including Burma)	2.5	2-63
Total all countries (1936).	942	100

The position with regard to India's share in the total value of export trade of China was more or less the same, *viz.*, 2-65 per cent, and she stood seventh in the list, the shares of the major participants being as follows :—

	Value in million \$ (Net exports)	Per cent to the total value of trade
1. U. S. A. .	186	26.4
2. Hong Kong	106	15.2
3. Japan	102	14.45
4. Great Britain	65	9.19
5. Germany	39	5.55
6. France	30	4.31
7. British India (including Burma)	19	2.85
<b>Total all countries (1936)</b>	<b>708</b>	<b>100</b>

From Indian official records also it is seen that in 1938-39 China occupied the tenth place in the import trade and the sixth place in the export trade with India, the respective percentage being 1.6 per cent, and 2.4 per cent. The war, however, altered the situation, India's exports to China reaching the maximum value of Rs. 8-90 crores in 1940-41. After Pearl Harbour, however, it came down in 1941-42 to Rs. 2-15 crores. Three-fourths of the exports in 1940-41 consisted of raw cotton and manufactured tobacco, the rest comprising jute and jute manufactures. The value of imports from China, however, during the same period did not show any spectacular increase and amounted only Rs. 2-63 crores in 1939-40, Rs. 2-85 crores in 1940-41 and Rs. 2-82 crores in 1941-42, the chief articles of imports being electric bulbs, vegetable oils, metals, cassia, green tea, cotton yarn, cotton piecegoods, raw silk, silk yarn and silk piecegoods. The entire situation, however, radically changed for the worse after the entry of the United States of America into the war; and with the cutting off of large areas of China by the Japanese, both imports and exports suffered severe setbacks, their value amounting on the average to only a few lakhs after 1941-42. There has been a slight recovery after the end of the war, but the value of imports, far from showing signs of improvement, has shrunk still further, to a lakh of rupees at the outside. This, as has already been explained, is due to a variety of reasons such as lack of exchange and lack of transport and other facilities arising from strikes, shortage of foodstuffs, etc. While the position set forth above represents the position with regard to the Indo-Chinese trade during the war period, it is apparent that, with the restoration of peace-time conditions, both the export and import trade with China can be resumed on pre-war lines and, in fact, that the export trade can be further augmented so as to include the products of various Indian industries which have been developed during the war. India, for her part, is still in need of green tea, cotton yarn, raw silk and silk piecegoods, and at the same time is also in a position to send to China raw cotton, raw jute, jute manufactures, tobacco, raw wool (in respect of which there were enquiries), etc., though it is obvious that the value of this trade will be much higher than the figures reached in the pre-war years. For one thing, prices are still on the high side at present, and for another, as soon as normal economic conditions are restored in the near future, it is likely that for some time to come we shall have to hand greater exportable surpluses of the articles which we used to despatch to China in the past—at

least until such time as our own industrialization programme is in full swing and we are in a position to utilise our raw materials ourselves and release finished goods instead. Even, however, if prices in China are stabilized at a lower level, India's ability to produce coarser and cheaper goods may place her at an advantage over her other competitors like U. K. and T. S. A., and until such time as her large-scale industries are developed, the products of the various cottage industries in India are likely to meet with a ready market in China and other Eastern countries (just as those of the Japanese cottage industries did in the pre-war period) provided, of course, no time is lost in rationalising these industries with a view to controlling their costs and improving their marketing organization.

74. China aimed at self-sufficiency before the war with regard to her cotton production, and she is more than likely, as soon as she is in a position to do so, to revert to her original programme, but some time is bound to elapse before she can reach her objective. In the meantime, in view of the growing pressure of the population on the land, she must turn to other sources for her full requirements of cotton. Nor will her industrial progress like that of India be achieved so immediately as to change her economic structure. She will, for quite some years to come, still require our cotton and tobacco and such other goods as we used to send to her in the past, and perhaps in larger quantities than ever before, of metals like steel, pig-iron as also consumer goods for rehabilitating her economy and enabling her peoples to recover from the effects of a total warfare extending to well nigh a decade. This transition period will not also affect India's imports from China, as silk, silk piece-goods and green tea will still be required, probably in larger quantities than before. Japan and Germany are also out of the picture for the time being—a question which is examined in greater detail below—and it is possible that as the result, Indian goods may be able to fill the void so created.

75. From the point of view of the necessity for improving the standard of living of the masses in India also and with a view to maintaining the productive capacity reached during the war years, India should be, whatever the ultimate economic policy of the country may be, in a position to absorb in the transition period as many commodities as are necessary to her economy, *e.g.*, silk, tung oil, green beans, soya beans, bristles and various metals of a non-ferrous character which China can spare.

#### SILK

76. Silk was the most noted of exports from China, from the very earliest days and silk fabrics from China were highly praised by ladies of the Roman Empire, a very large and prosperous trade having existed between the Mediterranean countries and China even in the early years of the present century. Chinese historical records state that silk worms were reared as long ago as 2250 B. C. and that the production of silk was kept a zealously guarded secret until a Chinese princess who married a ruler of Kotan succeeded at the risk of her life in carrying away some seeds of the mulberry tree and eggs of the silkworm. Silkworms are of two kinds: those that feed on the mulberry and the wild type. The moth usually lays about 400 eggs, and when the worm matures, it spins a cocoon, the fibre of which varies in length from 400 to 1,300 yards. The best silk is obtained from the whole cocoons after killing the worms by steaming. The silk thread is reeled off the cocoon, 18 picula of which are required to produce about 1 picul of raw silk (1 picul is equal to 133 1/3 lbs.) The best quality of raw silk comes from Kwangsu and Chekiang, the latter being the largest producer of a quality known as Tussa. Raw yellow silk comes mainly from Szechwan while Tussa comes chiefly from Manchuria and Shantung,



and is obtained *from worms* which subsist on oak leaves. As the result of hostilities, the best silk producing areas were conquered by the Japanese with the result that the export of silk in the first three years of the war was reduced to a considerable extent from a total figure of 100,479 quintals in 1935 and 80,533 in 1932 to about half a lakh of quintals in 1940-41. In 1942 China was able to export only a thousand quintals of silk, and this quantity decreased to 600 quintals only in 1943 due to inferiority of the product and difficulty in transportation. Attempts, however, have been and are being made for increasing production by the adoption of seed free from disease, education of farmers, better rearing of silk worms and reeling of filatures. It is unlikely, however, that the mulberry acreage will reach anywhere near its pre-war total of about 2 lakh acres within the near future, as during the Japanese occupation a very large number of trees were cut down for fuel. Production may therefore be taken at less than half of the pre-war amount, and it is likely that a period of five years may elapse before full production can be achieved. With the elimination of Japan from the world markets, however, China may be able to capture some part of her trade if she is in a position to increase the silk output to an appreciable extent. There are, therefore, substantial prospects of India securing an appreciable share of this commodity, though large quantities cannot be expected at the outset. The Chinese Government have plans for increasing silk production, and it is not unlikely that side by side with rehabilitation, their plans for increasing production with a view to capturing the Japanese silk market will make good progress, in which event supplies of silk from China for outside markets will be available in increasing quantities according as their schemes progress.

\*

77. The silk usually taken by India in the past was in the shape of raw silk, re-reeled in two varieties, yellow and white, as also piecegoods. India used to take the coarser kind of raw silk suitable for handloom weaving, and this silk is, we understand, much stronger than Mysore silk, though the latter has more shininess. The price of raw silk at the time of our arrival was 1,300,000 C. N. dollar (about Rs. 2,600—2,275) for a picul of 133i lbs., the re-reeled price 1½ million C. N. C. (about Rs. 3,000) and filatures about C. N. C. dollars 2,300,000 (about Rs. 4,600). The prices are ex-godown Shanghai. The f.o.b. expenses are likely to be C. N. C. dollars 10,000 (Rs. 20) per picul. There is no export duty in China on silk, but the prices are still about two to three times higher than pre-war prices. The silk season commences in May and ends in October, and shipments in 1940-41 to India used to be about 800 bales monthly during the season and about 400 bales in the off season.

vs. The biggest silk concern in China to-day is the China Silk Company which is administered by the Government. It controls a large part of the industry which the Chinese Government are encouraging since hundreds of people make a living by it. Canton is the silk market for South China, and goods from that market are exported to Hong Kong. Prices here have risen roughly four to five times in comparison with pre-war prices. The U. S. A. is at present a large consumer, but supplies are available, though not in large quantities, for India also, and the position should improve when transport becomes easier and currency becomes more stable. The Chinese merchants complained of the heavy import duty in India on Chinese silk and piecegoods. It is true that the protective duties are high, but it is our opinion that India can still be a market for these goods, having regard to the very large amount of money floating in the country and the acute shortage of these goods. We do not think that the interests of the Indian sericulture industry are likely to suffer as the result of imports of silk from China, considering the price at which such imports are likely to be made in the ensuing years.

79. That the Chinese Government intend to go ahead with their plans for rehabilitating and improving the silk industry seems evident from the fact that agricultural loans amounting to 34 million dollars were proposed to be given to needy farmers in Shanghai, Sinkiang and Nanking and that the Bank had set aside a loan of 300 million dollars for encouraging the silk output and that representatives had been despatched to various cities for facilitating loan applications. During our stay in Shanghai we were also informed that about 24,000 pounds of silk worm eggs had been received by air from Japan as also 800,000 mulberry seedlings.

#### TUNG OIL

80. Tung oil is produced in the provinces of Shanghai, ICwaug<sup>i</sup>, Honan, North Hopei, Anhwei and Chekiang, the main exporting centre being Hangkow. The tree grows on waste lands, hillside tracts and other areas where crops are not cultivated. No estimate is possible of the extent of Chinese production; but it is estimated that the average exports from China during 1933-37 were about 177 million pounds; and since domestic consumption is large, it is possible that exports may not represent more than half the total production. The oils extracted from the trees are put to a variety of uses such as for the manufacture of varnish, paint, oilcloth, linoleum and printing ink. The production now is much smaller than in pre-war years, as a large number of trees have been cut down and used as fuel during the Japanese occupation. The estimated export of this oil before the war was roughly 80,000 tons, of which 05 per cent went to the U. S. A. and 35 per cent to other countries. The present estimated capacity may be put down at 30 to 35,000 tons\* annually. The pre-war price was £ 80 to £ 100 per ton while it is now £ 250 par long ton including the weight of drums f.o.b. Shanghai. (One drum contains about 400 lbs. of oil and weighs gross 460 lbs.) Tung oil, it may be added, is allowed to be exported by the Chinese Government only if the minimum specifications are complied with. It is interesting to note in this connection that tung oil was used during the war as the main industrial fuel, and oil cracking plants were set up to extract gasoline, lamp oil and diesel oil for local consumption. Programmes have been drawn up for increasing the number of tung trees and it is understood that tung oil also figures prominently on the reconstruction programme of the Chinese Government.

#### GREEN BEANS

81. A fair percentage of our imports from China in pre-war years was green beans (Moong). These beans come from the outlying districts of Shanghai and can be classified as the Kompo, Wusih, Bamboo and Nanking qualities, depending on the colour, size and uniformity of the beans. The best and most reliable of these types is the Nanking variety, though there are two more types, viz. the Tientsin and the Manchurian qualities. The Tientsin quality is very superior and is to be found in the outlying districts of that port. The supply position is not clear, but we gathered that exports of these beans have not been possible owing to lack of shipping facilities and transport difficulties. In the current market quotations, the price for 50 kilos would work out to about Rs. 40 (per 110 lbs.).

#### SOYA BEANS

82. India did not go in a great deal for this commodity before the war, though in view of its nutritional value and dietetic importance this bean has gained in recent years, it may be worth considering whether substantial quantities may not be imported from China which used to produce on an average about 40 million piculs a year (about 2 million tons). The stock position today, however, is not very encouraging, though we were told that small stock,

were available in the local market for export. North China has always been famous for the production of this bean, and over a thousand tons were being shipped to Japan and Germany in pre-war years. The price of superior beans is about Rs. 42 to 50 for 50 kilos, medium qualities being about 5 to 10 rupees cheaper. In view of its nutritional importance, it is not unlikely that soya bean cultivation may find as high priority as growth of foodgrains in the national reconstruction programme, in which event ample supplies should be forthcoming at no distant date for export also, particularly as the demand from Japan and Germany will now stand to be considerably diminished.

#### GREEN TEA

83. The annual consumption of tea in India is about 150 million lbs. including about 2 million lbs. of green tea from China. As the tea drinking habit may be expected to increase in the future, India may be expected to consume a larger quantity, say about a million lbs. more.

#### BRISTLES

84. The Indian brush making industry has also made rapid strides, but requires consolidation. It consumed in 1943 about 160 tons of bristles and it is possible that it may require a further 100 tons which China can easily spare out of her annual production of 24,000 tons of this commodity. Most of the bristles are exported to T.J. S. A. which continues to be the principal purchaser of this commodity.

#### NON-FERROUS METALS

85. India will also require non-ferrous metals like antimony for her industries, and China can easily meet India's demand of this metal from out of her annual production of 17,000 tons (figure relates to 1936), most of which are exported. China also produced Tungsten, and it is likely that production will be considerably stepped up in coming years. India can obtain her requirements of this metal from China as also some quantities of silver and mercury.

86. We have considered in this connection the possible effect on our trade of the elimination of Japanese and German competitors from the Chinese markets, though we do so with some diffidence in view of numerous factors which have an important bearing on this problem, all of which cannot be correctly evaluated, and the future which is even more uncertain. Before the war, China imported from Germany goods to the value of Rs 2 40 crores which could be supplied by India, the most important item being steel manufactures which alone amounted to 100 lakh\*. The other articles of import were bicycles, soaps, leather and leather goods, chinaware, glassware, buttons, lampware, office requisites, toilet requisites, etc. It will not be possible to replace the entire value and variety of the goods imported from Germany, as in the first place there are other competitors and in the second place, India may not be in a position to produce quality goods in various lines comparable to those produced by Germany. However, India has during the war succeeded in building up production in most of these articles, and it is more than possible that she may, if her products are satisfactory and reasonably priced, be able to capture a portion of the Chinese market which cannot afford to pay a high price for such articles.

87. Our chances of capturing the market held by Japan seem to be brighter, as Indian goods are more comparable in quality to the Japanese than to the highly finished products of Western countries; e.g., India could, to some extent, replace the supply of cotton piecegoods which Japan used to send to Chinese markets. Japan also used to send about a crore of rupees worth of goods of the following kinds, viz: cotton piecegoods, iron and steel manufacture &

miscellaneous metal manufactures, groceries, sugar, spirit, leaf tobacco, dyes and varnishes, soaps and resins, paper, leather and leather manufactured goods, wood manufactures, chinaware, glassware, stoneware, earthenware and miscellaneous articles consisting of building materials, buttons, old rubber goods, jewellery, matches, etc., all of which India can, we feel, supply, though not immediately to any appreciable extent, but gradually, though not perhaps at the price Japan was able to quote in pre-war years.

88. There is no doubt that competition from other countries will be severe, particularly from the U. S. A. from which a large volume of goods is flowing into the country in the shape of U. S. R. A. relief as also against credits afforded by the Americans and against direct orders placed by merchants in the country. We have already commented on the fact that the fixation of an exchange link between the American dollar and the Chinese dollar and the provision of dollar credits by the U. S. A. facilitate transactions between these two countries and indeed, encourage such transactions; and it is not unlikely, therefore, that American goods will come in increasingly large quantities into the country. But the price factor is an important one, and there is no reason for holding that Indian goods cannot compete with goods of Western origin if they are of a reasonably good quality and are offered at a price which will appeal to the Chinese public; for there must always be a strata of society in China as elsewhere who cannot afford to pay the price for the more finished products of European origin and who must be catered to at a cost which is well within their limited means. There is also the point that China has been starved of consumer goods for nearly a decade and that for some time to come, at any rate, her capacity for absorption of this class of goods will be so great as to allow of all countries participating in the trade. And it would not be out of place also to mention that in certain ranges of consumer goods, Indian prices are still favourable enough to warrant their withstanding competition from similar type of goods from other sources.

89. Our conclusion, therefore, is that given assistance by Government in the direction of credits to China of the kind proposed in the earlier part of our report, trade with China can be resumed provided shipping and other facilities are also made available. We also suggest that it is necessary with a view to the development of trade between the two countries, that all restrictions on the free movement of goods between them should be relaxed as far as possible, particularly in the case of exports of cotton, tobacco and jute. Similarly, import licensing should also be removed in the case of goods to be imported into this country from China, particularly as the balance of trade with that country is likely to be in our favour, and the arrangements we envisage require liquidation of these balances at as early a date as possible. We suggest further in this connection that should experience reveal that traders in India are unwilling to enter into transactions with China because of the specially heavy risks involved in such business during the transitional period, Government should explore the possibility of guaranteeing the risk by means of an insurance arrangement on the lines of the Export Credit Guarantee Insurance Scheme operating in the U. K. We are confident that if steps are taken on these lines to resuscitate and encourage trade, our commercial relations with China can be restored not only to its pre-war basis, but increased and bettered as the result of the elimination of German and Japanese competitors in these markets provided time is taken by the Government and definite plans made and carried through to fruition for catering to these markets. India must have regard also to her long-term relations with China and her eventual need for a large export trade especially in manufactured articles. It is true that India herself is faced with shortages in various categories of consumer goods, but it would be in her long term interests to allow at least

some proportion of her domestic output of consumer goods to be exported to China (as well as other South East Asia countries) with a view to reviving and establishing contacts and enabling her trade to secure a fair share in the opportunities which the disappearance of Germany and Japan from these markets has created and which would otherwise go exclusively to other suppliers, particularly the U. S. A. Also there are a great many common interests which might draw the two countries, India and China, together in course of time, and we shall be ignoring these clear trends of history and prejudicing the future chances of promoting cultural and political relations between the two countries if we fail to take timely steps to revive and resuscitate the trade between them, the point we would wish forcibly to emphasize being that decisions in regard to our future trade with China should not be taken solely on the basis of narrow supply considerations but should also take account of India's vital interest in promoting friendly relations with all South East Asia countries, particularly China.

90. And with a view to assisting in the attainment of this most desirable objective, we suggest that an Indian Trade Commissioner should be appointed at Shanghai to represent India's commercial interests in China and for the furtherance of our trade with that country. The creation of a post of Assistant Trade Commissioner at Hong Kong under the control and superintendence of the Trade Commissioner at Shanghai would, we feel, also be a welcome step in the direction of fostering India's trade in this area which has great possibilities. An Indian Attache has recently been posted to Shanghai as part of India's political representation in China and this could advantageously be followed up by the appointment of well-qualified officers to represent India on the commercial side also. We trust that in the selection of these officers Government will arrange to see that persons fully acquainted with the conditions and requirements of the export and import trade are selected so that they can bring to the notice of Chinese and other traders the lines along which India is most anxious to develop her trade. The value of such officers, particularly at this stage when the war is over and both China and India are on the threshold of a new industrial and commercial era, cannot be over-estimated, leading as it will to the mutual benefit and advantage of both countries.

## CHAPTER VII

### MISCELLANEOUS

91. The present Customs Import Tariff was promulgated in 1934, but changes in duty rates have repeatedly been made. Beginning with July 1939, certain commodities of a luxury or semi-luxury nature were prohibited from importation, while other articles considered as essential were allowed to pay duty at one-third of their original rates. From April 1942 the import duty leviable on essential goods paying duty at specific rates was further reduced to one-sixth of the tariff rates, and from the beginning of 1943 all specific rates were converted into *ad valorem* rates and thereafter import duty on all essential goods was charged at one-third of the prescribed rates on *ad valorem* basis. In January 1944 certain articles which were previously considered as essential goods and accorded duty treatment at the reduced rates were, owing to changed conditions, found to have become non-essential and the reduced rates for such articles were restored to full tariff rates. Following the surrender of Japan, the embargo on the importation of luxury and semi-luxury goods was lifted and from the 15th September 1945 those articles still paying duty at one-third rates were required to pay full tariff rates. With the exception of several articles specified by the Government to be accorded duty free treatment, all foreign imports were then subjected to full import duty at their respective original rates on an *ad valorem* basis.

92. From 1st March 1946 imports have been re-classified into three categories:—

- (a) Unrestricted imports ;
- (b) Licensed imports ; and
- (c) Prohibited imports.

The Customs Gold Unit has been fixed by the Government as equivalent to C. N. \$20 since 1st April 1942.

The prevailing tariff rate\* of the Chinese Maritime Customs are as follows .

<i>Import Tariff Main Section</i>	Duty rates vary from (ad valorem)
	Per cent.
1. Cotton and manufactures thereof (for further details see Annexure E).	0—5°
2. Flax, Ramie, Hemp, Out <sup>©</sup> and manufactures thereof (including those mixed with cotton)	7£—50
3. AVool and manufactures thereof (including those mixed with any other fibres except silk)	5—70
4. Silk and manufactures thereof (including those mixed with any other fibres).	15—80
5. Metals and manufacture.-; thereof (including ores, machinery and vehicles)	—40
6. Food, drink and vegetable medicines	10—80
7. Tobacco (for further details see Annexure E)	10—50
8. Chemicals and Dyes.	5—70
9. Candles, soap, oils, fats, waxes, gums and resins	10—30
10. Books, maps, paper and wood pulp	5—30
11. Animal substances, raw and prepared, and manufactures thereof	7£—10
12. Timber, wood, bamboos, rattans, straw and manufactures thereof	—35
13. Coal, fuel, pitch and tar.	10—20
14. Chinaware, enamelwaie, glass, etc.	20—50
15. Stone, earth and manufactures thereof	a—40
16. Miscellaneous.	10—40

93. **Export Tariff.**—The present Customs Export Tariff was promulgated in 1934. A free list consisting of 34 items of sea products, vegetable dyes, fresh and dried fruits, etc., was issued in June 1939. All specific duty rates, however, have now been revised to 5 per cent, *ad valorem* from the 16th June 1945. Specific duty rates were levied on most animal and animal products, hides, leather and skins (furs), beans and peas, brass, oil seed cakes and gallnuts, preserved fruits, medicinal substances and spices, oils, tallow and wax, oil-seeds and other seeds, spirituous beverages, tobacco, vegetables, paper, fuel, rattan, timber and wood manufactures, textile fibres (except raw silk) of all kinds, other textile products such as blankets and carpets made of wool, gunny bags, ores, metals and metallic products, bricks, tiles and cement, chemicals and chemical compounds, curios and antiques, gypsum joss-stocks, matches.

94. No export duties are levied on the following articles, *viz* ; fishery and sea products, cereal and cereal products, vegetable dyestuffs, sugar and tea, spirits and beverages of Chinese origin, fodder, vermicelli, macaroni, India

rubber, bamboo manufactures, rattan manufactures, wood manufactures\* **paper**, raw silk, cordage, cotton socks and stockings, cotton yarn and other thread plaited and knitted goods, cotton piecegoods, silk piecegoods, silk ponjees, clothing and articles of personal wear (including boots and shoes) containing natural silk and silk mixtures, brassware, brass manufactures thereof, gold corns, gold bullion, iron and steel manufactures as *e.g.*, bars, rods and wires, tinware, other metal manufactures, glass and glassware, chinaware, potware, earthenware, cloisonne, Chinese ink, toilet soaps, books and pamphlets, maps and periodicals, sundry manufactures like straw hats, containers and packing requisites, fans, fire crackers, ivory ware, umbrellas, parasols. lacquered ware and mats.

95. *Inler-Port Tariff*.—The inter-port tariff rates were revised and enforced in October 1937, but tin's tariff was abolished on the 15th April 1942.

9(i). *War-Time Consumption Tax Tariff*.—The War-time Consumption Tax Tariffs (a) for native goods, and (6) for foreign goods were promulgated in April 1942 with revisions from time to time. Unless otherwise provided for in the regulations, all native goods moved in the country were subject to the levy. Among foreign imports, only certain categories of articles which were considered as luxuries or non-essentials were liable to payment of the tax in addition to Customs import duty. However, the tax was totally abolished in January 1945.

97. *Storage and Receiving Tariff*.—Details of storage and receiving tariffs charged by warehouses in Shanghai, etc., are given in Annexure F to this report.

98. *Direct Taxes in China*.—Before the war Customs duties, the salt tax and the consolidated taxes formed the major portion of China's revenues from taxation. At present the direct taxes levied are of six kinds: Income-tax, Excess Profit Tax, Income-tax pertaining to the sale and lease of property, Estate Tax, Business Tax and the Stamp Tax. A detailed table showing the rate of taxation and the formulae of computation compiled by the Shanghai Direct Tax Bureau has been added to the report at Annexure E.

99. *Registration of Foreign Firms*.—In accordance with the Chinese Law, all foreign companies doing business in China are required to register themselves, the last date for registration of companies being notified as the end of June 1946.

100. *Company Law*.—With the signing of the new treaties on January 11 1943, by the United States and Great Britain, all the special rights and privileges of foreigners in China were abolished and with it all extra-territorial rights\* the right of foreign Powers to maintain troops on Chinese soil and of foreign gunboats to patrol Chinese waters. It spelt also the end of the International Settlements in Shanghai and elsewhere. The abandonment of extra-territoriality involves the subjection to Chinese laws of all foreign concerns, and, though fears were entertained that this power might be utilised for the purpose of placing further restrictions on the investment of foreign capital, it is unlikely, in view of the Chinese need for foreign capital, for carrying out their plans of post-war development, that they will take any measures calculated to prevent the free flow of such capital into China. The Chinese Company Law which has been under revision for some **timers** still on the anvil and has not been passed by the Legislative Yuan, but it is understood that provision will be made for controlling investment of foreign capital, though in a manner which will allow of protection being accorded to such investment and the grant of equal treatment to all foreign investors who undertake to do business in conformity with Chinese Law. As a first step towards encouraging the flow of foreign capital to China, the Chinese Government have, we understood

repealed the provision in their Company Law which required that 51 per cent, of the capital should be Chinese and that a Chinese general manager should be appointed in any concern jointly operated by Chinese and foreign capital. The controversy regarding the inclusion in the draft Company Laws of a clause that a foreign company doing business in China should also do business in its home country was also settled about the time of our departure by the decision of the Supreme Council of National Defence that a revision which would have the effect of discriminating against China Trade Companies should not be made. By the terms of the China Trade Act as passed by the U. S. Congress, companies coming within the scope of the Act were forbidden to engage in business in the home country. The Act was passed specifically to allow American companies to be free for operation within China only, the object being presumably to encourage American trade with China through the exemption of the companies concerned from the tax provisions of their own country. The alternative, if the revision had gone through on the lines originally contemplated, would have meant either that these companies would have had to withdraw from their operations in China or their being forced to seek conversion into Chinese companies with a Chinese citizen as the Chairman of the Board of Directors which would undoubtedly have had the effect of discouraging investment of American capital in China, particularly as this restriction did not apply to the same extent to other foreign companies operating in China.

101. *Banking in China.*— The main Government banks in China are the Central Bank of China, the Bank of China, the Bank of Communications, the Farmers' Bank of China, the Central Trust of China and the Postal Remittance and Savings Bank. New banking regulations were issued about the time of our visit with a view to securing better control and management of these banks.

The following banks have been appointed to act as\* Agents for granting, foreign exchange :

Bank of Canton, Ltd.  
 Bank of China  
 Bank of Communications  
 Bank of East Asia, Ltd.  
 Banque Beige pour l'Etranger (Extreme Orient)  
 Central Trust of China  
 Chartered Bank of India, Australia & China, Ltd.  
 Chase Bank  
 Chekiang Industrial Bank, Ltd.  
 China Banking Corporation  
 China and South Sea Bank  
 Farmers' Bank of China  
 Hong Kong & Shanghai Banking Corporation  
 Kincheng Banking Corporation  
 Manufacturers' Bank of China  
 Mercantile Bank of India, Ltd.  
 Moscow Narodny Bank, Ltd.  
 National Commercial Bank, Ltd.  
 Nederlansche Handel Maa tschappij  
 Nederlandsche Indische Handelsbank



Overseas Chinese Banking Corporation, Ltd.  
 Postal Remittances & Savings Bank  
 E. D. Sassoon Banking Co., Ltd.  
 Shanghai Commercial & Savings Bank, Ltd.  
 Underwriters Bank for the Far East Inc., and  
 Young Brothers' Banking Corporation.

It is possible that more banks will be added from time to time to the list for the purpose of handling exchange. Much interest, we should like to add, was evinced by Chinese and Indian merchants in Shanghai and elsewhere in the opening of branches of Indian banks in China, and we were assured that every facility would be given in the opening of such connections in the country. It seems unnecessary for us to comment at length on the undoubted advantages the extension of Indian banking interests to China would confer on Indian traders or the encouragement that it is bound to give to the free movement of goods between the two countries.

102. *Air Lines*.—The Chinese National Airways Corporation was the pioneer in the field of commercial aviation in China and came into being in 1929. It is a joint Sino-American enterprise, in which the Chinese Government and the United States Government share in the proportion of 55 : 45 per cent. It has regular services between Hong Kong and Shanghai, Hong Kong and Chungking, Chungking and Shanghai, Chungking and Caloutta, Hong Kong to Changsha and Chungking to Hanoi. Chungking is also the centre of operations of this company as also for another air transport organization, namely the Central Air Transport Corporation which started functioning from March 1943. This Corporation has arrangements for passenger and freight services from Chungking to Kunming, Lungchow, Liaugchow, Sucho and Hami. It appears to us very desirable that India should also have her own Air Service to China to be organised in co-operation with the Chinese Government, and we suggest that steps be taken as soon as possible towards the achievement of this end.

103. *Shipping*.—The following were among the regular foreign cargo and passenger shipping lines in China before the war :

American Pioneer Line  
 Barber-Wilhelmsen Line  
 " Ben " Line  
 Blue Funnel Line  
 British India S. N. Co.  
 Canadian Govt. Merchant Marine  
 Canadian Pacific Steamships, Ltd.  
 China Import and Export Lumber Co., Ltd. -  
 China Mutual S. N. Co. Ltd. (Blue Funnel Line)  
 China Navigation Co., Ltd.  
 Dairen Kishen Kaisha  
 Dodwell Line (James Chambers & Co.)  
 Dollar Steamship Line  
 East Asiatic Company of Copenhagen  
 Eastern and Australasian S. S. Co.-  
 <Slen and Shire Lines

Hamburg-America Linie  
 Holland Ost Azie Lijn  
 Hong Kong, Canton and Macao S. S. Co.  
 Indo-CMna S. N. Co.  
 Isthmian S. S. Lines  
 Jardine, Matheson  
 Java-China-Japan Lijn  
 Kailan Mining Administration  
 Lloyd Triestino  
 Maersk Line  
 Messageries Maritiines  
 Mitsui Busan Kaisha  
 MoUer & Co.  
 Nippon Yu;-en Kaisha  
 Nisshin Ki-\*\*\*n Kaisha  
 NorddeutscUer Lloyd  
 Ocean Steamship Co.  
 Oceanic and Oriental, S. S. Co.  
 Osaka Shosen Kaisha  
 P & O S. N. Co.  
 Pacific Steam Navigation Co.  
 Rickmers Linie  
 Roosevelt S. S. Co.  
 Shire Line  
 Showa Shipping Co.  
 South Manchuria Railway Co.  
 Soviet Mercantile Fleet •  
 Standard Oil Co.  
 States S. S. Co.  
 Swedish East Asiatic Co. Ltd.  
 Tacoma Oriental S. S. Co.  
 Willi. Wilhelmsen (Norwegian Africa & Australian Line)  
 The Chinese shipping companies in tho field were the following :—  
 China Merchants S. N. Co.  
 San Pai S. N. Co.  
 Hoong On S. N. Co.  
 Ning Shi S. N. Co.  
 Ningpo Shaosbing S. N. Co.  
 Ching Kee S. N. Co., "and various other smaller companies.

Many of these companies are not now operating owing to the heavy losa in shipping—the Japanese Companies are in any case not functioning—though some of the steamship companies have returned to Shanghai with the object of starting their business as soon as possible. We understood from talks that we had with Messrs. Jardine Mathesons and Butterfield and Swire who had^au

appreciable share of the coastal, ocean and river shipping business in China, that a substantial part of their tonnage which had been lost during the war was gradually being replaced by new building or by procurement of enemy ships. Before the war, the Japanese lines used to have a prominent share in the shipping trade between India and China. This route is, however, now being run by the Conference Lines in which there are no Japanese interests. The Chinese Government, who own the China Merchants Steam Navigation Company, are also alive to the necessity for increasing their sea-going shipping and are purchasing more Liberty and other ships from America and Canada for their own use. It is needless for us to emphasize the need for efficient and quick transport for maintaining and developing the internal as also the international trade of a country, as an efficient system of modern transport and communication is the life-line of trade and commerce. We feel, therefore, that an agreement should be reached by which a reasonable share of the Indo-Chinese carrying trade is secured to Indian steamship companies, particularly a substantial part of the trade which before the war was being carried in Japanese bottoms. Also there is a very noticeable lack of regular shipping between India and China, and it is most essential that a service should be started without delay if Indian exporters are to be in a position to promise shipments to Chinese buyers by definite dates on which the latter insist, in view of the uncertain nature of the exchange position. As against this, the Americans are in a very, happy position, as they have regular traffic, both freight and passenger, between America and China. We recommend, therefore, that Government should interest themselves in this matter with a view to securing for the country as large a share of the Indo-Chinese carrying trade as possible.

104. *Insurance.*—Our trade enquiries generally revealed that there were bright prospects for Indian Insurance Companies in China, particularly in the re-insurance field, and we were assured by some Chinese Insurance Companies—of whom there are quite a number of important *concerns*—that they would welcome such co-operation at this early stage of their existence. British and American interests, we would add, are well represented in the spheres of Banking, Insurance and Shipping, and we cannot do better in closing this chapter than in emphasizing as necessary for development of our trade the adequate representation abroad of Indian interests also in these fields.

## CHAPTER VIII

### CONCLUSIONS AND RECOMMENDATIONS

105. Having regard to the sufferings endured by the Chinese during the last eight years, it is necessary that India should go to her assistance in the rebuilding of her shattered economy, particularly in view of the ancient historical and cultural relations that exist between the two countries and the future role which they are destined to play in Asia. (Para. 8.)

106. The most satisfactory way of achieving this end would be by supplying to China as much of India's surpluses of raw materials and manufactured and semi-manufactured goods as she can spare and of which China is greatly in need for the rehabilitation of her industries and her economy. (Para. 89.)

107. The textile industry in China has suffered grievously during the war and about only four million spindles are now in existence, half of which are expected to be in full operation by the end of the year and the whole four million in a year's time. The mills have ambitions of capturing Japanese textile markets in the Far East and elsewhere and have plans for doubling their spinning and loom capacity within the next three years. (Paras. 25, 28).

108. Though the Chinese have plans for self-sufficiency with regard to raw cotton and had, as a matter of fact, in 1936-37 almost reached this objective, except with regard to finer staples for their finer quality textiles, it is doubtful

whether they can hope in the future to completely reach self-sufficiency in view of the demand for food crops to feed their growing population and the increase in textile production envisaged which will involve the consumption of double the quantity of cotton consumed by them in the peak years before the war. (Para. 38.)

109. Medium and short staple cottons from India will therefore continue to be required by reason of their availability, the fact that the Japanese-owned mills in China are specially suited to this type of cotton and their over-all cheapness as compared with cottons of comparable staple elsewhere. (Para. 39.)

110. The absence of Japanese competition from South East Asia and Far Eastern markets and the consequent need for meeting these demands for the cheaper and coarser cotton fabrics will call for increased production of this class of textiles, necessitating the use of shorter and cheaper staples of the Indian types. Fears expressed regarding the accumulation of large surpluses of cotton in India due to the cessation of demand for Indian cotton from Japan are therefore unfounded, though in the initial years some difficulty may be experienced in disposing of accumulated surpluses. (Paras. 44, 45.)

111. There is at present a market for Indian tobacco in China, chiefly due to the difference in price and the shortage of tobacco in the country itself owing to the war. It is likely, in view of these conditions which are likely to prevail for some time longer, that Indian tobacco will continue to be used, though it is unlikely that Indian tobacco will establish itself in the market, in view of the keen competition from American tobacco and the desire of the Chinese to be self-sufficient with regard to this commodity. (Para's. 51, 54.)

112. Exchange conditions at present obtaining in China are admittedly difficult and traffic is now mostly one way, namely between America and China, as a rate of exchange has been fixed only with regard to the American dollar while no rate has been fixed for sterling or for the rupee. This need not, however, be an insuperable obstacle in the way of the resumption of trade. Whether a rate is fixed for the rupee or not, the most satisfactory way of financing the trade between India and China would be by means of Special Accounts arrangements. Negotiations for such an arrangement should be opened with the Chinese Government without delay. (Para. 63.)

113. There is no need for pessimism with regard to the revival and development of our trade with China. While it is correct that difficulties exist and that inflation is rife, that there are shortages of goods and difficulties with regard to exchange and communications, it will not be long before the situation is brought under control in view of the measures taken by the Chinese Government for the rehabilitation of the country's economy. Though the volume of trade in the earlier stages may, as the result, not also be large, this will be a temporary phase as an era of industrial and commercial prosperity awaits China. In spite of domestic difficulties, there is a wide range of commodities which India can supply to China and which the latter country will need and though industrialization may affect the nature of the supplies available for export, the quantum of the trade will not be adversely affected. Nor are the possible lines of development of China's economy on the other hand likely to lead to the reduction of trade with that country as she will still continue to require raw materials from this country as also consumer goods which we can conveniently spare for her. There is also the point that Germany and Japan have for the time being been eliminated from the *Chineac* market and that India can, to a certain extent, meet this demand, particularly the demand formerly met from Japan with whose goods ours are more easily comparable. (Paras. 65, 73, 74.)

114. So far as China is concerned, a policy for the expansion of raw material production, particularly silk, tung oil and soya beans, will make it possible for larger quantities of these goods to be released, for which there will always be a ready market in India. Green tea, bristles and non-ferrous metals will also be in great demand in this country, and India's trade might well develop in the future in these directions also. (Paras. 76, 85.)

115. The enforced famine in China of consumer goods for nearly a decade will enable her to absorb substantial quantities of exports from other countries including India. If, in addition, assistance is given by Government in the direction of credit and other facilities, including the provision of Export Credit Guarantee Insurance, India may be in a very favourable position to take advantage of the present opportunity. Trade, therefore, with China cannot only be restored to its pre-war level, but increased and bettered as the result of elimination of Germany and Japan, though there is no doubt that India will have to face competition from various countries, particularly the U. K. and the U. S. A. (Para. 88, 89.)

116. India's future role in Asia and her relations in particular with China make it imperative—and this is a point which we would particularly desire to emphasize—that India should in her own long-term interests, allow some proportion of her domestic output of consumer goods to be released to China and South East Asia countries and that supply considerations alone should not be taken into account in deciding as to the quality and range of the goods that should be made available to China. (Para. 89.)

117. It is very necessary that all obstacles in the path of the free development of trade between the two countries should be removed as early as possible, as for example, delays in the grant of visas and the absence of adequate facilities for speedy postal, telegraphic and air mail communication. (Paras. 68, 69.)

118. It is also very necessary that with a view to the development of trade between the two countries, all restrictions on the free movement of goods between them should be relaxed as far as possible, particularly in the case of exports of cotton, tobacco and jute. Similarly, import licensing should also be removed in the case of goods to be imported into this country from China, particularly as the balance of trade with that country is likely to be in our favour, and the arrangements we envisage require liquidation of these balances at as early a date as possible. (Para. 89.)

119. For the furtherance and development of India's trade with China it is suggested that an Indian Government Trade Commissioner should be appointed in Shanghai with an Assistant Trade Commissioner subordinate to him at Hong Kong, the former post in view of Shanghai's future and growing importance and the latter in view of Hong Kong's position as the port for *entrepot* trade in South China. Also both China and India are on the threshold of a new industrial and commercial era, and adequate commercial representation at this stage will go a long way towards further cementing the tie between these two countries. (Para. 90.)

120. The importance of communications, both by sea and air, has been so greatly emphasized during the last war as to render it desirable for India to have her own regular shipping and air services to China. (Paras. 102, 103.)

121. The elimination of Japanese shipping from ocean lanes makes it necessary that Government should seriously consider the question of securing a larger share of this trade for Indian bottoms. (Para. 103.)

122. There are bright prospects for both Indian banking and insurance companies in China, for the latter particularly in the re-insurance field. It is unnecessary to emphasize in this connection the importance of the role played by banking, insurance and shipping concerns in the furtherance of a country's foreign trade. (Paras. 101, 104.)

K. K. CHETTUR

TULSIDAS KILACHAND

G. B. KOTAK

M. S. C. MITHA

Advisers :

F. A. JASSAWALA

A. A. JAVERI.

NEW CUSTOM HOUSE,  
BOMBAY :

*29th May 1946.*

ANNEXURE " A "  
*Cotton Mills in China 1936*

Names of Provinces		Number of Mills*	Number of spindles		Number of looms		Cotton consumed per Annum (Bales of 500 lbs)	Bales of Yarn Produced	Cloth Produced (Thousand Yards)
			Actual	Contem- plated increase	Actual	Contem- plated increase			
<b>—China Proper—</b> <b>(1) Kiangsu</b>	Chinese Mills .	51	691,006	37,516	15,318	242	786,394	902,156	272,471
	British Mills .		261,148		4,021		62,750	72,400	43,000
	Japanese Mills		1,314,388		15,208		542,418	324,982	443,246
	<b>Total, .</b>	<b>86</b>	<b>3,267,142</b>	<b>37,516</b>	<b>34,547</b>	<b>- 242</b>	<b>1,391,562</b>	<b>1,299,538</b>	<b>758,717</b>
<b>(2) Hopeh</b>	Chinese Mills . .	6	136,120	720	1,310		71,327	79,576	23,214
	Japanese Mills	4	168,407		1,000		41,399	36,259	
	<b>Total .</b>	<b>10</b>	<b>304,527</b>	<b>720</b>	<b>2,310</b>	<b>...</b>	<b>112,726</b>	<b>115,835</b>	<b>23,214</b>
<b>(3) Shantung .</b>	Chinese Mills .	4	108,244	13,200	611		70,018	79,489	
	Japanese Mills	9	489,620	30,720	7,114	1,152	289,662	205,255	183,234
	<b>Total .</b>	<b>13 .</b>	<b>597,864</b>	<b>43,920</b>	<b>7,725</b>	<b>1,152</b>	<b>359,680</b>	<b>284,744</b>	<b>183,234</b>
<b>(4) Hupeh</b>	Chinese Mills .	6	309,480	8,000	3,022	200	115,459	107,863	29,033
	Japanese Mills	1	24,816		300		19,273	16,560	7,381
	<b>Total</b>	<b>7</b>	<b>334,296</b>	<b>.8,000</b>	<b>3,322</b>	<b>200</b>	<b>134,732</b>	<b>124,423</b>	<b>36,414</b>

(5) Honan	Chinese Mills .	4	106,880	...	255	96	54,944	59,654	4,182
(6) Anhwei	Chinese Mills .	1	18,400	...	...	...	...	...	...
(7) Chekiang .	Chinese Mills .		58,120	...	672	...	25,474	26,354	2,300
(8) Kiangsi	Chinese Mills .		20,480	...	...	...	16,723	18,260	
(9) Hunan	Chinese Mills .	1	50,000	...	248	...	27,777	29,800	2,978
(10) Shenfli	Chinese Mills .		12,000	12,800	330		10,000	...	...
(11) Kwongtung	Chinese Mills .		20,000	...	12U		950	1,100	10
(12) Sinkiang .	Chinese Mills .		1,200	...			...	...	...
(13) Shansi	Chinese Mills .	fi	74,024	...	1,475		57,472	65,781	24,526
<b>Total China Proper</b>	Chinese Mills .	86	2,607,154	72,230	123,361	53S	1,236,538	1,370,033	358,714
	British Mills .	5	261,148	...	4,021	...	62,750	72,400	43,000
	Japanese Mills	44	1,997,231	30,720	23,622	1,152	892,752	583,056	633,86)
	<b>Total</b> .	135	4,865,533	102,956	51,004	1,690	2,192,040	2,025,489	1,035,575
<b>II.—Mataichuria .</b>	Chinese Mills .	2	41,184	...	500	100			- . -
	Japanese Mills	3	115,680		505	...			...
	<b>Total</b>	5	156,864	...	1,005	100		...	...
<b>Grand Total</b>	Chinese Mills .	88	2,648,338	72,236	23,861	638	1,236,538	1,370,033	358,714
	British Mills .	5	261,148		4,021		62,760	72,400	43,000
	Japanese Mills	47	2,112,911	30,720	24,127	1,152	892,752	583,056	633,861
	<b>Total</b>	140	5,022,397	102,956	52,009	1,7A0	2,192,040	2,025,489	1,036,575

•Including those not working.



## ANNEXURE " B "

*Full text of the new Foreign Exchange Regulation\* in China*

(Announced:- February 25; *Unforced from* March 4, 1946).

The Government has authorized the Central Bank of China to exercise certain functions and to appoint banks that may engage in foreign exchange transactions.

The full text of the new foreign exchange regulations which came into force with effect from the 4th March is as follows :

*/—Functions of the Central Bank of China*

1. The National Government with a view to stabilizing the currency, promoting economic recovery and implementing the International Monetary Fund Agreement hereby temporarily authorizes and directs the Central Bank of China to exercise the following special functions with regard to foreign exchange transactions :

- (a) To appoint banks that may engage in foreign transactions with the public to be termed " appointed banks ".
- (b) To license for a specified period (1) banks (including old style banks) and exchange shops to deal in foreign currency notes, to be termed " licensed dealers, class ' A ' , and (2) travel agencies to issue and cash foreign currency travellers' letters of credit and travellers' cheques, to be termed " licensed dealers, class ' B "
- (c) To license persons to act as foreign exchange brokers during a specified period.
- (d) To regulate the foreign exchange transactions of appointed banks, licensed dealers, foreign exchange brokers and the public in accordance with these regulations.
- (t) To intervene in the financial markets when it deems it necessary to check fluctuations of rates.
- (/) To regulate in accordance with the policy of the Government matters pertaining to the use and disposal of blocked property and property interest abroad of persons in China.
- (g) To suspend or cancel for proper cause the appointment or license or right to engage in transactions in foreign exchange and foreign currency notes.

## APPOINTED BANKS

*II,—Appointed banks, licensed dealers and brokers*

2. Only appointed banks may deal in foreign exchange and the public may buy and sell foreign exchange only through them, except for limited authorization specifically granted under these regulations to licensed dealers and brokers in foreign exchange.

3. Appointed banks are permitted to deal in foreign currency notes. Other banks (including old style banks) and exchange shops that wish to act as licensed dealers, class A, and travel agencies that wish to act as licensed dealers, class B, shall apply to the Central Bank of China for a license on the application form prescribed within 15 days from the effective date thereof. The Central

Bank of China will announce a date or dates after which (1) dealing in foreign currency notes and (2) issuing and cashing foreign currency travellers' letters of credit and travellers' cheques except by appointed banks shall be prohibited without a license.

4. The business of acting as a broker in foreign exchange shall henceforth be licensed. Any person that wishes to act as a broker in foreign exchange shall apply to the Central Bank of China for a license on an application form prescribed within 15 days from the effective date thereof. The Central Bank of China will issue or refuse licenses and will announce a date after which acting as broker in foreign exchange shall be prohibited without a license.

### *III.—Foreign Exchange Transactions*

5. The official rates of foreign exchange and foreign exchange supplements are hereby abolished.

6. Appointed banks may sell foreign exchange to the public only for the following purposes.

- (a) To pay the cost in accordance with these regulations and rulings issued thereunder of importing goods whose import is permitted.
- (b) For legitimate personal requirements in accordance with these regulations and rulings issued thereunder.
- (c) For other legitimate purposes authorized by the Central Bank of China.

7. A person applying to an appointed bank for foreign exchange shall sign a certificate in the form prescribed by the Central Bank of China stating that he does not possess and has not made and will not make arrangements to acquire from any other sources the foreign exchange for which he applies: Provided however that the Central Bank of China will consider applications through appointed banks to permit persons established in business and possessing *foreign exchange* to maintain in *foreign exchange* working capital necessary to finance their trade between China and foreign countries.

8. Appointed banks may buy foreign exchange arising from the following transactions:

- (a) Exports or re-exports from China. An appointed bank buying or contracting to buy foreign exchange arising from exports or re-exports from China shall make on the invoice presented to the Customs an appropriate endorsement in the form prescribed and export or re-export shall not be permitted without such endorsement: Provided however that no endorsement shall be required if the value is less than the equivalent of U.S.\$25 and not for commercial purposes.
- (b) Remittances from abroad to China.
- (c) Foreign exchange sold for expenditure in China.
- (d) Other foreign exchange.

9. Foreign currency accounts of the public in banks in China shall be governed by the following provisions:

- (a) No bank may open new foreign currency accounts or accept new deposits in old foreign currency accounts except as permitted under paragraph 11.

(b) Withdrawals from foreign currency accounts may be made only for purpose permitted under these regulations. Withdrawals from foreign currency accounts in other than appointed banks may be made only through the Central Bank of China.

(c) Any balances remaining in foreign currency accounts by September 30, 1946, shall thereupon be sold to the Central Bank of China at prevailing rates of foreign exchange.

10. Until further notice by the Central Bank of China no bank shall make any fresh loan or increase or renew for a total of more than three months from the date when these regulations enter into force any existing loan in Chinese national currency on the security of foreign exchange.

11. When a person deposits with an appointed bank margin in foreign currency against foreign exchange to be delivered to him or paid for his account in the future, the bank shall deposit an equal amount with the Central Bank of China, which will refund the amount to the bank at the time of foreign exchange is transferred to or for the account of such person by the bank.

12. Appointed banks may engage in foreign exchange transactions only for a specific purpose permitted under these regulations. They may not engage in foreign exchange transactions in connection with export of capital from China or for speculative or arbitrage purposes whether for their own account or for the public. Appointed banks prior to making a transfer of foreign exchange shall exercise reasonable diligence to satisfy themselves that the transaction is *bona-fide* and in accordance with these regulations.

13. Appointed banks shall be responsible for being informed of the foreign exchange and foreign trade regulations of foreign countries and shall engage in foreign exchange transactions only when they are satisfied that the transactions are permitted thereunder.

14. When an appointed bank has contracted to sell foreign exchange and the transaction giving rise thereto is cancelled in whole or in part, the purchaser shall be required to sell forthwith the entire amount of foreign exchange no longer required for the transaction.

15. Appointed banks may do forward foreign exchange operations whose usance does not exceed three months but only for change-overs and other transactions permitted under these regulations.

16. Until further notice by the Central Bank of China only appointed banks in Shanghai may do inter-bank foreign exchange transactions or execute out-port bank orders to buy or sell foreign exchange. Such operations shall be only for the purpose of covering these regulations.

17. Officers of appointed banks in places other than Shanghai may engage in foreign exchange transactions permitted under these regulations but until further notice by the Central Bank of China any cover shall be obtained from their Shanghai offices or correspondents.

18. If the Central Bank of China considers that an appointed bank has an excessively large position in foreign exchange relative to the volume of its business and its prospective obligations the Central Bank of China may require the bank to reduce its position.

#### SPECIFIC PURPOSE

19. Brokers in foreign exchange may not buy or sell foreign exchange for their own account except for a specific purpose authorized hereunder, nor may they buy or sell foreign exchange for *the* account of another

*IV.—Reports*

20. All banks that have outstanding foreign currency accounts of the public shall report to the Central Bank of China the total amount of such accounts in each currency outstanding at the close of business (a) on the last business day before the date of announcement of these regulations and (b) on the last business day of each month thereafter until all such accounts have been liquidated.

21. All banks that have outstanding loans to the public on the security of foreign exchange that are payable in Chinese national currency shall report to the Central Bank of China the total amount of such loans outstanding at the close of business (a) on the last business day before the date of announcement of these regulations and (b) on the last business day of each month thereafter until all such loans have been liquidated.

22. Appointed banks shall report to the Central Bank of China in the form prescribed their position in foreign exchange as of the close of business on the last business day before the date of the announcement of these regulations. They shall also report to the Central Bank of China at the close of each week in the form prescribed the following transactions showing by dates :

- (a) The names of all buyers of foreign exchange other than foreign currency notes, the amounts sold to each together with the rates, the deliveries, and the purpose of each sale.
- (b) The names of all sellers of foreign exchange other than foreign currency notes, the amounts bought from each together with the rates, the deliveries, and the origin or nature of the foreign exchange purchased : Provided however that items in the same currency involving amounts under U.S.\$500 or equivalent thereof may be grouped in one amount without particulars.
- (c) The total amount of foreign Currency notes of each foreign country bought and sold, the total amount of Chinese-national currency paid and received therefor, and the total amount of foreign currency notes on hand at the close of the week. Appointed banks shall state in each such report that to the best of their knowledge, all of the foreign exchange transactions listed therein are not contrary to the provisions of these regulations.

23. Licensed dealers, class A, shall keep in the form prescribed a complete record of purchases and sales of foreign currency notes, which record shall be open to inspection by the duly authorised representative of the Central Bank of China, and shall make a weekly report to the Central Bank of China in the form prescribed showing dates, the total amount of foreign currency notes of each foreign country bought and sold, the total amount of Chinese national currency paid and received therefor, and the total amount of foreign currency notes respectively on hand at the close of the week.

## COMPLETE RECORD

24. Licensed dealers, class B, shall keep in the form prescribed a complete record of foreign exchange transactions arising from purchases and sales of foreign currency travellers' letters of credit and travellers' cheques, and shall make a weekly report to the Central Bank of China in the same form and showing by dates the same data as prescribed for appointed banks in sub-paragraphs (a) and (b) of paragraph 22. Licensed dealers, class B, shall state in each such report that, to the best of their knowledge, all of the foreign exchange transactions listed therein are not contrary to the provisions of these regulations.

25. Each broker in foreign exchange shall keep in the form prescribed a complete record of purchases and sales of foreign exchange in which he is the intermediary, which record shall be open to inspection by the duly authorised representative of the Central Bank of China, and shall make a weekly report to the Central Bank of China in the form prescribed showing by dates the names of all those buying and selling foreign exchange other than foreign currency notes through him, the amounts bought or sold by each, the rates, the deliveries and the purpose of each sale. Brokers in foreign exchange shall state in each such report that to the best of their knowledge all the foreign exchange transactions effected through them and listed therein are not contrary to the provisions of these regulations.

#### *V.—Definitions*

26. The term foreign exchange as used herein includes without limitation :

- (a) Any of the following payable in a foreign currency or country whether blocked, partly blocked or free :
  - (i) Deposits and credits of all kinds with banks, business houses and other organizations and individuals ;
  - (ii) Telegraphic transfers, demand, sight and time drafts, cheques, travellers' cheques, notes due within one year or less, bills of exchange and other orders or promises to pay, letters of credit, bank and trade acceptances ;
  - (iii) Government bonds, bills, treasury notes, savings certificates or other obligations due within one year or less ; and may cancel permission to deal in foreign exchange of an appointed bank which repeatedly violates these regulations. The Central Bank of China may temporarily suspend or may cancel the license of a licensed dealer or broker in foreign exchange who repeatedly violates these regulations. The Central Bank of China may debar from further foreign exchange transactions any person who effects a transaction in violation of these regulations.

27. (Not printed in original).

28. Any person, in China whose foreign exchange or other property or property interest abroad is blocked may apply to the Central Bank of China for permission for use thereof for purpose permitted under these regulations.

29. The public may buy and sell gold freely. The Central Bank of China may buy and sell gold at its discretion.

30. The import and export of foreign currency notes is prohibited without a licence from the Ministry of Finance : Provided however that a person may bring to and take from China for his personal use an amount not exceeding U.S.\$200 or equivalent.

31. All Government organisations engaged in any form of trade or business shall be governed by these regulations unless a particular organisation is specifically excepted by the Ministry of Finance from any requirement hereof in respect of any specified foreign exchange transaction.

32. The date of announcement of these regulations is February 25, 1946, and they shall enter into force on March 4, 1946, except that :

- (a) Paragraph 5, sub-paragraph (a) of paragraph 9 and paragraph 30 shall enter into effect immediately upon announcement of these regulations.
- (b) Applications under paragraph 3 and 4 may be made immediately upon announcement of these regulations.

## ANNEXURE " C "

## COMPLEMENTARY FOREIGN TRADE REGULATIONS

*Customs Notification*

The public is hereby notified that, in accordance with Government instructions received through the Inspector General of Customs, the following Temporary Foreign Trade Regulations were promulgated and took effect on 1st March 1946 :—

*I.—Imports*

(1) Imports are classified as follows:—

- (a) Unrestricted imports ;
- (6) Licensed imports ;
- (c) Prohibited imports.

(2) Unrestricted imports comprise all articles

(a) those listed in Schedules A and B annexed hereto, and

(b) those included in the lists of prohibited import articles that are in force when these regulations enter into effect.

(3) Licensed imports comprise the articles listed in Schedule A annexed hereto, and may be imported only after procurement of a license from the Licensing Department of the Customs Administration.

(4) Prohibited imports comprise (a) all articles included in the lists of prohibited articles that are in force when these regulations enter into effect, some of which may be imported under the authority of the controlling organs concerned ; and (6) all articles listed in Schedule B annexed hereto, whose import is prohibited ; Provided, however, that on application filed within 10 days of the effective date of these regulations the Licensing Department of the Customs Administration will give consideration to admitting articles purchased *bona fide* prior to the said effective date and arriving in China not later than 30 days thereafter.

*II.—Exports*

(5) All articles except those listed in Schedule V annexed hereto may be freely exported upon presentation to the Customs of an invoice containing a certificate in a form prescribed by the Central Bank of China signed by an appointed Bank stating that it has purchased or contracted to purchase the foreign exchange derived therefrom : Provided, however, that such a certificate is not required in the case of a shipment valued at less than L.T.S. \$25 or equivalent, and not for commercial purposes.

*III.—Temporary Import Programme Committee*

(b) A Temporary Import Programme Committee is hereby created under the Supreme Economic Council, composed of the following members :

- The Chairman of the Council, to be Chairman of the Committee ;
- The Minister of Economic Affairs, to be Vice-Chairman of Committee .
- The Minister of Finance ;

The Minister of Communications ;  
 The Minister of War ;  
 The Minister of Food ;  
 The Director of the National Relief and Rehabilitation Administration.

The Chairman may appoint representative of other organisations to participate in the work of the Committee when subjects of concern of these organizations are under consideration.

(7) The Temporary Import Programme Committee shall have the following functions:

- (a) To prepare an estimate of the main articles which China needs to import in the period of rehabilitation dealing in the first instance with the more important items ;
- (b) To prepare a statement of the quantities and values already ordered and in course of procurement and the probable time of arrival ;
- (c) To determine a co-ordinate import programme for all branches of the Government in the light of :
  - (i) China's capacity to make the expenditure involved both in foreign exchange and in Chinese National Currency ;
  - (ii) The degree of urgency of the several needs, and China's ability to use wisely the proposed imports ;
  - (iii) China's balance of international payments ;
- (d) To prevent competitive buying abroad ;
- (e) To determine the best source or sources of supply, and in particular the possibility and extent of advantageous procurement as reparation from the enemy, through UNRRA or from surplus war property ;
- (f) To supervise the marketing and distribution in China, with due regard to the effects on China's economy ;
- (g) In general to co-ordinate activities of the several agencies concerned and prevent duplication and waste.

(8) The Committee and its staff shall be composed principally of persons in the service of the organizations whose heads comprise the Committee.

*V.—Miscellaneous*

(9) The Customs Administration is hereby authorised and directed under the general supervision of the Temporary Import Programme Committee, (a) to receive and grant or deny in whole or in part applications for import of the articles listed in Schedule A annexed hereto ; and (b) to carry out the functions specified in paragraph 4 (b) hereof with regard to the articles listed in Schedule B hereof.

(10) The Customs Administration shall create a Licensing Department to exercise the functions provided for hereunder. The Customs Administration in carrying out its functions under these regulations shall work in close co-operation with the Central Bank of China.

(11) These regulations shall take effect upon the date of promulgation.

## SCHEDULE A

**Part I.—Articles which may be imported only after obtaining a special licence from the Customs.**

Tariff Number	
256 (b)	Passenger motor earn (other than those on the prohibited list) and chassis there- (part) of.
397, 399, 400	Sugar, Cube and Loaf Sugar, Candy Sugar.
423	Tobacco leaf
532	Kerosene oil
656 (part)	Cinematographic film developed

**Part II.—Articles liable to a luxury surtax of 00% of the existing tariff rates. (No special licence is required for these articles).**

261 (part)	Watches
403-419	Wines, Beer, Spirits, Table Waters, etc.
420-422 & 424	Cigarettes, Cigars, Snuff and Chewing Tobacco, Prepared Tobacco
645	Jewellery and ornaments n.o.p.f.
653	Pearls, Real and Imitation . . .
658 (6)	Precious and Semi-precious stones (not including uncut and unpolished)

## SCHEDULE B

***Luxuries the import of which is prohibited***

77	Imitation gold or silver thread, on cotton.
80, 102 115. 137	Lace, Trimmings, Embroidered Goods, and all other materials used for decorative or ornamental purposes ; and all products made wholly thereof. (Cotton ; flax, ramie, hemp, jute ; wool ; silk).
125	Woollen carpets, carpeting and all other floor coverings pure or mixed.
136	Imitation gold and silver thread, on silk, pure or mixed.
138	" Silk knitted tissue, pure or mixed.
140	Silk velvets, plushes and all other pile cloths, pure or mixed.
142	Silk piecegoods, pure or mixed, n.o.p.f.
144	Silk clothing and all other silk articles of personal wear and parts and accessories thereof, n.o.p.f.
145	Silk goods and mixtures, n.o.p.f.
256 (b) (part)	Automobiles with 7 passenger capacity or less whose net f.o.b. factory cost to dealers exceeds US \$1,200 or equivalent, and chassis thereof.
576	Musk.
579 (c) (part)	Manufacture of tusks,
633	Curios and antiques.
634	Da ma scene ware, satsumaware, and laquerware.
635	Decorative or ornamental Materials or products, n.o.p.f. (including Spangles, Tinsel and Tinsel Wire, Metallic Trimmings, etc.).
650	Manicure sets and parts thereof ; Powder Puffs and Cases and Vanity Cases.
•665 (part)	Perfumery ; Cosmetics,



**668 Toys and games.**

**67U (a) Umbrellas and Sunshades :**

& (c) (a) **With handles wholly or partly of Precious Metals, Ivory, Mother-of-Pearl-Tortoiseshell, Agate, etc., or jewelled.**

(c) **With all other Handles, Silk and Silk Mixtures.**

#### SCHEDULE C

*Items whose export is prohibited unless permission is granted by the Government through the Customs.*

1. Government-controlled mineral products, namely, the metallic ores and smelted metals of wolfram, antimony, tin, and quicksilver.
2. Silver coins, silver bullion, gold bullion, subsidiary coins of nickel and metal alloy, copper cash and coins and copper remelted therefrom.
3. Salt.
4. Wild animals and birds, alive, of all kinds (including game).
5. Birds' skins (i.e. skin with feathers on) and feathers of wild birds held together by small portion of the skins.
6. Antiques.
7. Original writings of Dr. Sun Yat-Sen, ancient Chinese books and archives of Government departments.
8. Rice, paddy, wheat, wheat flour, and manufacture thereof.
9. Cotton yarn and cloth.

**ANNEXURE " D "**  
**Details of India's Trade with China**  
*Imports of merchandise (private) by sea from China (exclusive of Hong Kong and Macao) into British India*  
(Figures in thousands)

Articles	1935-36	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42
<b>Apparel (including drapery, uniforms and accoutre- ments).</b> Rs.	1,42	1,63	1,42	1,91	1,12	1,42	1,90
<b>Bobbins</b> . . . . . Rs.		6				1,19	5.00
<b>Bristles and Fibres for Brushes and Broomb</b> . . . . . f Cwts.						0.2	1
		...	0.2	12	11	1,53	1,95
			2	1	16	2,35	90
<b>Buttons of all sorts</b> . . . . . Rs.	1	1					
<b>Chemicals and Chemical preparations :—</b>							
<b>Alum.</b> . . . . . r Cwts.					1	6	
						20	2,77
						6	19
<b>Caustic Soda</b> . . . . . ( Cwts.		...	...		77	1,85	...
					29	71	13
<b>Camphor</b> . . . . . r lbs.		1			49	1,20	23
		1					
<b>Dyeing and Tanning Substances :—</b>							
<b>Naphthols</b> . . . . . f lbs.				4	3	108	110
				6	9	4,16	R.22
				2		20	95
<b>Bases</b> . . . . . f lbs.							
			...	4	...	1,07	5,66

Including Burma for 1935-36 and 1936-37.





ANNEXTURE "E"

Details of Chinese Customs duties leviable on Cotton and Tobacco

**I. Cotton and manufactures thereof**

No.	Name of article	Duty (on value) per cent.
	<i>Cotton Piece Goods, Grey.</i>	
1	<b>Shirtings, sheetings and T-Cloths, plain, grey :—</b>	
	(o) Not over 82 cm. wide :	
	{ 1 } Weighing not more than 140 grammes per metre .	25
	(2) Weighing more than 140 grammes per metre	25
	(6) Over 82 cm. but not over 102 cm. wide :	
	(1) Weighing not more than 90 grammes per metre	25
	(2) Weighing more than 90 grammes per metre	25
	<b>Drills and Jeans, grey (3 or 4 shaft only), not over 82 cm. wide</b>	25
3	<b>Imitation Native Cotton Cloth, Grey, not over 62 cm. wide</b>	25
4	<b>Cambrics, Lawns, Muslins, Brocades (single yam only), and Striped, Spotted, Cored, or Figured Shirtings, Grey.</b>	25
	<b>Lenos and Leno Brocades, Grey . . . . .</b>	25
	<b>Cotton Crape, Grey, not over 82 cm. wide . . . . .</b>	25
7	<b>Cotton Serge, Diagonal Twills, Herringbone Twills, Oatmeal Crapes, Coatings, Suitings, Tweeds, Gabardines, and Trouserings, Grey.</b>	25
8	<b>Sateen Drills, Grey. . . . .</b>	25
9		25
10	<b>Imitation Poplins, Ribs, Cords, and Repps, Grey . . . . .</b>	25
11	<b>Cotton Canvas and Duck, Grey (including those with coloured stripes).</b>	25
12	<b>Cotton Flannel, or Flannelette, of Plain or Twill Weave, Grey :</b>	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 102 cm. wide . . . . .	25
13	<b>Cotton, Velvets, Plushes, and all other Pile Cloths, Grey</b>	25
14	<b>Cotton Piece Goods, Grey, n.o.p.f. . . . .</b>	25
	<i>Cotton Piece Goods, White or Dyed</i>	
15	<b>Shirtings, Sheetings, and Irishes, Plain, White, not over 92 cm. wide.</b>	25
16	<b>Drills and Jeans, White (3 or 4 shaft only), not over 82 cm. wide</b>	25
17	<b>T-Cloths, White, and Mexicans, not over 82 cm. wide</b>	25

No.	Name of article	Duty (on value) per cent.
18	<b>Cambrics, Lawns, Muslins, Nainsooks, Mulls, Jaconets, Victoria Checks, Swiss Checks, Lappets, Limbrics, Brocades (single yarn only), and Striped, Spotted, Corded, or Figured Shirtings, White or Dyed :</b>	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 92 cm. wide . . . . .	25
	(c) Over 92 cm. wide . . . . .	.115
19	Voiles, White or Dyed . . . . .	25
29	Organdies, White or Dyed . . . . .	25
21	Lenos, White or Dyed, not over 82 cm. wide . . . . .	26
22	Leno Brocades, White or Dyed . . . . .	25
23	Mercerised Crimps, White or Dyed . . . . .	26
24	Cotton Crape, White or Dyed, not over 82 cm. wide . . . . .	26
25	<b>Shirtings, Sheetings, and Pongees, Plain, Dyed :</b>	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 92 cm. wide . . . . .	25
2f	Drills and Jeans (3 or 4 shaft only), Dyed, not over 82 cm. wide . . . . .	26
27	<b>Dyed T-Cloths, Embossed Cantoons, Alpaoianos, and Real and Imitation Turkey Reds, not over 82 cm. wide :</b>	
	(a) Weighing not more than 65 grammes per metre . . . . .	25
	(b) Weighing more than 65 grammes, but not more than 105 grammes per metre. . . . .	2*
	(c) Weighing more than 105 grammes per metre . . . . .	25
28	<b>Cotton Serges, Diagonal Twills, Herringbone Twills, Oatmeal Crapes, Coatings, Suitings, Tweeda, GabardineB, and Trousorings, White or Dyed, not over 82 cm. wide,</b>	25
29	Satteen Drills, White or Dyed, not over 82 cm. wide . . . . .	25
30	<b>Cotton Lastings, Satteens, Italians, Imitation (Weft-faced) Venetians, Tientsin Twills, Beatrice Twills, Warp-faced Satteens, and Satteen Stripes, White or Dyed, not over 82 cm. wide.</b>	25
31	Cotton Venetians, White or Dyed, not over 82 cm. wide . . . . .	25
32	<b>Poplins (including Poplin Taffetas), White or Dyed, not over 82 cm. wide.</b>	25
33	<b>Imitation Poplins, Ribs, Cords, Repps, and Moreens, White or Dyed, not over 82 cm. wide.</b>	25
34	Cotton Canvas and Duck, White or Dyed . . . . .	25
35	<b>Dimities, Piques, Vestings, Quillings, and Bedford Cords, White or Dyed.</b>	25

Ho.	Name of article	Duty (on value) per cent.
36	Cotton Flannel or Flannelette, of Plain or Twill Weave. White or Dyed:	
	(a) Not over 62 cm. wide . . . . .	25
	(b) Over 62 cm. but not over 82 cm. wide . . . . .	25-
	(c) Over 82 cm. but not over 92 cm. wide . . . . .	25-
57	Cotton Velvets, Plushes, and all other Pile Cloths, White or Dyed :	
	(a) Not over 92 cm. wide . . . . .	25-
		2&
39	Cotton Piece Goods, White or Dyed, n.o.p.f. . . . .	25.
	<i>Cotton Piece Goods, Printed</i>	
30	Shirtings, Sheetings, and T-Cloths, Plain, Printed :	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 102 cm. wide . . . . .	25-
40	Drills and Jeans (3 or 4 shaft only). Printed, not over 82 cm. wide . . . . .	25.
41	Cambrics, Lawns, Muslins, Brocades (single yam only), and Striped, Spotted, Corded, or Figured Shirtings, Printed:	25:
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 102 cm. wide . . . . .	25-
42		25
43	Organdies, Printed . . . . .	25
44	Lenos, Printed, not over 82 cm. wide . . . . .	25
45	Mercerised Crimps, Printed . . . . .	25-
46	Cotton Crape, Printed, not over 82 cm. wide . . . . .	25.
47	Cotton Serge, Diagonal Twills, Herringbone Twills, Oatmeal Crape, Coatings, Suitings, Tweeds, Gabardines, and Trouserings, Printed, not over 82 cm. wide.	25-
48	Sateen Drills, Printed, not over 82 cm. wide . . . . .	25-
49	Cotton Lastings, Sateens, Satinets, Italians, Damasks, Silesias, and Beatrice Twills, Printed, not over 82 cm. wide.	25-
50	Cotton Venetians, Printed, not over 82 cm. wide . . . . .	25-
51	Poplins, Printed, not over 82 cm. wide . . . . .	25
62	Imitation Poplins, Ribs, Cords, Repps, and Moreens, Printed, not over 82 cm. wide	25
53	Twill Cretonnes, Oatmeal Crape Cretonnes, Sateen Cretonnes, Repp Cretonnes, and other Cretonnes.	25
64	Cotton Flannel or Flannelette, of Plain or Twill Weave, Printed :	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 92 cm. wide . . . . .	25

No.	Name of article	Duty (on value) per cent.
55	<b>Cotton Velvet, Plushes, and all other Pile Cloths, Printed :</b>	
	(a) Not over 92 cm. wide . . . . .	25
	(b) Over 92 cm. wide . . . . .	25
56	<b>Cotton Piece Goods, Printed, n.o.p.f.</b> . . . . .	25
	<i>Cotton Piece Goods, Miscellaneous</i>	
57	<b>Shirtings and Sheetings, Plain, Yarn-dyed, not over 92 cm. wide</b>	25
58	<b>Drills and Jeans (3 or 4 shaft only), Yarn-dyed, not over 82 cm. wide</b>	25
59	<b>Cambrics, Lawns, Muslins, Brocades (single yarn only), and Striped, Spotted, Corded, or Figured Shirtings, Yarn-dyed.</b>	25
60	<b>Lenos and Leno Brocades, Yarn-dyed . . . . .</b>	25
61	<b>Cotton Crape, Yarn-dyed, not over 82 cm. wide . . . . .</b>	25
62	<b>Cotton Bergen, Diagonal Twills, Herringbone Twills, Oatmeal Crapes, Coatings, Suitings, Tweeds, Gabardine and Trouserings, Yarn-dyed, not over 82 cm. wide.</b>	25
63	<b>Poplins, Yarn-dyed, not over 82 cm. wide . . . . .</b>	25
64	<b>Imitation Poplins, Ribs, Cords, and Repps, Yarn-dyed, not over 82 cm. wide.</b>	25
65	<b>Dimities, Piques, Vestings, Quiltings, and Bedford Cords, Yarn-dyed</b>	25
m	<b>Cotton Flannel, or Flannelette, of Plain or Twill Weave, Yarn-dyed :</b>	
	(a) Not over 82 cm. wide . . . . .	25
	(b) Over 82 cm. but not over 92 cm. wide . . . . .	25
67	<b>Cotton Velvets, Plushes, and all other Pile Cloths, Yarn-dyed</b>	25
68	<b>Cotton Piece Goods, Yarn-dyed, n.o.p.f.</b> . . . . .	25
	<b>Cotton Waterproof Cloth, Rubbered . . . . .</b>	25
70	<b>Cotton Piece Goods, n.o.p.f.</b> . . . . .	25
	<i>Cotton Raw, Cotton Thread, Cotton Yarn, and Manufactures of Cotton, n.o.p.f.</i>	
71	<b>Cotton, Raw . . . . .</b>	10
72	<b>Cotton Waste, and Yarn Waste . . . . .</b>	1"
73	<b>Cotton Wadding . . . . .</b>	10
74	<b>Cotton rag . . . . .</b>	5
76	<b>Cotton Yarn :</b>	
	(a) Grey (irrespective of fold):	
	(1) Counts up to and including 17 . . . . .	124
	(2) Counts above 17 and up to and including 23	124
	(3) Counts above 23 and up to and including 35	124
	(4) Counts above 35 and up to and including 45	124
	(5) Counts above 45 . . . . .	12*
	(b) Others . . . . .	12J



Mo.	Name of article	Duty (on value) per cent.
76	<b>Cotton Thread:</b>	
	(a) Sewing Cotton, on spools or cops :	
	(1) 2-oord and 3-oord, 46 metres or less . . . . .	12*
	(2) 6-oord and 9-oord, 46 metres or less . . . . .	12J
	(6) Crochet or Embroidery Cotton, in skeins or balls :	
	(1) Over Gold Units 6 in value per kilogramme . . . . .	124
	(2) Not over Gold Units 6 in value per kilogramme . . . . .	124
77	Imitation Gold or Silver Thread, on Cotton . . . . .	25
78		124
79		124
SO	Lace, Trimmings, Embroidered Goods, and all other materials used for decorative or ornamental purposes, and all products made wholly thereof.	50
81	Mosquito Netting, not over 230 cm. wide . . . . .	30
82	<b>Cotton Knitted Tissue:</b>	
		30
	(b) Not Raised:	
	(1) Made of ungassed or unmercerised thread . . . . .	30
	(2) Made wholly or partly of gassed or mercerised thread . . . . .	30
83		30
84	<b>Knitted Clothing, not Raised :</b>	
	(a) Made of ungassed or unmercerised thread . . . . .	30
	(6) Made wholly or partly of gassed or mercerised thread . . . . .	30
88	<b>Knitted Sooke and Stockings :</b>	
	(a) Made of ungassed or unmercerised thread . . . . .	30
	(b) Made wholly or partly of gassed or mercerised thread . . . . .	30
88	<b>Cotton Elastic Webbing, Braid, and Cord.</b>	30
87	Ankle-bands . . . . .	30
83		20
89		30
90	<b>Cotton Blankets and Blanket Cloth . . . . .</b>	30
91		40
3i	<b>Cotton Bags, New.</b>	30
93	<b>Clothing, and all articles of personal wear and parts or accessories thereof, n.o.p.f.</b>	40
94	<b>Cotton Goods, D.o.p.f.</b>	SO

## APPENDIX

## VII.—Tobacco

No.	Name of article	Duty (on value) per cent.
420	<b>Cigarettes :</b>	
	(a) Value over Gold Units 10 per 1,000 and all Cigarettes not bearing a distinctive brand or name on each Cigarette.	80
	(b) Value over Gold Units 6-4 but not over Gold Units 10 per 1,000.	80
	(c) Value over Gold Units 4-8 but not over Gold Units 6-4 per 1,000.	80
	(d) Value over Gold Units 1-2 but not over Gold Units 4-8 per 1,000.	80
	(e) Value over Gold Units 1-6 but not over Gold Units 3-2 per 1,000.	80
	(f) Value Gold Units 1-6 or less per 1,000	80
411	<b>Cigars :</b>	
	(a) Value over Gold Units 130 per 1,000 . . . . .	so-
	(b) Value over Gold Units 70 but not over Gold Units 130 per 1,000.	so-
	(c) Value over Gold Units 50 but not over Gold Units 70 per 1,000.	so-
	(d) Value over Gold Units 20 but not over Gold Units 50 per 1,000.	so-
	(e) Value Gold Units 10 or less per 1,000. . . . .	so
422	<b>Snuff and Chewing Tobacco . . . . .</b>	50
423	<b>Tobacco, Leaf:</b>	
	(a) Value over Gold Units 175 per 100 kg.	u>
	(b) Value Gold Units 175 or less per 100 kg. . . . .	10
424	<b>Tobacco, Prepared :</b>	
		50
		80
426	<b>Tobacco Stalk, Dust, Siftings, and Refuse . . . . .</b>	15

ANNEXURE "F"

Direct Taxes in China

Tables showing rates of Taxation and Formulae of Computation

I. Income Tax :

1. Income from profit-seeking enterprises :

A. Rates payable by profit-seeking enterprises :

B. Rates payable by temporary profit-seeking enterprises, not computed on the basis of capital :

Income/Capital	Tax Rates	Taxable Income	Tax Rates
Over		Over	
10% — 15%	4%	\$200 — \$2,000	4%
15% - 20%	6%	2,000 — 4,000	6%
20% - 25%	8%	4,000 — 6,000	8%
25% — 30%	10%	6,000 — 8,000	10%
30% - 40%	12%	8,000 — 10,000	12%
40% - 50%	14%	10,000 — 12,000	14%
50% — 60%	16%	12,000 — 14,000	18%
60% - 70%	18%	14,000 — 16,000	18%
70% - up	20%	16,000 — 18,000	20%
		18,000 — 20,000	22%
		20,000 — 30,000	24%
		30,000 — 50,000	26%
		50,000 — 100,000	28%
		100,000 — 200,000	30%
		200,000 up	
3. Income from Securities and deposits :			
Sources of Income	Tax Rates		
Interest on Government bonds	5%		
Corporate Debenture	5%		
Shares of Stock	5%		
Deposits	5%		

**2. Income from salaries and remunerations :**

Monthly Income	Tax Rates Per \$ 10	Computation Formula (X = Amount of Taxable Income)
Over		
SI 00	\$0-10	0-0IX 0-9
SI 00 — 200	0-20	0-02X * i-y
<b>•im</b> — 300	0-30	0-03X — 3-9
300 — 400	0-40	0-04X — 6-y
400 — 500	0-60	0-06X — 14-9
500 — » 600	0-80	0-08X — 24 U
600 — 700	1 0 0	0 1 0 X — 36-9
700 — 800	1-20	0-12X — 50 y
SOU — 900	1-40	0-14X — *)6-9
900 1,000	1-60	0-16X — 84-9
1,000 — 1,100	1-80	0-18X — 104-9
1,100 — 1,500	2-00	0-20X — 126-9
1,500 — 2,000	2-20	0-22X — 156- u
2,000 — 3,000	2-40	0-24X — 196-9
3,000 — 5,000	2-60	0-26X — 256-9
5,000 — 10,000	2-80	0-28X — 356 9
10,000 — up	3 0 0	0-30X 556-9

**i 7 . Excess Profit Tax**

Amount of Excess Profits	Tax Rates	Computation Formula (X = Amount of Excess Profits C = Amount of Capital)
Amount of Capital		
Over		
20% — 25%	10%	0-10X — ii 0200C
25% — 30%	16%	U-15X — 0 0325C
30% — 35%	20%?	0-20X — n 0475C
35% — 40%	25%	D-25X — 0 065UC
40% — 45%	30%	0 30X — 0 0850C
45% — 50%	35%	0-35X — ii 1075C
50% — 55%	40%	0-40X — 0 1325C
55% — 60%	45%	0-45X — 0 1600C
60% — 100%	60%	0-50X — 0 1900C
100% — 200%	55%	0-55X — 0- 24000
up	60%	0-60X 0- 3400C

**income Tax pertaining to the Lease and Sale of Property****I. Income derived from the lease of property**

Taxable Income	Tax <i>RH ten</i> (on the JKxcesa Amount)	Computation Formula (X = Taxable Income)
<b>Over</b>		
\$3,000 — <b>25,000</b>	A0%	0 1 Q X — 300
25,000 — 50,000		0-1 IX — 1,550
50,000 — 100,000		0 • 20 X — 4,050
100,000 -- 200,000		0-2 A X — 9,050
200,000 — 300,000	30%	<b>0 - so x</b> — 19,050
300,000 — 400,000	33%	0 • 35 X — 34,050
400,000 — 500,000	<b>*0%</b>	0-40 X — 54,050-
500,000 — 600,000	43%	0-45 X — 79,050'
600,000 — 700,000	50%	0-50 X — 109,050
700,000 — 800,000	55%	0-65 X — 144,050'
800'000 — 900,000	60%	0-60 X — 184,050
900,000 — 1,000,000	65%	0 « 5 X — 229,060-
1,000,000 1,100,000	70%	0-70 X — 279,050
1,100,000 1,200,000	75%	0.75 X — 334,050'
1,200,000 — <b>Up</b>	80%	0-80 X — 394,050

**2. Income derived from the sale of property**

Taxable <b>Income (I)</b>	Tax Rates (on the <b>Excess Amount</b> )	Computation Formula (2)> (X=Taxable Income)
<b>Over</b>		
\$5,000 — 50,000	<b>*%&gt;0%</b>	0-JOX — 500
50,000 — 150,000	14%	0- U X — 2,500'
150,000 — 300,000	16%	0-16 X — 5,500-
300,000 — 500,000	<b>'8 %</b>	0-18 X — 11,500'
500,000 — 750,000	20%	0-20 X — 21,500'
750,000 — 1,000,000	22%	0-22 X — 36,500-
1,000,000 1,250,000	25%	0 • 25 X — 6,6,500
1,250,000 1,500,000	30%	0 • 30 X — <b>129,00+</b>
1,500,000 1,750,000	35%	0-35 X — 204,000
1,750,000 — <b>£,000,000</b>	40%	0-40 X — 291,500
2,000,000 <b>Up</b>	60%	<b>0-SOX</b> — 491,600

(1) For sales of agricultural land, the taxable income begins at \$10,000 instead of \$5,000 as in the case of other properties.

(2) For sales of agricultural land, \$5,000 more shall be deducted, and the first formula shall be :

0-10 X — 1,000-

**IV. Estate Tax**

Value of Taxable Estates	Tax Rates (1) (on the Excess Amount)	Computation Formula (X* = Taxable Estates)
Over		
4100,000 — 200,000	1%	0 01X -
200,000 — 300,000	2%	0 02X — 2,000'
300,000 — 400,000	3%	0 03X — 5,000
400,000 — 500,000	4%	0 04X — 9,000
500,000 — 750,000	5%	0 05X — 14,000
750,000 — 1,000,000	6%	0 06X — 21,500
1,000,000 — 1,500,000	8%	0 08X -- 41,500
1,500,000 — 2,000,000	10%	0 10X — 71,500
2,000,000 — 3,000,000	13%	0 13X -- 131,500
3,000,000 — 4,000,000	16%	0 16X — 221,500
4,000,000 — 5,000,000	21%	0 21X - 421,500
5,000,000 — 6,000,000	2 « %	0 26X — 671,600
6;000,000 — 7,000,000	31%	0 31X - 971,500
7,000,000 — 8,000,000	36%	0 36X — 1,321,500
8,000,000 — 9,000,000	41%	0 41X — 1,721,500
9,000,000 — 10,000,000	48%	0 46X — 2,171,500
10,000,000 — up	61%	0 51X — 2,671,500

(1) Normal and Progressive rates combined.

**V. Business Tax**

Basis of Calculation	Tax Rates
Business on the Basis of Total Receipts . . . . .	1•5 %
Business on the Basis of the Capital (1) . . . . .	2•0%

(1) Including only banking corporations and insurance companies.

'0

**VI. Stamp Tax**

**-Abridged table showing the nature of document, unit and its corresponding rate of tax**

Nature of Documents	Unit	Tax Rates i
Invoices . . . . .	ch over \$ 10	
Receipts for money or goods	over \$ 50	0- 20
Bills . . . . .	Por 8100 over \$100 Per \$100 over 32,500,000 Per \$100 over 8 10,000,000 .	1- 40 0 20 0 10
Pass books or Documents . . . . .	Per Document	1 00
—for withdrawal or deposits of ac- counts or drafts.	Per book per year	4 00
—for withdrawal of goods	Per book per year	4 00
—for dealing in securities, gold and silver or other commodities.	Per book per year	4 00
Books o f Accounts . . . . .	Per copy per year	4 00
Contract of Sales of goods . . . . .	Per document	1 00
—for future delivery	Per contract	4 00
Warehouses or Storage Certificates	Each . . . . .	1 00
Savings-deposit Certificates	Each . . . . .	0 50
Contracts of Employment . . . . .	Each . . . . .	2 00
Bills of lading issued by transportation companies or warehouses	Each . . . . .	2 00
Bills of Lading of Shipping— —for international transportation	Each . . . . .	4 00
—for internal transportation . . . . .	Each . . . . .	0 00
Licences for purchasing or selling of commodities.	Each . . . . .	2 00
Trust of Agency Agreements	Each . . . . .	2 00
Agreements of Guarantee . . . . .	Each . . . . .	2 00
Personal identification Certificates	Each . . . . .	5 00
Professional Licences . . . . .	Each . . . . .	5-00
—for drivers, pharmacists, nurses, etc.	Each . . . . .	2-00
Travel Passports—		
—for going abroad . . . . .	Each . . . . .	5-00
—for travelling within the country . . . . .	Each . . . . .	1 00
Passports for Transportation	Each . . . . .	4-00
Business Licenses . . . . .	Each . . . . .	10-00

*n*

i	<i>t</i>	3
<b>Licenses for carrying arms—</b>		
—for hunting arms	Each . . . . .	10-00
—for self-defence . . . . .	Each . . . . .	0-50
<b>Licenses for Ships</b>		
—for nationality certificates and steamships.	Each . . . . .	5 00
—for sailing boat and stnall craft	Each . . . . .	2 00
<b>Insurance Policies</b>		
—Life and accident policies	Per \$1,000 insured	0-40
—Property policies	Per \$1,000 insured	0-20
<b>Contractor's Contracts</b>	Per \$100 . . . . .	0-20
<b>Contracts for taking over properties movable or immovable.</b>	Per \$100 . . . . .	0-20-
<b>Lending or Borrowing contracts .</b>	Per \$100 . . . . .	0-20-
<b>Deeds o f Mortgage . . . . .</b>	Per \$100 . . . . .	0-20
<b>Deeds of Gift or Division of Property .</b>	Per \$100 in value	0-20
<b>Stock Certificates . . . . .</b>	Per \$100 in face value	0-40'
<b>Partnership Contracts</b>	Per \$100 in Capital	0-40
<b>Bonds . . . . .</b>	Per \$100 in face value	0-20-
<b>Deeds for sale of immovable property .</b>	Per \$100 in value .	0-40'
<b>Exhibition Show and Amusement Tickets.</b>	Per\$1-00 . . . . .	0-10



## ANNEXURE "G"

Shanghai Wharf & Wabbhose Company  
Federal Inc., U. S. A.

## PAI LIEN CHIEN WHARF

## POOTUNG

, JRctiving and storing tariff delivery charges 80% extra revised rates effectivs  
February 16th, 1946

(Revised—December 7, 1945)

Description	Per	O.N.U. Dol
* Acetone—As Aoids		
* Aoids D'John (26 Kilos)	Each	82 50
	Case	137 50
	Quintal	247 50
Aeroplanes (1 quintal equal 4 jc.f. or\$ 4-50 per ton 40 cf.).	rr	247 50
Aluminium Ingots	»	247 50
		247 50
	»	302 50
* Anchors (over 1 ton) See Heavy^Weights Tariff	...	"
Antimony Ore, i n Cases o r Bags	Quintal	247 50
		247 50
* Asphalt	»	220 00
* Baths, Iron (in skeleton cases)	Each	300- 00
	Quintal	275 00
* Beams (Singapore)	Cu. Ft.	44 00
* Beams (over 1 ton) See Heavy Weight Tariff		..
	Each	55- 00
	Package	110 00
Beche-de-Mer, at Straits Cargo Rates		
	Quintal	47- 50

Description	Per	C.N.C. Dollar
Beer, 48 Qts. or 72 Pints	Case	181- 50
Beer, Barrels or Cask's . . . . .	Quintal	220 00
Betel Nut Husks . . . . .		22(J)- 00
<b>Birdsnests, at Straits Cargo Batefl</b>		
A Bleaching Powder . . . . .	Quintal	247 5(1)
Braid (Straw) . . . . .	« nle	192 5(1)
Brass Rods . . . . .	Quintal	247- 5(1)
* Cables . . . . .	»	24 7* 5(1)
Carpets . . . . .		247- 50
Cartridges, Safety (Special Godown)	Caae	550 0(1)
* Caustic Soda (in drums)	Quintal	220- 00
•Cement, about 2 quintals	Drum or Cask	27.V 00
•Cement, about 1 quintal	Bag	137- 5(1)
* Chains and Shackles . . . . .	Quintal	302 50
* Charcoal (in Straw Bags), up to 35 Kilos	Beg	55 0(1)
* Charcoal, over 35 Kilos, at Coast Cargo Rates	...	..
** Chemicals, not otherwise provided for	Quintal	247 50
•Cigarettes and Cigars, under 12 cu. ft.	Case	165 00
•Cigarettes and Cigars, over 12 cu. ft.	„	275 mi
•Clothing . . . . .	Quintal	220 00
* Coal, including 10 days' free storage . .	Met. Ton	1237 •60
* Coal, in bags of about J quintal each . .	Bag	55 0(1)
Coal, in godown shed or mafeshed including 10 days' free storage.	Met. Ton	165M 0(1)
Coast Cargo (generally) up to 90 Kilos.	Package	110- 00
Coast Cargo (generally), Large, over 90 up to 180 Kilos. . .	»	220 0(1)
Coast Cargo, over 180 Kilos.	Quintal	165 •0(1)
•Cocoons _ . . . . .	Bale	385 00
Cocoons (refuse) . . . . .		385 0(1)
* Coffins . . . . .	Each	82 50 00
* Constructional Material	" Quintal	247 50
•Copper (ingotg Slabs or Discs)	B	24

Description	Per	C.N.C. Dollar
Copra . . . . .	Quintal	220'00
Cork and Cork-boards		192-50
* Cotton, Chinese—		
Loose Bale (Under 100 Kilos)	Bale	247- 50
Loose Bale (Under 70 Kilos) .		192-50
Loose Bale (Under 35 Kilos) .		137-50
Loose Bale other than the above	Quintal	247-50
Cotton, American P.P. (Square)	Bale	495-00
Cotton, American P.P. (Round)		247-50
Cotton, Bombay and Brazilian P.P.		385-00
Cotton, Hankow and Tientsin P.P. (more or less <sup>2</sup> / <sub>1</sub> quintals).		440-00
Cotton, Hankow and Tientsin P.P. (more or less quintals).		385-00
Cotton Rags . . . . .	Quintal	220-00
Crockery Ware . . . . .		220-00
* Crucibles . . . . .		275-00'
Dates (Red and Black)		137-50''
* Disinfectants, 12.7 Kilos or 28 lbs.	Drum	55- 00
* Disinfectants, 25.4 Kilos or 66 lbs.		110-00
* Disinfectants, 50.8 Kilos or 112 lbs.		165-00-
* Disinfectants, other than above	Quintal	220-00
* Drums (empty)	Each	220-00-
Dry and Fancy Goods	Quintal	247-00
Dyes .		247- 50-
Earthenware		220-00-
* Ebony Wood .		220- 00
Electric Ware generally		247-50
ExtractB (Tanning, etc.)		247-50=
Feathers		220-00
Fire Clay .		247- 50
Fire Crackers, under 90 Kilos	Case	110-00
Fire Crackers, 90—150 Kilos		220-00
* Fire Bricks (100M) . . . . .	Per Mille	8250-00

Description	Per	C.N.C. Dollar
* Fire Bricks (packed) . . . . .	Quintal	247'59
-* FiBh, Salt . . . . .	<i>It</i>	220-00
Floor, Cloth and Linoceum . . . . .	<i>It</i>	220-00
Flour, 49 lbs. . . . .	Bag	41' 26
	<i>tt</i>	82 50
	<i>it</i>	110'00
Foreign Cargo, Bales up to 20 Kilos . . . . .	Bale	82- 50
Foreign Cargo, Bales up to 12 cu.ft. and 21 to 125 Kilos .	>>	137 00
Foreign Cargo, Large or Double Bales, up to 16 cu.ft. and 180 Kilos.	>)	275 00
Foreign Oargc, Cases up to 20 kilos. . . . .	Case	99- 00
Foreign Cargo, Caees up to 12 cu.ft. and 21 to 125 kilos. .	<i>rt</i>	165'00
Foreign Cargo, Cases (Large) up to 15 cu.ft. and 180 kilos. .		412-50
Foreign Cargo, Packages of FOREIGN CARGO, PAPER, CARD-BOARDS, etc., if exceeding 180 Kiloe or 16 cubic feet.	Quital	192'50
	<i>rr</i>	247-50
	Bale	22n-00
	Quintal	247-50
Fur-Cuttinga, Waste . . . . .	<i>It</i>	220-09
Gallnuts, u p t o 1 quintal . . . . .	CaBe	165'00
* Gas, in Cylinders . . . . .	Quintal	247-50
-Glass, Plate and Glass in Cases of over 180 Kilos. .		247-50
•Glass, Window, up to 180 Kilos . . . . .	<i>rt</i>	220-00
Glassware . . . . .	>	220-00
	<i>rt</i>	220- 00
	>)	220-00
Gunny Bags, Press Packed, under 4J quintal in weight or 22 cu.ft. measurement.	Bale	550 00
Gunny Bags, Press Packed, over 4J quintals in weight or 22 cu.ft. measurement.		952 50
Gunny Bags, Native Packed, New and Old		275'00
Gypsum, 2 8 Kilos . . . . .	Each	82* 50
•Gypsum, not otherwise provided for . . . . .	Quintal	192' 50
	<i>gt</i>	220'00
Hardwoods . . . . .	<i>M</i>	220-00
Hemp, Native Packed, u p t o 7 0 Kilos . . . . .	Bale	110-00
Hemp, Native Packed, 70-150 kilos. . . . .	<i>ft</i>	220 00

Description	Per	C.N.C. Dollar	
Hemp Tientsin and Hankow P.P.	Bale	CNC	825-00
Hemp P.P.	Quintal	t	220-00
Hides and Skins, Tientsin and Hankow P.P.	Bale	ft	825-00'
Hides and Skins, Native Packed		tf	220-00'
Hollow ware	Quintal	ft	220-00-
* Horse Boxes	Each	s	2750-00
Horse or cattle (passing over wharf)		,J	1650-00-
Ink	Quintal	M	220-00-
Insulated Wire		J*	247-50-
* Intestines (drum or barrel*)			247-500
<b>IRON AND STEEL</b>			
J Angles	Quintal	CNC	247-50-
* Bar, under 20 feet			247-50-
* Bar, from 20 to 30 feet			275-00
* Bar, over 30 feet			302-50
* Bars, in cases, under 20-feet			247-50-
* Bar Ends			247-50-
J Channels			247-50'
Galvanized Iron			247-50-
Hoops, New			247-50-
* Old and Scrap			192-50-
* Pig Iron			247-50-
* Pipes and Pipe Fittings			275-00-
* Plates, under 3J Quintals			275-00
* Plates, over 3J Quintals			302-50'
FFUils			247-50
% Railway Material			275-00-
t Shafting			247-50
stain cases, under 20 feet long			247-50*
* Tubes			247-50-
WFre and Wire Rods		,, '	247-50-
Ivory		,, "	247-50

Description	Per	C.N.C. Dollar
Jute, P.P. about 180 Kiloa . . . . .	Bale	C.NC. 412-50
Jute, P.P. about 275 Kilos . . . . .		550' 00
Lacquerware, Native. At Coast Cargo Bates	...	...
Lead, sheet . . . . .	Quintal	247-50-
Lead, Pig, u p t o 4 5 Kilos . . . . .	Pig	137-50
Lead, over 4 5 Kilos . . . . .	Quintal	" 247-50
Leather, Leather Belting and Leather Goods .	>	** 220-00
Lily Flowers . . . . .	Package	220-00
Lithopone . . . . .	Quintal	247-50
Lumber . . . . .	1000 B.M.	3658 50
* Machinery (under 1 Metric Ton wt.) . . . . .	Quintal	247-50
* Machinery (over 1 Metric Ton wt.) Heavy Weights Tariff, subject to clause 6 in B. S. & D. Tariff. Mangrove Bark, a t Straits Cargo Bates . . . . .		...
* Marble, under 1 Ton . . . . .	Quintal	247-50-
* Marble, over 1 Ton Heavy WeightB Tariff .		
Matches, Safety . . . . .	Case	275-00-
Matches, Safety, cartons about 1 cu.ft. . . . .	Each	ii 66-00
Medicine . . . . .	Quintal	l* 247-50
Melon Seeds . . . . .	Package	tt 220-00
* Motor Cars and Trucks, Machinery Rates, Stored in Godown if requested and space available, and of size and weight to allow of entry and transportation.	*	
Musk . . . . .	Case	tt 550-00
Nails, u p t o 5 5 Kilos . . . . .	Keg	tt 110 00-
Nails, over 5 5 Kilos . . . . .	Quintal	>> 110.00-
Needles . . . . .	...	IV 247-50-
Oil, Kerosene, about 38\$ Kilos . . . . .	Case	tt 110-00
* Oil. i n drums, 5 galls. . . . .	Drum	< 110-00-
Oil, Essentin!, Medicinal . . . . .	Quintal	rt 247-50'
* Oil, Grease, Kerosene, Lubricating, etc.	>	it
Old Newspapers, about I f quintals . . . . .	Bale	it 220- 00-
Ore, i n bulk . . . . .	Met. Ton	ii 1650-00-
* Ore, i n bags . . . . .	Quintal	>* 247''5fr

Description	Per	C.N.C. Dollar
•Paints (12-7 kilos or 28 lbs.)	Drum	CNC 55 00
* Paints (25-4 kilos or 56 lbs.)		110-0'
•Paints (50-8 kilos or 1)2 lbs.)		165-0
* Paints (other than above)	Quintal	220-0'
<i>N.B.</i> —Wet Paints in open-air. Dry Paints in godown.		
Paper (Foreign)—See " Foreign Cargo		
Peas, in bags	Bag	110-00
Pepper, at Straits Cargo Rates		
Personal Effects	Quintal	247-50
Pianos, in case	Each	4125-00
Planks	Cu. Ft.	44-00
Provisions, under 2 cu. ft. or 25 kls.	Package	55 00
Provisions, under 5 cu. ft. or 50 kls.		137-50
Provisions, under 10 cu. ft. or 100 kls.		275-00
Provisions, under 20 cu. ft. or 2 quintals		412-50
* Rattans	Quintals	165-00
Rice 85/105 kilos	Bag	11000
* Rope	Quintal	247-50
•* Rubber and Rubber Goods		247 50
* Resin		220-00
* Rubber tyre-old		247-50
Samshoe, about 10 kilos	Jar	44 00
Samshoe, about 70 kilos		10-00
Samshoe, large—see Coast Cargo Rates		
Sandalwood, full cargo	Quintal	247 50
Sandalwood, in lots other than full cargo		275-00
* Sapanwood		220-00
Scale Sticks	Each	u-'00
Seaweed	Box	110-00
Seaweed	Bundle	166 00
Seeds—(Cotton—Sesamum, Bird, etc.)		110-00

Description	Per	C.N.C. Dollar
Sheep, passing over Wharf .	Each	CNC
Silk, raw	Bale	
Silk, waste . . . .		
Soap, box of 12 • 7 kilos or 28 lbs.	Box	
Soap, box of 25-4 kilos or 56 lbs.		
Soap, over 25-4 kilos or 56 lbs.	Quintal	
Soda Ash, in casks or bag of 60f kilos and up to 3  quintals.		
Soda Ash, over 3£ quintals and up to 2  quintals	Quintal	CNC
* Spirits of Wine		
Stationery .		
Stearine, Page		
'Stearine, Casks		
* Stone		
Stores—See Provisions		
Straits Cargo, up to 1 quintal	Package	
Straits, Cargo, 1 to 2 quintals (Large)		
Straits Cargo, over 2 quintals	Quintals	
Sugar, native, under 1 quintal	Bag	
Sugar, native, 1 to 1J quintal		
Sugar, Formosa packed	Basket	
Sugar, Foreign packed	Bag	
Sugar, Candy	Quintal	
Sulphate of Alumina		
Sulphate of Ammonia		
* Tallow, in drums		
• Tar		
* Teakwood		
* Timber Logs, not otherwise provided for	cu. ft.	
Tinplates, upto 60 kilos	Package	
Tinplates, over 60 kilos	Quintal	
Toilet articles and preparations		
Tobacco . . . .	Hogshead	



Description	Per	C.N.C. Dollar
Tobacco, native packed, about 130 kilos	Bale	CNC\$ 220-00
Vermicelli, native packed, up to 12 cu.ft.	Package	187-50
Vermicelli, 12-20 cu.ft.	Package	275 00
Vermicelli, 20-30 cu.ft.		412-50
Wax	Quintal	192-50
"Wines and Spirits, 1-2 cu.ft.	Case	137-50
Wines and Spirits, up to 2 quintals	Barrel, etc.	412-50
Wines and Spirits, over 2 quintals	Quintal	247-50
Wire Rope . . . . .		247-50
* Woods, Hard, Red, etc.		22M-00
Wool, P.P., about 3£ quintals	Bale	825-00
Wool, P.P., about 1\$ quintals		550-00
Wool, native packed . . . . .		165-00
Yarn, bale of 20 bundles		137-50
Yarn, bale of 40 bundles		165-00.
* Yolk, preserved in cask	Quintal	220-00
Zinc, Slabs or Sheets . . . . .		247-50

\* Stored in Open Air.

t The Wharf Co. reserves the right to land and store Bleaching Powder in Open Air if put on to Wharf.

t If over 30 feet long will be charged for at CNC \$ 302\*50 per quintal.

**Packages with declaration of value—1£% of 1% Net.**

**Bullion, Signed Bank Notes, etc.**

Where these are shipped to Shanghai under Bill of Lading calling for over-side discharge, and consignees take delivery direct from ship, no charge will be made by the Wharf Company, but where consignees do not take delivery direct from ship, the Wharf Company will take delivery into Strong Room at Consignees' sole risk. In addition to any expense incurred a special charge for this service will be made of CNC \$825-00 net per mill per 24 hours up to 72 hours with a minimum charge of CNC \$8250-00 per package per day. . . . .  
...CNC \$8250-00.

*Charge for Receiving and Storing  
Machinery and Heavy Weights*

1 Metric Ton and under 2 Metric Tons	.CNC	5:200 • 00
2 Metric TonB and under 3 Metric Tons		11005-00
3 Metric Tons and under * Metric Tons		16500-00
4JMetric Tons and under 5 Metric Tons		27.v}V r-0.
5 Metric Tons and under 6 Metric Tons		38500 00'
6 Metric Tons and under 7 Metric Tons		35000 - 00
7 Metric Tone and under 8 Metric Tons		77003-00

The Company will not handle heavy weights at night, unless under special guarantee from those concerned.

"Delivery Charges" are 80% of "Receiving and Storing Charges".

"Wharfage Charges" are at the rate of US/ \$0-15 per foot per Jay, ox-part thereof, converted at the rate of exchange obtaining the day the ship, berths.

**ANNEXURE "H"**

Same Tartff Applies to All Wharf Warehouses in Shanghai

**Storage Tariff**

*Revised Rates Effective February 16th 1946*

**SAME TARIFF APPLIES to ALL WHARF WAREHOUSES in SHANGHAI,**

Storage Tariff

(Revised—Dec. 7, 1945)

All rates quoted in Chinese National Dollars

Description	Per	per Month •
•Acids, i n drums, a t " Oil " Rates . . . . .	.	CNCJ >}v> • 00
Aeroplane Parts *	Metric ton or 40 Cft. Cu. Ft.	tt 30SQ-0G 77-00
Alcohol, i n drums, a t Oil Rates . . . . .	Quintal	tt 11000

Description	Per	Rate per Month
Barks . . . . .	<b>Cu. Ft.</b>	CNC* 44-00
•Bath Tubs . . . . .	<i>Is</i>	77-00
Battery Mix . . . . .	<b>Quintal</b>	104 00
Beaut, u p t o 115 kilos . . . . .	<b>Bag</b>	<i>T *</i> 82-50
Beche-de-mer	<b>Cu. Ft.</b>	<i>TT</i> 44-00
Bed Steads and Parts . . . . .		77-00-
Beer, 48 qts. or 72 pts. . . . .	<b>Case</b>	165-00
Belting . . . . .	<b>Cu. Ft.</b>	<i>TT</i> 66-00
Bicycles . . . . .	<b>Case</b>	1650-00
Boards, Plywood, etc. . . . .	<b>Cu. Ft,</b>	44-00
•Boilers and Fittings—		
Over 1 ton wt. of meas . . . . .	<b>Ton</b>	<i>TT</i> 3080-00
Under 1 ton wt. o r meas . . . . .	<b>Cu. Ft.</b>	*9 77-00
Boiler Composition . . . . .	<b>Bag</b>	<i>TT</i> 110 00
Bleaching Powder—		
about 0-6 quintal or 133 lbs. drum	<b>Drum</b>	<i>TT</i> 121-00
about 1-8 quintal or 400 lbs. drum	<i>TT</i>	<i>TT</i> 363-00
other than above . . . . .	<b>Quintal</b>	<b>it</b> 198-00
Boiler Fluid, at " Paint " Rate*. . . . .		
Bolts and Nuts . . . . .	<b>Quintal</b>	<i>TT</i> 154-00
Boa-Js . . . . .	<i>TT</i>	** i 154-00
B<-A94 rods . . . . .		<i>TT</i> 220-00
Bricks (Fire) packed. . . . .		<i>TT</i> 198.-00
Brooke Powder . . . . .	<b>Cu. Ft.</b>	<i>TT</i> 77-00
Buntal Fibre . . . . .		<b>M</b> 144-00
Easiness Machines . . . . .	<i>TT</i>	<i>TT</i> 77-00
•Cables . . . . .	<b>Quintal</b>	<i>RT</i> 154 00
Cameras . . . . .	<b>Cu. Ft.</b>	<i>TT</i> 77-00©
Oanvaa . . . . .	<b>U</b>	<i>TT</i> 44-00
Carbon Black . . . . .	<i>TT</i>	• 11 55-00
Ct*untie Soda . . . . .	<b>Quintal</b>	<i>TT</i> 198-00
Oem^at (about 2 quintals) . . . . .	<b>Drum or Cask</b>	<i>RT</i> 187-00

Description	Per	per Month
Chemical* . . . . .	Cu. Ft.	CNC\$ 66 00
<b>Chemicals generally, unless otherwise provided for except casks or drums over 100 kilos, see " Oil " Rates</b>		
China Ware . . . . .	Cu. Ft.	06 00
<b>Cigars, Cigarettes, Smoking Tobacco &amp; Accessories</b>	„	156-00
Clay, Fire . . . . .	Quintal	108'00
Clotl. . . . .	Cu. Ft.	44-00'
Coffee, i n bags . . . . .	Bag	* > 110-00
Coffee, i n Cases . . . . .	Cu. Ft.	<i>ft</i> 66-00
<b>Copper, Bar, Discs, Ingots, Plates Tubs, etc.</b>	Quintal	<i>tt</i> 220-00
<b>Cotton Goods, bales or cases</b>	Cu. Ft.	' > ; 44-00-
<b>Cotton Raw, press packed</b>	<i>tt</i>	33-00
<b>Disinfectants, at " Oil " Rates</b>		
<b>Drugs</b>	<i>it</i>	M 66-00
<b>Dry and Fancy goods</b>	<i>tt</i>	M 66 00
<b>Eyestun's</b>	<i>tt</i>	<i>ft</i> 66-00
<b>Ebonywood</b>	Quintal	ft 77-00
<b>Electric Ware</b>	Cu. Ft.	
<b>•Engines and Fittings—</b>		
Over 1 ton wt. or meas .	Ton	
Under 1 ton wt. or meas	Cu. Ft.	
<b>Extract, (Quebrasho), in bags of about 50 Kilos</b>	Bag	
i n cases . . . . .	Cu. Ft.	
i n casks or drums, at *' Oil " Rates		
<b>Felt and Felt Sheeting</b>	Cu. Ft.	
<b>Fertilizers, in bags of 100 Kilos .</b>	Bag	
<b>Fish, dried . . . . .</b>	Cu. Ft.	
<b>•Fish, salted, above 2 quintal cases</b>	Case	
<b>Flour, in bags of 49 lbs.</b>		
<b>Flour, in bags of 98 lbs.</b>		
<b>Flour, in bags of 150 lbs.</b>		
<b>Furniture . . . . .</b>	Cu. Ft.	

Description	Per	Rate per Month
Furs and Fur Waste	Cu. Ft.	CNCJ 66 00
*Gas in Cylinders		77-00
Mass, Broken or Powder	Quintal	ins-00
Glass, Plate	Cu. Ft.	09 00
Glass ware and Glass		77 '00
•Glass Window		77-00
Glucose		00-00
Glue and Gum		30 00
-Gunny Bags presspacked	Bale	770-00
Under 3 • 5 quintal		..
Over 3 • 5 quintal		1100-00
Hardware	Cu. Ft.	77 00
Hats		+4-00
Hemp, Manila		44-00
Hides, Salted	Bundle	330-00
Horns	Cu. Ft.	33 00
Ink	»	(36-00
Instruments and Apparatus Scientific	*	„ : 77-00
Iron and Steel		
•Angles	Quintal	175-00
*Bars	i.	154-00
•Channels	ii	176 00
Galvanized	Case	385-00
Galvanized	Bundle	308-00
Hoops	Quintal	154-00
•Old and Scrap	ii	110-00
*Pig Iron	»	„ rio-00
•Pipes up to 1 ton		* „ 132-00
*Pipes over 1 ton		253-00
Pipe Fittings	Cu- Ft.	77-00
•Plates	Quintal	154-00
•Rails		154-0»

Description.	Per	Rate per month
•Shaftings . . . . .	<b>Quintal!</b>	CNC\$ 154-00
Sheets . . . . .		154-00
•Tubs . . . . .		132-00
Wire and Wire Rods . . . . .		198-00
•Jute, presspaeked . . . . .	Cu. Ft.	33-00
Kapok . . . . .		44-00
Lead, pig sheet . . . . .	Quintal	154-00
Leather, Leather Beltin . . . . .	Cu. Ft.	16- 00
Linoleum, oil Cloth and Flom- Rugs . . . . .		<b>m- 00</b>
•Logs, Cottonwood . . . . .		33-00
Lubricating Oils and Grensens, see " Oil " Rates . . . . .		
•Lumber . . . . .	Cu. Ft.	33- 00
Machinery and Railway Material- over 1 ton wt. or meas . . . . .	Ton	3080-00
•under 1 ton wt. or meas . . . . .	Cu. Ft.	77-00
•Motor Cars and Trucks, see " Machinery " Ratas . . . . .		
Motor Car and Truck Parts . . . . .	Cu. Ft.	77-00
Motorcycles . . . . .	Unit	2200-00
Motorcycles with sidecar . . . . .		3300-00
Nails, Brads o r Tacks . . . . .	Quintal	154-00
•Oil, 5 gallon tin o r drum . . . . .	Each	66-00
Drum 1—If quintal . . . . .		220"00
Drum If—2J quintal . . . . .		330- (H)
•in cask or drums—		
2- 25—3- 5 quintals . . . . .		462-00
*3-5_4-25 quintals . . . . .	CNC*	660-00
*4- 25—5 quintals . . . . .		880-00
*5—6-5 quintals . . . . .		1100-00
Oil, Essential Medicinal etc. (in cases) . . . . .	Cu. Ft.	77- 00
Oil, Kerosene . . . . .	Case	33 • 00
Paint, Dry, 2 8 lbs. Keg . . . . .	Keg	66-00
Paint, Dry, other packing . . . . .	Cu. Ft.	66-00

Description	Per	Rate per Month
•Paint, wet, 28 lbs. keg . . . . .	Keg	CNC \$ 44 00
•Paint, wet, other packing . . . . .	Co. Ft.	44- 00
Paper. Old News, bales of 6 to 8 cu. ft. .	Bale	187 00
Printing o r Wrapping . . . . .	Cu. Ft.	■ 33 00-
Pulp . . . . .		33 00'
Toilet . . . . .		33 00-
Personal Effects . . . . .		77 00-
Pharmaceutical Supplies		66 00'
Photographic Supplies . . . . .		66 wo
Playing Cards . . . . .		■ 66 oo
•Plumbing Suppliea . . . . .		77 00-
Potash, (Chlorate) 2 5 kilos . . . . .	Drum	165 00
Potash (Chlorate) 60 kilos . . . . .	Cask-	275 00-
Provisions, i n ease . . . . .	Cu. Ft.	" 66 00
•Radiators . . . . .	Quintal	154 00-
Radio and phonographic Supplies . . . . .	Cu. Ft.	■ 77 00-
R«g* . . . . .		" 44 00-
Raisins . . . . .	■	" 66 00-
Refrigerators and Parts . . . . .	■	77- 00-
Rice, u p t o 115 kilos . . . . .	Bag	82 50
Rice, 116 to 150 kilos . . . . .	×	110 00-
Roofing Material . . . . .	Cu. Ft.	» 66 00-
Rope, Manila . . . . .	»	> 77 00-
•Rope, Wire. . . . .	Quintal	" 132 00
Rope, Wire (in godown) . . . . .	»	" 108 00-
Rubber Goods . . . . .	Cu. Ft.	" 66- 00
Rubber Goods, inner tubes . . . . .	"	66 00-
Rubber GoodB, Tyres . . . . .		> 66 00
Rubber Goods, Tyres (old and Serap) . . . . .		» 27 50
Silk, artificial o r rayon . . . . .		» 44 00
Sandalwood . . . . .	Quintal	" 154- 00

Description	Per	Rate per Month
<b>Soap</b>	<b>Cu. Ft.</b>	<b>CNCS 3J*- 1.0</b>
<b>Soap, soft</b>	<b>at " Oil"</b>	
	<b>Rates</b>	
<b>Soda Ash . . . . .</b>	<b>Quintal</b>	<b>154-DM</b>
<b>*Soda Ash, Caustic . . . . .</b>	<b>„</b>	<b>IVtrtOU</b>
<b>*Soda Ash, Silicate . . . . .</b>		<b>154'MO</b>
<b>Sporting Goods . . . . .</b>	<b>Cu. Ft.</b>	<b>77- 00</b>
<b>Sugar, Foreign . . . . .</b>	<b>Bag</b>	<b>„ IMIMI</b>
<b>Stationery</b>	<b>Cu. Ft.</b>	<b>„ tjliOO</b>
<b>Tin Plate . . . . .</b>	<b>Quintal</b>	<b>„ 151- OH</b>
<b>Tobacco in Bales . . . . .</b>	<b>Cu. Ft.</b>	<b>33- 00</b>
<b>Tobacco in Hogheads . . . . .</b>	<b>H'ds</b>	<b>2750-00</b>
<b>Toilet Articles and Preparations . . . . .</b>	<b>Cu. Ft.</b>	<b>77-00</b>
<b>Valuable Cargo when value declared . . . . .</b>	<b>„</b>	<b>1 per cent.</b>
<b>Vegetables</b>	<b>Cu. Ft.</b>	<b>„ HO-W</b>
<b>Wax, Paraffin . . . . .</b>	<b>M</b>	<b>3S-50</b>
<b>Wearing Apparel . . . . .</b>		<b>„ lit! UK</b>
<b>Wines and Spirits, in cases . . . . .</b>		<b>„ 77-tin</b>
<b>Wines and Spirits, in casks, See " Oil " Rates</b>		
<b>Wire Shorts . . . . .</b>	<b>Quintal</b>	<b>no-00</b>
<b>Woollen Goods . . . . .</b>	<b>Cu. Ft.</b>	<b>44-00</b>
<b>Zinc, Sheets and Slabs . . . . .</b>	<b>QuLltlll</b>	<b>154-00</b>

\*Open Air Storage.

Merchandise not enumerated above will be charged according to size, value, or weight of package.

Minimum storage charge . . . . . CNCS 550-00

ONE QUINTAL EQUALS 100 KILOS

50 PER CENT ADDITIONAL (ACCUMULATIVE) FOR EACH MONTH AFTER, THE FIRST MONTH.



## ANNEXURE "I"

## COTTON MILLS in SHANGHAI

Name	Manager	Address
Ta Tung Cotton Mills	Li Chen Che .	Kiangsi Rd. Lano 31, No. 1.
Tung Yi C M . .	Tung Chun Fany	. No. 20, Ningpo Rd.
Kwting Chin C M . .	Chow- Chi Mei .	. No. 8, Tsun Teh Li, Amos Rd.
Te Fung C M . .	Wang Ping Chen	No. 110, Hankow Rd.
Sheii Sheng C M .	Lu Ping Fu	No. 451, Kiangsi Rd.
Chung Fang C. M. No. 1	Wang Chi Yu .	No. 349, Ningpo Rd.
Chung Fang C. M. No. 2	Wang Tung Tuan	No. 349, Ningpo Rd.
Ho Fung C M . .	Yung Yi Hsin .	. No. 421, Kiangsi Rd.
Chung Hsin C M . .	Pian Juei Hsin	. No. 20, Ningpo Rd.
Hung Tung C M .	Hsuei Tsu Heng	No. 70, Ningpo Rd.
An Ta C M . .	Liu Kuo Chun Liu Chiang Chi.	. No. 48, North Shantung Road.
Chin Feng C M .	Ku Yi Ching .	. No. 113, Kiukiang Rd.
Shin Hsin C. M. No. 1	Wang Yuen Cheng .	. No. 421, Kiangsi Rd.
Shin Hsin C. M. No. 2	Yung Erh Jen	. No. 421, Kiangsi Rd.
Shin Hsin C. M. No. 5	Yung Erh Jen	. No. 421, Kiangsi Rd.
Shin Hsin C. M. No. 6	Yung Hung Yuan	. No. 421, Kiangsi Rd.
Shin Hsin C M . No. 7	Yung Hung San	. No. 421, Kiangsi Rd.
Shin Hsin C. M. No. 9	Wu Kun Sheng	. No. 421, Kiangsi Rd.
Hung Chang C M.	Kuo Chi Ching.	Tientsin Rd. Lane 170, No. 18.
Hsin Yu C M. No. 1 .	Tung Juan Fu	. No. 212, Kiangsi Rd.
Hsin Yu C M. No. 2 .	Tung Juan Fu	. No. 212, Kiangsi Road.
Hsin Ho C. M. .	Huang Shou Min	. No. 88, Museum Rd.
•Tec Teh C M . .	Yion Hsin Tsuai	. No. 451, Kiangsi Rd.
Heng Ta C. M. .	Chon Tze Hsin	. No. 260, Chung Cheng Rd. (Eastern)
Yunog Fung C. M. No. 1	Hang Chih Ming	. No. 23M, Tientsin Rd.
Yunng Fung C. M. No. 2	Hang Chih Ming	. No. 238, Tientsin Rd.
Ting Hsin C M .	Chon Teh Ju .	. N>. 97, Jen Chi Rd.
Yuag An C. M. No. I	Kuo Ti Ho	Yung An New Building, Nanking Rd.

Name	Manager	Address
Yung An C. M. No. 2 and 4	KuoTiHo	Yung An New Building, Nanking Rd.
Yung An C. M. No. 3	KuoTiHo	Yung An New Building, Nanking Rd.
Wei Tung C M . .	KuoTiHo	Yung An New Building, Nanking Rd.
Pao Feng C. M.	Tang Hsing Hat	No. 444. Peking Rd.
Chang.Hsing C M . .	Chen Ching Tang	San Ho Li, Kiaugsi Rd.
Kung Yung C M ,	Shen Chen Hsia	No. 24, Central Rd.
Shin Hsin C. M. No. 3	Yung Yi Hsin .	No. 421, Kiangs Rd.
Shin Hsin C. M. No. 4	Li Kuo Wei .	No. 421, Kiangs Rd.

GOVERNMENT OF INDIA  
**COMMERCE DEPARTMENT**



**REPORT**  
OF THE  
**RECONSTRUCTION • POLICY**  
**SUB-COMMITTEE ON SHIPPING**

Printed and Published by the Government of India, New Delhi.

*mi*

*Price annas 10 or 1 sh.*

RECONSTRUCTION POLICY SUB-COMMITTEE ON SHIPPING

CHAIRMAN:

SIB 0. P. RAMASWAMI AIYAE, K.C.S.I., K.C.I.E., LL.D.

MEMBERS:

MR. K. 0. NEOGY, M.L.A. (CENTBAL)

MR. M. A. MASTER .

SIR ABDJL HALIM GHTJZNAVI

MR. W. L. A. RADCLTFE

SECRETARY:

MR. R. DORAISWAMY, M.SC. (ECON.) (LND.)

CONTENTS

	Page
INTRODUCTORY	i
CHAPTER I.—THE PLACE OF SHIPPING IN MARITIME COUNTRIES	1-9
i. Shipping in <i>national</i> policy	1-3
ii. Expansion of shipping by state aid	3-7
iii. Development of shipping since the war of 1914-18	7-9
CHAPTER II.—ATTITUDE OF THE GOVERNMENT OF INDIA TOWARDS NATIONAL SHIPPING.	9-23
i. Neglected opportunities	9-11
ii. Patronage to British shipping	11-12
iii. Strangling competition of British shipping	12-16
iv. Indian shipping in central Legislature	15-17
v. Central Government's policy since 1918	18-21
vi. Shipping in the Dominions	21-22
vii. Present position of Indian national shipping	22-23
CHAPTER III.—WHAT SHOULD INDIA DO TO DEVELOP HER NATIONAL SHIPPING.	24-33
i. Need for a national shipping policy	24-27
ii. What is "Indian Shipping"?	27-28
iii. Reservation of the coastal trade :	
Increased shares in other maritime trades	28-30
iv. Will a policy of negotiation with H.M.G. develop Indian shipping	30-32
v. What should we do if the policy of negotiation fails	32
vi. Indian Shipping Board	32-33
CHAPTER IV.—TERMS 1 AND 2 OF THE REFERENCE	34-42
i. Not possible to decide the ultimate target	34
ii. Shipping statistics	34-37
iii. India's coastal trade and associated coastal trades	37-38
iv. Adjacent trades and trades with the Far East	38
v. India's distant trades	39
vi. Trades lost by the Axis in the orient	39
vii. Tonnage required for the carriage of the above trades	39-40
viii. How to acquire new tonnage	40-42
CHAPTER V.—TERMS 2(a) AND (6) OF THE REFERENCE	42-45
i. Tonnage of the leading Shipping Companies in the World	42-44
ii. The Conference system, rate-cutting, deferred rebates, etc.	* 44-45
iii. Division of the trades between Indian Shipping Companies	45
CHAPTER VI.—SUMMARY OF RECOMMENDATIONS	46-47
MINUTE OF DISSENT by SIB A. H. Ghuznavi	48-49
MINUTE OF DISSENT by MB. W. L. A. Rndeliff	50
APPENDICES CONTAINING STATEMENTS	KI-100

( i >  
INTBODUCTOBY..

In accordance with the decision of the Reconstruction Policy Committee on shipping at its meeting held in New Delhi on the 26th October, 1945, to form a Sub-Committee, the Commerce Department, in their letter No. 172-MI (23)/45-D, dated the 10th November 1945, appointed us with the following terms of reference:—

"To consider the Departmental Statement on Post-war Shipping Policy, and in the light of that statement and all relevant considerations, to recommend—

- (1) what would be a suitable tonnage target for Indian shipping, to be attained within a period of five to ten years;
- (2) what percentage shares of the maritime trade of India and other trades in which India is interested both coastal and overseas, cargo and passenger, should be secured for Indian shipping; and
- (3) what measures should be taken—
  - (a) to regulate the shipping industry with a view (i) to preventing the formation or establishment of combines or monopolies or excessively large units within the industry and (ii) to ensuring that the number of shipping companies is no larger than economically adequate,
  - (b) "to ensure a fair and equitable distribution, among existing companies and those yet to be established of trades which may hereafter be secured for Indian shipping.

The Sub-Committee will be competent to make such other recommendations as seem germane to the subject."

2. We met in New Delhi on the 15th and 16th February 1946 and agreed upon certain general principles which should govern our approach to the problem. We also decided to meet again after the middle of April by which time most of the statistics] data required by us were expected to be ready. The Secretary was also given instructions to collect and compile the necessary statistical data in so far as this was found possible, and to prepare certain sections of the draft report covering those points on which agreement had been reached. We met again in Bombay on the 30th April for considering the draft prepared by the Secretary. We met finally in Delhi on the 13th December to complete our report. We considered the desirability of taking oral evidence and sending out a detailed questionnaire to shippers, ship-owners, etc.. but, as we felt that the information obtained thereby was not likely to affect materially the general principles laid down by us for a national shipping policy, we decided not to pursue this idea.

3. In order to appreciate the significance of the future development of the vital though nascent Indian shipping industry, we review in the first chapter the place of shipping in the principal maritime countries of the world. In Chapter II we trace historically the attitude of the Government of India towards Indian shipping. We lay down in Chapter III the objectives of a national shipping policy for India. In Chapters IV and V we deal with our terms of reference. Chapter VI contains a summary of our recommendations.

4. We are grateful to Mr. Dnra'swiunv, our Secretary, for his indefatigable labour in collecting the material required by us and the very valuable assistance that he has given to our deliberations. We also wish to acknowledge our indebtedness to Mr. Suhramnniam, Statistician to the Economic Adviser to the Government of India, who very kindly placed at our disposal his intimate knowledge of shipping statistics generally.

## CHAPTER I.

### THE PLACE OF SHIPPING IN MARITIME COUNTRIES.

*ii) Shipping in National Policy.*—Every maritime country looks upon its shipping as a great national asset, a powerful instrument of national economic policy, a vital need for the growth of its trade and commerce, and a second line of national defence. Almost all important maritime countries have laid down a well defined shipping policy. For instance, the United States of America have laid it down in the Merchant Marine Act, 1936, that:—

"It is necessary for the national defence and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States in so far as may be practicable, and (d) composed of the best equipped, safest and most suitable types of vessels constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine".

Announcing in Parliament the Shipping Policy of the United Kingdom, Ministers of His Majesty's Government have, in recent years, stated:—

"The Merchant Navy is a vital national interest and will remain so in peace time as it is in war".

"Our Merchant Navy must be at least as large as before the war and so much larger as British enterprise and efficiency can make it, in a world from which we hope artificial obstacles to trade will have been removed".

"The Government are determined that the British Merchant Navy, ships, officers and men, shall be reconstituted as a large and efficient fleet".

"This country must—I ask the Committee to observe the word 'must'—continue to serve the world with a large and efficient merchant marine. The word 'must' is fundamental."

These are far-reaching and heartening declarations of national policy regarding shipping by the most important maritime countries of the world. India is a great maritime country. She has a large and extensive overseas trade. By her geographical position she commands the Indian Ocean and occupies a strategic position in the South and the South-east Asia. Shipping passing from West to East and from East to West has to cross the waters adjacent to India's shores. These fundamental considerations make it imperative, both in the interest of India as well as in the interest of other countries, in the Indian Ocean, that India should have a large and powerful navy, both of supply and of defence. Every maritime country has, as stated above, its own national shipping policy. India alone is a glaring exception to this universal rule. Neither have the Government of India, hitherto laid down any national shipping policy, nor has the national of the country protected—not to say, encouraged—in their enterprise to develop shipping. It is, therefore, of supreme importance that India should lay down her shipping policy for building up her own national mercantile marine.

### 3

Shipping operates both in national and international waters. No maritime country can afford to ignore the necessity of securing the proper place for her shipping in international trade. The following is quoted from an important American publication and it shows the vital part which shipping plays in international trade:—

"International shipping is rooted in the necessity for large scale exchange of basic commodities between the peoples of the earth; passenger travel may be curtailed without serious national consequences; interference with the movement of overseas mails may now be mitigated by cable and radio communication and by air transport; stoppage of the transborder movement of finished product would react unfavourably on both the exporting and the importing country; but stoppage of the world flow of basic commodities would have a paralysing effect on the progress of nations. Without cargo carriers on the world trade routes, the Asiatic Mould not burn American kerosene in his lamp; nor distant markets consume American wheat; the European could not so cheaply cultivate intensively an unproductive soil; the American could not so cheaply produce a large volume of high grade steel; the Briton would lack his supply of fresh New Zealand mutton and Argentine beef. It is the carrier of basic commodities in large quantities and at low rates which renders possible the concentration of materials, machines and men at strategic points where this combination may most efficiently produce an industrial product; it is the refrigerator ship which makes the food products of one area the daily diet of the world."

Shipping is one of the oldest forms of transport and it is still by far the most important. It carries over three quarters of the world's trade and its importance as a means of transport is not likely to diminish in the near future. Sea has always been a supreme issue of national policy and shipping has been the effective means of extending trade and territories. A merchant marine is a factor of such national importance in war as well as in peace that no nation can afford to neglect the development of its national shipping in the overseas trades. Neutral countries have found as a result of the bitter experience of the last two world wars that they would be deprived during war of the shipping services of the fleets of belligerent countries on which they relied during days of peace. The development of a national merchant navy has now therefore been recognised as one of the most fundamental responsibilities of the state.

A Belgian Government Report in 1930 in support of a proposal to assist shipping financially made the typical points that shipping contributed largely to the equalisation of the balance of payments since freights could be looked upon, as invisible export, the shipping industry spent considerable sums in the country on construction, maintenance, supplies, repairs, food, insurance and wages; shipping also protected national commerce and industry abroad and the efficiency of transport itself was promoted by a national marine; and the market for national goods was favourably influenced when the national flag was shown in foreign countries."

Apart from these considerations, national prestige was an important cause of the development of merchant fleets in some of the countries. In 1937 Cuba, besides advancing the usual reasons, justified an increase in her national marine as "an essential aggrandisement of Cuba".

Between 1913 and 1932 the total merchant marine tonnage of the world increased by 48% while the volume of sea-borne trade was practically the same in 1932 as in 1913. It is often urged by interested critics that this



world over-tonnage in the early thirties was the result of the shipping policy adopted by some of the maritime countries during the inter-war period. They however ignore the fundamental fact that the United Kingdom had the lion's share of the carriage of the world trade before the first world war. According to the Report made by the Board of Trade Departmental Committee in 1918, before the war, one-half of the world's trade was carried by British ships, including nine-tenths of the Inter-Imperial trade, over three-fifths of the trade between the Empire and foreign countries, and nearly one-third of the trade between foreign countries. Such an inequitable distribution of the carriage of the world trade was inconsistent with the growing recognition of the responsibility of maritime countries for serving their maritime trades and ensuring their national security by building up their own navies of supply. The discharge of this vital responsibility by some of the maritime countries may have increased the tonnage in the world during the interwar period far beyond the needs of the world trade. They cannot, however, be blamed for it. Both justice and fair play are on their side. The domination of one or two maritime countries over the entire field of shipping of the world cannot and will not promote real international co-operation which the United Nations are anxious to secure. Such co-operation can only be based on the clear recognition of the just claims of all maritime countries to build up their own merchant navies commensurate with their vital needs.' It is however a tragedy that what other maritime countries in the world did to build up their national shipping India did not do. India had no national government. India had therefore no national shipping policy.

(u) *Expansion of Shipping by State aid*:—We give below a summary of the shipping policy of U. K., France, Germany, Greece, Italy, Japan and the United States during the interval between world wars I and II. State aid in a variety of forms has been given by these seven maritime countries from time to time for developing their own shipping. In recent years the general trend has been for Governments to intervene increasingly in the interests of their mercantile marines, or to create a mercantile marine where none existed. Among the lesser maritime countries, Belgium, Brazil and Chile may be mentioned as having actively promoted the development of a national mercantile marine, and Cuba, Egypt, Iran and Siam as having planned or carried out measures to create one.

*United Kingdom*:—It has often been claimed on behalf of the United Kingdom interests that they do not ask for state help for developing their national shipping. Such a claim is not in consonance with facts. Navigation laws of Great Britain and the imposition of discriminatory tariffs by that country have given British shipping an advantage everywhere than in Britain provided British shipping had the protection and power in the early period of its growth. The unrestricted and exclusive patronage extended by the Government of India at the behest of Whitehall to British Shipping in the carriage of all Indian trades for over a century enabled it to expand its activities and to build up a powerful financial resources. Moreover British Shipowners demanded in 1918 the reservation of the Inter-Imperial trade to British ships and claimed during recent years that the bargaining power of India in regard to any trade agreement she may conclude with a foreign country should be utilised not for the promotion of Indian shipping but for consolidating the position of British shipping in the maritime trades affected thereby. Further, substantial financial assistance was given by the state to British shipping during the inter-war period.

Under the Trade Facilities Act, up to the end of 1929, a sum of about £29 millions had been granted for shipbuilding, some of the guarantees being of account of Norwegian, Italian, Brazilian and Rumanian ships under construction in Great Britain. In addition, a further £10 millions was guaranteed under Northern Ireland Legislation. A merger between the Cunard and

White Star Companies was provided for in an agreement of 1933 between the two companies and the Treasury. With a view to ensuring the completion of the "Queen Mary" the Treasury undertook to make advances not exceeding £3 millions secured by issues of debenture stock. The Treasury further undertook to promote legislation that would, *infer alia*, enable the Government to advance to the Merger Company the cost (not exceeding £5 millions) of a new ship or ships and to secure to the company in respect of all ships constructed with those under the Cunard insurance of 1930. The agreement of 1933 was implemented by an act of 1934, which empowered the Treasury to advance to the Cunard-White Star merger sums up to £9 millions for the purposes of constructing one or more large capital for the North Atlantic shipping trade and of providing working capital for the merger company.

In order to help British tramp shipping, the British Government decided that a subsidy not exceeding £2 millions should be granted for the year 1935. The British Shipping (Assistance) Act of 1935 implemented this arrangement. The tramp subsidy was extended up to 1936 and again to 1937 when it lapsed. In 1939 a bill, restoring the subsidy for five years from 1st January 1940 at a rate not exceeding £2.75 millions per annum, was not proceeded with owing to the outbreak of war. Further Government assistance to shipping was also provided for in the British Shipping (Assistance) Bill of 1930. These provisions\* related to facilities for the building of general trading vessels by means of loans not exceeding £10 millions and by grants not exceeding £500,000 a year for five years. Financial help exceeding £320,000 was actually given for the building of ships in 1939-40 and it was only the outbreak of the war that stopped the free flow of this monetary assistance. Liner services were to be helped to meet subsidised foreign competition by grants, loans, guarantees, etc. up to a maximum of £10 millions.

In addition to the financial assistance outlined above, it was announced in the House of Commons by the President of the Board of Trade that "the Government will continue to take all possible steps to promote the interests of British shipping in connection with trade negotiations and other discussions with foreign Governments". It is a memorandum issued on the 8th August 1940 in London it was announced by the British Government that "the progress of legislation with a view to the improvement of the position of the British mercantile marine in adequate strength and in a position of full competitive efficiency is recognised no less strongly by the Government today. They will, therefore, keep this question constantly in mind as one which will be necessary to ask Parliament to deal with in due course."

As stated in a previous paragraph, the British Government have further announced that they will take all possible steps to ensure that the British Merchant Navy, ships, officers and men, shall be constituted as a "large and efficient fleet."

*!• rancee.*—France has granted aid to her shipping more extensively and for longer period, than any other country. In spite of subsidies granted to French shipping before World War I, French Shipping Companies got into financial difficulties after the last Great War and during the great depression of the early thirties. The French Government were therefore compelled to take an active part in the organisation of the mercantile marine and, in particular, in the building of a substantial subsidised tanker fleet for reasons of national defence.

In 1932, the French Government voted a temporary loan of about 150 million frs. to cover the deficit for that year and guaranteed a loan of 68.7 million frs. for completion of the building programme. The annual subsidy for the next four years was to be increased to an amount varying between 50 million frs. and 150 million frs., according to the yearly deficit. The arrangements for operating

subsidies were revised in 1934 and the amounts increased to meet both the extra cost of the eight-hour day and the urgent need for strengthening the commercial fleet. The state also incurred expenditure in connection with the superliners; 35 million frs. was advanced for the construction of the "Normandie". As a result of these and other measures, the French Budget Estimates for assistance to shipping in 1939 amounted to just over 1,000 million frs.

*Germany:* After the war of 1914-18 the German Government committed themselves by agreements with shipowners in 1921-22 to replacing one-third of the tonnage of the Mercantile Marine surrendered under the Treaty of Versailles. The original provision of 12 milliard marks was increased by 18 milliard marks in 1922, owing to the depreciation of the mark. In 1925 the Government authorised a loan fund of 50 million marks (by this time the mark had been stabilised) for new construction. The fund was exhausted by October 1928. Subsequent direct financial assistance upto 1932 consisted of a loan of 18 million marks in 1926; an export credit scheme in 1930 for the building of ships for foreign account; a Government guarantee in 1932 of a loan of 20 million marks to German shipowners; a further guaranteed loan in 1932 of 77 million marks and a grant in 1932 of 12 million marks in loans to subsidise the scrapping of some obsolete vessels. In 1933 loans of upto 45 million marks were authorised for assistance to shipping and these were followed in the same year by a further grant of 90 million marks. Since 1933 operating subsidies were paid by the German Government on the basis of 3 Pfennigs per gross ton per day plus 20 per cent of the wages and salaries of the crew. In 1934 the Government granted 7.5 marks per gross ton in six months—roughly equivalent to 20 or 25 per cent of the total net cost in the case of a vessel of 6 thousand tons. In 1934 it was stated officially that German shipping subsidies were necessary and would be continued so long as German shipping remained at a disadvantage with its competitors on the freight market in regard to foreign exchange rates.

Apart from the direct subsidies mentioned above, Government assistance included a number of indirect ways of helping German shipping, e.g., placing of orders through a financial holding company for three 18,000 ton passenger liners for the Far East service; measures to enable German shipbuilding yards to quote competitive prices, Government making up the difference between British quotations and the lowest economic price that the German yards could quote.

*Greece:* The Greeks are the eldest maritime race of Europe. Between 1913 and 1931, according to *Lloyd's Register of Shipping*, the tonnage of the Greek shipping of over 100 tons practically doubled, notwithstanding destruction of 46 per cent of the Greek Mercantile Marine during the war of 1914-18. In 1931 the Greek commercial fleet consisted of 539 vessels of 1.4 million gross tons.

Special subsidies as were granted to Greek shipping were directed to improve the efficiency of the fleet by reducing the age of the vessels. Greek foreign mails were carried principally by foreign vessels and in 1926 certain fees were levied on vessels registered under the Greek flag. No steamer exceeding 30 years might be registered as a Greek steamer and money collected from these fees was to be used by Government for subsidies to passenger steamers less than 10 years of age serving Greek or international coast lines. In 1927 the Council of the merchant-marine approved a decree granting subsidies to new passenger vessels. In 1936 the Greek Government granted an annual subsidy of 5-9 million Drachmae for weekly sailings of vessels on certain routes.

*Italy:* Italy with her dependence on imports for raw materials, her long coast line and her situation as a transit country, could consider herself entitled to a flourishing mercantile marine. Against a lack of coal and of the ore from which steel could be made, she could set off an abundance of labour at low wages. Before the first World War, Italy had a system of subsidised contract services, and navigation and construction bounties. In 1926 a new decre-

tuced subsidies for shipping services for periods varying from 20 to 25 years according to the importance of the service, the grand total for the period 1925-26 to 19-15-46 being fixed at 3,205 million lire. The amounts were increased by a further Act of 1928. From 1929 a series of contracts was entered into between the Italian Government and the Shipping Companies for the operation of specified subsidized services to South America, Africa, the Far East, Australia, etc. The Italian budget for shipping subsidies for 1934-35 totalled 264 million lire.

In addition to direct subsidies, credit facilities were made available through an Italian Maritime Credit Institution established in 1928. Under this scheme the total of the loan operations for the first three years was fixed at one thousand million lire. In 1933 a special series of bonds amounting to 200 million lire in the form of mortgages was guaranteed by the State. By a decree of 1938 in connection with the 5 year shipbuilding plan of 1937 state assistance was provided to ship builders in the form of duty free importation of shipbuilding materials and exemption from taxes, in respect of shipbuilding contracts and to ship owners in the form of amortization grants; exemption from income-tax on the earnings of ships covered by the plan, etc.

Up to 1914 the Japanese Government had paid close attention to shipping problems and Japan's experience in her early military campaigns brought home to her the importance of maritime transport in war time. In 1914 the Japanese Government subsidies to shipbuilding averaged about 250 thousand yen per annum, and from 1914 to 1916 about 1.3 million yen. Between 1914-15 and 1930-31 the total operating subsidies budgeted for fluctuated between 2 million yen and 13.9 million yen. Credit facilities for shipowners and shipbuilders were usually secured through special banks. The authorized maximum of advance by the Industrial Bank for shipbuilding, which was 5 million yen in 1914, was gradually increased until it reached 30 million yen in 1936-37 and one hundred million yen in 1938-39. The Ministry of Finance undertook to pay up to 70 per cent of any capital loss in case the loans were not repaid.

With a view to improve the unimprovable distribution of the Japanese Mercantile Marine, several scrap and build schemes were put into operation between 1932 and 1934. Forty-eight new ships with a speed between 10 and 14 knots of 10,000 gross tonnage or more were built under these schemes. The actual financial help given for building ships varied from 33 1/3 per cent to 50 per cent of the cost of the vessel. In 1934 these ships constituted more than 4/5th of the total number of Japanese vessels of over 4,000 tons gross and less than five years old. There was a further announcement in 1934 to build high class passenger and passenger-cargo liners of not less than 6,000 tons gross and 19 knot speed at rates of subsidy often exceeding half the building cost.

O. A. A.: Before the first World War, the United States Mercantile Marine was even shrunken to the minimum requirements for naval auxiliaries in the event of war. The first remedial action was the Shipping Act of 1916, establishing the United States Shipping Board for the purpose of creating and developing a naval auxiliary and naval reserve, and a merchant marine, as well as regulating sea transport. The United States Shipping Board Emergency Fleet Corporation with a capital of \$50 million was incorporated for the purchase, construction, equipment, charter, etc., of merchant vessels in the commerce of the United States. While originally intended as a regulatory and advisory body the entry of the United States into the war forced the Board to take up the operation and later the liquidation of a fleet of merchant ships acquired for war purposes. The American policy as indicated in the Jones Act maintained the United States Shipping Board and transferred to it all Government owned vessels, in 1926 the Shipping Board reported to the United States Senate their conviction that without additional legislation for direct or indirect federal aid, a privately owned merchant marine could not be established. A

new Merchant Marine Act known as the Jones White Act of 1928 opened the way for further aid to American Shipping operators. In March 1930 provision, was made to increase the existing mail subsidy of \$050 thousand paid to the United States Lines to \$3-6 million. Some thirty-four mail contracts opened or concluded in 1928 brought the total yearly payments to private operators to \$21 million.

The entire shipping policy was overhauled by the Roosevelt Administration, and every endeavour was made in the Merchant Marine Act of 1930 to rationalise the mail subsidy system. The Act dissolved the Shipping Board Merchant Fleet Corporation and created the United States Maritime Commission to study, perfect and adopt a long-range programme of replacements and additions to the American mercantile marine, so as to create an adequate and well balanced merchant fleet. The Maritime Commission was also given wide powers in the matter of regulating the future of the American shipping industry. It was also authorised to grant substantial construction differential subsidy for the building of new vessels in America and operating differential subsidy for enabling the American citizens to run their ships in the foreign commerce of the United States. Such "operating differential subsidies from 1st. July 1937 to 31st October 1938 exceeded the sum of 12 million dollars. In 1937 the Commission submitted a report known as the "Economic Survey of the American Merchant Marine". According to the report of the Commission the expenditure of public funds to maintain a foreign-going fleet could be justified only on two grounds:

- 1) the importance of shipping as a factor in foreign commerce; and
- (2) the relationship between merchant vessels and national defence.

The survey disclosed that there were between 32 and 13 million deadweight tons of ocean-going shipping in the American merchant marine at that time. When the United States entered the war the fleet's capacity was about 11 million tons. The "maritime commission had, however, inaugurated in 1937 a long range programme to build 500 vessels in the ensuing decade. This programme was first doubled during the war and was subsequently increased to build a colossal tonnage of ships in the States. According to the report of the Maritime Commission for the period ended June 30th, 1945, 5,377 vessels of a deadweight tonnage of over 52 million tons were constructed during the war. This unprecedented output of new ships at the cost of the State is the most powerful weapon which the United States has got in enabling its shipping to attain a dominant place in the carriage of the world trade in the future.

(iii) *Development of shipping since the war of 1914-18*:—The first great world war with its tale of sinking of ships and the plight of some of the neutral countries who depended for their supplies on foreign shipping brought home to the Governments of all important countries the supreme importance of an adequate national mercantile marine. We have outlined in the previous section the principal measures taken by some of the important maritime countries to develop merchant shipping in the inter-war period. It is true that during 1914—18 sinking of ships was on a very large scale, but the war-expanded shipbuilding industry was capable of production far exceeding normal peacetime requirements. The story of shipping in the period that followed between the signing of the Treaty of Versailles in 1919 and the German invasion of Poland in 1939 was, therefore, one of an enormous increase in world tonnage. The excess tonnage was due to three factors: the war and its consequences, the decline of world trade and nationalist shipping policies.

The world tonnage, which increased from 47 million gross tons in 1913 to 70 million tons in 1931, was not shared proportionately by the mercantile marines of the different countries. Between 1914 and 1931 increases in the British Empire fleets of 12-7 per cent compared with the United States 415 per cent,

almost extinct. Since then Indian shipping has been struggling bravely to survive and develop. Its history has been, for the National Shipping Companies, a sad story of ceaseless struggle and sacrifice; for the people of the land it is a painful chapter of bitter disappointment at the lack of response from the Government of India to their demand for stability and expansion; and for the Government of India it is a tragic tale of broken promises, unredeemed assurances and neglected opportunities.

The opportunity presented by the war of 1914-18 was of a two-fold character. In the first place, the submarine menace drove into prominence the question as to whether India could any longer rely entirely and exclusively upon foreign shipping for the carriage of her trade. Secondly, with the progressive disappearance of a large part of the world shipping and an evident shortage of tonnage, there was no reason why India should not take steps to have her own merchant fleet in any replacement programme. All that the Government of India did during the last war was the creation of a ship-building branch of the Indian Munitions Board and the borrowing of the services of an officer from the British Admiralty to examine the possibilities of ship-building in India. In the result, the Government of India arrived at the conclusion that the encouragement of wooden ship construction was possible during the war, but that it was not possible to make any progress during the war towards the building of steel ships. In order to encourage the building of wooden ships the Government of India provided certain indirect forms of assistance to constructing firms but that was all.

In Chapter I it has been pointed out that the general trend in the interval between the two world wars has been for Governments of the important maritime countries to intervene increasingly in the interests of their mercantile marines: national merchant fleets have been created where *none* existed before. We have also observed that in the thirties there was an excessive world tonnage, and the consequential low rates resulted in a reduction in tramp tonnage. Tramp tonnage which stood at 22.7 million tons out of a world tonnage of 49.1 millions in 1914 fell to 22.2 millions in a total of 67.9 millions in 1933. The causes which led some of the important countries in the world to build up their own national marines have been explained. But so far as India is concerned the Government of India pursued a policy of complete inaction throughout the period 1918—1939. The tragedy of the situation was that, when the second World War broke out in 1939, Indian tonnage was less than 0.24% of the tonnage of the world. Indian public opinion, both inside and outside the Central Legislature, had demanded and was demanding with one voice the creation of a powerful Merchant Navy. It was completely ignored. "Every maritime country of any importance had on grounds of national security and national economic needs had increased their own fleets. What was happening in other parts of the world was however of no concern to the Government of India. India continued to remain a glaring exception to the recognition of the responsibility of the State to develop the National Merchant Marine. If it took no action, Indian shipping did not grow—could not grow.

The war of 1939/45 did not materially alter the situation on the Indian scene. The world shipping position was actually alarming in 1942/43. The Dominions of Canada and Australia performed a remarkable feat in building the ships that were urgently needed. As was pointed out in the House of Commons. "Canada between the two wars built no oceangoing ships at all; she is now building, in addition to corvettes and other protective craft, an approximately the same merchant tonnage as we in this country." While the Dominions showed an astonishing ability to adapt their industrial production to what was most needed in the war, "and thus built up new industries on a permanent footing, the Government of India did not do anything beyond providing certain additional facilities for carrying out ship repairs. In the year

**a**

1943 a total number of 2219 merchant ships were repaired in the different ports of India. There was an increased strain on the Railways and very much increased demand for coastal shipping for the movement of essential cargoes like coal and foodstuffs. All this, however, brought about only the imposition, in September, 1943, of a system of control through licensing of all free Indian Registered ships on the coast without any attempt to increase the Indian owned tonnage. Several countries such as France, China, Norway obtained ships from America to meet their immediate vital requirements. Even Great Britain, inspite of her great **builDiDg** capacity, resorted to getting ships huilt in America **or** obtained them from that country on charter to meet the emergency as it developed. But, the Government of India, despite the fact that the country was being ravaged by deadly famine and the people were dyim: in thousands because for want **uf** foodgrahis which could not be brought **from** abroad owing to lack of shipping space, went on looking helplessly at the deepening tragedy without doing anything to build, to borrow or to charter ships or to secure them under Lend-Lease arrangement.

In short, the opportunities for developing national shipping and ship-building presented during the first world war, in the inter-war period and even while the second world war was on were all neglected by the Government of India.

(ii) *Patronage to British Shipping.*—There arc a number of foreign shipping companies (British and Others) cperatiug in the trade routes of India but much the most powerful of them is the British India Steam Navigation Company. It is this company which has dominated the coastal trade of India for several decades past. Tt is this company, which has by its powerful financial resources and the ruthless freight wars, wiped out one Indian Shipping **Company after** another from **the coastal** waters of India. Instead of giving protection to any of the several Indian enterprises that started operations in the field of shipping during the last sixty or seventy years against this unfair and anti-national wars, the Government of India missed not a single opportunity to extend its patronage during this last century" to this British Company and thus encouraged it in every way to act against the national economic interests of the country. The granting of the Royal Mail subsidy, the exclusive right of carrying Government and Railway cargo and passengers, the division of traffic between the Railways and the British Shipping Company at the cost of Indian Trade were some of the ways in which patronage was extended and monopoly was allowed to be **created**. We will indicate this by giving one or two examples as to how this exclusive patronage affected the development of national shipping in this country.

The Resolution moved by the Hon'hle Mr. (later Sir) Lalubhm Samaldas and accepted by the Council of State on the 15th March, 1922 was concerned with one category of patronage. Mr. Lalnbhai Samaldas recommended that instructions should be issued to the Departments concerned to give Indian shipping companies an opportunity of quoting for the carriage of Government and Railway materials from any ports to India. When the Resolution was moved in the Council of State it was pointed out **by** the mover that the Scindia Steam Navigation Co. offered to carry coal for the Burma Railways and asked the Railway Administration that the Shipping Company should be allowed to tender. After a show of sympathy the only information the Seindias received from the Railways was that the order for the supply of coal had already been placed. Even the right of quoting the rate of freight for the carriage of coal in its own country was thus denied to a national concern.

Again, throughout the inter-war period Ifte B.I.iR.N. Co. have received subsidies from the Posts and Telegraphs Department of the Government of India for the carriage of mails. The *Compartv* have always used their monopolistic position to make the Government of India pay whatever suhsinV the Compnnv demanded. The mail contract carries with it certain other privileges as well

for the steamer flying the flag of the Royal Mail is entitled to some concessions, e.g., first admission to the docks when there are other steamers waiting to be berthed and so on.

Government servants going abroad (particularly to the United Kingdom) usually travelled by the Peninsular and Oriental Steam Navigation Company which is allied to the B.I.S.N. Co. In the early thirties, when there was a licpressiou which affected British shipping more than the others, Government were reported to have used their good offices to persuade their servants to travel by the P. & O. Instances have also been brought to our notice aa to how the non-officials going to the International Conferences have been penalised for travelling by steamers other than those of the P. & O. Co. It was thus not a question of persuasion. It was an act of compulsion.

(hi) *Strangling competition of British shipping.*—In the twenties and thirties all the Indian Companies, which were of course newly started, faced such ruthless rate-cutting and severe competition from the B.I.Co. that even some of the financially sound and well-managed Companies had to close down. No Company was secure till it had found a place in one of the Shipping Conferences (us they are called); even after admission to the Conference line, r,h« newcomer usually submitted to the directions of the predominant partn«r., i.e., the B.I.Co.

As the Scindia Steam Navigation Company Ltd. is the biggest of all Indian Companies, we will refer to its early experiences. The Company bought a passenger steamer S.S. "Loyalty", in India and sis cargo boatB in London in 1919, these latter having been brought out to India in 1920 to ply on the Indian coast. At that time, the rate for carrying rice from Rangoon to Bombay, which serves as the basic rate upon which the rates for other Indian Ports are quoted, was Rs. 18 a ton. Upon the Scindia ships being put in the Rangoon-Bombay trade, a rate-war was begun by the B.I.Co., rates being out only between those ports for which the Scindia Company, with its limited tonnage, attempted to provide a regular service. As months passed, the rate-war became more and more acute until the rate from Rangoon to Bombay was reduced from Rs. 18 to Rs. 6 per ton, when the operating costs was approximately Rs. 14. As a direct and cumulative result of this war, the Scindia Co. lost several lakhs of rupees, which naturally gave rise to discontent among the sham-holders of the Company. They were however so keen upon keeping the Scindia Company alive as an Indian shipping concern thaf! when indications were received from Lord Inchcape, Chairman of the B.I. and P. & O. Companies, regarding the purchase of the Scindia Co.. the shareholders refused to have anything to do with the transaction which would have meant nipping in the bud the enterprise of the Company as a national concern.

India had an extensive trade in yarn with China. When the late Mr. J. N. Tata found that the rates of freight on yarn from India to China were raised so high as would make it impossible for Indians to retain the Chinese market for Indian yarn, he chartered a few boats for carrying yarn to China at reasonable rates. The P. & O. could not tolerate an Indian Company carrying cargo in India's overseas trades and started a rate-war against the Tatas by reducing the rates from Rs. 16 to Re. 1. The Indian Company could not withstand such a relentless competition. When the Company disappeared the rate was again raised from Re. 1 to Rs. 17. This enabled the P. & O. to make up for any loss it may have sustained during the rate-war started by it. British Shipping thus continued to raise its edifice on the ruins of Indian shipping. Even in the coastal trade itself, low rates were adopted by the B. I. Co. to crush many Indian Shinning Comnani-s from time to tim^ Ivgh mononolktie usnallv followed the dsar>f> range of nascent concerns which tried to establish regular sailings between Indian ports.



One of the many Indian Companies, that went into liquidation was the Bengal Steam Navigation Company which, in 1905, ran its ships between Chittagong and Rangoon. As soon as this Company came into existence, the B. I. Co. reduced the fares for deck passengers from Rs. 12 to Rs. 6 and the freight from Rs. 14 to Rs. 4 per maund. Sweets and handkerchiefs were also freely distributed to those who patronised the B.I.S.N. The result was that this new Company struggled for five years and in 1910 it went into liquidation and disappeared from the scene. As soon as the Company was driven to *the* wall, the British India Company raised their fares to Rs. 14 as against Rs. 12 which was in force before the ruinous rate-war, in order to compensate themselves for the loss incurred during the rate-war. Although the story on the West Coast of India was less tragic the coast was not free from rate-wars. In the early thirties for example, the B. I. Co. indulged in cut throat competition against four small Indian Companies, the Eastern Navigation Co., the Malabar Steamship Companies, the Merchant Steam-Navigation Co. and the National Steamship Companies; the last mentioned Company has disappeared. At one time the freight from Bombay to Tuticorin was reduced by B.I. from 12 annas to 3 annas per bag.

There is one other matter to which we would like to draw attention and that is the system of deferred rebates. This system arose when shippers began to feel the necessity of regular sailings from port to port. When this demand arose the shipowner naturally asked the question what guarantee he had that, if he ran a ship periodically, he would find cargo for the voyage. The deferred rebate system supplied the solution. The underlying principle is that the shipper should have a strong incentive to transport his goods by the ships of the line or lines who have undertaken to provide regular sailings. If the freight is, say Rs. 16 a ton on a particular class of goods, the shipowner undertook to refund say 10% of the freight provided the shipper could satisfy him that he had not during a particular period shipped goods by any other line. If he was found to have done so, he forfeited his rebate. As the system has worked in the past it is extraordinarily difficult for a shipper to break away once he has committed himself to a particular line or group of lines. For example if he has shipped a particular quantity of goods in the quarter January-March and thereby entitled himself to a rebate of 10% of the freight he has paid, that rebate is not actually paid until the beginning of the July-September quarter, and he will forfeit it if during the April-June quarter he has shipped goods by other lines. As the bulk of the tonnage on the coast is owned by the B. I. Co., that Company has always been in a position to use the deferred rebate system to ensure that the shipper did not, as far as possible, ship his cargo by any of the newly formed Indian Companies, and thereby promote the latter's growth.

It might be argued that whatever may have been the effect of the deferred rebate system on Indian shipping in the early stages of the growth of the industry, Indian Shipping Companies have, after their entry into the Coastal Conference, been protected by conference rebates from competition of foreign owned vessels. Be that as it may, we feel that a deferred rebate system is sound in principle and that the administration should have the necessary power to control the same.\*

"Mr. Radcliffe is not prepared to discuss the question as to whether a deferred rebate system in principle is good or bad but considers that it should be made clear that while there has been no Government regulation regarding tonnage running on the Indian coast, some form of rebate system has been necessary to protect the line (who themselves have come together in various conferences and agreements, *P. q.*, Tripartite Agreement and the Moore Award) from intrusion of outside tonnage. He is of the opinion that it must be admitted that rebates have assisted Indian shipping up to date rather than the reverse. It should be noted that the following Indian Shipping Cos. are included in the deferred rebate form used by the Indian Coastal Conference, *viz.*, P. India P. N. Co., Eastern Steam, Malabar Steam, Merchant Steam, National Steam and Tionhay Steam.

Although these practices were constantly brought to the notice of the Government of India by the legislators, they did not resort to any legislation to prevent this unhealthy and ruinous competition. The principle of the Coastal Reservation Bill introduced by Mr. Haji in the Central Legislative Assembly was accepted by an overwhelming majority in 1936 and the Bill was examined by a Select Committee in 1929. In September 1929 when the report of the Select Committee was to come up before the Central Legislative Assembly for its consideration Sir George Laidlaw made the following statement on the floor of the house:—

"It is the earnest hope of the Government of India that as stated by His Excellency, a solution of this difficult question may be found in a spirit of co-operation and goodwill, and they would be reluctant to proceed upon other lines, until it was clear that there was no hope of an amicable settlement. They have therefore decided to bring the matter specially to His Excellency Lord Curzon's attention on his return to India in the hope that a full and frank discussion between the representatives of all the interests affected might lead to mutual understanding and agreement and that the good offices of Government might contribute to a solution of the question of an adequate participation of Indian shipping in the coastal and overseas trade of India."

"The possibility that an agreed settlement might in the end prove impossible must, of course, be faced. In that case, a situation would be created which Government could not ignore, and it would be necessary to explore fully the question by what means the obstacles in the way of the development of Indian shipping could be removed. In particular, the possibility of preventing the ruinous rate-wars which from time to time break out upon the coast and the desirability of legislation to bring under control the system of deferred rebates and other trade practices which tend to restrict the freedom of the shipper would have to be examined, and also the question of how far direct financial assistance by Government to Indian shipping could justifiably be given. These questions are full of difficulties, and the final outcome cannot now be predicted but Government would be ready to set on foot the necessary enquiries directed towards the development of an Indian Mercantile Marine."

A Shipping Conference of the Indian and the British Shipping interests was held in January 1930 under the Chairmanship of Lord Curzon, the Viceroy of India. It is well known that in view of the unhelpful attitude of the British Shipping Interests, no effective policy of co-operation could be evolved at that Conference. That Conference was a failure. Although the Government of India announced at the close of the Conference that it would be their responsibility to ensure an adequate participation of Indian Shipping in India's coastal and overseas trades they did nothing to build up an adequate Indian Merchant Navy in the years that followed. The Government of India had realised that "an agreed settlement might in the end prove impossible" and had promised that in that eventuality "it would be necessary to explore fully the question by what means the obstacles in the way of the development of Indian shipping could be removed." It is, however, a tragedy, that despite all their promises and assurances and despite constant reminders, both inside and outside the Central Legislature, for taking effective action to develop national shipping neither did the Government of India explore the other possibility such as financial help nor did they take other active steps for the establishment of an adequate Merchant Navy for India. It is sad to reflect that upon the announcement of their own responsibility, the Government of India continued

to look with the same unconcern as before at the domination and further consolidation of British shipping in India's maritime trades at the cost of real India's national economic interests,

We do not suggest that the *B. I. Co.* is worse than others, or that any other Company in the same position would have acted differently. We only wish to point out that owing to the powerful position of the British Company and the utter indifference of the Government of India to give Indian shipping the protection that it urgently needed, it was able to decide whether any Indian steamships shall ply for traffic at all on any route and that it was within the *B. I.'s* power at any time to force them into liquidation and bankruptcy. To a certain extent, it is a consideration of the past practices of the *B. I. S. N.* which has made *us* strongly recommend elsewhere in our report that the Indian Shipping Board, which would licence vessels for purposes of the coastal trade, should also be vested with powers to control rate-wars, deferred rebates and other ruinous forms of cut throat competition.

(iv) *Indian shipping in Central Legislature.*—Ever since the war of 1914—IB India has demanded with one voice that Indian shipping should have its legitimate share in the coastal and overseas trades of the country and that we should build up a national mercantile marine worthy of the country's ancient position in the maritime world. The demand has been persistent since the last Great War and the appointment by the Government of India of the Indian Mercantile Marine Committee in February 1923 and the report submitted by that Committee in March 1924 clearly reflect the consensus of Indian opinion in the matter during the last 25 years. That Committee recommended provision for the education and training of young Indians for sea life and the development of an Indian mercantile marine which would naturally absorb the trained Indian deck officers and marine engineers. The Committee considered at length the question of developing an Indian Mercantile Marine and recommended various measures calculated to facilitate the establishment of the same. Among other things they recommended the reservation of the coasting trade to Indian shipping and a system of licensing ships to be allowed to ply along the coast of India. All this is however old story, and we only wish to state here that the Indian feeling, both inside and outside the Legislature, has always been strongly in favour of promoting national shipping befitting the country's status and trade relations with the rest of the world.

A brief summary of the action taken by the Central Legislature in the matter of promoting Indian shipping will be of use, for the activity of the Members of both houses of Legislature can be taken as an index of the feeling in the country during the last 25 years. We will refer only to some of the outstanding discussions in the Central Legislature.

24th September 1918—

The following resolution was moved by the Hon'ble Itao Bahadur B. N. Sarma in the Legislative Council on the 24th September, 1918 and accepted:—

"That this Council recommends to the Governor-General, in Council that as soon as circumstances permit the Government should consider in what way the industry of ship-building can best be encouraged in India."

12th January 1922—

In the Legislative Assembly Sir P. S. Sivaswamy Aiyar moved a resolution to investigate the possibilities and the ways and means of promoting the formation of a mercantile marine and the encouragement of ship-building. The

following is the form in which the resolution was finally adopted by the Assembly without division:—

"This Assembly recommends to the Governor-General in Council that a Committee including experts and non-official Indians be appointed to consider what measures can usefully be taken:—

- (i) for the liberal recruitment of Indians as Deck or Executive Officers and Engineers in the Royal Indian Marine;
- (ii) for the establishment of a Nautical College in Indian waters for the purpose of training Executive Officers and Engineers of ships;
- (iii) for ensuring the entertainment of Indian apprentices for training as such Officers and Engineers in the ships owned by shipping firms that enjoy any subsidy or other benefits from Government on any account, and for the creation of an adequate number of State scholarships for providing instruction in the Nautical College and training ships in England pending the formation of a Nautical College in India;
- (iv) for the encouragement of ship-building and of an Indian mercantile marine by a system of bounties, subsidies and such other measures as have been adopted in Japan;
- (v) for the acquisition of training ships by gift from the Imperial Government or otherwise: and
- (vi) for the construction of the necessary dock-yards and engineering workshops in one or more ports."

**15th March 1922—**

The following resolution moved by the Hon'ble Mr. Lalubhai Samaldas in the Council of State on the 15th March 1922 was adopted:—

"This Council recommends to the Governor-General in Council to issue instructions in the Departments concerned to give Indian Shipping Companies an opportunity of quoting for the carriage of Government and Railway materials from any ports to India and to give them preference if their quotation is approximate to that of other Companies."

**16th March 1922—**

The Hon'ble Mr. Lalubhai Samaldas moved the following resolution on Ship-building Industry in the Council of State on the 16th March, 1922. The Resolution was adopted:—

"This Council recommends to the Governor-General in Council to appoint a Committee of Officials and Non-Officials to consider the best means of helping the ship-building industry in this country and to make recommendations regarding the same."

**19th March 1926—**

The following is the text of a resolution moved by Sir P. S. Sivaswamy Aiyar in the Legislative Assembly on the 19th March, 1926:—

- "This Assembly recommends to the Governor-General in Council that he will be pleased:
- (a) to recognize the need for the training of Indians for nautical careers and encouraging the creation of an Indian Mercantile Marine;
  - (b) to accept the policy and measures recommended by the Indian Mercantile Marine Committee;

- (c) to take early steps for the training of Indians in a suitable training ship in Indian waters, for the provision of facilities for their further training as apprentices in mercantile marine ships, and for their employment after completion of training;
- (d) to arrange for the establishment of primary nautical school in selected maritime stations and the introduction of \* Marine Engineering as a subject of instruction in the Engineering College at Sidpur;
- (e) to announce his intention to adopt in the near future a system of licensing in respect of the coastal trade of India."

The Hon'ble Sir Charles Innes, Commerce Member moved an amendment which ran as follows: -*F-*

"That the debate on all subjects covered by the resolution except the proposed training ship be adjourned till the next session and that as regards the training ship, the Assembly recommends to the Governor-General in Council that the scheme for establishment in Indian waters of a training ship for deck officers should be accented in principle."

Sir P. S. Sivaswamy Aiyar's resolution was adopted as amended by Sir Charles Innes.

*Qtk February 1928—*

Mr. S. N. Haji introduced in the Legislative Assembly a Bill to reserve the coastal traffic of India to Indian vessels. Similar Bills for the reservation of the coastal trade were brought before the Central Legislature from time to time but we need mention only Mr. Haii's Bill as most of the controversies in respect of the reservation of the coastal trade centred round this Bill. The Bill was first circulated for opinion but then referred to a Sub-Committee. On its emergence from the Sub-Committee Mr. Haii's Bill was recirculated for opinion, but, by the time the opinions were received Mr. Haji had resigned and the Bill lapsed later on owing to the dissolution of the Assembly

*1th September 1932—*

Dr. Ziauddin Ahmad moved the following resolution in the Legislative Assembly. The resolution was adopted:—

"This Assembly recommends to the Governor-General in Council to take the necessary steps for the purpose of fixing the minimum rate for the passenger carrying trades by sea between coastal ports of India/'

*1tk March 1935—*

The following resolution was moved in the Council of State by the Hon'ble I-i Bahadur Lala Jagdish Prasad :^-

"This Council recommends to the Governor-General in Council to take suitable steps to build up an Indian Mercantile Marine at an early date with a view to an adequate participation of Indian shipping in the coastal and overseas trades of India.

The motion was adopted without division.

*23rd March 1939—*

The Hon'ble Mr. P. N. Saprú moved the following resolution in the Council of State:—

"This Council recommends to the Governor-General in Council to take more active steps for the expansion and protection of the Indian Mercantile Marine."

The motion was adopted without division.

(v) *Central Governments policy since 1918.*—In order to eliab'e a just appreciation of the lack of enthusiasm on the part of the Government of India in **uie** matter or promoting nat.onat snipping we should trace Uie mstoy of tue Central Government's attempts to foster the growth of Indian shipping against the background of a universal demand for national mercanti.e marine.

Alter World War I the first land mark was the appointment of the Indian Mercantile Marine Committee by the Government of India on the third February 1923 in response to a Resolution moved by Sir P. S. Sivaswamy Aiyar in the Indian Legislative Assembly and adopted by that body on the 12th January 1923. The terms of reference to the Committee and a summary of its recommendations are given in Appendix I. In pursuance of the Committee's recommendations the Government of India established the training ship "Dufferin" in 1927 so as to enable Indian ships in course of time \$p be manned by Indian deck officers and engineers. Arrangements were made in 1927 for the training of Executive Officers and since 1st January 1935 Marine Engineers are- also being trained there. The other recommendations of the Committee, one of the most important of which was the reservation of coastal trade to Indian shipping were not accepted by the Government of India.

'Attempts made by new Indian Shipping Companies since 1920 to run ships or the coast and elsewhere had met with disaster due to severe and -relentless competition from the established British Lines. These failures and the recommendations of the Indian Mercantile Marine Committee gave rise to public demand for the development of national shipping and as we have already pointed out, a number of non-official bills were brought before the Central Legislature for promoting the growth of Indian shipping. Some of them aimed at the reservation of the coastal trade while the other non-official attempts tried to do away with the deferred rebate system. Of all these attempts by the non-official members of the Central Legislature to legislate for Indian shipp'ng we have already made mention of the most important, namely, Mr. S. N. Haji'<; Bill for the reservation of Indian coastal trade.

The next important stage in the Central Government's policy towards national shipping was the conference held in January 1930 under the presidency , of the then "Viceroy of India, Lord Irwin. It was Mr. S. N. Haji's Coastal Trade Reservation Bill which prompted the Government of India to convene a conference at the highest level. It is pertinent to quote here what Lord Trwin said in December 1928 addressing the annual meeting of the Associated Chambers of Commerce. The then Viceroy said:—

"But I think that I am correct in saying that the main impulse behind the Bill I have referred to is not a mere desire to secure for Indian capitalists the profits which now are made by British companies. Rather it is an ambition—and who shall say that it is an unworthy ambition—that India should have its own mercantile marine and  
\*"  
that'the sh'ps of that mercantile marine should be officered as well as manned by Indians."

The above is typ'cal of the many statements which the Government of India made from time to time in regard to the question of building up of an adequate national mercantile marine. The words of Government spokesmen were not "ijlowed by action, however. The object of the 1930 Conference was to enable **A** full and frank discussion between the representatives of all the interests **eu,-** f»raed with a view to contributing towards a solution for the adequate parH- lipation of Indian shipping- in the coastal and overseas trade of Tndia and "ecuring, if possible, an agreed settlement. One of the fundamental pronnci- tiens laid down on the agenda for consideration at the Conference was "can it be provided for under an agreement by which the Indian tonnage wn<iJd increase gradually **fmm** v^n'r to **vpnr**, while simultaneously the non-Indian

tonnage was reduced?" During the course of discussion it emerged that the Indian tonnage might be increased by the purchase of British ships in the future. While the Indian side was not averse to consider the method of purchase on its own merits for the expansion of Indian shipping the British side insisted that such a purchase could not only be the purchase of the ships but it should also be the purchase of the goodwill as well of the trade. Replacement of British tonnage by Indian tonnage as one of the methods of developing Indian shipping was however not acceptable to the British side. The fundamental objective of the Conference could not therefore be achieved. As no agreement could be reached between the different shipping interests, the Conference broke up. As already stated before the Conference failed to achieve the object for which it was called. The Government of India then explained the position in the Communique reproduced below:—

"The Government of India will take into consideration at an early date the issues raised in the discussions which took place at the Conference on the development of the Indian Mercantile Marine. As soon as it has been possible fully to consider these issues, the responsibility will rest with the Government of India of deciding what action should now be taken and whether any useful purpose would be served by inviting the interests concerned to meet again."

We have already stated that the main obstacle to the development of an Indian Mercantile Marine is the dominant position which the British India Steam Navigation Company has established for itself on the coast of India and on all the shipping routes of the Indian ocean, and the utter indifference and unconcern of the Government of India to protect Indian shipping from the relentless and powerful opposition. It would however be recognised that it was the responsibility of the Government of India who should have taken effective steps to protect Indian shipping companies from these ruinous rate-wars. Apart from the training of the deck officers and marine engineers in the "Dufferin", the Government of India were not yet committed to any particular method of encouraging the growth of national shipping although they have declared time and again that they were in full sympathy with the widespread desire that India should possess a merchant fleet of her own. Even when the agreement between the B. I. and the Scindia was revised in 1933 under the good offices of the then Commerce Member Sir Joseph Bho're, the Government of India, despite its assurance that it was their responsibility to secure an adequate participation for Indian shipping in India's overseas trades, remained utterly helpless when the B. I. insisted as the price of a new agreement, the practical exclusion of the Scindia Co., from the carriage of India's overseas trades. The Tripartite agreement was signed between the B. I., the Scindia and the Asiatic companies. It came into force on the 1st April 1934. Once again Indian shipping was confined to India's coastal waters only. The following are the principal provisions of this Agreement:—

*Tripartite Agreement, 1934*

- (1) "The cargo carried by the vessels of the three Companies in the coasting trade of India, Burma and Ceylon is to be regulated and apportioned between them according to certain specified percentages.
- (2) The Scindia Company have been permitted to carry passengers on the Rangoon-Coromandel Coast and the Rangoon-Chittagong runs.
- (3) The total gross tonnage of the Scindia Company (owned or chartered) has been raised to 100,000 gross tons.
- (4) The rates of freight for the carriage of cargo and the scales of passenger fares are to be jointly fixed in writing by the parties after

mutual consultation and consent, and none at the parties is to quote or charge rates less than the rates thus fixed.

- (5) In the event of any dispute or difference the matter is to be decided by arbitration.

In a subsidiary letter addressed by the Scindia Company to the British India Company at the time of the conclusion of the Agreement they have also agreed to respect the P. & O. Company's and the B. I. Company's foreign (overseas) trade and not to compete with them in those services."

(Sir Thomas Stewart, who was Commerce Secretary in 1935, declared Government's policy in the Council of State on the 7th March 1935. He said :

"The policy to be pursued has been the subject of much thought by the Government of India and after much thought they have come to the conclusion,—they came to the conclusion some years ago,—that the best hope for the sound, economic, strong establishment of an Indian mercantile marine lay in the development of co-operation and a spirit of mutual accommodation between the various interests operating on the coasts."

Although the policy of co-operation had failed in 1930 and although despite the universal demand in the country to explore other methods of developing Indian shipping as promised by the Government in 1929, they had done nothing in that direction during the intervening years, it is a pity that Government persisted once again in asking Indian shipping interests to rely on that very policy of co-operation to which there was no response from the British side. It would compel even the friends of the Government to admit that Government cannot learn a new thing and cannot forget an old one.

The Tripartite agreement which came into operation in 1934 was to be revised in 1939. Indian shipping interests tried their best to do so both in England and in India. In spite of continuous requests from Indian interests, for the last seven years, to help them with their good offices in the revision of this agreement, Government have not done anything to do so. That agreement, which was to have expired in 1939, therefore still settles the fate of several Indian Shipping Companies.

We have already pointed out that there was no effective co-operation between the British and Indian interests and that the Government of India did not explore other possibilities of developing Indian Mercantile Marine. During the inter-war period there was also the problem of protecting the interests of small Indian Companies operating in the coasts. As a result of the intervention of the then Commerce Member Sir Joseph Bore, an agreement was reached by which 85 per cent, of the coastal trade in certain areas (West Coast Trade) was reserved for the small shipping Companies operating there. The period of currency of the West Coast Award was to be coterminous with the Tripartite Agreement of 1934.

A reference may also be made here to the Government of India's attitude to foreign (Non-British) shipping. During 1934-35 a few cases were brought to their notice in which Japanese ships carried cargo between Indian ports. On receipt of protests from the coastal conference against such intrusion, the Government of India arranged for suitable representations to be made by His Majesty's Government to the Japanese Government through diplomatic channels. Subsequently the Government of India stated that while they did not accept the policy of reservation of coastal trades to Indian shipping, they were prepared to take all action in their power to resist intrusion of foreign (Non-British) shipping in those trades.

It is not unfair to say that apart from the provision of the training ship "Dufferin" and the expression of hope for the development of an adequate-



Indian Merchant Fleet by co-operation and a spirit of mutual accommodation between the various interests concerned, the Government of India have more or less been pursuing a policy of indifference during the last 25 years. The "Post-War Shipping Policy" laid down in the Second Report on Reconstruction Planning issued in 1945 would, however, appear to herald the beginning of a change in the general attitude of the Government of India towards Indian shipping. \* Para. 2 of this statement reads:

"The vulnerability of India's position has been revealed by the stress of wartime conditions but by no circumstances more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives not only for commercial reasons but also because the development of the Royal Indian Navy necessarily implies concurrent development of the merchant navy."

This strikes a note very different from what the Hon'ble Sir Charles Innes stated in the Legislative Assembly on the 19th March 1926:

". . . in time of war they might want their own mercantile marine to feed their people and because they wanted that marine as a second line to their own navy. All I need say on that point is this, that India is fortunate in that that over-mastering necessity is not present in this country. India's shores are protected for her by the British Navy, and in time of war she can always rely upon the British Navy so long as the British Navy commands the seas to protect her communications and her trade".

We do hope that the fundamental change in the attitude expressed in the Second Report on Reconstruction Planning will be taken to its logical conclusion and that our recommendations in the following pages for the adequate participation of Indian shipping in the coastal and overseas trades of the country will be given effect to as expeditiously as possible.

(vii *Shipping in the Dominions*.—In Chapter I, we have given a brief indication of how the tonnage of the Dominions of Canada and Australia was increased during the second world war. We refer below in somewhat greater detail to the development of national shipping in the important Dominions of the British Empire.

*Canada*.—The outbreak of the war in 1939 brought into prominence the difficulties in which Canada became involved by reason of her dependence upon the ships of foreign countries for ocean transportation. With a view to ensuring the best utilisation of the available fleet, a system of control and licences, administered by the Canadian Shipping Board, was introduced in December 1939. In 1941 the Board found it necessary to recommend an extensive merchant marine building programme, and as a result of this, the Canadian ship-building industry, which was dormant for more than 20 years before 1939, has been extensively developed through a Crown Co., known as the Wartime Merchant Shipping Ltd. Some of the newly built vessels have been disposed of to the United States, some others turned over to the United Kingdom under Canadian Mutual Aid, while the remaining have been retained for operation under the Canadian Navy. It is estimated that the approximate tonnage now at the disposal of Canada is about 3 million tons deadweight. The Canadian ship-building interests have been pressing the Canadian Government for an all-out policy to maintain a well-equipped national merchant fleet and it is the feeling of the Canadian Government that no possible trade routes to and from Canada are to be left unprovided for either directly or indirectly. A national shipping policy is envisaged whereby the Canadian shipowner engaged in foreign trade in and"

out of Canadian ports will be encouraged by all possible means including subsidies if necessary.

*Union of South Africa*.—The entire shipping requirements of South Africa for her *overseas trade* have been provided in the past by non-national lines of which the share of the British Lines' was 60 per cent. The coastal trade was of the order of approximately 320 thousand tons per annum, and was catered for more or less in equal shares by coasters of the South African register and ocean going vessels. Since 1919 the South African Railways and Harbour Administration have been operating three vessels on their own account. In 1941 a Commission was appointed to investigate and report upon various matters affecting the Union Government's shipping services and their post-war development. The Commission have submitted an interim report and indicated that some of their recommendations may have to be modified in the light of the shipping situation obtaining at the end of the war. The Principal recommendations of the Commission are as follows:—

- (1) The small Government **fleet** should continue to **be** maintained but" it would be inadvisable to enlarge it or attempt to run State-owned ships in the overseas trade.

The Commission are of the opinion that the shipping services provided by overseas shipowners have been remarkably good and that the Union's dependence on foreign-owned ships has not reacted unfavourably in respect of employment of Union nationals on such ships. They have, however, admitted the strength of national sentiment and suggested that benefits would accrue to both the Union of South Africa and U. K. if a certain number of the ships employed in the South African trade were to be placed on the Union register.

- (2) The Commission felt that it was un-economic to reserve the entire coastal trade to the South African Flag.

The Commission are against affording special preferential treatment to Union ships on the South African register, for the reason that such a treatment would bring only minor benefits to Union shipowners and would irritate and antagonise owners of foreign ships. Nevertheless the Minister for Railways and Harbours has stated that the Union cannot be left entirely dependent on overseas shipping services and that South Africa's own fleet will have to **be** strengthened. There is at present no legislation dealing with coastal trade but the question of legislation on the subject is under the consideration of the Union Government.

*Australia*.—The Commonwealth of Australia are considering the desirability of establishing an overseas shipping line owned in and operated from Australia. The Federal Cabinet is also reported to have decided that the Australian interstate coastal trade will be reserved to Australian built ships and that the Australian Ship-building Board be re-constituted by statute to control the rate of merchant ship construction which will aim at 32 thousand tons gross annually. The aim of the Commonwealth Government is to create a single authority to control shipping and ship-building. The authority will be responsible for ensuring that the annual target tonnage is attained and that the freight and charter rates, fares, etc., for inter-state trade are subject to Government approval.

(vii) *Present position of Indian National Shipping*.—In spite of the straggling competition of British shipping and the absence of an active policy on the part of the Government of India to encourage the formation and growth of a strong national fleet it is surprising that private enterprise in this country has during the last two decades succeeded in building-up a merchant marine of 13 lakh tons. We give below the distribution of this small Indian tonnage.

*Number and tonnage of Indian ships in 1946\**

Nam© of the Company	No. of ships	G. R. T.
(1) The Scindia S. N. Co., Ltd. . .	16	75,248
(2) The Mogul Line, Ltd. . . . .	6	26,545
(3) The Bombay S. N. Co., Ltd. . .	13	11,200
{*) The Bengal Burma S. N. Co., Ltd. .	3	5,209
(5) The Merchant Steam Navigation Co., Ltd.	2	2,183
(6) The Eaat< Pa Steam Navigation Co., Ltd. .	2	2,144
(7) The Indian Co-op. N. & T., Co., Ltd.	3	1,297
(8) Kalmarsund S. N. Co., Ltd.	1	1,158
0) The Malabar Steamship Co., Ltd.	1	857
(10) Shree Ambioa Steam Nav. Co., Ltd. .	1	751
(1D) The Ratnagcr Steam Nav. Co., Ltd. .	1	590
<b>Total</b>	<b>49</b>	<b>1,27,083</b>

The Indian tonnage is so small that we have not included it in the statement in Appendix IV showing world tonnage in 1939 and 1945. The statement is revealing as to the wartime development of U.S.A. and Canada. U.S.A. now owns 51 per cent, of the world tonnage as against 10.6 per cent, before the outbreak of the second world war. This remarkable performance of the U.S.A. proves that there is no limit in regard to what a shipping policy could achieve if it is pursued in the interest of the nation. It will be seen from the statement that just before the outbreak of the war in 1939 U.K. owned 27.3 per cent, of the world tonnage while her share of the world trade was 13.8 per cent. only. The tonnage of most of the important maritime countries was proportionately more than their contribution to world trade; these countries supply the tonnage required to carry the trades of some of the other countries as well. For example, the share of Greece in world trade was 0.5 per cent, but her shipping constituted 2.7 per cent, of the world tonnage. Again, the Italian and Japanese shares of the tonnage were 5.2 per cent, and 8.6 per cent, while their shares in world trade amounted respectively to 2.4 per cent, and 3.2 per cent. only. On the other hand, India's shares of the world tonnage was less than 0.24 per cent, but her exports and imports amounted to nearly 3 per cent, of the total world trade.

We have in the preceding pages\*given ample proof, if proof were needed, of the disproportionately small share of India in world tonnage; we have also tried to illustrate how a deliberate policy of State aid has enabled countries like Italy and Japan to increase their tonnage rapidly. If, notwithstanding the Government of India's patronage to British shipping and neglect of opportunities to foster the growth of Indian shipping, Indian private enterprise could succeed in keeping alive the infant shipping industry we are confident that an earnest pursuit of the policy which we lay down in the later pages would result in a substantial improvement of the position in a short period, thereby enabling Indian ships to play a sufficiently large part in the carriage of the country's maritime tirades.

\*Since the above figures were collected it has been brought to our notice that the Scindia and its associated companies have bought or are building ships, the approximate gross tonnage of which will be about a lakh of tons and the India Steam Navigation Company has purchased 8 ships of approximately 60,000 tons gross. The Bharat Steam Company and the Malabar Steam Navigation Company have acquired six ships of 23,219 gross tons.

## CHAPTER III

## WHAT SHOULD INDIA DO TO DEVELOP HER NATIONAL SHIPPING

(1) *Need for a National Shipping Policy.*—We reproduce below the Government of India's statement on "Post-war Shipping Policy" issued as part of the Second Report on the Reconstruction Planning.

"For a country of its size, the length of its coast line and its strategic position athwart one of the world's main sea routes, India possesses a distressingly small number of deep sea-ships, which at the outbreak of war stood at no more than 30 with a total of less than 150,000 tons gross. India's weakness in this respect has long been recognised, and the Government of India are pledged to a policy of assisting in the development of an Indian mercantile marine. So far, however, the action taken to implement this undertaking has been limited to the establishment of the "Dufferin" for the training of executive officers, the provision of special facilities for the training of marine engineers and to using Government's good offices to promote a settlement between the Indian and British companies operating on the coast with regard to the division of the available trade between them.

The vulnerability of India's position has been revealed by the stress of war time conditions, but by no circumstance more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives, not only for commercial reason but also because the development of the Royal Indian Navy necessarily implies the concurrent development of the merchant navy.

The acquisition of an adequate share in the world's carrying trade should be the aim of our post-war shipping policy, and to this end steps should be taken to secure for Indian shipping—

- (i) an increased share of the coastal trade,\* including trade with Ceylon and Burma (The present share is estimated at between 20—30 per cent.);
- (ii) a substantial share in the near trades, *e.g.*, Persian Gulf, East Africa, Malaya and Dutch East Indies;
- (iii) a fair share in the Eastern trades, especially those trades of which Japanese shipping will have been dispossessed;
- (iv) a fair share also in the trade between India, on the one hand, and the U.K., the Continent of Europe and North America on the other; and
- (v) in order to give maximum relief to the railways, a number of steps have been taken to ensure the fullest utilisation of country craft and to prevent wasteful competition between country craft and steamerB. As India may have to look to all forms of transport to sustain her economy in the post-war era, the continued development of country craft will have to be considered. Co-ordination of steamer and country craft services is an essential part of this development, subject to due regard being paid to the different needs served by steamers and country craft.'

Although the above policy is not as decisive, dynamic and heartening as that laid down by the United States of America and Great Britain for their own shipping, we are glad to note a welcome change in their approach, namely the Government of India's recognition of their responsibility for the development of Indian shipping. Indian shipping has, however, to make a considerable leeway to attain her due and proper place in the shipping of the world. We would, therefore, most strongly recommend that India should immediately formulate a national shipping policy similar to that adopted by

the important maritime countries of the world, such as England and America. The uncompromising national outlook, the full appraisal of the requirements of trade, the impelling needs of defence and security and **the** complete realisation of the obligation of the State to render assistance **to** its own shipping have been responsible for the growth of Merchant Navies during the inter-war period in all important maritime countries, chiefly in the U.S.A., U.K., Germany and Japan. This has already been described in Chapter I.

We have also summarised very briefly the shipping position of the important British Dominions during the second World War and how the post-war shipping policy of those Dominions is likely to work. The manner in which **the** important maritime countries of the world have, as narrated by us, developed their national shipping will, we are sure, awaken the Government of India to a livelier and keener sense of their responsibility for building up a powerful Indian Merchant Navy and stir them to take early and effective steps to supply this vital need of India.

But, before we indicate the first **Steps** that can be usefully taken to implement the national policy for building up a merchant navy in India, we consider it our duty to draw attention to a problem of supreme importance which is **likely** to materially affect the strength and working of national fleets of the maritime countries of the world. The huge losses **of** shipping sustained by the Allies, and particularly by Great Britain, during the war and the colossal output of over 52 million deadweight tons of shipping by the United States of America during that period have naturally upset the balance of ownership of world tonnage. While the tonnage of world went up from 49 million tons gross in 1914 **to** 69 million tons gross in 1939, it rose to nearly 80 million tons gross at the end of the war in 1945. America dominates today the world of shipping by the huge tonnage that she possesses. The large surplus tonnage of America has, therefore, been a matter of serious concern to other maritime countries of the world. Even the highly developed British shipping industry, with most powerful resources at its command, in giving expression to its concern in this regard, during a statement on British shipping policy, issued in 1944, remarked:

"Unless and until a policy for the effective disposal of surplus tonnage' is determined, there can be no post-war future for British shipping and, therefore, no policy for its reconstruction and maintenance."

The world was, therefore, awaiting with anxious interest the announcement by **the** United States of their policy regarding **the** disposal of their surplus ships. The Bill for the disposal of surplus American ships has now become an Act. Upto September last over 453 ships were sold to the different non-American shipping interests against a demand for 1181 and more are likely to be sold hereafter. In addition to this, the Act lays down that the Maritime Commission 'shall place in a national defence reserve such vessels owned by it as after consultation with the Secretary of War and the Secretary of the Navy it deems, should be retained for the national defence.' According to **the** latest statement of the Maritime Commission, 1284 ships were placed in the Reserve Fleet at the end of September 1946. Responsible authorities in America have indicated that nearly 20 million tons deadweight of shipping will be laid up in **sanctuary** as national defence reserve. This large sterilisation of a substantial proportion of U.S. surplus ships, when it actually takes place, will provide some relief to the maritime countries in the economic working of their post-war shipping policy.

It must not, however, be forgotten that whatever by the strength **of** the existing tonnage of the world and howsoever essential it may be in the interests of all concerned for the United States to lay up as a national defence reserve a substantial portion of her surplus ships, the United Kingdom has kept all

their shipyards working and has been building a very large number of ships,, although some of them are for foreign owners. The total tonnage of merchant ships launched in U.K. in 1945 was 898,000 tons gross. The tonnage which is being built in U.K. yards today is over 17 lakhs of tons. It is far in excess of the tonnage which was under construction in fairly good years; over a million tons in 1938 and a little over 900,000 tons in 1937. International trade has not expanded and is not likely to expand with such rapidity as might enable it to keep the huge tonnage that will be available in the world fully in commission when the needs of repatriation and rehabilitation of the ravaged countries of the world have been met with and shipping has to work under normal conditions.

While the tonnage in the world today is, therefore, far in excess of the needs and requirements of International trade, both the United Kingdom and the United States are determined to maintain and expand their shipping to the largest extent possible. His Majesty's Government have made it clear that Great Britain "must continue to serve the world with a large and efficient mercantile marine". The word "must" is fundamental. On the other hand, Vice-Admiral Emery Land has repeated on several occasions America's determination to carry at least 50 per cent, of her overseas trade in her own bottoms. In a nation-wide broadcast he re-affirmed last year his belief "that a post-war merchant fleet of 17 million tons was essential for the military security and trade prosperity of the United States." This would mean that more than 150 per cent, of the pre-war tonnage will fly the American flag on the oceans of the world. When that policy was criticised by the British interests and others, a leading official of the Maritime Commission remarked:

"If American ships can provide a service that obtain half of the traffic as an average over all routes where American commerce moves, such a share of the business can hardly be deemed unreasonable or be the basis for a charge that America is encroaching on some holy ground that is the peculiar heritage of any particular nation."

Thus both England and America are determined to increase their shipping strength and make a bid to carry a far larger proportion than their pre-war share of the world trade. The proposal made by Great Britain to call a meeting of the International Shipping Conference "to discuss the future organisation of shipping on a basis of private enterprise and free competition subject to reasonable agreement to keep freights on an economic level and the supply of tonnage adjusted to meet demand, both of which are a necessary condition for the avoidance of future depressions in both shipping and ship-building" arises out of her anxiety to ensure that British shipping continues to maintain her supreme position in the carrying trade of the world. This will be quite clear from the fact that when America announced her desire to carry 60 per cent, of her own trade in her own national bottoms and when the proposal for convening an International Conference for the purpose of a more equitable distribution of the tonnage among the maritime countries of the world was being discussed at an international level, British interests were alarmed and their spokesman, Mr. Hill, General Manager of the Chamber of Shipping, observed in April last that:

"Were there any suggestion to allocate world tonnage according to trade or population, the major maritime countries of Europe, ourselves, Norway and Holland, would be reduced to insignificance."

He added:

"From the broad economic point of view, shipping services, like other exports, should be left in the hands of these countries which can specialise in them and carry them out most efficiently and cheaply."

The world cannot, however, now forget the lesson taught by the last two\* world wars that both on grounds of national economy and national security/ every maritime country must develop and maintain her own merchant navy. Moreover, the management of shipping is not and cannot be the privilege of only a few maritime countries of Europe. Every maritime nation has a right to secure her proper place in that sphere. We trust that the Government of India will, no doubt, when they attend the International Conference, draw pointed attention' to the almost complete absence of the navy of supply in India's overseas trades, emphasise the urgent need for building up India's Merchant i'leet and secure for India her legitimate place in the carrying trade of the world.

We have referred to the prevailing outlook and tendency in the important maritime nations regarding the deve.opment of merchant marine with a view not only to placing before Government the entire background but also to bringing home to them the urgent need both for formulating and implementing a national policy of shipping without undue delay. The world is progressing. India alone is standing still. The Government of India will have to watch with the utmost vigilance how other nations are adding to their fleet and capturing international trade. Unless India takes immediate steps to build up her navy of supply, we are afraid she will remain so far behind in the race of tonnage that ships with Indian flag may find it almost impossible to make their appearance—not to say to make their presence felt—even in India'e-own overseas trade. In view, therefore, of the decision and determination with which other important maritime countries are implementing *thaic* post-war shipping policy and increasing their fleets and widening their sphere of activities, we would urge upon the Government of India in all earnestness that they should give their immediate and serious consideration to our recommendations, particularly when ships with Indian flag have not even begun to move in the overseas trade.

(ii) *What is "Indian Shipping"?*\*—Although ships on the Indian Register as well as the ships on the British Register fly the British Flag, the fundamental difference between British Shipping and Indian Shipping lies in its ownership, control and management. This however does not preclude the employment of non-Indian nationals as servants by the Indian Shipping Companies. Even as far back as 1923-24, partial and halting expression was given to this vital difference in paragraph 42 of the Report of the Indian Mercantile Marine Committee. That paragraph reads as follows:—

"The summary of evidence goes to show that an ideal Indian Mercantile Marine may be briefly described as follows:—

- (a) Ships to be registered in India.
- (b) Officers and crews to be Indians.
- (c) The ships to be owned by Joint stock companies (public or private) - registered in India with rupee capital, with a majority of Indians on the Directorate or to be owned and managed by individual Indians.
- (d) The majority of the shares in the companies to be held by Indians.
- (e) The management of the companies to be predominantly in the hands of Indians.
- (f) The ships shall be built in Indian shipyards belonging to companies constituted in a similar manner.

As an ideal to be worked up to eventually, we accept the above definition, but for the present we do not consider that it is capable of practical realisation in full. What we wish to provide for in our coastal trading regulations is that

•Subject to the minute<sup>3</sup> of dissent by Sir A. H. Ghuznavi and Mr. W. L. A. Jtadcliffe.

after a time the ownership and controlling interests in the ship or ships for which licences are required shall be predominantly Indian and we think that this qualification should be held to have been fulfilled if a ship conforms to the following conditions:—

- (a) That it is registered in India,
- (b) That it is owned and managed by an individual Indian or by a joint stock company (public or private) which is registered in India with rupee capital, with a majority of Indians on its Directorate and a majority of its shares held by Indians, and
- (c) That the management of such company is predominantly in the hands of Indians.

It is not possible at present to provide that the officers and crew should be completely Indian, because it will take some time under our training scheme to produce the requisite number of Indian officers and engineers, but in our coastal trading regulations which follow, provision has been made for the compulsory Indianisation of the personnel. Nor is it possible at present to provide that the ships applying for licences shall have been built in India, because no shipbuilding yards capable of constructing ocean-going steam vessels exist in this country but we hope that in course of time it will be found practicable to add both these desiderata to the conditions of the licence, which we propose should be laid down."

Public opinion in India has gone far beyond the conception of Indian shipping envisaged in the above Report. It is now universally recognised that Indian industries are those industries which are owned, controlled and managed by Indians themselves. The contrast between "Indian" and "British" is emphasised. Strong expression in regard to this contrast has been given throughout the country in the categorical protest against the discriminatory provisions relating to the Commercial Safeguards in the Government of India Act, 1935. It has been brought home to us that British Shipping is not Indian Shipping. Any share allotted to the British in ownership, control or management of Indian Shipping will not only militate against the growth of national shipping, but it will also further strengthen the hold of British Shipping over India's maritime trades, exercised in future from within the country instead of as at present from across the seas. We have, therefore, no hesitation in laying down that the term "INDIAN SHIPPING" should denote shipping *owned, controlled and managed* by the nationals of India. We are of the opinion that this is a matter of vital importance, and the definition we recommend has been arrived at after giving very careful consideration and thought to India's economic needs, security requirements and strategic position.

(iii) *Reservation of the coastal trade; increased shares in other maritime trades.*—There is a fairly widespread tendency on the part of the maritime nations to reserve coasting trade to the national flag. Almost all the European countries, including Great Britain, had their coastal trade reserved to their national ships at one time or the other. According to the report issued by the League of Nations in 1931, 27 maritime countries out of 36 had their coastal trade so reserved. The coasting trade in the Japanese waters and between Japan and her dependencies was reserved to the Japanese flag. The coasting trade of the U.S.A. has been absolutely reserved for the national flag of the country and is not in any case extended to other flags. It is significant to note that Great Britain had demanded in 1918 that the coastal trade of India should be reserved to British Shipping. It will thus be observed that the coastal trade of a country is considered as its domestic preserve in which the flag of no other country can enter as a matter of right.

*France.*—The reservation of coasting trade dates from 1793. Navigation between France and Algeria was reserved for the French flag in 1899. Foreign



ships could engage in trade between France and the Colonies and between the Colonies except for coasting trade between ports in French West Africa.

*Germany.*—Trade between German sea ports was reserved to German ships, in 1880, subject to exceptions in virtue of international treaties.

*Italy.*—In 1904 the coasting trade was reserved to the national flag except in special cases.

*Japan.*—Under Japanese Law, the coasting trade in Japanese waters and between Japan and her dependencies was reserved to the national flag. Exceptions could be made but in practice, it was found, foreign ships did not engage in these trades.

*U. S. A.*—Coasting trade is, absolutely reserved for the national flag and is not, in any case, extended to other flags.

The desirability for the reservation of India's coastal trade to Indian shipping dates from 1918; and in 1923 the Indian Mercantile Marine Committee recommended it. The principle of the reservation of the Indian coastal trade to Indian ships was accepted, by the Central Legislature in 1929, by an overwhelming majority. During the Inter-war period a number of non-official Bills for the reservation of coastal trade to the Indian flag were introduced in the Legislature. There can, however, be no question of India's right to reserve her coasting trade to her own ships. We would, therefore, recommend that the entire coastal trade of India should be immediately reserved for shipping owned, controlled and managed by the nationals of the country. Useful and necessary as this measure is for the development of Indian shipping, we must make it perfectly clear that such reservation alone will not meet India's requirements or enable the country to build an Indian merchant navy for the future. The Government of India should take firm and far-reaching steps for enabling Indian shipping to carry a very substantial portion of India's overseas trades. This is the crux of the problem. On its proper, immediate and effective solution will depend the rapid growth, the competitive efficiency and the real power of the future Indian navy of supply.

The principle, which is strongly emphasised in the modern world of shipping, is that a country should carry in her own national bottoms at least 50 per cent, of her maritime trades. The leading authoritative spokesmen of the U.S.A. have given expression to this policy. Great Britain is anxious to ensure that British shipping continues to retain and maintain its hold on the carriage of the largest portion of the maritime trades of the world. This aspect of the British policy was reaffirmed in October, 1944, by the Minister of War Transport when he stated that the British mercantile marine "must be at least as large as before the war and so much larger as British enterprise and efficiency can make it in a world in which, it is hoped that artificial obstacles to trade would have been, at least in some measure, removed." These and various other expressions of the shipping policy deserve our most serious consideration. Our considered opinion is that the Government of India should, in fixing a suitable tonnage target and in securing for Indian shipping her just and proper share in the coastal and foreign trades of India (Cargo and Passenger included), take into account not only strictly commercial and economic considerations but also the strategic, defence and allied considerations which have a direct bearing on the development of an Indian mercantile marine. All these various aspects of the question and the considerations and requirements connected with India's defence and the maintenance and strengthening of the strategic position have received our careful thought and they have formed the basis of the recommendations which we have made in the following chapter

ft)

Before we come to the detailed recommendations, we would like to invite the special attention of the Government of India to the subjects which are to be discussed at the International Conference to be held in 1947, and the manner in which then-deliberations might affect India's position in the world of shipping. One such International Conference will be held under the auspices of the Economic and Social Council of the United Nations Organisation towards the end of 1947 for considering the question of the expansion of the world trade and employment. As shipping is the instrument by which trade flows from one country to another, India cannot play her proper part in the expansion of world trade, unless she is allowed to build up an adequate and well-balanced shipping of her own. The Government of India will have to exercise the greatest vigilance over the deliberations of such an International Conference. *Not only will they have to ensure a place for shipping on the Agenda of that Conference, but they will also have to put up a firm fight for enabling India to acquire her proper share of shipping if she is to play her real role in the reconstruction and expansion of world trade.*

Another International Conference for the purpose of establishing a specialised Agency in the field of shipping is also to be convened by the Economic and Social Council of U.N.O. in 1947. The proposed draft of the Convention which that Conference will be asked to adopt will require all Governments not to take any special steps for the protection of their national shipping but to take every step to promote the free availability of shipping services of all countries to the commerce of the world without discrimination. It is significant that those maritime countries which have built up their powerful national Merchant Navies by the adoption of every form of discrimination in favour of their own shipping during the last two centuries are now insistent that the ideal of absolute free trade in the field of shipping should be adopted also by those countries which are yet struggling to build up a Merchant Navy. Here again India's position is unenviable. Indian shipping has practically no footing in the carriage of her overseas trades. She needs to build up a substantial tonnage for the carriage of her own overseas trades. For India it is not a question of not giving protection to her own shipping, the question is how India should acquire and build tonnage for her own needs which she has been denied up till now. It is well-known that Indian shipping Companies in the past have been wiped out of existence by severe rate wars carried on against them by British Shipping Companies. The proposed specialised Agency in the field of shipping will, on the one hand, proclaim that any such just grievances of its Members will be outside its jurisdiction but at the same time will compel its members not to redress the grievances of their own national navies by giving them such help and protection as they might need.

We realise that India must extend her co-operation in the working of all such specialised Agencies as might be set up in the world in the future, but we must make it clear that such co-operation must be conducive to the development of a national navy of supply for India and should not lead to its further annihilation. We would strongly urge further that this and such other points must be categorically emphasised by the Government of India at the forthcoming International Conferences. Otherwise, India will find that her path is blocked at every stage and in every direction even in regard to the fulfilment of her legitimate ambition to carry a reasonable share of her maritime trades in her own bottoms.

(iv) *Will a policy of negotiation with H. M. G. develop Indian Shipping?*— Let us now examine some of the measures which can be usefully employed to implement the recommendations which we make hereafter for building up an adequate Indian Merchant Navy. According to the statement laid down on the table of the Central Legislature on 31st August 1938, the proportion of Indian and British shipping in the coastal trade of India was 21 per cent, and 79 per cent

cent, respectively. So far as the foreign sea-borne trade of India was concerned, the statement issued in favour of British shipping was engaged in that trade. Indian shipping has, as stated above, practically no share of that very large overseas trade. It is the British shipping which dominates India's maritime trades and practically controls their carriage to and from India. For instance, as stated by the imperial Shipping Committee in their 38th Report on British Shipping in the Orient, the entire carriage of the trade between India and the United Kingdom is controlled by British shipping. According to that report British ships carried over 95 per cent, of the export cargo from the U.K. to India and over 99.5 per cent, of the export cargo from India to the U. K. in the years 1936 and 1937. If Indian shipping is, therefore, to secure a footing in India's overseas trade and to carry more and more of that trade in the future, the carriage of which legitimately belongs to Indian shipping, the fact will have to be recognised that unless British shipping withdraws from that field, it will be difficult for Indian shipping to make any appreciable headway in that direction, the question, therefore, naturally arises—whether the hitherto entrenched British shipping will agree to allow Indian shipping to operate increasingly in that field which belongs to India as a matter of right and whether the Government of India should negotiate with H.M.G. in that matter? We understand that the Government of India have already had some exploratory talks in this direction. We do not know whether these talks have inspired any hopes to justify further active negotiation on a Government to Government basis. We are, however, aware of the fact that the policy of negotiation has been holding the field since 1929. We are also aware of the feeling of keen disappointment that Indian public and Indian shipping interests have experienced as a result of the unconsciously slow progress of the development of Indian shipping due to this policy of negotiation. Despite these facts we would not rule out the method of negotiation with H.M.G. for advancing the cause of Indian shipping. In stating this we are not unmindful of the decision of the British Government not only to ensure the maintenance of the pre-war position of British shipping in the world trades but also to improve it by carrying a larger share of these trades than was carried before the war.

If the Government of India, therefore, still hold the view that they would like to further explore the possibility of developing Indian shipping by the method of negotiation, we would only urge upon them the necessity of opening negotiation forthwith, as the other maritime countries have been adding to their tonnage with a view to capture not only their pre-war trades but also add to them. It is also necessary that Indian shipping interests should be fully and actively associated with the Government in any negotiation that Government may decide to open with H. M. G.

"We would, however, strongly recommend a step of great importance which the Government of India should take without waiting for the progress of the results of negotiation. It is in India recently been importing huge quantities of food grains from abroad. It is likely that she will continue to import food grains for a few years more. India has had the bitter experience that owing to the absence of India's own ships food grains would not come in time in the past to feed her starving millions. It is, therefore, imperative that Indian shipping interests should be encouraged to provide India with such ships. In addition to the vital part which Indian ships will play in bringing in time the food grains which India so badly needs, they will also enable India to conserve substantially her urgently needed dollar resources. As a matter of fact, India is already reported to have paid over 15 million dollars in the shape of freight for bringing food grains from abroad. A very large part of these dollars could have been conserved had the Government of India shown vision and foresight in developing shipping. We may further add that in case Indian enterprise buys or builds ships required for importing such food grains, we feel that Government should

assure them that they will not be allowed to be driven out by unfair competition, after the emergency is over but that they will receive fullest support from the Government of India in the maintenance and profitable employment of such tonnage.

(v) *What should we do if the policy of negotiation fails?*—While we have not ruled out the possibility of achieving our object by the policy of negotiation, it is necessary that we must examine other methods for the realisation of that object, should the policy of negotiation fail to do so. Even as far back as 1921 the Government themselves had visualised the possibility of such a failure and had assured the Legislature that not only would they explore fully the question as to the means by which the obstacles in the way of the development of Indian shipping can be removed, but they would also consider how far "direct financial assistance by Government to Indian shipping could justifiably be given" for the purpose of developing Indian Mercantile Marine. If in 1929, Government thought that it might be necessary to give financial help for the development of Indian shipping, there is, we feel, greater justification for rendering such help in the year 1947. As we have already explained earlier in this report, the part played by State aid in the expansion of the shipping industry in the principal maritime countries has not only been considerable but fundamental. Even in Great Britain, despite the powerful resources of British shipping and the leading position which it occupies in the world of shipping, millions of pounds were given to that industry by way of subsidies, cheap loans etc., before World War II to enable it to maintain its supremacy at sea. We are, therefore, strongly of the opinion that if the policy of negotiation fails, it would be necessary for the Government of India to give financial aid to that section of the Indian shipping industry which will participate in India's overseas trades so that Indian shipping may be stimulated to play an effective role in the carriage of this portion of India's maritime trades. We have stressed this point in regard to the overseas trade, for we hope and believe that the Government of India will not experience any serious difficulty in reserving the coastal trade to Indian shipping. Such reservation may necessarily imply licensing of ships which may ply in the coastal waters. With a view to ensuring economic working of the tonnage plying on the coast, the Licensing Authority, which we recommend, may have to determine the limit of the tonnage that should ply on the coast from time to time. Once the economic working of that tonnage is ensured under the Licensing System, there will be no necessity for financial assistance.

We do not desire to consider in detail the nature and extent of the financial assistance that the Government of India may have to give for building up an Indian Merchant Navy for carrying India's overseas trades. That question will have to be determined on its own merits after examining all aspects of the problem. The significant fact, however, that cannot be ignored is that India must build up her own national shipping to carry her own cargo in the overseas trades. All other considerations are subsidiary to this main objective which Government should have to keep in view.

(w) *Indian Shipping Board.*—It will be necessary to set up a suitable machinery for the working of a Licensing System to regulate the coastal trade and for determining the form, nature and extent of the financial and other aids that may be necessary for the development of Indian shipping in the overseas trade. As a means of implementing these recommendations we further recommend that the Government of India should take immediate steps to set up a Shipping Board. This Board should have an independent Chairman, if possible, possessing considerable judicial training and experience. Government ship-owners and Commerce should be represented as members on that Board. It should be the function of the Board to advise the Government on the licensing of Indian ships in order to enable them to ply in the coastal trade of India. In

issuing licences the Board will have to bear in mind the requirements of the trade and the economic working of the tonnage that may be licenced.

As regards the financial and other aids that may be given to Indian shipping operating in the overseas trades, the responsibility of the Board should be to consider all applications for that purpose and to recommend to Government the term, nature and extent of such financial aid. The one fundamental fact that should weigh with the Board and should influence its recommendations should be that Indian tonnage must be enabled, within a very short time, to carry a very substantial portion of India's overseas trade and a fair portion of the carrying trades of the world. It should also be the duty of the Board to advise the Government of India from time to time as to the other forms of State aid which Indian shipping will need and also to lay down the nature and forms of State control that need be exercised over the Companies which may receive such assistance. The Board should also be empowered to submit their proposals to Government as to how the evils of economic exploitation in the field of shipping can be removed. It should also be the function of the Board to adjudge applications from Indian Companies for assistance to protect their position when they are operating under Conference arrangements.

We think that it will be useful in this connection to recall the steps taken in the United States of America to establish a similar machinery. During the first world war, the United States merchant marine was short of the minimum requirements for naval auxiliaries in the event of war. The first remedial action was the Shipping Act of 1916, establishing a United States Shipping Board for the purpose of creating and developing a naval auxiliary and naval reserve and a merchant marine as well as regulating sea transport. The United States Merchant Marine Act 1936, dissolved the Shipping Board and created the United States Maritime Commission to "study, perfect and adopt a long range programme of replacements and additions to the American merchant marine,

as to create an adequate and well balanced merchant fleet, including vessels of all types, to provide shipping services on all routes essential for maintaining the flow of foreign commerce to the United States, the vessels in such fleet to be so designed as to be readily and quickly convertible into transport and supply vessels in a time of national emergency."

This fleet was to be owned and operated by citizens of the United States so far as practicable. The Commission was further directed to investigate and keep records of a great variety of matters, including ocean routes and services; foreign competition; comparative costs, in the United States and other countries, of construction, insurance, maintenance, repairs, wages and subsistence; foreign subsidies and other governmental aid; facilities in aid of United States shipping; and application of the Act to air commerce and technical progress. Further, the Commission was to co-operate with owners of vessels in devising means by which exporters and importers of the United States could be induced to give preference to vessels under United States registry, and to study the desirability of aiding the construction of super-liners or the establishment of transoceanic air craft services. A further duty was the investigation of cases where the United States exporters were required to pay higher rates, to any foreign port than were charged, for similar cargo in the reverse direction—cases which might be expected frequently in view of the normal excess volume of American exports over imports.

We would agree that India's case cannot be considered identical with that of the United States, but we have no doubt in our mind that the functions of the United States Maritime Commission do provide a model for the future Indian Shipping Board.

## CHAPTER IV

## TERMS 1 AND 2 OF THE REFERENCE

(1) *What would be a suitable tonnage target for Indian Shipping to be attained within a period of five to ten years.*

(2) *What percentage shares of the maritime trade of India and other trades in which India is interested both coastal and overseas, cargo and passenger should be secured for Indian Shipping.*

(1) *Not possible to decide the Ultimate target.*—We propose to deal first with item (2) as, an answer to the question put under the first term of reference will depend upon what percentage share of the Indian and other trades is to be secured for Indian shipping and also upon the strength of shipping considered essential for India in order to maintain her strategic position and meet the needs of her defence. Before, however, passing on to a detailed consideration of this, we would like to take note of the fact that the world has emerged much poorer from out of the last war and the future trend of International trade is very uncertain. Economic prosperity may vary from region to region and the composition of world trade may also undergo some changes. Shipping is an industry which is probably more directly affected by trade cycles than perhaps any other. Experience of all maritime countries has been that the shipping industry is the last to benefit from a boom and the first to feel the effects of a slump. The increase in the world tonnage and the extent of international co-operation for the expansion of world trade are bound to influence the national shipping policy of all maritime countries. We, therefore, consider it both unwise and undesirable to lay down at this stage an ultimate tonnage target which India should eventually have. We can only strongly emphasize the point that every possible step needs to be taken without any delay to develop substantially the tonnage under the control of and managed by the nationals. Our recommendations, therefore, indicate the programme of action for the immediate future and the next few years. We would, however, also emphasize the fact that the percentage shares and the tonnage target recommended elsewhere in this chapter are the minimum that should be secured in the course of, say, the next five to seven years."

(ii) *Shipping Statistics.*—A detailed statistical study is necessary before we could make recommendations in regard to the first two terms of reference. The statistics required for our purposes may be classified as follows:— »

(1) *India's Coastal Trade.*—The nature and tonnage of commodities and the number of passengers carried between the different ports of India in the pre-war period showing also the number, nationality and tonnage of vessels in which they were carried.

(2) *India's Overseas Trade.*—The nature and tonnage of commodities and the number of passengers carried from each of the Indian Ports to each of the maritime countries of the world in the pre-war period showing also the number, nationality and tonnage of vessels in which they were carried.

Official statistical data relating to shipping do not, however, give all these details; the figures placed before us have been collected from different sources and it is therefore possible that there may be some minor errors in them.

So far as India's coastal trade is concerned, apart from the fact that prior to 1st April 1937 Burma has been shown as part of India in the trade accounts, it should be stated the *Monthly Account\* relating to the coastal trade and navigation of British India* do not give quantity figures for some of the commodities entering into the coastal trade. The publication contains only value figures for total exports and total imports. *The Annual Administration Reports of the principal Indian Ports* contain information relating to the nature and total tonnage of the trade passing through the ports, but these figures do not-

distinguish in all cases between coastal and foreign trade. It has been ascertained from the Port Trusts that they do not all have the details required, by us. Moreover, these publications do not contain the particulars of the tonnage and of the flag carrying this trade, nor do they give the details of the countries from or to which the trade and traffic flows.

Fortunately, in regard to coastal cargo, tonnage figures have been furnished to us by the Scindia Steam Navigation Company, *ltd.*, and these compare very favourably with the tonnage estimates arrived at from the value figures published in the *Accounts relating to the Coastal Trade*. These figures are reproduced in Appendices V, VI and VII. The number of passengers earned on the coast are given in Appendix VIII. In Appendix IX we give the total tonnage of vessels according to nationality, operating in the coast.

Statistics in regard to overseas trade are even less satisfactory. As pointed out earlier, the Port Trust reports do not distinguish in all cases between Coastal and Foreign Trade; nor do all the Ports keep details in regard to countries of origin and destination. We reproduce in Appendices X and XI the total tonnage of India's maritime trade (Coastal and foreign) as published in the Port Trust Administration Reports and the estimates of tonnage of India's export and import trade with the principal countries of the world in 1938-30 derived from the *Annual Statement of the Sea-borne Trade of British India, Vol. II*. This publication, compiled in the Department of Commercial Intelligence and Statistics, Calcutta, from the returns furnished by the Collectors of Customs, contain value figures for each of the commodities in respect of each of the various overseas countries with whom we trade as also the values of total exports and imports. Figures in regard to the total *tonnage* of imports or exports are not given in the *Sea-Borne Trade Accounts* for, in respect of certain commodities quantity is not recorded and in respect of certain others quantity is recorded in units other than that of weight. The weight of such commodities has been estimated in order to arrive at an estimate of the tonnage of total imports and exports. The commodities in respect of which quantity figures are not shown in the *Sea-Borne Trade Accounts* are mostly manufactured articles. Available official statistics in regard to passenger traffic are published in the *Statistical Abstract for British India*, but these relate to unberthed passenger only. The number, nationality and tonnage of vessels entering into and clearing from Indian ports with cargo and in ballast are given in Appendix XII.

As we were anxious to get a complete picture of the statistical position and as the official statistics placed before us were inadequate, the Commerce Department at our request, addressed all the Shipping Companies for the supply of certain additional information. The letter issued by them is reproduced in Appendix III. "We are very sorry to have to place on record that the response of non-Indian Shipping Companies to this request *from the Government of India* has been very poor. In view of the fact that it is of the utmost importance that detailed statistics relating to shipping should be maintained at least from now on, we would request the Government of India to take immediate steps for collecting on an annual basis the statistical data which we have described above under (1) India's coastal trade and (2) India's overseas trade. It would be advantageous to ask the Port Trusts to undertake this task and for this reason we would suggest that the control over the Port Trusts should go over from the Transport to the Commerce Department. There are also other reasons why control over the ports should rest with the Commerce Department. It is the latter Department which deals with shipping policy and other technical questions relating to shipping. It is only logical that the Port Trusts should be administered under the control of that department which is responsible for shipping. The development of an Indian merchant navy is inextricably wound up with the question of port facilities.

We would recommend that the shipping statistics should be separated from the trade statistics of India and published in a separate volume as is done in the United Kingdom.

War-time figures are distorted owing to the controls over shipping and export and import trades; there have been diversions of the carrying from one means of transport to another. For example, so far as the coasting trade of India is concerned owing to the shortage of shipping, trade which would have been carried by steamships has usually been carried by the congested runways over since the outbreak of the war. War-time data could not therefore give us reliable guidance for laying down a suitable shipping policy for the future. We have used as far as possible the figures for the period prior to September 1939; in respect of the coastal trade, we give figures for each of the five years ending 1933-39 while in regard to the overseas trade we have largely confined ourselves to the last pre-war year 1938-39. It has been pointed out earlier in this section that the tonnage figures of foreign trade are estimates made from the value figures compiled by the customs and it would not be possible for us to submit this report in time if we were to attempt to make similar estimates for some of the earlier years. The weight of individual commodities has to be calculated before we could get the total imports and exports of India with a particular country and the repetition of this process for all the foreign countries with whom we trade would involve a colossal amount of labour and time.

It has been represented to us that the freight ton is very different from the ton used in the trade and that caution should be exercised in coming to any conclusion in regard to the tonnage target by using the available trade and other shipping statistics. We know that the published statistical data regarding the tonnage and number of vessels relate to the gross registered tons and include repeated voyages. It is largely correct to say that the weight of cargo carried in a particular period cannot give reliable guidance in regard to the fixation of a tonnage target for Indian shipping. The stowing space required for cargo carried on a steamer varies according to the nature of the commodity to be carried. For instance, while a ton of rice in bags requires about 49 eft., a ton of cotton in full-pressed bales requires about 70 eft. of space for storage. A five thousand D.W. ton cargo vessel may be fully loaded in the sense that all available space in the steamer has been utilised but the actual weight of the cargo loaded may only be about 60 per cent of the capacity of the vessel. Raw cotton is a case in point. A five thousand D.W. ton cargo vessel may be full with this commodity, but the actual weight of the raw cotton may only be little over 3,000 tons. A given weight of raw cotton naturally occupies more space than for example deadweight cargo like coal. We have borne these important considerations in mind in arriving at the tonnage target which we recommend later on.

Para. 3 of the departmental statement on "Postwar Shipping Policy" contained in the second report on Reconstruction Planning refers to the acquisition of an adequate share in the world's carrying trade as the goal of the Central Government's shipping policy and indicates the percentage shares to be secured in the various trades of the country. The statement divides the trades into coastal, including trade with Ceylon and Burma, near trade, *e.g.*, Persian Gulf, East Africa, Malaya and the Dutch East Indies. Eastern Trades, especially those trades of which Japanese shipping has been dispossessed, and the trade between India, the U. K., the continent of Europe and North America. We have analysed the maritime trades of India from the point of view of shipping and on the analogy of the departmental statement we have, for purposes of convenience, adopted the following classification:—

- (1) the purely coastal trade of India;
- (2) India's trade with Burma and Ceylon which can be described as associated coastal trades:



## §1

- (B) India's trade with what might be described as the geographically adjacent countries, i.e., countries with whom we trade through the Indian Ocean and the Red Sea. Broadly speaking this group will comprise the whole of Africa, the Middle East (including the Persian Gulf), Thailand, Indo-China, Malaya and the Dutch East Indies;
- (4) India's distant trades, i.e., our trade with Japan, China and Australia, the Continent of Europe, U. K. and North and South America; and
- (5) trades lost by the Axis in the Orient.

We now proceed to a detailed consideration of each of the trades described above.

(iii) *India's Coastal Trade and Associated Coastal Trades*.—Appendix VII contains figures showing general cargo, coal, salt and mineral oil lifted by the principal Indian and non-Indian Companies from and to ports in India, Burma and Ceylon from 1933-34 to 1938-39. As our trade with Burma and Ceylon has always been considered as coasting trade, separate figures showing the purely coastal trade of India are not readily available. We have, however, tried to calculate the purely coastal trade for the year 1938-39 and the figures are given in Appendix V. It will be seen that out of a total cargo of 712 lakh tons for India, Burma and Ceylon, the purely Indian coastal trade amounted to 14 lakh tons. Before we analyse those figures with a view to recommending the percentage shares of these trades for Indian shipping, the composition and nature of the trades may be briefly described.

In the year 1938-39, nearly 46 per cent of the purely coastal trade of the country was made up of articles wholly or mainly manufactured; raw materials and articles wholly or mainly unmanufactured constituted another 32 per cent while the remaining 22 per cent of the trade consisted of food, drink and tobacco. In the same year India's export of food articles to Burma and Ceylon amounted to 39 per cent of the total export trade; the share of raw materials and articles mainly unmanufactured was 15 per cent while that of mainly manufactured articles was 45 per cent. On the import side, the share of food, drink and tobacco was 52 per cent of total imports, raw materials and unmanufactured articles constituted 45 per cent and manufactured articles 3 per cent. Thus, it will be seen that the predominant group was that of manufactures both in the coasting trade and India's export trade with Burma and Ceylon, while our imports from these two countries were almost wholly food articles and raw materials.\*

The average cargo lifted by Indian Shipping Companies during the period of 6 years ending 30th June 1939 amounted to about 25 per cent of the total trade. The tonnage of India's exports to and imports from Burma and Ceylon, estimated from the value figures published by the Customs, are given in Appendix XIII. According to this statement, the total quantity of imports and exports in the fiscal year 1938-39 amounted to 42 lakh tons, which compare favourably with 37 lakh tons actually carried by the shipping companies and given in Appendix V. We would recommend that the entire coastal trade of India, amounting to nearly 24 lakh tons, should be *immediately* reserved for Indian shipping; 75 per cent of our associated coastal trades, namely, trade with Burma and Ceylon should be secured for Indian shipping. Roughly speaking, the quantity of this trade would be about 32 lakh tons. The above reservations should also apply to passenger traffic. It will be observed from Appendix VIII that the total number of passengers carried on the coast in the

\* In fixing a tonnage target for Indian shipping for the next 5 to 7 years, we have taken into account the nature of the commodities entering into each of the different trades.

Out of a total quantity of 71.2 lakh tons lifted in the coastal trade of India, Burma and Ceylon during the year ending 30th June 1939, nearly 8 lakh tons constituted mineral oil while the rest consisted of general cargo, coal and rail.

year 1938-39 was 25 lakhs (including Burma and Ceylon). We have no estimates of the total number of passengers carried from and to all the Indian ports.

We have already referred to the almost universal practice of reserving coasting trade to the national flag. There has been an insistent demand, for over two decades now, that the coastal trade of India should be reserved for shipping owned, controlled and managed by the nationals of the country. It is a matter of deep regret that the Government of India have not responded to this insistent demand of the Indian people. We would, however, express the hope that this particular recommendation of ours, based on a policy recognised all the world over, would be put into immediate effect. Licensing of the coastal vessels is a necessary corollary to reservation and we have, therefore, recommended the constitution of a *Shipping Board* for this purpose. It will be the responsibility of the Board to ensure on the one hand that the trade is not penalised by any undue rise in the rates of freight, and to so regulate on the other hand the tonnage to be licensed as to maintain the conditions of efficient operation and economic working.

(iv) *Adjacent Trades and Trades with the far East.*—Broadly speaking this group comprises the whole of Africa, the Middle East (including the Persian Gulf), Thailand, Indo-China, Malaya and the Dutch East Indies. Nearly 60 per cent of India's export trade with this group of countries in the year 1938-39 consisted of manufactured articles; 30 per cent consisted of food, drink and tobacco and the remaining 10 per cent of raw materials and unmanufactured articles. As much as 76 per cent of our imports from these geographically adjacent countries was made up of raw materials and unmanufactured articles while the rest of the trade was made up of food articles 19 per cent and manufactured articles 5 per cent.

It is well known that Indian Shipping has practically no footing in India's overseas trades. Barring the recent participation to a very small extent of Indian Shipping in the carriage of Pilgrims to Hedjaz and the recent carriage of rice from Java to India by a newly acquired vessel of the India Steam Ship Company, Indian Shipping is conspicuous by its absence in the overseas trades of India. We give in Appendix XII the number and tonnage of vessels according to nationality that entered into and cleared from the Indian ports with cargoes and in ballast, it is true that these figures are not useful, for they include repeated voyages of the steamers and the tonnage relates to the gross registered tons. But, it will be noticed from the statement that nearly 70 per cent of the vessels that entered and cleared at ports in British India in the pre-war years was of British nationality. What is meant is that British ships owned by British shipowners carry this trade. British Shipping is contrasted here with Indian Shipping truly so called. Both in the coastal trade and in the overseas trade of the country, it is British shipping which has been occupying a predominant position. We are of the opinion that Indian shipping should have at least 75 per cent in what might be described as the geographically adjacent trades. The total quantity of India's imports and exports with this group of countries was about 2½ million tons in the year 1938-39. We would recommend that nearly 1·9 million tons of this cargo should in future be carried in Indian bottoms. One of the important commodities which we supply to most of these countries is jute and jute goods, of which India has practically a monopoly. We have also developed our trade in cotton manufactures with these countries. Again, during the war some of these geographically adjacent countries had to look to India as almost the sole supplier of certain categories of goods like cotton manufactures. We would therefore urge the Government of India that, next to the coastal and associated coastal trades and securing a due share of the trades formerly carried by the axis powers, they should concentrate on acquiring for Indian shipping at least 75 per cent of the new trades described above.

(v) *India's Distant Trades.*—India has been a traditional exporter of raw materials to Europe, U. K. and America from whom we have been getting in turn our requirements of manufactures. As much as 85 per cent of our imports from this group of countries in the year 1938-39 (*i.e.*, Japan, Australia, the Continent of Europe, U. K. and the North and South America) was composed of articles wholly or mainly manufactured; food and tobacco contributed another 10 per cent while the remaining 5 per cent was made up of unmanufactured articles. Our exports to this group to the extent of 60 per cent were raw materials, while the share of the manufactures in India's exports to these countries was 30 per cent, and the balance of 10 per cent consisted of food, drink and tobacco.

We would recommend that in regard to these distant trades 50 per cent should be the target for Indian shipping in the next 5 to 7 years. India's trade with this group of countries in the year 1938-39 has been estimated to be 93 millions tons, and half of it would be 47 millions.

(vi) *Trades lost by the Axis in the Orient.*—India should secure for her national shipping due share in the trades formerly carried in the Axis vessels in the orient, of which they have been dispossessed. Japan, amongst the Axis countries, was the *most* leading maritime power in *the* Orient and she carried a very substantial trade. A fairly good portion of the trade carried by Japanese Shipping has, therefore, to be secured for Indian Shipping, and we strongly recommend that steps should be taken by the Government of India to secure at least 30 per cent of these trades. We would draw the pointed attention of Government to the reported determination of the T. J. S. A. to retain the entire trade carried by Japanese Shipping in the Orient, for American vessels. The Government of India, therefore, have to watch with the utmost vigilance any development that may take place in this connection, and make suitable representations and carry on necessary negotiations with the proper authorities to securing for Indian Shipping her legitimate share of this trade.

(vii) *Tonnage required for the carriage of the above Trades.*—The following is a summary of our recommendations in regard to the percentage shares to be secured for national shipping in each of the maritime trades described in the previous sections of this chapter. The estimated quantity of exports and imports given below errs on the low side. The actual quantities carried, if all the figures were available, would be larger than those given below. We are not providing these for any expansion in India's overseas trades which may result from the development of her agriculture and industries.

	Estimate of the trade (export and imports) (Quantity in lakhs of tons)	Percentage share to be secured for Indian Shipping	Estimate of the cargo to be carried in Indian bottoms (Quantity in lakhs of tons)
1. The purely coastal trade of India . . . . .	24	100%	24
2. India's Trade with Burma & Ceylon . . . . .	42	76%	32
3. India's Trade with the geographically adjacent countries . . . . .	25	75%	
4. India's distant trades . . . . .	93	60%	41
5. Trades lost by the Axis in the Orient . . . . .		30%	

(Tonnage figures not readily available)

As the available figures of passenger traffic relate to the coast only, we have not been able to describe the passenger traffic between India and the foreign countries. The percentage shares which we recommend above should apply not only to the cargo but also to the passenger traffic. Roughly speaking in fixing the target tonnage for Indian shipping in the next 5 to 7 years, we have presumed that at least 30 lakhs of passengers will in future travel in Indian vessels.

We have analysed above the position of India's maritime trades. The consensus of informed opinion is that to carry the above cargo amounting to more than 10 million tons a year, and about three million passengers, India needs 2 million gross tons of shipping. We realise that the attainment of this target for Indian shipping in the period that we recommend may not at all be easy owing to the difficulties in building and acquiring ships in the immediate future. But, we are convinced that this rapid growth of the Indian mercantile marine is a matter of great national urgency, and in view of our sad experience during the war that has just ended, the Government of India should do all that is possible to ensure that this 2 million tons is acquired before the end of the 7 year period.

It is difficult to determine with any precision the future trend of ship-building in the world in regard to design, speed, size, tonnage, etc. It is also not possible at this stage to gauge the effects of the development of Civil Aviation on the speed and size of the large liners of the world. We would, however, leave it to the individual Shipping Companies to decide the question of the suitability of vessels for their own services, which may depend upon the routes, and the nature of cargo catered for, as much as upon conditions of competition and rising standards of speed and amenities.

It should be added that this 2 million tons exclude country craft, building of which has been going on from time immemorial, particularly in Calicut and other ports on the West Coast. There are no reliable estimates in regard to the present tonnage of the country craft and we would recommend that in future detailed statistics relating to these vessels should be collected and maintained.

(viii) *How to acquire new Tonnage: (a) Negotiation with H. M. G. and/or British Companies.*—Although India has rather a bitter experience of the efficacy of a policy of negotiation for the purpose of developing National tonnage, we cannot but note the actual position that it is British Shipping which has all along dominated and continues to dominate India's overseas trades. We would not, therefore, rule out the possibility of developing National Shipping by negotiating with H. M. G. and with the British Shipping Companies. The good offices of Government may also be utilised to enable Indian Companies to negotiate successfully with British Shipping Companies in regard to the trades in which they jointly operate their services. We would, however, bring to the notice of Government the vital fact that British Shipping is advancing in every direction and that British Shipping Companies are building new tonnage for the trades which they have served in the past. The policy of negotiation, if it is to be adopted and pursued, can, therefore, brook no delay. As the vital issue in these negotiations will be that of transferring to Indian Shipping a large portion of the trades hitherto controlled by British Shipping, the question of purchasing British tonnage also may arise. That is a problem which can only be settled on its merits by those who may have to carry on such negotiations. We are, however, of the opinion that the policy of negotiations alone cannot develop National Shipping. Like other important maritime countries of the world, the Government of India will have to take a militant view of their responsibilities and obligations towards National Shipping. The policy of negotiations may, perhaps, fail. The Government of India must be prepared to face such a failure. They will have, therefore, to be ready to meet such an emergency by what other methods they can adopt and the steps they should take

**a**

to develop a suitable navy of supply for this country. It cannot be denied that the shipping industry has not so far received any protection whatsoever from the Government of the land. We would, therefore, urge with all the emphasis at our command that the Government of India should, in any plan that they may prepare to ensure the building up of an Indian merchant navy as recommended by us, be prepared to adopt all measures, including financial assistance for the development of Indian shipping.

(b) *Import of foodgrains by Indian tonnage.*—It has been our sad experience that in the absence of Indian ships we could not bring foodgrains from abroad in time for the starving millions of our country. India will be importing over a million tons of foodgrains per year from foreign countries, other than Burma. It is very probable that foodgrains would continue to be imported for a few years to come. It is essential that there should be a nucleus of Indian ships for bringing such imports from abroad into this country. We would, therefore, strongly recommend that Indian shipping interests should be encouraged to acquire the necessary tonnage for bringing such foodgrains to India and that the Government of India should give the assurance that such Indian enterprise will be protected by every possible means against unfair competition from foreign vested interests. We have no doubt that such an immediate acquisition of tonnage would add to the small but tangible nucleus of Indian operations in the overseas trades of India which has recently been created by the efforts of the India Steamship Company and the Scindias.

(c) *Purchase of U. S. A.'s surplus ships.*—An Act was recently enacted in the United States of America for the sale of her surplus ships to foreign buyers. A large number of these surplus ships has already been sold both to ship-owners as well as to the Governments of several countries. It is possible that these ships may not come up to the efficiency or be found so durable as ships built in times of peace or ships constructed for special trades. It is also possible that the tonnage and the draft of these ships may not be suitable for operation in certain trades. Subject to investigation into these and other factors, we recommend that the Government of India should help Indian ship-owners to the fullest extent possible in buying these surplus American ships as an addition to the existing Indian Tonnage and thus take a step forward in the country's desire to build up the Merchant Navy. We are glad to note from one of the recent Communiqués issued by Government that they would be prepared to release the dollars required for the purchase of such ships. We understand that Government have already released about 11 million dollars, 6 millions of which have been allotted to India Steam and 4 millions to Scindias for the purchase of American ships. We would, however, further urge upon Government to make suitable representations to the United States Authorities and bring home to them the urgency of India's requirements in the matter. Apart from the magnificent services rendered by India as an ally in the last war, it is of importance that her very meagre tonnage should be immediately increased to meet her vital needs. We have no doubt that if the Government of India were to take timely and immediate action in this matter it will be possible for Indian enterprise to acquire a fair portion of the tonnage that it may require for India's coastal and overseas trades and for importing foodgrains from abroad.\*

(d) *Building in India and V. K.*—Another method of adding to the existing Indian tonnage is to build new tonnage both in India and outside. We are not unaware of the fact that the present cost of building ships is 200/300 per cent more than what it was in the pre-war years. The fact, however, cannot be ignored that every shipowner, who is anxious to maintain his position in the

\* In this connection we understand that India Steam has been allotted 6 fast 'Victory' ships and Scindia will shortly be allotted 5 'Liberty' ships by the American Government.

nudes which he was serving before the war, has already placed large orders for building ships suitable to his trades even at the existing cost of building. India cannot afford to wait in the matter of increasing her tonnage till building prices come down to pre-war levels. It is also obvious that the present high cost of tonnage may affect the economic working of Indian shipping. We would, therefore, recommend Government to go fully into this aspect of the question and to give such subsidy to Indian shipowners towards the building cost of their vessels as may enable them to ensure economic operation. We are glad to note that there is a well laid-out shipbuilding yard in India at Vizagapatam. Ships of about 150 feet in length and of about 12,000 tons gross registered can be built in that Yard. We are also informed that 8,000 tons are already under construction in that yard. We would, therefore, recommend that Government should assist that and other similar enterprises and extend to them such patronage as is possible and as they deserve. It may be that all requirements of ships that may have to be built in India may not be met by such Yards. It will, therefore, be necessary for Government to investigate into the capacity of that and other Yards and to take such measures as may be necessary for increasing the building capacity in the country by laying out Yards at such other ports as may be found necessary and advisable.

The numerous small ports on the coast of India, which carry on trade with a number of inland places not connected by Railways, or good roads, will continue to be served by country craft for a long time to come, for these ports may not be regularly visited by big liners even if they are developed. Quite apart from the development of minor ports every assistance should be given for the building of country craft, which are usually small sized. We would also recommend that in view of the limited facilities available in the smaller ports, India should necessarily have a fleet of small landing crafts, which were used on a large scale during the last war and the possibility of using which during peacetime, should be fully explored. We are informed that the Disposals Directorat\* of the Government of India have a number of these small crafts in surplus.

## CHAPTER V

### TEKMS 3 (a) AND (b) OF THE REFERENCE

**3. What measures should be taken.—(a) To regulate the Shipping Industry with a view (i) to preventing the formation or establishment of combines or monopolies or excessively large units within the Industry and (ii) to ensuring that the number of Shipping Companies is no larger than economically adequate.**

**(b) To ensure a fair and equitable distribution, among existing companies and those yet to be established of trades which, may hereafter be secured for Indian Shipping.**

**(i) Tonnage of the leading Shipping Companies in the World.—**As already remarked earlier in this report, Indian Shipping carries only 25 per cent of the Indian coastal trade. It has practically no footing in the overseas trades of India. It will thus be easily realised that only meagre and insignificant share of the trade is carried by National Shipping. Out of over 20 million tons of cargo and over 3 million passenger traffic which constitute the maritime trades of India the tonnage on the Indian Register does not exceed 1.3 lakhs tons.\* This tonnage can play only an insignificant part when the tonnage of the world today totals 80 million tons gross. The problem, therefore, is not one of imposing any restriction on the growth of Indian tonnage or on the development of any Indian Shipping Company; the crux of the problem lies in the fact that

\* Although approximately 60,000 tons gross have recently been acquired for registration

Indian enterprise needs every possible encouragement to increase Indian tonnage for the carriage of Indian trades. It will therefore, be unwise to define at this stage, what an "economically adequate unit" would be or should be even if it were possible to do so. Shipping as an industry requires heavy initial capital outlay. It has to face competition from foreign flags and their powerful financial resources. It has to struggle against trade depressions and unfair competition, both from within as well as from outside the country. All these factors have to be borne in mind in determining what may be an "economically adequate unit" in the shipping industry. We do not find any justification under the existing circumstances for considering, much less deciding, the question.'

We would, however, like to make it clear that there is no desire on our part to allow monopolies to be created. We are also not unmindful of the necessity of ensuring the existence and growth of small Indian Shipping Companies which are run on business lines and which are financially sound. It will be the responsibility of Government to see that such Shipping Companies are not driven out of the field either as a result of competition from outside the country or from within the country. If the Government of India were to discharge efficiently and effectively this responsibility of theirs, we have no doubt that Shipping Companies even with limited tonnage can have nothing to fear from other Shipping Companies however powerful they may be. It will be for the Government of India to decide how they should discharge this responsibility of theirs towards small Indian Companies in the maritime trades of India. We would, in this connection, like to give a brief outline of the disposition of the leading Shipping Companies in the world.

The tonnage on the Indian Register today is in the neighbourhood of 11 lakh tons gross. It is, therefore, essential that Government should lay all emphasis on how the Indian Companies can and should expand their fleets. There can be no justification, therefore, as already stated, of even considering the question as to what limitations and restrictions can be usefully imposed on Indian Shipping Companies in their growth from infancy to early adolescence and then to full manhood. It is indeed profitable and interesting, while considering this problem, to note the extent to which Shipping Companies in the different parts of the world have expanded their fleets. In none of the maritime countries of the world is there any legal or other bar against the expansion of tonnage owned by its nationals. As shipping is an international industry, we consider it our duty to invite the attention of the Government of India to this vital fact in the maritime activity of the world.

Appendix XVII gives particulars of the steamers and motor ships of 100 tons and upwards together with their aggregate gross tonnage owned by different countries in the world, in 1939-40 (*the Lloyd's Register of Shipping, Volume JZ, 1939-40,—page 5, Statistical Tables.*) It will be noted that the total number of steamers was 29,763 and their aggregate gross tonnage was 68,509,432.

An analysis of the particulars given in the Lloyd's Register of Shipping 1939-40 and in Pairplay's Annual Summary of British Shipping Finance for the year 1939 shows that the aggregate of the tonnage held in different parts of the world by Companies owning a fleet of 50,000 gross tons and upwards amounts to 7,155 steamers and 33,774,689 gross tons (*vide Appendix XVIII*).

The position, therefore, is that out of a total gross tonnage owned in the world of steamers of over 100 tons gross amounting to 68,509,432 (a) those owned by Companies having a fleet of less than 50,000 tons gross was 34,734,743 and (b) those owning a fleet of 50,000 gross tons and over was 33,774,689. It will, therefore, be obvious that nearly 50 per cent of the tonnage in the world is owned by Companies which have a fleet of at least 50,000 tons gross. Several of them have got fleets far above 50,000 tons gross. A further analysis of the same figures reveals the fact that there are 105 companies in the world each

**U**

of which owns a fleet of 100,000 gross tons and upwards. The aggregate gross tonnage owned by these companies comes to 27,700,977 gross tons, which is about 10 per cent of the entire tonnage of the world is owned by companies each owning a fleet of more than 100,000 tons gross.

The tendency, therefore, is for shipping companies to own a large tonnage. Appendix XIX gives the names of 35 shipping companies in the different parts of the world each one of which owns a gross tonnage of over 200,000 tons gross, (vide *Lloyd's Register of Shipping, Volume 1, 1939-40.*) The aggregate total of these 35 companies comes to 12,094,188 gross tons. This is a little less than 19 per cent of the total tonnage owned in the world. 17 of these 35 companies individually owned a gross tonnage ranging from 201,157 to 280,325.

5 companies owned a gross tonnage from 309,658 to 324,738 each,

8 companies owned a gross tonnage from 400,463 to 469,223 each.

2 of these companies owned gross tonnages of 618,218 and 641,837 respectively

and the rest of them, viz. 3 companies owned a gross tonnage of between 721,388 and 790,199 each

It will not be inaccurate to draw from the statistics given above the conclusion that shipping companies usually consist of large units. The largest on record according to the *Lloyd's Register of Shipping 1939-40*, owned a gross tonnage of 7,90,199.

Apart from what is stated above, the position of the Shipping Industry in the different parts of the world, the tendency of the shipping industry to work with large units, the relative volume of the country's maritime trades, its need for defence, its strategic importance etc. should be carefully taken into consideration before any conclusion is arrived at in connection with terms 3(a) and (b) of the reference. There is another important point to which we would wish to draw attention. As stated above, shipping companies work with large units. Again, even these shipping companies with large units work in large groups. For instance, the most important groups of British Shipping are as follows:—

Name of the group	Total gross tons
<b>P. A O-Group.</b>	<b>2,100,720</b>
Cunard Group	864,853
EUerman Group.	<b>690,002</b>
<b>FurnessWithy</b>	<b>671,828</b>

(ii) *The Conference System, rate-cutting, deferred rebates etc.*—In Chapter II we have referred to the role of rate-cutting and deferred rebates. Shipping Conferences are, as their name implies, meetings of the representatives of independent and competing lines. A shipowning Company may belong to as many conferences as it has lines on different routes. With due notice a line can be withdrawn at will from a conference. There is nothing in common between such a conference and a combine of shipping companies linked by shareholdings. The majority of Shipping Conferences are international, in the sense that they consist of combines under various national flags. The essential principle of a conference is to give a well-regulated and timely service to the shippers and to charge them a uniform tariff of freight rates or passenger fares for the services rendered. The origin of conferences is to be found in the great increase in world tonnage about the time of the opening of the Suez Canal in 1869. At the outbreak of war in 1914 practically every liner route or 'trade' of any importance was operated by a conference of the shipping companies concerned. These conferences numbered some hundreds and according to the Imperial Shipping Committee there were at least 60 of major consequence. The entry of an American carrier into conferences is regulated by the American Shipping Legislation.

Deferred rebates are prohibited by Legislation in Australia. South Africa and the United States. The United States Maritime Commission have also powers



of intervention in cases of unfair rate practices and thereby defend American Lines in conference arrangements, 'there are again instances of the Australian Government having fixed freight rates, particularly for the carriage of coastal cargo.

We have pointed out that it is not possible for us at this stage to define what an "economically adequate unit" would be both in regard to the maximum tonnage the industry as a whole should possess and in regard to the maximum tonnage of an individual company. We feel that it would not be desirable to fix a tonnage limit for Indian shipping companies nor would we recommend the imposition of any restriction on them with reference to their capital structure. But, we would hasten to add that it is absolutely essential for the Government of India to empower the Shipping Board to control deferred rebates and to protect both the small concern and the consumer. Government may ask the Shipping Board to investigate into and report on any complaint about unduly high rates charged by Shipping Companies in the Coastal trade after it is reserved, as well as by Shipping Companies receiving any State help or patronage in the overseas trade of the Country. The Board should also take steps, whenever necessary, to protect Indian owners who are in conference arrangements. We do not wish to lay down the details of the manner in which the Shipping Board should exercise its powers, for it is necessary to make the Board's powers and function flexible in the formative stage of the growth of the Indian Shipping Industry. Even in the sphere of coastal shipping, where the total tonnage operating at any particular moment of time would apparently be restricted to a maximum figure by the operation of the licensing system, the Shipping Board, while ensuring the free play of healthy competition, should at the same time prevent the promotion of economically unremunerative units and the use of devices like rate-cutting, deferred rebates etc. by larger groups in the industry to kill similar units and thereby acquire a monopolistic position.

(iii) *Division of the Trades between Indian Shipping Companies.*—The tendency in the modern world is that those who build up new industries by their capital, enterprise, skill and experience, should be encouraged to run them as efficient and economic units. They should have unrestricted scope to expand and work up to their fullest capacity. The development of civil aviation in India by Indian companies is an apt illustration of the principle to which we have just referred. This principle may be extended to shipping participating in the coastal trade of India. The Shipping Board can decide the extent of the tonnage that should be licensed for the carriage of the trades in the coastal waters of India. But, shipping becomes an international industry when it has to carry the overseas trades of our country. It will not be an easy task for any authority to determine the number of ships that a shipping company should confine its activities. Not that it is not possible to do so, but it has to be remembered that rational shipping companies in the overseas trade will have either to work with or face the competition of the foreign shipping companies operating in the same waters. We do not, therefore, think that it would be wise or in the interests of Indian Shipping to fetter the activities of the Indian Shipping Companies in the carriage of overseas trade. That should not, however, preclude Government from utilising their influence and good offices in so distributing the trades that may be, secured for Indian shipping amongst the old and the new Indian Shipping Companies as they might consider fair and equitable. After fully taking into consideration the status, energy, efficiency and the future possibilities of the different shipping organisations. We would not, however, like to lay down any definite basis on which distribution of the acquired trades should be made either amongst the existing or the future Indian shipping companies. "We would rather leave it to the Shipping Companies to adjust this themselves, and if necessary to do so. Government should evolve suitable measures for the fair and equitable distribution of such trades after examining each case on its merits and as it arises.

After giving an account of the place of shipping in maritime countries in Chapter I and tracing the history of the attitude of the Government of India towards national shipping in Chapter II we lay down the objectives of a national shipping policy for India in Chapter III. We strongly emphasise that India should adopt a national shipping policy similar to the policies adopted by the important maritime countries of the world (pp. 24-27). We define the term "Indian Shipping" as shipping *owned, controlled and managed* by the nationals of India (p. 28).

2. Proceeding on the generally accepted principle that a country should carry in its own national bottoms at least 50 per cent of her maritime trades, we recommend that the objectives of the future shipping policy in India should be to reserve for Indian Shipping the entire coastal trade of India and to secure adequate shares in other maritime trades (pp. 29-30).

3- In regard to state aid, our recommendations are that the Government of India should give financial aid to that section of the industry which partakes in India's overseas trade. As the licensing system recommended by us would naturally limit the tonnage operating on the coast this portion of Indian shipping need not necessarily be financed by state aid (p. 32).

4. In order to implement our recommendations it is vital that the Government of India should take immediate steps to set up a Shipping Board. The Shipping Board should be the spear-point of policy locally and internationally and should have powers to licence coastal vessels and to submit to Government proposals for the removal of all evils of monopolists' exploration. The constitution and functions of this Board are described in pages 32-33.

5. Owing to a number of practical difficulties it is not possible for the Subcommittee to lay down at this stage the specific target tonnage this country should eventually have and our recommendations constitute a programme of action for the next five to seven years only (p. 34).

6. We have pointed out the defects in the existing statistical data and the necessity for filling up the gaps. It would be advantageous to ask the Port Trusts to undertake this task of improving statistical data and for this reason and for the other principal reason that the shipping policy and all other questions relating to the ports should be dealt with in the same department, we recommend that the control over the Port Trusts should go over from the Transport Department to the Commerce Department. We recommend further that the shipping statistics should be separated from the trade statistics and published in a separate volume as is done in the U. K. (p. 35 H O i).

7. We recommend that hundred per cent, of the purely coastal trade of India, seventy five per cent, of India's trade with Burma and Ceylon and with the geographically adjacent countries, fifty per cent of India's distant trades and thirty per cent of the trades formerly carried in axis  $VPC=P1=$  in the  $0<<mt$  should be secured for Indian shipping in the next five to seven years (p. 39).

8. The consensus of opinion is that to rearrange the present arrangement of more than ten million tons a year and about three million passengers, India needs two million more tons of shipping. This figure does not include country craft (p. 40). Negotiation of the  $TT^*T G \quad I - \wedge \quad T^{\wedge}H - \wedge T \quad p - M - v - noru^{**}$ , immediate acquisition of tonnage by Indian Companies to carry the food grains required to be imported into India, purchase of T.T.S.A.'s surplus ships and building in India and U.K. are the principal ways of acquiring the additional tonnage (pp. 40-42).

6. As the Indian Shipping industry is still very young, emphasis should now be placed on how Indian Companies could expand their fleets and

## u

we have, therefore, stated that **it is** not possible at this stage **to** define what an "economically adequate unit" would be **so far as** this industry is concerned (p. 43). It would not be desirable to fix a tonnage limit **for** Indian **Shipping** companies nor would we recommend the imposition **of** any restriction on them with reference to their capital structure (p. 45). But, as we are anxious **to** prevent monopolistic exploitation we have recommended that the Indian Shipping Board should be empowered to control deferred rebates, rate-cutting and all other evils arising from monopolies (p. 45).

10. Equitable division **of** trades between Indian shipping companies is essentially a matter of detail to be settled by the Companies themselves. If the Companies, however, fail to come to an agreement Government should evolve suitable measures **for** the fair and equitable distribution of the different trades (p. 45).

C. P. RAMASWAMI ATYAR—*Chairman-*

*Member\*.*

K. C. NEOGY

M. A. MASTER

A. H. GHUZNAVI

W. L. A. RADCLIFFE

R. DORAISWAMY, *Secretary.*

*New Delhi, the 30th January, 1947.*

## MINUTE OF DISSEMINATION BY SHRI A. H. GHUZZANI

What is Indian shipping? The discussions in the Sub-Committee seem to indicate that a majority of the Members meant by Indian shipping "shipping owned, controlled, managed and managed hundred per cent, by nationals of India". I do not subscribe to this view, not because of any less patriotism than some of my colleagues, but because it is a short-sighted policy and will hamper the development of Indian shipping. More than 20 years ago, the Indian Mercantile Marine Committee defined the ideal Indian Mercantile Marine. Even according to that definition the ideal Indian Mercantile Marine was one where the ships owned by joint stock companies registered in India with a rupee capital, with a majority of Indians on the Directorate and a majority of the shares held by Indians, and with the management of the Company predominantly in the hands of Indians. This ideal was to be worked up to eventually. Though 25 years have elapsed, there is no reason to think that this definition does not equally hold good now. If an advance has to be made, it has to be in the direction of fixing minimum percentages of Indian ownership and management, and I suggest that that percentage should be 70 per cent, both with reference to capital and with reference to management, that is the Board of Directors controlling the policy of the shipping company.

2. There ought to be a sharp distinction drawn between Indian shipping companies operating on the coast and companies taking part in overseas trade. It is clear that the coastal trade would come increasingly under the control of Indian companies. It might even be possible to reserve the coastal trade to Indian registered and Indian owned companies. But Indian shipping is just about to enter into the deep sea trade—the continental trade—Europe, America and the Far East. Shipping companies, in spite of all the help that the Government of the country can give, will have to enter into negotiation with various other foreign shipping companies. These negotiations may take many forms and it may strengthen the hands of Indian shipping companies, if a certain proportion of the share capital and a certain percentage of the Directorate, not exceeding 30 per cent, as has already been stated, were to be held by foreigners on a reciprocal and co-operative basis. To put the rigid test of 100 per cent, capital and management is to deny ourselves the opportunity and the right to partake in a fair share of the trans-continental trade.

3. Nor is there really any substance in any apparently nationalistic view prescribing 100 per cent, ownership and management in Indian hands. Taking a realistic view, arrangements will have to be made and in the past have been made by even 100 per cent, owned Indian shipping companies with foreign companies. These are called tripartite agreements or conference line agreements. If nationalism can be diluted to the extent of coming to an arrangement for sharing the trade with foreign companies, I do not see any very great violation of principle in puritanic nationalism if a company were to permit a very minor portion of its capital to be owned by foreigners and give them a minor share in the management.

4. I am particularly concerned about overseas trade across the oceans and with the continents. As I have already said above, shipping companies have virtually little experience. They have to make contacts with exporters at other ends. They have to invoke the aid, the support and the sympathy of the foreigners, situated in countries to which the ships will proceed. It will be short of disastrous, if a shipping company were to imagine that, with Indian agency at the other end and an Indian head office in India, there will be smooth flow of trade through ships between two countries. Is it not the wiser course and is it not just another aspect of profit sharing if in the capital and management of the company itself a small share is given to the foreigners?

too much logic and from the realistic point of view, there seems to be no reason why the conditions that have been suggested by the majority of the Sub-committee should be acceptable or would prove of any value.

o. It has been suggested that shipping is a Key industry and therefore 100 per cent capital and management should be in Indian hands. I venture to *think* that there is no point in this suggestion. If Indians get trained, if Indians are largely employed in the industry, as they are bound to be, when 70 per cent of the capital is owned by Indians and 70 per cent of the Directorate are Indian and if the Companies are registered in India and come under the control of the Government of India, all the advantages accruing from the fact that they are key industries will be available. On the other hand, even if 100 per cent capital is Indian and 100 per cent Directorate is Indian there are cases now and there may easily be cases in future where the entire higher technical personnel is or may be foreign, and that Indians may have little opportunity of acquiring the skill and the training necessary to equip them for such positions. Moreover, I have not seen this argument about key industries being owned hundred per cent and managed hundred per cent by Indians extended to other undoubtedly key industries. Shipping or ship-building are not the only two key industries. The production of steel, the manufacture of heavy chemicals and heavy engineering industries are also key industries and it is a matter of common knowledge with reference to some of the biggest units promoted in these industries that not even the percentage of Indian capital and management which I have predicted are to be found. I plead therefore for a common sense and realistic approach to this question and I trust that the Sub-Committee and Government will be well advised to accept the proportions that I have indicated with reference to capital and management.

A. H. GHUZZAVI

## DISSENTING MINUTE OF MR. W. L. A. RADCLIFFE

## DEFINITION OF "INDIAN SHIPPING".

With reference to the definition of "Indian Shipping" I am unable to accept the conclusions in Chapter III, section 2. I would point out that while my appointment to the Committee was presumably by virtue of my being Managing Director of an Indian Shipping Company (a company holding probably the longest record as an Indian Shipping Company) and therefore primarily to advise on problems relating to expansion of Indian Shipping, I can obviously not subscribe to definitions which by their rigidity will disqualify my own Company from being considered "Indian Shipping", at the amelioration of which the deliberations of the Committee and the recommendations made in their report are exclusively aimed.

It is unacceptable to me that a Company which might fail to comply with each and every one of the qualifications suggested in the report should be held to be ineligible for consideration as an Indian Shipping Company.

If any case and without prejudice to the above contention, I maintain that a Company which is registered in India, and had been operating for nearly 3/4 of a century, which has helped the development of Indian overseas trades along routes which were new, and has arranged for hundreds of thousands of pilgrims to fulfil their sacred vows, cannot suddenly by a stroke of the pen, or the whim of an individual, be declared non-Indian.

The Mogul Line has not only a record of faithful service to India over a long period, but during the last 6 years of war its ships' personnel and higher staff were placed unreservedly at the disposal of the Government of India, both for the prosecution of the war against both Germany and Japan and in the carrying of essential foodstuffs on the Indian Coast. It will be appreciated that in carrying out these duties the line was (by virtue of being on the Indian Register) under the direct control of the Indian Government and will similarly be again at the disposal of that Government in any time of crisis or in any situation wherein the control and direction of Indian Shipping is to be in the hands of the Government of India.

Whatever therefore may be decided regarding the definition of an "Indian Shipping Company" and what constitutes "Indian Shipping", such definition and any restrictive conditions laid down should only affect future floatations and companies to be formed thereafter. It would be grossly inequitable if they were to be, applied retrospectively.

W. L. A. RADCLIFFE.

## APPENDICES

	Page..
I. Terms of reference to and recommendations of the Indian Mercantile Marine Committee, 1923-24 . . . . .	52
II. Record of the first and second meetings of the Reconstruction Policy Committee No. 4-C on Shipping . . . . .	63—62
III. Letter to the shipping companies regarding supply of shipping statistics, together with list of companies to whom sent . . . . .	63—64
IV. Statement showing world tonnage as in 1939 and 1946 . . . . .	66
V. Statement showing summary of the coastal trade of India, Burma and Ceylon . . . . .	66
VI. Statement showing general cargo, coal, salt and mineral oil carried <i>from</i> and to Principal group ports of India, Burma and Ceylon by Indian and Non-Indian Companies during the year ending 30th June 1939. . . . .	67
VII*. Statement showing coastal cargo lifted (in tons) by the principal Indian and Non-Indian Shipping Companies from and to ports in India, Burma and Ceylon from 1933-34 to 1938-39. . . . .	68
VIII. Statement showing the number of passengers carried in the coastal trade of India, Burma and Ceylon as well as the number of pilgrims carried between India and Jeddah for the period of five years ending 30th June 1939. . . . .	69
IX. Statement showing the tonnage of ships that entered and cleared with cargoes and in ballast during the fiscal year 1938-39. (Coastal)	70
X. Statement showing the tonnage of Imports and Exports at ports in India during the year 1938-39 (coastal and foreign)	71
XI. Statement showing estimates of India's total Import and Export Trade during 1938-39 and the target to be secured for Indian shipping (Foreign trade only). . . . .	72
XII. Statement showing the number and tonnage of steam vessels that entered and cleared with cargoes and in ballast at ports in India during the fiscal year 1938-39 (foreign). . . . .	73
XIII. Statement showing estimate of India's Import and Export trade with Ceylon and Burma in 1938-39. . . . .	74
XIV. Statement showing India's Import and Export Trade with adjacent countries in 1938-39. . . . .	75
XV. Statement showing India's Import and Export Trade with distant countries in 1938-39. . . . .	76
XVI. Statement of cargo in D. W. Tons carried on the coast in the year 1944 (including Ceylon and Burma). . . . .	77
XVII. Statement of steamers and motorships of 100 tons and upward belonging to various countries of the world. . . . .	78—79
XVIII. Statement giving the particulars of the tonnage owned in different parts of the world by Shipping Companies, each of which owned 50,000 tons gross and more in the year 1939 . . . . .	80
XIX. Names of Shipping Companies in the different parts of the world each of which owned over 2,00,000 gross tons in 1939. . . . .	81—83

## APPENDIX I

INDIAN MERCHANT MARINE COMMITTEE 1923-24

## (a) Terms of reference—

To consider what measures can usefully be taken :—

- (1) for the liberal recruitment of Indians as Deck or Executive Officers and Engineers in the Royal Indian Marine ;
- (2) for the establishment of a Nautical college in India for the purpose of training Executive officers and Engineers of ships ;
- (3) for ensuring the entertainment of Indian apprentices for training as such officers and engineers in the ships owned by shipping firms that enjoy any subsidy or other benefits from Government on any account and for the creation of an adequate number of state scholarships for providing instruction in the Nautical Colleges and Training Ships in England pending the formation of a Nautical College in India ;
- (4) for the encouragement of shipbuilding and of the growth of an Indian Mercantile Marine by a system of bounties, subsidies and such other measures as have been adopted in Japan ;
- (5) for the acquisition of training ships by gift from the Imperial Government or otherwise ; and
- (6) for the construction of the necessary dockyards and engineering workshop\* in one or more ports.

## (b) Recommendations—

I *Reservation of coasting trade*, by a system of Licenses, which should be issued on the following conditions :—

- 1) To no foreign ship except in so far as protected by treaty rights.
- (2) To any ship flying the British flag, provided that—
  - (a) It has been regularly engaged on the coasting trade during the preceding twelve months and is not more than 25 years' old ;
  - (b) The owner undertakes to take Indian apprentices and Indian executive engineers, on scales recommended in Chapter 11 ;
  - (c) The licence shall continue only until the ship has reached the age of 25 years.
- (3) Any ship hereafter seeking to enter the coasting trade shall comply with the following conditions ;—
  - (a) The ownership and controlling interests shall be predominantly Indian, viz.,—
    - (i) Registered in India ;
    - (ii) Owned and managed by an Individual Indian\* or by a company registered in India with rupee capital, with a majority of Indians on its Directorate and a majority of its shares held by Indians ;
  - (b) Some undertaking regarding Indian apprentices and officers as in condition (2) above.
  - (c) The licensing authority to have discretion to waive or any of the conditions\* during periods of stress and to issue permits to any ship flying the British flag.
- (4) The licensing authority to have power to take such steps, with the approval of the Government of India, as may be considered advisable to deal with deferred rebates, rate wars, or any other conditions which act unduly as a restraint on trade.

II *Purchase by Government of one of the existing British lines* operating on the coast, and eventual transfer by sale to approved Indian owners,

It is anticipated that purchase will be facilitated by the restrictions imposed on the coasting trade by the licensing system.

III. *Bounties* and other forms of State aid are not now recommended. But bounties may be considered subsequently for purely Indian shipping companies engaged in overseas tradeIV. *Mail subsidies*.—As a general principle, the most economical tender, having regard to regularity and speed, should be accepted. But if the licensing system is not adopted, mail contracts in which the whole subsidy is paid by India, should include a stipulation to take Indian apprentices on the same conditions for the licensing system,V. *Section 736 of the English Merchant Shipping Act, 1924*.—It is considered that the\* licensing proposals do not conflict with section 736. But if the law of the Crown holds otherwise, then either the Act should be amended ;

or Indian owned and Indian managed ships should be assisted by

- (1) bounties ;
  - (2) mail contracts ;
  - (3) carriage of Government stores ;
- whether in the coasting or in overseas trade.



## APPENDIX II

*Record of the First Meeting of Policy Committee No. 4-C on Shipping held at Bombay on the 7th December 1944*

## AGENDA

## MEMORANDUM ON POST-WAR SHIPPING POLICY

For a country of its size, the length of its coastline and its strategic position athwart one of the world's main sea route?, India possesses a distressingly small number of deep sea ships which at the outbreak of war stood at no more than 30 with a total of less than 160,000 tons gross. India's weakness in this respect has long been recognized, and the Government of India are pledged to a policy of assisting in the development of an Indian Mercantile Marine. So far, however, the action taken to implement this undertaking has been limited to the establishment of the "Dufferin" for the training of executive officers, the provision of special facilities for the training of marine engineers and to using Government's good offices to promote a settlement between the Indian and British companies operating on the coast with regard to the division of the available trade between them.

The vulnerability of India's position has been revealed by the stress of war time conditions, but by no circumstances more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objective\*, not only for commercial reasons but also because the development of the Royal Indian Navy necessarily implies the concurrent development of the merchant navy.

The acquisition of an adequate share in the world's carrying trade should be the aim of our post-war shipping policy, and to this end steps should be taken to secure for Indian shipping—

- (i) an increased share of the coastal trade, including trade with Ceylon and Burma (The present share is estimated at between 20—30 per cent.) ;
- (ii) a substantial share in the near trades, e.g., Persian Gulf, East Africa, Malay and Dutch East Indies ; and
- (iii) a fair share in the Eastern trades, especially those trades of which Japanese shipping will have been dispossessed ;
- (iv) a fair share also in the trade between India, on the one hand, and the U. K., the Continent of Europe and North America on the other; and
- (v) In order to give maximum relief to the railways, a number of steps have been taken to ensure the fullest utilization of country craft and to prevent wasteful competition between country craft and steamers. As India may have to look to all forms of transport to sustain her economy in the post-war era the continued development of country craft will have to be considered. Co-ordination of steamer and country craft services is an essential part of this development subject to due regard being paid to the different rates served by steamers and country craft.

## MEMBERS PRESENT

*Representatives of the Government of India*

The Honourable Sir Mufnnsd Azizul Huque, Commerce Member (*Chairman*).

Mr. J. H. Thompson, Resident, Kolhapur.

The Honourable Mr. Ram Chandra, Secretary, Commerce Department,

Mr. S. R. Zsiman, Joint Secretary, Commerce Department.

Mr. Y. N. Sukthankar, Joint Secretary, Commerce Department.

Mr. L. T. Gholop, Controller of Indian Shipping.

Mr. T. M. S. Mani, Deputy Secretary, Planning and Development Department,

Mr. A. S. Lall, Deputy Secretary, Finance Department.

Lt. Commander Bainbridge, Representative of the R. J. N.

*Representatives of Provincial Government\**

Mr. J. M. Baimforth (Madras).

Mr. E. W. Perry \

Mr. M. J. Antia j(Bombay).

Dr. N. Das (Bengal).

Mr. J. P. David (Orissa).

Sir C. P. Ramaswami Aiyar (Travancore).

Mr. S. V. Mukerjee (Baroda).

*Non-official\**

Mr. Walchand Hirachand.

Mr. M. A. Master.

Mr. Habib Ibrahim Rahimtoola.

Mr. K. C. Neogy.

Khan Bahadur M. Shabban.

## RECONSTRUCTION COMMITTEE OF COUNCIL

## RBCOBU OF FIRST MEETING OF PORT COMMITTEE NO. 4-C ON SHIPPING

*The Hon'ble the Chairman* in his opening address stated that his object in convening the meeting was to obtain some guidance from the members as to the lines on which the Government of India should proceed in regard to the post-war development of the Indian Mercantile Marine. The main objectives of the Government of India in this matter in the past were well-known and needed no reiteration but the whole situation had to be reconsidered in the light of existing circumstances and possible developments during the postwar period.

Continuing the Chairman stated that he was anxious that the Government of India's policy in regard to shipping should be formulated as early as possible and he explained that the discussion at the meeting would more or less be of an exploratory nature intended to assist them in deciding what should be their objectives and what should be the methods to reach those objectives. A brief memorandum had already been circulated to members in which an indication was given roughly as to the lines upon which further action could be considered but the matter was a very important one and the financial, technical and other aspects had to be considered in all their details. The Government of India therefore felt that before formulating their policy, they should get as much lead and light as possible from those who were not only interested but who were also actively connected with the question.

The Chairman accordingly invited a discussion of the whole problem in its general aspect and he indicated that on the basis of the suggestions made by members the Government of India would collect any necessary data and furnish the next meeting with sufficient material to enable it to arrive at decisions on the policy to be adopted.

2. *Mr. Walchand Hirachand* after referring to the efforts of India in the past to build up a National Mercantile Marine and to the assurances given by the Government of India from time to time in regard to the development of such a marine, complained that the Government of India had not actually fostered any national shipping policy. He expressed satisfaction, however, that the memorandum indicated a change in their attitude and considered that the constitution of the shipping policy committee was a courageous step in the right direction. He hoped that their endeavour to secure for Indian Shipping an adequate share in the world's carrying trade would result in the building up of a powerful National Merchant Navy during the post-war period.

He attached great importance to the Indian Merchant Navy being of a national character and asked what was really meant by term 'Indian Mercantile Marine'. The test in his view must be that it must be owned, controlled and managed by Indians. He referred to various official pronouncements in the past which supported this view but in view of the representation granted to certain interests on the committee he requested that the point should be clarified.

Mr. Walchand then alluded to the reference in the Memorandum to the securing of an increased share for Indian Shipping in various trades and wished to know whether any distinction was meant by the use of the term "substantial share" in connection with certain trades and the term "fair share" in connection with certain others. He also wished that an indication should be given by Government of the extent to which Indian shipping would be able to participate in the various trades and he himself suggested that the whole of the coastal trade, 66 per cent, share of the trade with adjacent countries, not less than 50 per cent, of the overseas trades such as trades with U. K., America etc., and not less than 33 per cent, of the trades in the Orient should be secured for Indian Shipping in the post-war period. He referred in this connection to assurances given on behalf of H. M. G. to assist the British Merchant Navy and pleaded that the Government of India should similarly announce a clear and courageous policy regarding the manner in which they proposed to assist national shipping to have the objectives laid down.

He next touched on the lack of adequate shipbuilding facilities in India and the difficulty of obtaining ships from other countries. Losses had been suffered by Indian companies as a result of the use of their ships by Government for purposes of the war but Government did not give them any ships to replace those which were lost and the shipowners were unable to build any new tonnage. The problem of replacement by new building was an extremely serious one especially in view of the very high increase in war time costs of construction and the wide disparity between such COSTB on the one hand and the war risk recoveries of lost ships or the available amount of depreciation of obsolete ships on the other. The importance of this\* problem was realised in, U- K. where assurances have been given to shipowners on behalf of Government that the question would be considered by the latter with sympathy. Mr. Walchand expressed the hope that the Government of India would also take prompt, adequate and effective action to build up a powerful mercantile marine and he requested that the committee should be informed as to what steps were proposed to be taken by Government to provide India with additional tonnage.

He emphasised the importance of securing conditions for the economic and efficient running of Indian SHIPS in the POST-war period. The provision of a large number of ships would not by itself solve the problem of building up a merchant navy AS an excess of tonnage over demand on any trades might result in unhealthy and cut-throat competition. It was of fundamental importance for the extension of activities of THE Indian merchant Navy both in THE coastal and overseas trades THAT Government should ensure both by negotiations as well as by any necessary help the maintenance of freights at an economic level and secure by all possible means the conditions necessary for the healthy and economic operation of Indian ships in the trades concerned.

Mr. Walchand lastly referred to certain international forces which were bound to affect the development of national navies after the war. Since THE beginning of 1942 America had built a huge merchant fleet for requirements OF the war and THE disposal of these ships and their allocation after the war WAS bound to present an intriguing problem. On the other hand there were countries like India which had a large international trade but possessed a very small merchant navy. Such an unequal balance of ownership must be effectively rectified in the post-war period and re-adjusted to suit THE just requirements and obligations of individual countries. There was also THE International control OF shipping Agreement under which the signatory Government bound themselves to pool their available shipping TO meet all military requirements during the war and also any special requirements that might arise at the end of the war. If India were TO become a party to the Agreement it was important that HER needs and requirements should be recognised and for the same reason the Government OF India would have to be very vigilant at the Peace Conference and ensure that nothing was done which would militate against her acquiring the sea power which she needed. There was a possibility OF conflict OF national points of view at the Peace Conference and it was important to ensure that highly industrialised countries like THE U. K. and America recognised the imperative need OF giving the fullest opportunity to other countries TO develop their industries and merchant marines. In conclusion Mr. Walchand pleaded that THE Government OF India should give their closest and sympathetic thought to the various problems and asked for AN assurance from the Government OF India that non-official representative Indians enjoying the confidence OF the country would be sent to the peace Conference.

3. Sir C. P. Ramaswami Aiyar welcomed the attention paid to the important subject of shipping and urged the importance OF building up a strong mercantile marine in India. He referred to the severe competition from foreign and British interests which Indian shipping companies had had to face in the past and also to the possibility of international competition being enhanced rather than diminished after the war in AN attempt on every side not only to recapture the prosperity OF the past but also TO augment that prosperity.

He next dealt with the policy adumbrated in other countries. The U. S. A. aimed at owning some 13 million gross tons and carrying by American vessels OF 70 per cent. OF America's foreign trade. The British objective was that Great Britain must continue to serve the world with a large and efficient mercantile marine. The 'Economist' suggested that "Empire shipping should carry the total Empire trade and have ALL the trade within the Empire and foreign countries" and indicated THAT "this would necessitate 17 million tons OF Empire shipping". There was no doubt that Britain and THE Dominions would attempt to secure for themselves a substantial proportion OF the world's tonnage and the claims and needs of India would arise concurrently with or even ancillary to THE development of British and Dominion shipping. It would be the duty of the Government of India to see that no consideration stood in THE way of A mercantile marine being developed either by building or by purchase or by such mutual adjustments between England and India as may be necessary. This was however going to be a matter of compromise and adjustment between conflicting interests AND it would be the duty of the Government of India to see that an Inter-Imperial and Commonwealth temper was secured which would enable claims of equity to be recognised.

There was a flourishing shipbuilding industry on the West coast of India during the 16th century but that industry had since vanished. Travancore and Cochin were recently faced with a distressing food situation and although food grains were made available from other parts of India, the railways could not transport them and there was an acute shortage of shipping. As a result of the war conditions the exports and imports of the States had also to be moved by backwater via Cochin. All the above circumstances forced the two States to embark on considerable country craft construction and they aimed at further construction to meet the requirements of the post-war period. The Government of India should stimulate the building of vessels in this country with the talents and material available and Cochin and Travancore were prepared to offer their cooperation in any scheme of development of the Indian mercantile marine.

Concluding Sir Ramaswami Aiyar emphasised the importance firstly of a mercantile marine for the future prosperity and progress of India and secondly of the Government of India insisting on India getting an adequate share of the world's mercantile marine.

4. Mr. S. V. Mukerjee dealt with the various difficulties which had to be faced by Indian shipping. There was the provision in the Government of India Act which ruled out the reservation of coastal trade for Indian shipping. British commercial and shipping interests which were well-established in major ports mutually supported each other and Indian companies found it difficult to challenge or enter this established sphere of influence and this incidentally made it difficult for minor ports like those in Baroda to rise in status or serve the country's economy. There was also absent in the policy of the Government of India and that of the States any kind of encouragement of Indian shipping companies by the grant of bounties, subsidies or other similar assistance.

He suggested that legislation should be passed laying down that 50 per cent, of the total trade should be carried *only in*, bottoms owned by Indian capital and manned by at least 50 per cent. Indian Officers, and that the legislation should discriminate between trade carried on in Indian and British vessels as against foreign vessels. It was also necessary to encourage inland river transport and railways could promote this by pursuing a policy of owning ships. Facilities should be given to Indian companies for expeditious building of ships in England. An all India zonal agreement by which ports could be developed was also desirable. A Transport Board of an all India character which could reconcile British, foreign and Indian interests as regards foreign and coastal trade and to co-ordinate rail, river and sea transport interests should be formed.

In concluding Mr. Mukerjee suggested that a well-defined policy of encouraging Indian shipping to supplement British shipping should be laid down and that Indian interests should be given the same help as British shipowners got from H. M. G. in the past to expand their tonnage and trade throughout the Empire.

Mr. Mukerjee also supported the encouragement of country craft traffic and of the shipbuilding industry on the west coast of India.

5. Mr. K. C. Neogy in recapitulating his experience referred to the rate wars on the coast and to the arrangements which now exist to prevent rate wars in inland waterways. He also mentioned his experience in regard to Mr. Haji's Coastal Reservation Bill and the opposition that it had from Government as well as from certain other interests. He assumed that the memorandum represented the views of the Commerce Department but he wished to know whether having regard to the constitutional limitations, there was any chance of substantial action being taken on the programme contained in the memorandum and what programme the Government of India proposed to place before Inter-national conferences relating to shipping. He also wished to know whether India would have a free hand in dealing with shipping questions and whether H. M. G. had given any assurance that the Government of India would be allowed to carry out their programme. He further desired to know whether any discussions had taken place on the subject between India and other parts of the Empire.

Mr. Neogy then dealt with the point raised by Mr. Walchand Hirachand, regarding the development of a national mercantile marine and enquired whether the committee had necessarily to plan on the basis of the restrictions in the Government of India Act or whether they could plan their programme on the basis of a more liberal future constitution; He further wanted to know whether the Commerce Department had formulated any ideas regarding the different forms of assistance to be granted to Indian shipping. He also supported the views put forward by Mr. Walchand Hirachand regarding the extent of the trade the Indian merchant navy should be allowed to handle but he opposed Mr. Mukerjee's suggestion that Indian shipping should be developed as a supplement to British shipping.

6. Dr. N. Das stated that the Bengal Government would endorse any action taken by the Government of India in implementing the proposals in the memorandum. He also mentioned that his Government had adopted the policy of building country craft and that all wasteful competition that previously existed in Bengal had been eliminated.

7. Mr. E. W. Perry said that he had DO instructions from his Government but he *personally agreed with what*. Sir. Walehanil Kiaahanu hi d txid iind tiigtsted thai u elate should bo fixPd from which ccat-tal shipping would be reserved for Indian ehippii-g-

8. Sir C- P. Bamasivami Aiyar suggested that in defining Indium Coastal trade the -erritorial ambit of the trade should bo borne in mind ard that the Persian Gulf on, the ne side and Malaya on the other thouldfor instance be included in the legitimate zone of ijdian coastal shipping.

9- Mr. Bahnforth suggested that consideration should te given to the cutting of a canal through Piunban which would save shipping some 401} milvs or 2 days' steaming.

10. The Chairman thanked the members for the valua\* ie contributions they had made. They had met to collaborate and he did not propose to reply to all the individual points raised during the discussions. He agreed that the whole question of ponl-isar development had to be considered from the point cf view of the future Government of the country and he emphasised that the future of India would largely depend on the tine taken at the present time. India had in the past played a notable p;irt in shipping and had built Bhips for centuries but wo were ourselves responsible to someextten for the present position of Indian shipping. He did not minimise the importance of ci nentry cnift and was fully alive to tho part played by modern steamships in the world economy but in planning for the future it would be a mistake te replan only on a raachino basis.

Replying to some of the points raised ho stated that he had no intention, in making nominations to the committee, of giving representation to sectional inteiests and that he had only tried to secure the best talents available in the coui-try to advise him. He did not then wish to enter the controversial ground of attempting to define what was meant by the term 'Indian Mercantile Marine' and he would try to supply a definition ct « later stage. No special distinction was also meant by the use of the teims 'nubstuntiaJ share\*' in one place and 'fair share' in another in the memorandum and ho would like to invite views as to what would be fair shares of the various trades for Indian shipping.

laid considerable stress on the building of country craft and India hud talent for building them but a stage had now been reached in which unless steps were t&ken early to create talent for building modem ships, difficulties would be experienced and foreign Assistance would be necessary.

In regard to intornrtt/ional commitments the Chairman explained that the Govern- ment of India hod merely expressed their agreement to the principles of the Agreement proposed and that they had not committed themselves to the details of any action to be taken.

He could not deny that under existing circumstances they had to work uider the Government of Ir.dia Act but whatever the ccnBtitutlional limitation H- M. Government had been quite helpful in developing India on the lines on which she was thinking of her progress. The views given in the memorandum were purely tentative but if they received support the details would bo worked out and other Departments concerned would be consulted.

The Chairman in conclusion thanked the members for their assistance and stated that he hoped that at tho next meeting they would be able to got down to discussing more definite items.

Sir C. P. Rama-wami Aiyar mentioned that members often g>t very short notice of meetings of the various Reconstruction Committees. Ho also suggested that the Government of India should decide at least the main questions of policy before they met again and tc particular he urged the necessity of settling the policy in regard to reservation of coastal trade.\*

The meeting then terminated.

Record of the Second Meeting of Policy Committee No. 4-C on Shipping held at  
New Delhi on 26th October 1945

#### AGENDA

1. Chairman's opening speech.

2. Appointment of a Sub-Committee, with the following terms of reference :—

" To consider the Departmental Statement on Post-war Shipping Policy, and in the light of that statement and all relevant considerations, to recommend—

(1) what would be a suitable tonnage target for Indian shipping, to be attained within a period of five to ten years ;

(2) What percentage shares of the trades in which India is interested, both coastal and overseas, cargo and passenger, should be secured in order to provide full employment for Indian shipping; and

(3) what measures should be taken—

(a) to regulate the shipping industry with a view

(i) to preventing the formation or establishment of combines or monopolies or excessively large units within the industry ; and

(ii) to ensuring that the number of shipping companies operating is economically adequate but no larger ; and

(6) to ensure a fair and equitable distribution, among existing companies and those yet to be established, of trades which may hereafter be secured for Indian shipping.

The Sub-Committee will be competent to make such other recommendations as seem germane to the subject "

3. Any other business which may be brought forward with the permission of the chairman.

#### MEMBERS PRESENT

##### *Representatives of the Government of India.*

The Hon'ble Sir Muhammad Azizul Huque, Commerce Member (*Chairman*).

The Hon'ble Sir Ardeshir Dalai, Member for Planning and Development,

The Hon'ble Mr. N. R. PULai, Secretary, Commerce Department.

Mr. V. N. Rao, Additional Secretary, Finance Department.

Mr. H. V. R. Iengar, Joint Secretary, P. and D. Department.

Mr. L. T. Gholap, Controller of Indian Shipping.

Mr. E. S. Kjishnamoorthy, Deputy Secretary, Commerce Department

Lt. Commander A. P. Hume, Representative of the R. I. N.

Prof. C. N. Vakil, Economist, P. and D. Department.

##### *Representatives of Provincial Governments*

Dr. Mahanty (Orissa).

##### *Non-Official\**

Sir R. K. Shanmukham Chetty.

Mr. Walchand Hirachand,

Mr. M. A. Master,

Mr. W. L. A. Radcliffe.

Mr. Hebih Ibrahim Rahimtola.

Mian Ghulam Khadir Mohd. Shabhan.

## SUMMARY OF THE RECORD

It was decided to appoint a sub-committee with the following terms of reference:—

" To consider the Departmental Statement on Post-war Shipping Policy, and in the light of that statement and all relevant considerations, to recommend—

(1) what would be a suitable tonnage target for Indian shipping, to be attained within period of five to ten years ;

(2) what percentage shares of the maritime trades of India and other trades in which India is interested, both coastal and overseas, cargo and passenger, should be secured for Indian shipping; and

(3) what measures should be taken—

(a) to regulate the shipping industry with a view (i) to preventing the formation or establishment of monopolies or excessively large units within the industry and (ii) to ensuring that the number of shipping companies is no larger than economically adequate;

(b) to ensure a fair and equitable distribution, among existing companies and those yet to be established, of trades which may hereafter be secured for Indian shipping.

The sub-committee will be competent to make such other recommendations as seem germane to the subject."

It was also decided that the constitution of the sub-committee should be as follows:—

Sir C. P. Ramaswami Aiyar (*Chairman*).

Mr. M. A. Master.

Mr. K. C. Neogy.

Sir A. H. Ghansnavi.

Mr. W. L. A. Radcliffe.

## Record of the Second Meeting of Policy Committee No. 4-C on Shipping

The Hon'ble Sir Muhammad Aizul Huque (Chairman of the Committee) in his opening address said:—

The rapid march of events since we last met, culminating in the final victory of the allied arms, has, in every country, quickened the pace of planning in every sphere of economic activity. The post-war period is no longer a long-awaited epoch of the future we have crossed its threshold and can now command a near view, in their varied proportions, of the problems which many have so far been content to regard as the cares of distant day. Faced as we are with the urgency of these problems, we can no longer express ourselves in purely abstract terms but must attempt to give precise and concrete definition to the many issues of policy and execution which remain unsettled.

2. In the sphere of shipping, the particular sector of the national economy with which this Policy Committee is concerned, there will, I have no doubt, be complete agreement on the broad objectives of our future policy. Shipping with all that it means in the world of today, as one of the most vital elements in the economic and strategic life of a country, must necessarily be a matter of fundamental importance to the future pattern, of our country, and the expansion of Indian shipping to the fullest practicable extent is the goal which we all wish to see attained. Gentlemen, the time has now come to discuss between ourselves in greater detail our future shipping policy. Expressed in more concrete terms, we in the Commerce Department had prepared early this year a brief statement of the broad objectives to be kept in our view, and this was published as part of the Second Report on Reconstruction Planning. I wish to take this opportunity to bring these objectives to your notice today:—

" For a country of its size, the length of its coastline and its strategic position athwart one of the world's main sea routes, India possesses a distressingly small number of deep-sea ships, which at the outbreak of war stood at no more than 30 with a total of less than 160,000 tons gross. India's weakness in this respect has long been recognised, and the Government of India are pledged to a policy of assisting in the development of an Indian Mercantile Marine. So far, however, the action taken to implement this undertaking has been limited to the establishment of the "Dufferin" for the training of executive officers, the provision of special facilities for the training of marine engineers and to using Government's good office to promote a settlement between the Indian and British Companies, operating on the coast with regard to the division of the available trade between them.

3. The *vulnerability* of India's position has been revealed by the stress of war time conditions, but by no circumstance more glaringly than by her inability to and adequate shipping from her own resources to provide for the transport of the food supplies required of her. The rectification of this state of affairs should be one of the immediate post-war activities, not only for commercial reasons\* but also because the development of the Royal Indian Navy necessarily implies the concurrent development of the Merchant Navy.

4. The acquisition of an adequate share in the world's carrying trade should be the aim of our post-war shipping policy, and to this end steps should be taken to secure for Indian shipping—

(i) an increased share of the coastal trade, including trade with Ceylon and Burma (The present share is estimated at between 20 to 30 per cent.);

(ii) a substantial share in the near trade—Persian Gulf, East Africa, Malaya and Dutch East Indies ; and

(iii) a fair share in the Eastern trades, especially those trades of which Japanese Shipping will have been dispossessed ;

(iv) a fair share also in the trade between India, on the one hand, and the U.K., the Continent of Europe and North America on the other."

We have now before us the important task of working out in a practical form the degree of expansion to be aimed at in the course of the next few years, the measures to be adopted to ensure the development of Indian shipping on sound lines and a number of related questions both of principle and of detail. To this task we must *now* address our selves. It was for this purpose, gentlemen, that we meet here this morning, and I should like to take this opportunity of thanking you for the trouble you have taken to attend this meeting.

Let me first tell you briefly what Government, for their part, have been doing in recent months. Not many years ago, the attitude of Government had been that the apportionment of the available carrying trade between Indian and British shipping interests is a matter for adjustment between the companies concerned by the method of negotiation, and agreement but that Government would at all times be prepared to use their good offices to promote a settlement between the parties. This policy had undoubtedly yielded results in the past. But the world situation today is quite different from what it was in the past and Government recognize that in present conditions they might justifiably be expected to take a more active part in the taking of initiative to secure an enlargement and expansion of the sphere of Indian shipping. It is well known that in many of the trades in which Indian shipping already participates, or will in future wish to participate V. K. shipping has at present an exclusive or predominant interest. If unhealthy competition and senseless trade rivalries are to be avoided in future—and we have had some bitter experiences in this matter—it seems essential that an endeavour should be made to come to an arrangement with U. K. interests which would provide for the fullest possible opportunities for Indian shipping. For over a year we have therefore been actively engaged in preparing the preliminary details of the varying phases of our future shipping problem and policy. The Commerce Secretary had also some informal and tentative discussions with the appropriate authorities during his visit to London last winter. The Government of India are for the present in close touch with H. M. G. in the matter, and I hope it may be possible to arrange for discussions on a more formal basis in the next few months.

At the same time I do not wish to minimise in the least the difficulties that lie ahead of us. As I see the picture today, with the exhaustion of her overseas investments and with her huge new external indebtedness, Britain will probably try to place greater reliance than in the past on her shipping which has been the greatest of her export trades. It is possible that others with their resources and shipping power may try to enter the shipping arenas which were not frequented by them in the past. We have also other manifest difficulties almost in our immediate front-line. With such competing, conflicting limiting factors, the framing of our future shipping policy would not be an easy task. But our claim is just and fair, and we have faith and determination in our purpose. Having regard to our broad objectives to which I take it we are generally agreed, we must now proceed to the evolving of our future plan, policy and programme and to the preparation of a detailed statement of our case with utmost care and deliberation. We should proceed without any delay to the consideration of all these matters. For this purpose I shall propose after the general discussion is over, the appointment of a sub-committee with appropriate terms of reference, and I trust that the proposal will be acceptable to you all.



## GI

Gentlemen, we have made it quite clear, even though in most general terms, that the Government propose to follow a forward policy for Indian shipping. Happily there are signs visible already in the country of a wakeful response to this new policy of Government. There has been within the last few months a heavy flow of capital into the shipping industry and various companies have been or are being floated to acquire new shipping tonnage in the future. Public opinion also in this country has on more than one occasion been unequivocally clear that India must now pursue a forward shipping policy, consistent with her economic and strategic interests in the future world order. For myself I cannot think of any future for this country without a strong mercantile marine and a strong navy. I have no reason to believe that we shall lack any of the resources, talent and personnel necessary for our mercantile marine or for our navy. For centuries past ships built in the yards of India had been famous in the blue waters of the world, and we were then able to build ships for the requirements of others. Our seamen had for centuries been renowned for taking their vessels even to the most turbulent oceans of the world. We have hereditary talents in our country, and even though in the past they had more or less been engaged in pursuits outside the complex mechanism of modern science, the achievements of India's craftsmen, artisans, designers, technicians, research workers and scientists in the vast range of war production must prove beyond shadow of doubt that India's talents even without any of the previous experience are second to none even in the works of highest scientific precision, and they were able to show a remarkable degree of production records in most complex precision and super-fine works with utmost skill and ability. I have therefore, no reason, to have any doubt in our ability and talent to build up or man our navy or mercantile marine.

Gentlemen, this is therefore an outline of the task before us. With other members in the Commonwealth planning for their future shipping strength, India has a just and rightful claim for a proper and adequate share of the shipping tonnage. Without a strong mercantile marine and a strong navy, political freedom for this country may ultimately prove to be a mere shadow without substance. Meeting once a distinguished foreigner who was over and over speaking about his anxiety for the political freedom of India, I asked him if he would be prepared to give India a few of the ships which his country could easily spare, of course, on receipt of their proper value, and leave us to settle for ourselves our own political freedom. That is now I feel about our future and about the place of shipping in the future of our country.

In conclusion, I must express my regret that it had not been possible to have this meeting earlier as was originally intended. But you are aware of the reasons for the unavoidable delay. I had then hoped that the task of formulating this policy and programme would soon be taken up by those who would proceed to their task without being told by any one that their place in the Government was not as representative of the people as is understood in a democratic or parliamentary form of Government. But the map of this country for the last few months is well known to you, and I am now required to continue to bear my responsibility and share in the framing of our policy in the most unenviable situation of one who will probably be told, even in matters where he stands by the best interests of the country, that he can never do right. I trust, however, at least, you gentlemen, will understand the position and help me in my task, and I look forward to your wisdom, judgment and experience in tackling this most difficult problem and to your help and assistance. I would not like in any event to say a word, either in anger or in retort, to anyone who may probably criticise me or my action on the ground that I do not form a part of what would be termed a responsible Government; I have no doubt that when the turmoils of the moment pass away and the events of today are valued in the cold scrutiny of history, even these critics will find that I have tried to serve the best interests of the country and her people in a most critical period of her history.

### *Item No. 2 on the Agenda*

The Chairman proposed that a sub-committee be appointed as indicated in item 2 of the Agenda. He also proposed that the following slight changes be made in the terms of reference as circulated:—

- (i) In para. (2) the words "in order to provide full employment" should be omitted
- (ii) In para. (3) (a) (ii), for the words "economically adequate but no larger" the words "no larger than economically adequate" should be substituted.

(These changes were agreed to)

Mr. Master suggested that in para. 2 of the draft terms of reference, for the words "what percentage shares of the trades in which India is interested" the following be substituted:—

"What percentage shares of the maritime trades of India or other trades in which India is interested"

He explained that the amendment was designed to bring out clearly the object in view, namely, to include trades which could not strictly be regarded as the maritime trade of India, e.g., trade between ports outside India which had been catered for by Japanese shipping but in which nevertheless India might be interested. Mr. Master also suggested that the following words should be added at the end of para. (3) (a)

"With due regard to the practice and position obtaining in this connection in other maritime countries in the world".

He explained that as the sub-committee was being asked to consider measures to regulate the shipping industry with a view to preventing the formation of combines or excessively large units, the committee would necessarily have to consider the practice and position obtaining in these matters in other countries.

The Hon'ble the Chairman stated that he was prepared to accept the first of the two amendments proposed by Mr. Master but not the second, which was restrictive in character; the terms of reference as originally suggested were wider in scope and it was open to the sub-committee to consider the position in other countries also.

(The first amendment proposed by Mr. Master was agreed to).

The Chairman next proposed that the following should be appointed members of the sub-committee—

Sir C. P. Ramaswarai Aiyar,  
Mr. M. A. Master,  
Mr. K. C. Ijeogy,  
Sir A. H. Gmiznavi, and  
Mr. W. L. A. Radcliffe.

He added that he would have liked to suggest the name of Sir Shanmukham Chetty also but he thought that Sir Shanmukham might not have the time to undertake this work.

Mr. Walchand Hirachand suggested that as Chairman of the Tariff Board, Sir Shanmukham Chetty could take part in the discussions of the sub-committee if he liked.

(The proposal of the Chairman was agreed to.)

The Chairman said he was anxious that the sub-committee should submit its report as quickly as possible but as the sub-committee would have to depend on discussions with other bodies, he suggested that in the event of likely delay in submitting the final report, a preliminary report might be submitted by the middle of January,

Mr. Master next touched on one or two general points affecting shipping. He referred to the financial and other assistance given to the industry in other countries and enquired if it would be open to the sub-committee to consider this aspect in relation to Indian shipping"

The Chairman stated that this matter would come within the scope of the last clause of the terms of reference.

Mr. Master then referred to the impending dissolution of the United Maritime Authority and the reported convening of an International Shipping Conference in April 1946, and suggested that before any arrangement or international understanding was arrived at, whether in the nature of a pool or limitation of tonnage, an opportunity should be given to the shipping interests to express their views. For instance, if any targets were fixed for national mercantile marines and were agreed to, the committee could not proceed further on the subject. Sir Shanmukham Chetty suggested that the Government of India should not enter into any arrangements before the committee reported.

The Chairman stated that the Government of India were and would be very vigilant in regard to such matters and that if any important question arose, the committee could be informed and might be asked to give their tentative views.

Mr. Master lastly raised the question of furnishing the committee with certain statistics with regard to the cargo carried in certain trades which were referred to in the Departmental notes.

The Chairman assured Mr. Master that such information as the Department had would be placed at the disposal of the committee and that the Controller of Indian Shipping would always assist the committee as required.

The Chairman finally mentioned that Sir C. P. Ramaswami Aiyar would be requested to be the Chairman of the sub-committee and convenor of its first meeting and that the committee might choose its own secretary.

The meeting then terminated.

\*63

APPENDIX in

S. P. C. 3/46  
GOVERNMENT OF INDIA,  
DEPARTMENT OF COMMERCE  
*New Delhi, the 1st March 1946*

From

Y. N. SUKTHANKAR, Esquire, C.I.E., I.C.S.,  
Joint Secretary to the Government of India

To

ALL SHIPPING COMPANIES (As per list attached)

GENTLEMEN,

I am directed to say that the Policy Committee on Shipping have appointed a Sub-committee to make recommendations as to the policy to be adopted by the Government of India in respect of the future of Indian Shipping. The Government of India attach very great importance to the work entrusted to the Sub-committee and are anxious to help them by furnishing all the data required by the Committee. I am therefore to ask you to be so good as to supply urgently the following figures to the Secretary, Shipping Policy Sub-committee, Department of Commerce, New Delhi :—

- (1) The total number of passengers carried from the Indian Ports in all the ships under your control (including those for which you are *the agents*) on each of the different routes during each of the three years ending 1938-39; and
- (2) Figures showing the number of vessels under your control (including those for which you are the agents) engaged on each of the different routes together with the actual weight of cargo handled in the different runs during the three pre-war years cited above.

An early compliance will be greatly appreciated,

I have the honour to be,

Gentlemen,

Your most obedient servant,

Y. N. SUKTHANKAR,

*Joint Secretary to the Government of India.*

LIST OF ADDRESSES OF SHIPPING COS. IN BOMBAY

1. Anchor Line, Ltd., 'Naval House', Graham Road, Ballard Estate, Bombay.
2. Anglo Iranian Oil Co. (India), Ltd., Wittet Road, Ballard Estate, Bombay.
3. British India Steam Navigation Co., Ltd., Ballard Estate, Bombay.
4. Burmah-Shell Oil Storage and Distributing Co., of India, Ltd., Currimbhoy Road, Ballard Estate, Bombay.
5. Caltex (India), Ltd., 'Caltex House', Ballard Estate, Bombay.
6. Forbes Forbes Campbell & Co., Ltd., Home Street, Fort, Bombay.
7. Graham Trading Co., Ltd., 16, Bank Street, Fort, Bombay.
8. James Mackintosh & Co., Darabshah Bldg., Ballard Estate, Bombay.
9. James Finlay & Co., Ltd., Chartered Bank Bldg., Mahatma Gandhi Road, Fort, Bombay.
10. Killick Nixon & Co., Home Street, Fort, Bombay.
11. Lionel Edwards, Ltd., Nicol Road, Ballard Estate, Bombay.
12. Mogul Line, Ltd., 16, Bank Street, Fort, Bombay.
13. Peninsular & Oriental S. N. Co., Ltd., Ballard Estate, Bombay.
14. Standard-Vacuum Oil Co., Ltd., 'Naval House', GraJwta Road, Ballard Estate, Bombay.

## APPENDIX V

*Statement giving summary of the coastal trade of India, Burma, and Ceylon*

Route	Non-Indian (Tons )	Indian (Tons}	Total trade (Tons)
From Burma to India (Gen.)	14,62,532	7,81,942	22,44,474
From Burma to India (Min. Oil)	7,95,152	...	7,95,152
From India to Burma (Gen., Coal, Salt)	6,63,560	1,25,805	7,89,365
<b>Total .</b>	<b>29,21,244</b>	<b>9,07,747</b>	<b>38,28,991</b>
From Burma to Ceylon (Gen.) .	2,29,959	1,27,343	3,57,302
From Ceylon to Burma (Gen.)	1,279	905	2,184
<b>Total .</b>	<b>2,34,238</b>	<b>1,28,248</b>	<b>3,59,486</b>
From Ceylon to India (Gen.)	68,001 *	# 13,293	81,294
From India to Ceylon (Coal & Salt) .	3,72,171	69,769	4,41,940
<b>Total</b>	<b>4,40,172</b>	<b>83,062</b>	<b>5,23,234</b>
Inter-Burma (Gen.) . . . .	5,420	7,602	13,022
Inter-Ceylon (Gen.) . . . .	631	...	631
<b>Total .</b>	<b>6,051</b>	<b>7,602</b>	<b>13,653</b>
Pure Indian Coastal Trade (Gen., Coal, Salt, Min. Oil) . . . .	14,99,845	8,93,07	23,92,921
<b>Total Burma India Ceylon trade (Gen., Coal, Salt, Min. Oil)</b>	<b>50,98,550</b>	<b>20,19,735</b>	<b>71,18,285</b>

APPENDIX VI

General Cargo, coal, Salt and Mineral oil carried from and to principal group ports of Burma, Ceylon and India by Non-Indian and Indian Companies during the year ending 30th June, 1939.

(Figures in Tons)

Exported from Ports	Total Exports	Non-Indian Companies exported to			Total Exports	Indian Companies exported to			Total Exports	Total Trade exported to		
		Burma	Ceylon	India		Burma	Ceylon	India		Burma	Ceylon	India
<i>General Cargo</i>												
Burma	16,97,911	5,420	2,29,959	14,62,532	9,16,887	7,602	1,27,343	7,81,943	26,14,798	13,022	3,57,302	22,44,474
Calcutta	3,07,499	1,28,4	40,954	1,38,127	46,745		1,314	45,431	3,54,244	1,28,418	42,268	1,83,556
Chittagong	5,007	5,007			5,552	5,552			10,559	10,559		
Cotomandel Coast	6,2,03	16,909	6,312	38,897	8,710	7,810		900	70,823	24,719	0,312	39,707
Madras and 3. Madras	5,1,201	31,913	2,937	19,351	7,734	54	5	669	54,935	31,977	2,942	20,000
Ceylon Ports	69,911	1,279	631	68,001	14,198	905		13,293	84,109	2,184	631	81,294
Tuticorin	1,00,423	2,547	74,030	23,240	14,380	2,480		11,900	1,14,803	5,027	74,636	35,140
Allep. Cochin	32,541	5,079	1,553	25,579	60,845	1,799	14	59,032	93,386	6,878	1,897	84,611
Calicut and sub-Ports	18,965	399	602	17,964	45,017	93	22	44,902	63,082	492	624	62,866
Mangalore	3,060			3,069	63,793			63,793	66,862			66,862
Rombay	2,07,211	32,632	14,671	1,59,908	2,09,063	24,759	9,512	1,74,792	4,16,274	57,391	24,183	3,34,700
Kathiawar Ports					92,348			92,348	92,348			92,348
Earachi	2,40,695	10,710	7,688	2,22,297	2,13,332	0,074	8,209	1,95,959	4,54,027	19,784	15,987	4,18,256
<b>Total (General Cargo)</b>	<b>27,90,661</b>	<b>2,40,313</b>	<b>3,80,273</b>	<b>21,78,965</b>	<b>16,91,604</b>	<b>60,138</b>	<b>1,46,509</b>	<b>14,84,957</b>	<b>44,01,155</b>	<b>3,00,451</b>	<b>5,26,782</b>	<b>36,63,022</b>
<b>Total (Coal)</b>	<b>13,63,733</b>	<b>4,16,392</b>	<b>2,22,488</b>	<b>7,24,653</b>	<b>2,93,773</b>	<b>74,030</b>	<b>50,603</b>	<b>1,74,140</b>	<b>16,62,506</b>	<b>4,90,422</b>	<b>2,73,091</b>	<b>8,93,993</b>
<b>Total (Salt)</b>	<b>1,40,11*</b>	<b>13,554</b>		<b>1,26,560</b>	<b>29,358</b>	<b>144</b>		<b>29,214</b>	<b>1,69,472</b>	<b>13,698</b>		<b>1,65,774</b>
<b>Grand Total (Gen. Coal, Salt)</b>	<b>43,03,398</b>	<b>6,70,259</b>	<b>6,02,761</b>	<b>30,30,378</b>	<b>20,19,735</b>	<b>1,34,312</b>	<b>1,97,112</b>	<b>16,88,311</b>	<b>63,23,133</b>	<b>8,04,571</b>	<b>7,99,873</b>	<b>47,18,689</b>
<b>Total (Mineral Oil)</b>	<b>7,95,152</b>	<b>7,95,152</b>							<b>7,95,152</b>	<b>7,95,152</b>		
<b>Grand Total (Gen. Coal, Salt and Mineral Oil)</b>	<b>50,98,650</b>	<b>14,65,411</b>	<b>6,02,761</b>	<b>30,30,378</b>	<b>20,19,735</b>	<b>1,34,312</b>	<b>1,97,112</b>	<b>16,88,311</b>	<b>71,18,285</b>	<b>15,99,723</b>	<b>7,99,873</b>	<b>47,18,689</b>

## APPENDIX VII

*S'aurment allowing coastal cargo (general cargo, coal, salt and mineral oil) lifted (in tons) by the Indian and non-Indian Shipping Companies from and to ports in India, Burma and Ceylon from 1933-34 to 1938-39 (June ending).*

## I. Cargo lifted by Indian Companies

Year	Scindia (Cargo & Passenger Steamers)	Bombay Steam (Cargo and Passenger Steamers)	Bengal Burma St. Nav. Co. (Passenger Steamers)	Small Steam- ship Cos.	Brigs.	Total Cargo lifted by Indian Cos.
1933-34 .	11,49,739	2,81,991	82,947	1,98,895	10,619	17,24,191
1934-35 .	11,20,772	2,78,051	76,821	1,74,337	17,022	16,67,003
1935-36 .	11,52,981	2,74,594	35,829	1,77,757	17,710	16,58,871
1936-37 .	12,37,146	2,84,029	56,448	1,77,535	14,136	17,69,294
1937-38 .	11,63,756	3,16,730	37,931	1,89,193	17,178	17,24,788
1938-39 .	13,74,676	3,39,969	1,03,566	1,78,996	22,528	20,19,735
<b>Total</b>	<b>71,99,070</b>	<b>17,75,364</b>	<b>3,93,542</b>	<b>1,096,713</b>	<b>99,193</b>	<b>10,563,882</b>
<b>Avg. p. year</b>	<b>11,99,845</b>	<b>2,95,894</b>	<b>65,590</b>	<b>1,82,786</b>	<b>16,532</b>	<b>17,60,647</b>

## II. Cargo lifted by Non-Indian Companies

Year	British India S. N. Co., Ltd. (Cargo, Mail & Passenger Steamers)	Asiatic S. N. Co., Ltd. (Cargo Steamers)	Other Non-Indian Cos.	Total Cargo lifted by Non-Indian Cos.
1933-34 .	30,24,841	7,69,731	14,50,697	52,45,269
1934-35 .	29,97,758	8,66,105	16,68,592	55,32,455
1935-36 .	27,49,902	8,45,404	15,58,814	51,54,120
1936-37 .	27,42,352	7,49,546	12,84,923	47,78,821
1937-38 .	30,15,948	6,16,481	12,69,909	49,02,698
1938-39 .	30,16,998	6,03,031	14,78,521	50,98,550
<b>Total</b>	<b>1,75,47,799</b>	<b>44,50,658</b>	<b>87,13,456</b>	<b>3,07,11,913</b>
<b>Avg. p. year</b>	<b>29,24,633</b>	<b>7,41,776</b>	<b>14,52,243</b>	<b>51,18,652</b>

## Grand Total of I &amp; II

	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
<b>Tons</b>	<b>69,69,460</b>	<b>71,99,458</b>	<b>68,12,991</b>	<b>65,48,115</b>	<b>66,27,486</b>	<b>71,18,285</b>
<b>Average per year</b>		<b>of I &amp; II</b>	<b>=</b>		<b>68,79,299</b>	<b>tons.</b>

Cargo lifted by Non-Indian Shipping Companies during the period of 6 years . . . . .	* 51,18,652
Cargo lifted by Indian Shipping Companies during the period of 6 years . . . . .	17,60,647
Percentage on total liftings: Non-Indian Shipping Companies . . . . .	74-40%
Percentage on total liftings: Indian Shipping Companies . . . . .	25-60%

Passengers carried in the Coaxial Trade of India, Burma and Ceylon as well as the number of  
 P\*W r\*»w earned between India and Jeddah for the period of five years ending the 30th June,

	1934-35	1935-36	1936-37	1937-38	1938-39
<b>A. Passengers carried in the coast trade of India, Burma and Ceylon :</b>					
<b>I. BAY OF BENGAL—</b>					
(a) Calcutta/Rangoon	1,35,642	1,61,479	1,41,050	1,38,530	1,38,398
(b) Madras/Rangoon.	69,757	71,212	67,663	66,275	75,249
(c) Coromandel/Rangoon .	1,14,314	1,16,335	1,10,217	1,16,045	1,16,239
(d) Chittagong/Rangoon .	1,31,725	1,29,557	1,38,023	1,28,763	1,25,664
(e) Chittagong/Cox'e Bazar	59,856	70,082	67,603	70,662	73,478
	5,11,294	5,48,665	5,24,456	5,20,205	5,29,028
<b>II. RANGOON/TAVOY/ MERGUI*</b>					
	15,934	18,842	20,107	20,460	20,018
<b>III. TRINICORIN/COLOMBO</b>					
	93,244.	96,444	90,996	1,02,226	96,833
<b>IV. WEST COAST OF INDIA</b>					
(a) Bombay/Mangalore/Ma- labar.	50,586	51,870	51,220	57,658	61,235
(b) Bombay/Konkan (Ferry Lines)	8,57,028	8,05,«63	9,90,541	10,30,170	11,60,541
(c) Bombay/Harbour	5,36,953	5,50,301	5,12,815	5,76,335	5,57,399
(d) Bombay/Kathiawar/ Karachi.	1,20,966	1,20,697	1,19,137	1,22,464	1,27,170
	13,65,533	15,28,331	16,73,713	17,86,627	19,06,345
<b>B. Passengers carried : in the Pilg'im Trade</b>					
<b>INDIA/JEDDA .</b>	13,079	10,466	12,833	19,664	19,278
<b>GRAND TOTAL</b>	21,99,084	22,02,748	23,22,015	24,49,262	25,71,502

## APPENDIX IX

## INDIA'S COASTAL TRADE

*Statement showing the tonnage of steamships that entered and cleared with cargoes and in ballast during the fiscal year 1938-39*

Nationality.	Entered		Cleared	
	Gross Read. Tuns	Percentage to Total	Gross Regd. Tons	Percentage to Total
British	11,187,993	65-6	11,272,509	<sup>1</sup> 65-8
<b>British Indian</b>	3,046,124	17-9	2,990,982	17-5
Swedish.	180,508	1-1	151,495	0-9
Norwegian	331,565	1-9	338,921	2-0
German	751,234	4-4	726,083	4-2
French	5,381		8,507	.
Italian	594,354	3-5	536,832	3-1
U.S.A.	187,308	1-1	211,394	1-2
Japanese	455,395	2-7	565,671	<sup>r</sup> 3-3
Others	304,187	1-8	340,960	2-0
<b>Total</b>	<b>17,044,049</b>	<b>100-0</b>	<b>17,133,354</b>	<b>100-0</b>



## APPENDIX X

*Statement showing the tonnage of Imports and Exports at ports in India during the year 1938-39 (Coastal and Foreign)*

\*

(In Tons)

Porte	Imports	Exports	Total
(1) Bombay .	3,209,000	1,887,000	5,096,000
(2) Calcutta .	2,471,691	6,726,350	9,197,041
(3) Cochin	590,547	195,582	786,129
(4) Chittagong	319,139	124,711	443,850
(6) Karachi ,	861,000	1,396,000	2,257,000
(6) Madras		...	1,149,045
(7) Yizagapatam	33,330	6,66,954	400,284
<b>Total</b>	...	...	<b>19,329,349</b>

(Bourcet Annual Administration Reports of the Port Trusts.)

APPENDIX XI

*Summary statement showing estimates of India's total Import and Export Trade during 1938-39 and the target to be secured for Indian Shipping [Foreign Trade only].*

(Figures in 000a)

Groups	Imports		Exports		Total of Imports and Exports		Target to be secured for Indian Shipping Tons.	Target figure as per cent, of India's total trade
	Quantity in tons.	Value in Rs.	Quantity in tons.	Value in Rs.	Quantity in tons	Value in Rs.		
Total of Group I (includes Burma and Ceylon)	27,10	25,52,43	15,39	16,46,28	42,49	41,98,71	31,87	19.8%
Total of Group II (includes the whole of Africa, the Middle East—including the Persian Gulf, Thailand, Indo-China, Malaya and the Dutch East Indies.)	17,44	21,87,38	7,33	16,51,03	24,77	38,38,41	18,58	11.6%
Total of Group III (includes Japan, China, Australia, the Continent of Europe and the U. K. and North and South America.)	26,01	1,03,95,63	67,30	1,36,20,59	93,31	2,40,16,22	46,65	29.0%
<b>Total</b>	<b>70,55</b>	<b>1,61,35,44</b>	<b>90,02</b>	<b>1,69,17,80</b>	<b>1,60,57</b>	<b>3,20,53,34</b>	<b>97,10</b>	<b>60.4%</b>

## APPENDIX XU

## INDIA'S FOREIGN TRADE

Statement showing the number and tonnage of steam vessels which entered and cleared with cargoes and in ballast at ports in British India during the fiscal year 1938-39.

Nationality	Entered			Cleared		
	No. of vessels	Gross Regd. Tons	Percentage to Total	No. of vessels	Gross Regd. Tons	Percentage to Total
British	2,302	7,322,821	66-6	2,308	7,334,117	67-2
British Indian .	150	391,812	3-6	144	359,002	3-3
Danish	11	34,303	0-3	10	31,831	0-S
Dutch	58	240,676	2-2	53	205,061	
Frenoh	25	169,807	1-5	24	166,681	1-5
Belgian	1	3,088	0-02	1	3,088	0-02
German	125	567,228	5-2	121	552,309	5-1
Greek	26	80,719	0-7	28	84,748	OS
Italian	163	884,641	8-0	179	931,325	6-&'
Norwegian	96	302,345	2-7	96	307,688	2-8
Estonian .	1	859		...		...
* Swedish	19	64,405	0-6	30	98,645	0«
Japanese .	182	742,038	6-7	159	649,568	6-0
American .	37	161,123	1-5	32	143,465	
Yugoslavian	1	3,249	0-02	3	9,310	0-OS
Roumanian	1	2,673	0-02	1	2,673	0-03
Egyptian .	3	9,097	0-08	2	6,221	0-05
Finnish . .	2	7,054	0-06	1	3,775	0-03
Panamian	7	22,831	0-2	9	25,965	0-2
Total .	3,210	11,010,769	100	3,201	10,915,472	100

## APPENDIX XIII

*Estimate of India's Import and Export Trade with Ceylon and Burma in 1938-39*

(Figures in 000B.)

Country	Imports from		Exports to		Total of Imports and Exports	
	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.
Ceylon	108	1,17,62	578	5,36,07	686	6,53,5
Burma	2,602	24,34,91	961	11,10,21	3,563	35,45,12
<b>Total</b>	<b>2,710</b>	<b>25,52,43</b>	<b>1,539</b>	<b>16,46,28</b>	<b>4,249</b>	<b>41,98,71</b>

(i) Group Total as % to India's total foreign trade :—  
 f(% Quantity) 26.5%  
 L(% Value) 13.1%

(ii) Target to be secured for Indian Shipping. (Quantity in tons):—3,186,760.

(iii) Target figure as % of India's total trade (% Quantity):—19.8%

## APPENDIX XIV

India's Import and Export Trade with adjacent countries during the year 1938-39

Country	Imports from		Exports to		Total	
	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.
<i>African Countries —</i>						
-Egypt	131	2,18,89	60	1,27,38	191	3,46,27
Union of South Africa .	60	34,75	77	1,52,81	137	1,87,56
Kenya Colony	67	4,89,17	18	58,91	85	5,48,08
Mauritius & Dependancies.	0 3	38	64	87,12	64-3	87,50
Othor African Countries	84-0	2,94,48	8 4 3	2,26,29	1 6 8 3	5,20,77
<b>Total African Countries</b>	<b>342-3</b>	<b>10,37,67</b>	<b>303 3</b>	<b>6,52,51</b>	<b>645-6</b>	<b>16,90,18</b>
<i>Asiatic Countries excepting China A Japan—</i>						
Iran	712	3,48,84	10	86,14	722	4,33,98
Straits Settlements	200	4,13,06	73	2,16,64	273	6,29,70
Borneo i	180	1,07,15	2	3,77	182	1,10,92
Bahreïn Islands .	107	81,89	16	35,79	123	1,17,68
Iraq . . . . .	69	46,00	18	67,15	87	1,13,15
Aden & Dependencies .	17	24,19	50	1,10,75	67	1,34,94
Arabian States	22	26,96	88	1,22,28	110	1,49,24
Java . . . . .	39	51,08	30	74,70	69	1,25,78
French Indo-China	21	13,93	29	68,24	50	82,17
Other Asiatic Countries	3 5 2	36,61	113-3	2,14,06	148-5	2,50,67
<b>Total Asiatic Countries</b>	<b>1,402 2</b>	<b>11,49,71</b>	<b>429-3</b>	<b>9,98,52</b>	<b>1,831-5</b>	<b>21,48,23</b>
<b>Total Group II .</b>	<b>1,744</b>	<b>21,87,38</b>	<b>733</b>	<b>16,51,03</b>	<b>2,4 7 7</b>	<b>38,38,41</b>

(i) Group Total as % to India's total foreign trade " ^ o ^ v a h i e - - 1 2 " 0 ^ ^ ^ o

(ii) Target figure to be secured for Indian Shipping (Quantity in Tons). ---1,857,760.

(Hi) Target figure as % of India's total trade (% Quantity):—H- 6%

## APPENDIX XV

India's Import and Export Trade with distant countries during the year 1938-39

(Figures in 000's)

1 Country	2 Imports from		3 Exports to		4 Total of Imports and Exports (Cols. 2 & 3)	
	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.	Quantity Tons	Value Rs.
<i>Europe—</i>						
United Kingdom	1,020.	46,48,91	2,109	58,26,41	5,128	1,04,74,82
Germany . . .	283	12,92,73	533	8,70,18	816	21,62,91
Netherlands	44	1,42,85	365	4,43,61	409	5,66,46
Belgium	245	2,91,90	272	4,47,66	517	7,39,66
France	23	1,40,14	403	6,23,23	426	7,63,37
Italy . . . . .	40	2,68,61	165	2,63,94	205	5,32,45-
Other European Coun- tries.	203	6,30,61	298	6,03,90	501	11,34,4'
<i>Asia—</i>						
Japan	227	15,41,34	1,224	14,82,10	1,451	30,23,44
China including Hong Kong.	31	2,08,57	600	6,41,46	631	7,50,0&
<i>America—</i>						
Canada	10	90,76	64	2,14,36	74	3,05,12^
United States	278	9,77,83	348	14,28,62	626	24,06,35
Argentine Republic	00	92	118	2,88,34	118	2,89,26
Other American Coun- tries.	1	2,78	88	2,19,49	89	2,22,27
Commonwealth of Aus- tralia.	192	2,41,28	117	2,98,05	309	5,39,33
Pacific Islands . .	4	16,60	26	70,34	30	86,94
<b>Total</b>	<b>2,601</b>	<b>1,03,95,63</b>	<b>6,730</b>	<b>1,36,20,59</b>	<b>9,331</b>	<b>2,40,16,22</b>

f %Quantity—58-1%

(•) Group total as % to India's total foreign trade -J

(\_ % Value—74-9%

(ii) Target figure to be secured for Indian Shipping (Quantity in tona)—46,65,500

(iii) Target figure as % of India's total trade (% Quantity) — 29'' 0%

## APPENDIX XVI

*Statement of Mrgw in D. W. Ton\* tarried on the coast in the year 1944 (including Ceylon and Burma)*

<b>Commodities</b>	<b>By Ministry of War Transport</b>	<b>By Indian Registered tonnage</b>	<b>Total</b>
1. <b>Coal</b> .	<b>663,670</b>	<b>86,814</b>	<b>750,384</b>
2. <b>Salt</b> .	<b>40,833</b>	<b>84,170</b>	<b>125,103.</b>
3. <b>Food grains</b> .	<b>481,881</b>	<b>214,628</b>	<b>696,50*</b>
4. <b>General Cargo</b>	<b>066,657</b>	<b>406,656</b>	<b>1,073,313</b>
<b>Total</b>	<b>1,853,041</b>	<b>792,268</b>	<b>2,645.309</b>

## APPENDIX XYH

*Steamers & Motorships of 100 tone and upward belonging to various countries in the world  
(according to 1939{40 Edition of the Lloyd's Register of Shipping (Volume II), vid\*  
page 6, Statistical tablet)*

Countries, where owned	Steamers & Motorships	
	No.	G. Tonnage
<b>British Empire—</b>	0.722	17,891,134
	361	494,171
<b>Canada—</b>	018	773.10C
	174	460,860
	18S	360,710
	178	237,720
	168	175,384
	827	628,838
		21,001,925
<b>America (United States)—</b>		
Sea	12,846	8,909,80*
Great Lakes	008	2,451,641
Philippine Islands	105	£128,644
	2,058	11,490,177
Argentina	206	290,602
Belgium	200	408,418
Brazil	203	484,870
Chile	101	171,616
China	171	£267,924
Cuba	38	26.704
Denmark	706	1,174,944
<b>Egypt</b>	54	108,300
Esthonia	104	192,084
Finland	402	590,254
Franca	<i>li.ni</i>	2,933,938



Countries There owned	Steamers * Motorships	
	No.	G. Tonnage
	2,409	4,482,662
	807	1,780,666
	1,023	2,969,678
	32	83,946,
Italy.	1,227	3,424,804
	2,337	6,629,844
	89	181,184
	40	30,420
	1,087	4,833,818
	169	717,626
		34,072
	03	121,630
	226	257,366
	36	111,678
	099	1,305,969
	777	902,261
	2 U 3 1	1,677,120
Turkey.	186	224,461
Venezuela	47	7 6,261
	187	410,486
	240	179,066
	12	43,8 C6
<b>Total</b>	<b>29,76J</b>	<b>68,609,432</b>

do

## APPENDIX XVIII

*Particulars of the Tonnage owned in different parts of the world by Shipping Companies each of which owned 50,000 tons gross and more in the year 1939 (vide Lloyd's Register of Shipping 1939-40 and Fairplay's Annual Summary of British Shipping Finance 1939)*

Country	No. of 8 teamen	G. R. T
United Kingdom	1,638	1,12,84,895
Australia	31	77,081
Argentina	126	95,363
Belgium . . . . .	59	2,75,872
Belgian State (London)	...	...
Brazil	58	2,80,380
Canada . . . . .	205	11,03,388
India	23	98,712
China	98	3,47,344
Denmark	225	6,66,270
France . . . . .	229	12,76,187
Finland . . . . .	57	79,546
Germany	323	18,73,487
Greece	36	3,73,931
Holland . . . . .	393	19,01,753
Italy	293	18,17,773
Japan	647	26,59,584
Korea	26	53,736
New Zealand . . . . .	63	4,01,406
Norway . . . . .	262	10,00,785
Portugal . . . . .	16	57,099
Roumania	14	61,128
Spain . . . . .	95	3,85,648
Sweden . . . . .	194	5,79,293
Turkey	34	82,385
T. S. A. . . . .	1,195	57,40,719
D. S. S. R.	725	7,25,128
Yugoslavia	40	1,33,800
Netherlands W. T.	40	1,19,561
	7,153	3,37,74,689

## APPENDIX XIX

*Names of the Shipping Companies in the different parts of the world each of which owned, over 100,000 gross tons in 1939 (vide Lloyd's Register of Shipping 1939-40.)*

Shipping Company	Tonnage Q. B. T.	Flag
<i>Companies over 7 lacs tonnage—</i>		
1. Hamburg Amerikanische	7,00,199	Germany.
2. Lloyd Triestino Societa . . . . .	7,68,386	Italy.
3. Nippon Yusen Kaisha K.	7,21,388	<b>Japan.</b>
<i>Companies over 6 lacs tonnage—</i>		
1. The B. I. S. N. Co . . . . .	6,41,837	British.
2. Osaka Sosen K. Kaisha . . . . .	6,18,218	Japan.
<i>Companies over 5 lacs tonnage—</i>		
<i>NIL.</i>		
<i>Companies over 4 lacs tonnage—</i>		
1. Compagnie Genorale Traosatlantique	4,69,223	France.
2. The P. & O . . . . .	4,64,795	<b>British.</b>
3. Italia Societa Anonjma Di Nav	4,56,623	<b>Italy.</b>
4. K, P. MTshipping Co. . . . .	4,50,312	<b>Holland.</b>
5. Canard White Star . . . . .	4,51,913	British.
6. United States Maritime Co.	4,25,158	<b>American.</b>
7. Norddeutscher Lloyd . . . . .	4,18,218	Germany.
8. Hamburg Suda merik Anische	4,00,463	<b>Germany.</b>
<i>Companies over 3 lacs-tonnage—</i>		
1. Canadian Pacific Steamships, Ltd.	3,24,738	Canada.
2. Pittsburg Steamship Co.	3,18,121	<b>U. S. A.</b>
3. Nederland N. V. Stoomvaart, . . . . .	3,15,218	<b>Holland.</b>
4. La Corona N. V. . . . .	3,10,280	<b>Holland=</b>
5. Hall Lines . . . . .	3,09,658	British.
<i>Companies over 2 lacstonnage—</i>		
1. Lykes Bros. S. S. Co . . . . .	2,80,325	America.
2. Standard Oil Co. . . . .	2,80,488	America.
3. Matson Nav. Co . . . . .	2,78,220	America
4. Panama Transport Co. . . . .	2,75,581	<b>Canada,</b>
5. Yamashita K. Kaisha . . . . .	2,64,485	<b>Japan.</b>

Shipping Company	Tonnage O. R. T.	Flag
<i>Companies over 2 lacs tonnage—contd.</i>		
0. Soony Vacuum	2,58,128	America.
7. American Hawaiian Steamship	2,34,729	America..
8. Laure Achilla	2,32,238	Italy.
0. Fort Lines	2,29,781	British.
10. MoUer A. P.	2,21,491	Denmark.
11. Nederland America S. Co.	2,18,221	Holland.
12. United Fruit Co.	2,18,121	America.
13. Port Jafferson Transport Co.	2,18,121	America.
14. Union Steamship Co.	2,15,128	New Zealand.
15. Societe Des Services	2,10,128	France.
16. Shaw, Savill ft Albion Co., Ltd.	2,03,298	British.
17. Wilhelmson Wilh. Line	2,01,157	Norway.
Aggregate of gross tonnage owned by them	.	1,26,94,188

35

GOVERNMENT OF INDIA  
**DEPARTMENT OF COMMERCE**

**PROCEEDINGS**  
OF THE  
**FIRST MEETING OF THE TRADE POLICY  
COMMITTEE**

*Held at New Delhi on the 19th and 20th September 1946*



PRINTED IN INDIA BY THE MANAGERS  
GOVERNMENT OF INDIA PRESS SIMLA 1947

TRADE POLICY COMMITTEE

AGENDA FOR THE 1ST MEETING

- 1. Consideration of the U. S. Government's " Proposals for the Expansion of World Trade and Employment**

Proceedings of the First Meeting of the Trade Policy Committee Met  
at New Delhi on the 18th and 20th September 1946.

P R E S E N T :

*Vkdifrnwil.*

*The Honourable Mr. G. H. Bhabha, Commerce Member.*

*Representatives of the Government of India.*

1. The Honourable Mr. Sarat Chandra Bose, Member for Works, Mines and Power.

2. The Honourable Mr. Rajendra Prasad, Member for Agriculture and Food.

3. The Honourable Dr. John Motilal, Finance Member.

4. The Honourable Mr. C. Rajagopalachari, Member for Industries and Supplies.

5. The Honourable Mr. Y. N. Sulthankar, CLE., I.C.S., Secretary to the Government of India, Commerce Department.

6. Sir Robert Hutchings, K.C.I.E., C.M.G., I.C.S., Secretary to the Government of India, Food Department.

7. Sir Pheroze Kharegat, CLE., I.C.S., Secretary to the Government of India, Agriculture Department.

8. The Honourable Mr. V. Narahari Rao, C.S.t., CLE., Secretary to the Government of India, Finance Department.

9. Mr. N. K. GoWale, CLE., I.C.S., Secretary to the Government of India, Works, Mines and Power Department.

10. Mr. I. K. Nehru, I.C.S., Joint Secretary to the Government of India, Commerce Department.

11. Mr. H. M. Patel, CLE., I.C.S., Joint Secretary to the Government of India, Co-ordination Committee of Council.

12. Mr. K. K. Chettur, Joint Secretary to the Government of India, Commerce Department.

13. Mr. M. P. Pai, I.C.S., Joint Secretary to the Government of India, Industries and Supplies Department.

14. Mr. B. K. Nellore, M.B.E., I.C.S., Joint Secretary to the Government of India, Finance Department.

15. Dr. P. J. Thomas, Economic Adviser, Finance Department.

16. Mr. P. N. Adarkar, M.B.E., Deputy Economic Adviser to the Government of India.

17. Mr. B. N. Banerji, M.B.E., Deputy Secretary to the Government of India, Commerce Department.

18. Mr. M. A. Mulky, M.Sc. (Econ.) (London), Under Secretary to the Government of India, Commerce Department.

19. Mr. S. R. S. Raghavan, Editor, Commercial Publications, Commerce Department.

20. Mr. V. R. Bhatt, Deputy Secretary, Information and Broadcasting Department.

*Stole Representatives.*

21. Sir Syed Sultan Ahmed, K.C.S.I., Constitutional Adviser to 11.11. the Chancellor, Chamber of Princes.

22. IX-wau Mahathir yir A. Kamaswami Mudaliar, K.C.S.I., Dewan, Mysore State.

23. Mr. H. S. Malik, C.I.E., O.B.E., I.C.S., Prime Minister, Patiala State.

24. Mr. Zph'd Ibissain, C.I.E., Finance Member, H. E. II. the Nizam's Government, Hyderabad (Deccan).

• - *Non-officials.* -

25. Sir B. K. Shanmukham Chetty, K.C.I.E., President, Indian Tariff Board; Bombay.

26. Sir Chunilal B. Mehta.

27. The Honourable Mr. H. D. ToTvuend, President, Associated Chambers of Commerce of India, Calcutta.

28. Sir Padampat Smghania.

29. Dr. Sir Gokul Chand Narang.

30. The Honourable Mr. P. N. Sapru, Member, Council of State.

31. Lalu (hum Sharan Lai, C.I.E., President, Federal ton «f Indian ChnmK-rs of Commeice and Industry, New Delhi,

32. Mr. A. D. Shroff.

33. Sir Shri Ram.

34. Mir. M. A. Master.

35. Mr. Mohammed Uussain Iasliam Premji.

36. Mr. K. T. Shah.

37. Mr. S. P. Jain.

38. Mr. N. M. Joshi, Representative, Trade Union Congress, Calcutta.

39. Mr. S. Pramanik, Representative, Trade Union Congress, Calcutta.

40. Mr. N. Narayanamurthi, M.L.A., (Central).

41. Mr. V. Gangaraju, M.L.A. (Central).

42. Sardar Dhupia.

43. S'r Abdul Halim Ghuznavi.

44. Mr. B. R. Shenoy, Representative, Reserve Bank of India, Bombay.

45. Mr. M. A.. Fazalbhoy.

46. Miss Maniben Kara, M.L.A. (Central).

47. Sir Fazal Ibrahim Rahimtoola.

48. Mr. Vadilal Lalir.bhai, M.L.A. (Central).

49. Mr. T. A. Ramalingam Chettiar, M.L.A. (Central).

*The following members of the Trade and Tariffs Sub-Committee of the Consultative Committee of Economists were also present :—*

50. Dr. P. S. Lokanathan (Chairman).

51. Dr. B. N. Ganguli.

52. Dr. Anwar Iqbal Qurechi.



*19th September 1946.*

The Chairman, the Honourable Mr. C. H. Rhabha, opened the proceedings with the following speech

It is a matter of great satisfaction to me that within a few days of my assuming office in the new Government, it should be my privilege to welcome you to a meeting of this Committee. I regret that a later date could not be fixed for the meeting because of the urgency of our future programme. This must have caused you some inconvenience and I would like, therefore, to thank *you very* warmly for the trouble you have taken in coming to Delhi at short notice to participate in the discussions.

This Committee, as you are aware, was set up 2 years ago by splitting one of the old Advisory Committees, *viz.*, the Policy Committee for Trade and Industries. The new Committee which was named the "Trade Policy Committee" was apparently intended to be a body representing Indian commercial interests. On assuming office, I discovered that the Committee had never met and that its membership, through lapse of time, had become partly out of date. Since a meeting had to be called without delay, I decided to make some changes in the membership in order to strengthen the Committee temporarily, while leaving the permanent constitution and functions of the Committee for later consideration.

The entire consultative procedure at present in force will need revision in the light of any new policies which the new Government may lay down. Our endeavour will be to evolve a procedure which will enable rapid decisions to be taken after consulting all shades of opinion. The immediate purpose, however, is to discuss your views on the proposals for the expansion of world trade and employment which have been published by the U. S. Government. I have referred to the urgency of our future programme, and the dates of the various meetings which are to take place in preparation for the International Conference will convince you that the meeting of this Committee could not have been put off to a later date. The American proposals will be discussed between the Government concerned at a series of meetings the first two of which are fixed for early next month. On October 1st there will be a meeting of British representatives, followed on October 15th by a meeting of a Preparatory Committee consisting of representatives of 19 nations which has been set up by the United Nations Economic and Social Council for this purpose. These meetings, we understand, will be at expert level and will provide a forum for the exchange of views between the Governments concerned as a preliminary to the drafting of a charter. No commitments will be made at either meeting and if a charter for the proposed Trade Organisation is drafted by the experts, the draft will be circulated for further consideration and study.

The commitment which will be reached at a third meeting of drafting countries which has been convened by the U. S. Government but is not expected to meet before next April. The Government of India has been invited to attend three meetings and has accepted the invitation to the meetings of the Preparatory Committee and to the meeting convened by the U. S. Government. As regards the first meeting of the British

which will ensure that our limited resources are not frittered away on less essential goods and that the products of our new industries are suitably and adequately protected. It is our belief that a healthy and rapid expansion of Indian resources and a rise in the standard of living of the Indian people can only be brought about by a system of planned development which *must* include a planned regulation of external trade. We also believe that, in the conditions facing us, a system of non-discriminatory trade which will give us free access to all markets, both for making purchases and for selling our products, will be more in our interest than a system of preferences or other forms of trade discrimination. As a creditor country with vast sums of money owing to her, India has everything to gain by the removal of discrimination in trade relations.

I have mentioned some of the considerations which will guide us in the planning of our future policy. Our attitude to the proposals will be determined very largely by what we conceive to be a correct trade policy for India. Our objectives are clear and the problem before us is primarily one of the means of attaining them by a constructive regulation of external trade. On this subject any advice that you may wish to offer will receive my careful consideration and I would welcome a full and frank expression of your views on the American proposals.

Before the discussion is initiated, I will draw your attention to certain booklets or pamphlets which have already been circulated to you, namely, the Report of the Trade and Tariffs Sub-Committee of the Consultative Committee of Economists. It will be found to be a very useful document, as well as the Commerce Department's Memoranda on Trade and Tariff policy. I should now like to hear your views.

*Miss Maniben Kara* said that she would like to draw the attention of the Committee to the departure in the policy which had been followed, till now, *viz.*, in not sending invitations to the Indian Federation of Labour and the Trade Union Congress. She did not wish to say much on this point at the meeting, but she was confident that the new Government would try to accommodate them in all the Committees.

The Chairman explained that he had already referred to the re-constitution of the Committee. There was no mention of the Federation of Labour in the Constitution of the previous Committee. He said, however, that the point of view put forward by Miss Maniben Kara would be borne in mind and, on a future occasion, due weight would be given to all the interests concerned in the country.

*Mr. J. M. Joshi* said that he would like to congratulate the Government of India for having recognised the claims of organisations of Indian workers to be represented at the meeting. He felt that commerce, *i.e.*, the distribution of goods, affected the interests of the masses of the people in this country perhaps equally, if not more, than the interests of the men who were engaged in distributing the goods. He, therefore, wanted to draw the attention of the Government of India to the fact that even in a conference which on the surface was called the Trade Conference, the representation of masses in this country should be adequate. The objective of India's economic policy, he continued, should be to raise the standard of life of the masses of people in this country, in comparison with the standard of life of the masses of people in other countries.

such as America and Great Britain. In order to achieve this objective it would be necessary to regulate the economy of this country in such a way as to have balanced production and equitable distribution of goods. The policy of not having any plan should not be continued. He wanted to make it quite clear that what was wanted was a plan which would benefit the masses of people and raise their standard. Considering from this objective and considering that the method to be followed in this country was a method of planning, the American proposals for the expansion of trade and employment should be welcomed. He felt that the expression expansion of trade and employment included by implication the expansion of well balanced production. As regards expansion of employment, he said that the term should include not merely quantity of employment but also quality of employment.

Mr. Joshi then went on to say that the objective of the proposals was limited as only expansion of trade and employment was sought by reducing restrictions. If the objective was to raise the standard of life of people in this country as well as in the world as a whole it was necessary to undertake constructive policies as regards production and equitable distribution. He felt that India's representatives who would be deputed to attend the trade conferences should draw attention of the other members to the fact that the American objective of merely reducing restrictions would not secure the main objective of expansion of trade and employment. Moreover, the American plan was intended to maintain free competition in foreign trade. This country had already suffered a great deal as a result of the policy of free trade. He, therefore, thought that the attention of the Conference should be drawn to the fact that free competition was not acceptable to this country. He was, however, not suggesting that those restrictions which were not needed should not be removed. But India's representatives would have to ask for suitable adjustments so that the policy of planning and the American policy of free trade based upon competition would be reconciled to the extent to which it could be reconciled. As regards the American plan to establish permanent organisations of representatives of countries of the world, Mr. Joshi added that he would like to refer to one point, *viz.*, the constitution of the organisation. He thought that the one vote for each country was not a properly democratic system. To give the same voting strength to Iceland and to countries like China and India was not democracy. The voting strength of the trade organisation should be based upon the population of each country.

At this stage, the Chairman in reply to questions from some of the members said that general remarks on the proposals could be offered first, and if the meeting so desired, a discussion on the details of the proposals could be had later.

*Mr. S. P. Jain* said that he generally approved of the policy of the Government and the suggestions made by the Sub-Committee. He agreed that discriminations should go but in view of the fact that India had big sterling balances in London which had to be got back, this country should not be prepared to do away with discriminations unless the matter of sterling balances was settled. While the U.S.A. was stressing the point of freer trade, lower tariffs and the elimination of quotas, there

was nowhere any mention in the proposals of the free availability of technological skill and capital goods. There was some reference, however, to this matter on page 11, in regard to Release from Restrictions imposed by private combines and cartels. It would be advantageous he said to follow up this point and if any thing could be done towards the availability of technological skill for countries like India it would be a great advantage. Another point, Mr. Jinn said, that he wanted to draw attention was in regard to production. The proposals had scrupulously avoided any reference to this point. India's share of the world's population was about 20 per cent, and therefore this country was entitled to 20 per cent, of the world's production of wealth. It should be stated he added that until such time as 1] e percentage of a country's production did not approximate to the percentage of its population to the total population of the world) it should be allowed to keep such measures as tariffs and quotas which would be required for developmental purposes.

Lala Guru Sharan Lai referred to the memorandum submitted by the Federation of Indian Chambers of Commerce and Industry to Government on the proposals. He did not wish to reiterate those views again, but he said he would like to refer to certain fundamental aspects of the proposals with a view to make the position of the Federation clear on certain points. With regard to the participation by India in the preparatory meeting which was to meet to prepare the agenda and draft a charter for consideration at the full international conference, the Federation was of the view that India should participate in the preparatory meeting with a view to seek material alterations in the fundamental basis of the proposals to meet the requirements of under-developed countries and thus to enable them to raise the purchasing power and the standard of living of their people. There would, of course, be no commitments by any of the participating countries and the occasion would be utilised to explore the possibility of securing greater measure of agreement at international level for greater expansion of world trade and employment. In regard to the proposals for the reduction of tariffs, elimination of preferences and other quantitative trade restrictions, such as import and export controls and quotas, the Federation was of the definite opinion that India should have unrestricted sovereign right to fully resort to these measures—measures which were utilised in the past by the highly industrialised countries of today—for building up new industries and to expand their existing ones with a view to create a high level of employment and to raise the present standard of living of the masses. The Federation was of the view that India should not give an undertaking that she would not seek to maintain employment through measures which were likely to create unemployment in other countries. India, under her new political set-up would have to overhaul her economic policy and she would have to undertake establishment of a number of defence and key industries. In the realisation of those policies, she would have to maintain a very high level of employment which would result in creating unemployment in some other countries.

Lala Guru Sharan Lai then referred to two very serious omissions in the proposals, (1) the purposes mentioned in Chapter I of the proposed International Trade Organisation did not recognise the right of

countries to equal access to the capital goods needed for their economic prosperity, as was done in the case of access to raw materials, and (2) absence of any reference to the shipping of a country having a right to a fair share in the carriage of its overseas trade. As a country could not develop and expand her overseas trade unless it had at least 50 per cent share in the transport of that trade, the Federation was of the view that India should be, under an international arrangement, allowed to develop her shipping so as to enable her to carry her overseas trade at least to the extent of 50 per cent. The straits to which powerful nations were reduced during the last Great War had necessitated the urgency of such an arrangement. Finally, the Federation's view in regard to the functions of the Organisation in Chapter VI, clause 6 (page 16) was that India would not make any discrimination under normal circumstances between the enterprise, capital and skill of one foreign country and that of another foreign country.

*Mr. K. T. Shah* referred to the fact that the internal trade of this country was no less important than its foreign trade. That did not mean that the foreign trade of this country should be disregarded. Planning, he said, should not apply only to industries, but should include the entire life of the country. Explaining this point further, he said that in a proper, comprehensive and well co-ordinated national plan, attention would have to be paid not only to industry but also to agriculture, to internal as well as to foreign commerce. Foreign trade occupied a relatively small proportion of the economic life of this country and should not receive more than its due share of attention. Regarding the objective of full employment, Mr. Shah said that in the case of a country like India, if she desired to reach definite standards of industrial development and of living, then much greater concentration should be given to her own internal adjustment than to the exigencies of foreign trade. He was not against international co-operation nor would he suggest withholding India's contribution to that co-operation, but what he submitted was that in any case this country was entitled to put its own case. The removal of barriers and so on, mentioned in the memorandum would have to be subordinated to the demands of the development of India's own national economy and as such the ways and means proposed in the memorandum and the suggested international organisation would have to be looked at from this point of view. In discussions on protection, safeguarding or encouragement of industries, India's representatives would have to emphasize that the development of the resources of this country should have precedence over all other considerations. This idea was not necessarily hostile to the development of the world in general. On the question of full employment, Mr. Shah drew attention to the fact that there was no mention in the proposals as regards the redistribution, of the world's population and labour so as to maintain the standard of living fairly comparable *as is* over the world. This was no doubt a proposition for the United Nations Organisation like the one proposed here to tackle international trade. He emphasized that the real distribution should be of resources or at any rate of the population with a view to improve the standard of living in other countries. This was, however, not on the agenda. Concluding, Mr. Shah said that the Indian delegation

should have very clear instructions on these matters along with the general problem regarding the removal of quotas and *other* trade barriers, etc. He was convinced that if each country tackled the problem on the lines suggested by him, it would not be impossible to integrate those plans.

*Mr. Mahomed Hiissatin Hasham Premji* said that the idea behind the proposal to hold an International Trade Conference seemed to be the desire to secure for countries like the United States of America and the United Kingdom—which had already attained a greatly increased industrial potential during the war—export markets for their goods. Equal access to the raw materials of the world was therefore asked for, and there was no mention of equal access to capital goods. Referring to the peculiar problems which faced this country, Mr. Premji said that the problems were mainly of reconstruction. In order to build up India's industrial resources for this purpose a trade and tariff policy suited to her requirements would have to be followed. While he appreciated the stand taken by the Government of India regarding participation in the international conference, he wanted to submit that the utmost stress should be laid upon and acceptance secured on the point that the development of this country should be given adequate consideration. Further, the conference should not be used only as a means of maintaining employment in industrial countries to the detriment, of a country like India. If the right, *viz.*, of following a trade and tariff policy suited to India's requirements was conceded then this country could attend the conference. Continuing, Mr. Premji said that in the matter of trade, India would be facing other peculiar problems. There was, for example, the problem of cotton. This country wanted to maintain the price of cotton at a certain level in consonance or in accordance with the maintenance of the prices of food grains or other commodities. The price of cotton in India, however, was far below the price of cotton in other parts of the world and, therefore, this country would have to have a peculiar policy of its own with regard to the export of this commodity and a policy suited to the requirements of the situation. Another problem was as regards sterling balances which would necessitate a direction of the trade into certain channels to suit India's requirements until such a time as her trade and tariff policy was laid down.

*Mr. M. A. Master* said that he would like to thank the Chairman who had put India's case in a nutshell by observing that this country's vital needs and interest would have the first consideration of the present Government and that the proposals embodied in the American document would be considered from that fundamental point of view. He asked what was the object of expansion of world trade and employment. If world trade was to be expanded this naturally meant that there would be increased production and employment; and this was exactly what India needed today. He thought that the proposals embodied in the American document could not be agreed to, as they had rejected certain means which this country was going to use in order to develop itself and raise the standard of life of its people. Referring to the question of employment, he said that the *primary* test of any Government in the world was its ability to defend itself. It was quite likely that in the discharge of

this obligation to its people such a policy would create unemployment in other countries. This could not be helped, and a country would be failing in its duty if it did not develop its industries even at the cost of unemployment elsewhere. The advanced countries after having done all that was possible for the development of their industries had now come forward to tell other countries that drifts, preferences and discriminations should be done away with. Mr. Master emphasized that these rights should be retained by this country in view of its policy of development. It was only then possible for this country to go to an international gathering. He added further that every country should have the right to develop its own mercantile marine and if certain cartels or combines existed in this field they should be removed. As regards the proposals which wanted to do away with discriminations in the matter of importation into a country of enterprise, skill and capital under normal circumstances, he said that these proposals may be agreed to. But sometimes it became the duty on the part of certain countries to discriminate between the enterprise, skill and capital of one foreign country against another country.

*Sir Shri Bam* said that his experience of the various international conferences was rather unhappy. He had read carefully the very fine note prepared by Mr. R. K. Nehru of the Commerce Department and he wanted to congratulate the Government of India which had the courage to prepare that note. This country had a population of 400 millions, most of whom were unemployed or partly employed and the problem was to create employment for them. It was, therefore, necessary to take all possible measures to create employment in this country wherever possible irrespective of what happened in regard to the problem of employment in other countries. *Sir Shri Ram* then referred to the fact that during the war the difficulties facing the economy of this country were realised. It was difficult to get so many articles, such as medicines, etc. He did not think that a National Government would allow things to remain as they were. These conferences were usually the thin end of the wedge. His view was that India should not compromise on certain fundamentals such as the need to develop this country both agriculturally and industrially. Referring to the question of free access to raw materials, *Sir Shri Ham* said that no mention was made to free access to shipping and capital goods in the proposals.

*Mr. A. D. Shroff* said that it was very seldom realised that one of the reasons for India's economic backwardness was furnished by her position in international foreign trade. India's total prewar foreign trade worked out to Rs. 10 per capita as compared with Rs. 370 for the U. K. and Rs. 113 for the U. S. A. and Rs. 70 for Japan. He could not, therefore, agree with Mr. K. T. Shah who said that importance should not be given to foreign trade. If the country was to go ahead on all fronts, foreign trade was one branch of its economic activity which would need careful thinking and also wise planning. With a little experience of attendance at one Economic Conference where the basis for discussion was supplied by the joint proposals of the U. S. A. and the U. K., he said that he was a little suspicious of the new conference which was going to be held next year in America. Obviously the interests of countries like India, China, Iran, and others differed very fundamentally from

the highly industrialised countries like the (J. S. A. and the U. K.), particularly in the case of the latter country whose foreign trade formed a really fundamental economic activity of its life. India's position was different. In planning for the economic development of the country, foreign trade could not possibly be ignored or neglected. He wanted the Government of India to give some thought to the foreign trade position between this country and its neighbouring countries. He particularly suggested that the Commerce Department of the Government of India should give some active thought to the possibility of taking energetic measures, for the development of India's foreign trade in relation with the neighbouring countries.

• Referring to international conferences, Mr. Shroff said that he would put before the Government some of the considerations which arose out of his experience at the Bretton Woods Conference, he thought that these conferences were apparently convened for the purpose of considering and taking decisions on economic issues. But in reality after the ceremonial functions were over and the subcommittee stage was reached to go into the detailed proposals, the real objective was unravelled. That real objective was a political dog fight between the advanced nations of the world in which a country like India found itself in a very embarrassing situation. He thought that in future the Government of this country would find itself in a greater embarrassment if it would be called upon to ally itself either with one block or another. His practical suggestion therefore, was this, viz., that when India sent out a delegation to the next international conference of this character, it should send such a delegation a little ahead of the scheduled date so that it could get into touch with countries similarly situated as this country. At Bretton Woods, Mr. Shroff continued, India found herself practically isolated because of inexperience of working at international conferences. Only countries like Iran and Iraq would co-operate with India. Another suggestion which he wanted to make was this. As this country was new to these international conferences, there was a lot to learn. The example of China which took a fairly large delegation might be followed. As these international conferences formed good training ground, he suggested that a number of young men, junior officers from Government department and a number of young economists, could be tagged on to the main delegation to be present at the conferences merely as observers collecting very valuable information which would come out of discussions at high levels. Another suggestion Mr. Shroff said that he would like to make was in regard to the social side of these international conferences. At Bretton Woods, the Government of India placed at the disposal of the leader of the Indian delegation only 1,200 dollars for social functions. Smaller countries like Egypt, China and Iraq held extensive social functions to which the Indian delegation was also invited. Social functions provided useful opportunities of establishing contacts and exchange of views with delegates from different countries, and get the stand-point of the country accepted in a friendly way. In regard to the correct trade policy for this country, Mr. Shroff referred to the so-called fiscal autonomy convention which was conferred upon this country 20 years ago and which in actual practice turned out to be farcical autonomy, as it was made



## U

of these gatherings.' He thought that Mr. Shroff was right in emphasizing that the delegation should be sent a few days in advance of the actual meeting. India at these gatherings would be representing one of the biggest countries of Asia. It had to be emphasized at these conferences, Mr. Sapru added that mere equality of access to raw materials would not do, unless it was accompanied by equality in the matter of access to capital goods also. India must also in these international conferences interpret the best thought of the small and middle Countries of the world,— countries which needed industrial expansion and which were working for a more balanced economy in which both agricultural and industrial development would play a part.

*Dr. Sir Gokul Chand Narang* said that though he was in favour of India's participation in negotiations and discussions at these Conferences, he was not at all optimistic about the results. Judging by the past attitude of the U. K. towards India and also from the proposals contained in the T. J. S. document, it was amply clear that it was the advancement of the interests of the U. K. and the U. S. A. which had led to the idea of this conference. What the U. K. did to Indian Industries at a time when this country was far more industrially advanced than Great Britain herself was quite known. From the time of Queen Elizabeth right up to comparatively recent times it was clear that Indian industry was not only discouraged but was absolutely destroyed. A hundred per cent and in some cases 300 per cent, protective duties were placed on Indian manufactures. At the time of Queen Elizabeth and her successors a man was liable to penalty if he appeared in Court in Indian made shawls. Even in the matter of shipping there was a time when Indian ships used to take Indian goods to Great Britain. But for over a century not a single Indian ship was seen on the sea. With these precedents he was afraid that this conference would not keep the interest of India in view, and the Indian delegation would have to be very wary and very cautious in their commitments, if any, that they would make. They might watch the discussions and take part in them, but they should not make any commitments whatsoever until the proposals were brought back to India and placed not only before the Government of India but also before a gathering representing business and industries of this country. Sir Gokul Chand added that from the speeches that he had heard at the meeting he felt that there was no possibility of any compromise on certain matters. For instance, on the question of protection, it would be very difficult for India to make any large scale concessions. It would in fact be impossible, and the Indian delegation and representatives would be betraying the cause of this country if they agreed to give large scale concessions in this respect.

Proceeding Sir Gokul Chand said that the proposals had not said a word as to what advantages would be given to industrially backward countries like India; they did not even say that these countries would have equal access to the purchase of machinery and to the availability of expert advice or to a contingent of expert technicians from more advanced countries for the purpose of industrial development. As regards the question of protection and subsidies, he said that these measures were absolutely necessary for the purpose of research and the starting of new

industries in this country and there could not be any compromise on this point. Then again this country should not agree to give up quantitative restrictions. The purchase of Indian products at a reasonable price from Indian manufacturers had to be guaranteed. There could not be any compromise on that point either. Fixed amounts of minimum dividends to shareholders in order to float new companies would also have to be guaranteed. On all these points the Indian delegation should not yield to any pressure. Referring to the question of preferences, Sir Gokul Chand said that some concessions may have to be given to a friendly Britain, though the U.S.A. would certainly object to this. But, he added, that India should not expect sympathy from anybody and should stand on her own legs. No compromising spirit should be shown in regard to the development of commerce, though this did not mean that this country was not prepared to negotiate and participate in the conference.

*Sir Chunilal B. Mchta* said that in considering these proposals for expansion of world trade and employment, it was necessary to convey to the American authorities the view that every country should have equal rights for trading in any other country, and only such equal rights between nations would encourage trade and commerce. At present, citizens of the United States had full rights and privileges to come to India, to stay in India and to trade in India freely. On the other hand, Indians did not enjoy, at present, any such rights or privileges to go and stay and trade in the United States. On personal inquiries during his stay in America in 1944, he was told that through a Treaty between Britain and America some 75 years ago, rights were given to Americans to come and to establish themselves as traders in this country. No reciprocal rights for Indians were demanded by the British at the time. This point should be placed before the Preparatory Committee of the International Conference. Continuing, Sir Chunilal said that America was the only country which had imposed the highest duty on imports from other countries, and she should therefore be asked to reduce her tariff duties. India could certainly increase her exports to the U.S.A. if the import duties there were reasonable. He said he could give evidence; as to what India could export to the U. S. A. There was in the first place a very big demand for Benares silk piecegoods in America. These goods could be exported if import duties in America were brought down to a reasonable level. There were other things, such as wooden toys on which the tariff duties were very high. Cloth made out of rough cotton or short staple cotton could also very conveniently and profitably be exported to America. Sir Chunilal then referred to his suggestion, *viz.*, that a Committee should be appointed to examine the import duties imposed on Indian goods in the United States and other countries. It would then be possible for India to ask for "reduction of duties in respect of the goods exported from this country. He then pointed to the fact that in America, according to a speech by Mr. Arthur Paul, Assistant to the Secretary of State, his (Mr. Paul's) office during the first year of operation had been preparing material that would be used in furthering the programme of the Preparatory Committee of the International Trade Conference. It was obvious that the U. S. A. was considering carefully as to what concessions were to be asked and what concessions were to

be given. In the same way, Canada had been making similar preparations. The Canadian Government's recent establishment of an Inter-departmental board to hear tariff representations seemed to be the first public move in any country towards the forth-coming world-wide campaign to reduce tariff barriers.

Sir Chunilal then went on to say that with the present distribution of national income, the United States home market could absorb only a part of the productive capacity of that country which had expanded enormously during the war. By considerably expanding exports, the U. S. A. had sought to remove or diminish its threatened economic difficulties. Britain, on the other hand, had to export more in order to pay for imports ; otherwise, the standard of living in that country would fall with serious social consequences. Proceeding, he said that it was agreed by all that the resources and industries of this country ought to be protected. With an over-valued rupee if India joined the International Trade Agreement to reduce trade barriers, then even with the present duties, the industries of this country would be running the risk of competition from outside. He, therefore, thought that before India joined in an agreement as regards the removal of trade barriers, the first important point to be considered was the present over-valuation of the Rupee. What he wanted to convey was that the scheme of the U. S. Government was to have the exchange value of different currencies first fixed, and then to reduce trade barriers.

Sir Chunilal then referred to the fact that even before the war, the U. S. Government had been trying to see that the cotton exports from India were reduced. Mr. Adarkar, in his Memorandum on page 63, had said that judging from discussions which recently took place in the Study Group of the International Cotton Advisory Committee, it had appeared that the U.S.A. experts would like the quotas to be revised periodically during the life of an agreement. India's exports of cotton just about 15 years ago were much less than just prior to the war. But prior to the war for about six years, the exports had increased tremendously,—the average every year being about 3 million bales,—and cotton was the article which gave the favourable trade balance to India's foreign trade. Owing to the food shortage during the last few years, 9 million acres of land devoted to cultivation of cotton had been diverted to the cultivation of food crops. As a result, India which was producing about 6 million bales, was now producing only 3½ to 4 million bales which were not sufficient even for internal consumption. If cotton exports were thus taken out of the export list, then India might have an unfavourable balance of trade. Mr. Nehru, in his Memorandum had said that this country might have an unfavourable trade balance for some years to come, meaning thereby that it was possible to live on the accumulated sterling balances. He thought that this was not the right policy. Another adverse effect of the reduction of cotton acreage was that there was shortage of cotton seed, which was the most important food for the cattle in this country. This had also resulted in a scarcity of good milk.

Concluding, Sir Chunilal said that he would like to congratulate the Lokanathan Committee on their report. There was one point however

in which he differed very strongly. Following the recommendation of Mr. Adarkar, the Lokanathan Committee had suggested the addition of an additional paragraph, viz., paragraph 10 at the end of Chapter V of the U. S. Proposals,—to the effect that the purpose of inter-governmental commodity arrangements should also include the elimination of excessive fluctuations in the prices of primary commodities and maintaining them at a fair level. Up to that he agreed but the Committee had mentioned that the maintenance of prices at a fair level must be in relation to the prices of manufactured articles. He asked how could an agriculturist be asked to grow food, cotton or tobacco with an eye on the prices of manufactured articles. The real need was an economic price which should be given to the primary producers. To link the price of primary produce with manufactured goods was to his mind a very definite backward policy and completely faulty.

At this stage, the Chairman said that he would like to draw the attention of the Committee to a document which was placed on the table of every member, viz., a note on the principles of tariffs. In this document the Government of India had briefly enunciated the general principles on which tariff reductions could be effected and how other reciprocal arrangements could be made with other countries in the world. He added that the Government of India were definitely advised that at the Preparatory Committee which was to be held on the 13th October 1946 in London, no formulas would be evolved. There would only be exchange of views and what was going to take place was more in the nature of an educative conference.

The Committee then adjourned for lunch.

The Committee reassembled after lunch at 3 P.M.

Mr. N. Narayanamurthi said that representing as he was the Federation of the Rural People's Organisations in this country he was anxious as regards one thing, viz., that whatever might be the future trade policy, the Government of India should take into consideration the needs and inherent rights of the agricultural community. As matters stood at present, the prices which the actual producers of raw materials got were those which were dictated by the capitalist employers of this country, Indians as well as foreigners. There could not be two opinions about the admitted fact that the Government of India should take complete control of the entire trade policy of the country. Referring to international co-operation, Mr. Narayanamurthi said that the co-operation could not be unconditional, but it should be of a sort of responsive co-operation. The extent to which India should co-operate with any particular country depended upon the extent of co-operation which this country got from other countries with regard to its agricultural and industrial development. India could not altogether be in favour of the removal of restrictions. The removal of tariffs, preferential treatment and such other matters should all be decided on its own merit, item by item. There should be a sort of preferential treatment with regard to countries which were helpful to the progress and the food needs of the country. The countries that gave capital goods for the development and industrial expansion of this country were certainly entitled to preferential treatment, and in all such matters

there should be a policy of discrimination between one country and another. As had been stated in the Commerce Department memorandum, the first and foremost condition of this country's co-operation in any international trade organisation should be, first, the determination of a charter, and then only an examination item by item of the preferential treatment or protection or removal of restriction could be undertaken. Mr. Narayanamjithi concluded *by* saying that the general policy laid down in the Chairman's speech could be agreed to, and he would only like to emphasise that agricultural interests should be taken into account along with all other interests in these matters.

Miss Maniben Kara welcomed the idea of setting up an international organisation. She was very happy to hear the remarks of Prof. K. T. Shah regarding the emphasis to be placed on the home-market as against the export of goods. As a matter of fact, the question arose as to how it was that the idea of setting up an international organisation was taken up only today and why it was not done all these years. Mrs Kara thought that unless and until the peoples of the world agreed on the fundamental question that the old way of carrying on business with other countries had resulted in depression, maldistribution of wealth, insecurity and ultimately in war, the question of setting up an international organisation would not have been considered. It was necessary to give up the old methods of doing trade. If that principle was accepted she was afraid she could not appreciate the line taken up by speakers that protection, tariffs and many other things should be insisted upon. It was certainly a fact that these very policies had led to depression, unemployment and to war leading to the destruction of human lives. If that was so then she did not see why India should follow the same path as was done by others. "While she could understand the fears in the minds of industrialists in this country, that because its industries were still growing protection was needed, she could not understand why old industries like the iron and steel or textiles should have tariff walls. The question then was that if the old methods were to be given up, what were the new ones. She thought that foreign rule was responsible for the slow growth of industries in this country. It was necessary, she continued, to put first things first in order to raise the standard of living of the people. The agricultural population of this country today was leading a sub-human existence because of the indebtedness of the peasantry and various other evils which existed. Unless and until these evils were removed and the whole socio economic structure of our society was changed, it could not be really possible to raise the standard of living of the people of this country.

Miss Maniben Kara then went on to say that the home demand of this country should be met first before the question of exports was taken up. The European countries would have to come to the aid of backward countries like India by supplying her with capital goods, and these capital goods should be the property of the State. Regarding the wage policy, she said that she could appreciate and understand the cut-throat competition which the country was subjected to, and which resulted in the cutting of the wages of the workers and the peasants. She was glad to note, however, that some references were

made to this question in Chapter V, but this Chapter would have to be so amended as to provide a guarantee that adequate protection would be given to agricultural commodities of backward countries. Unless that was done the result would be that the agricultural labour of this country would suffer. This policy would have to be fixed in consultation with other international countries in the same position.

*Sir Fazal Ibrahim Rahimtoola* observed that there were two points in the note which was circulated and on which the Government of India desired the views of the Committee. The first point was whether India should take part in the negotiations for the reduction of tariffs and the elimination of preferences. He agreed with the view put forward in the note, and also in the Commerce Department Memoranda and the Sub-Committee's report that the Conference was mainly convened in the interests of the United States and the U. K. On page 47 of the Commerce Department Memoranda it was stated that an isolationist policy would not be in India's interests and that expansion of exports would be necessary for the expansion of imports. He thought, therefore, that without going into the details of the note, it would be generally acceptable to say that India should take part in the negotiations for the reduction of tariffs and the elimination of preferences with a great deal of caution, because it had been rightly pointed out that this country was handicapped by the fact of its being undeveloped. "With regard to the second point of the note he said that he was afraid he was not in a position to give any indication at this stage without fuller consideration. Referring to the American proposals for the expansion of world trade and employment, Sir Fazal said that he would congratulate the Sub-Committee of the Consultative Committee of Economists for their very brief and concrete proposals, and he suggested that the meeting should generally accept the recommendations contained in that report. He thought that it would not be wise to withhold India's co-operation from the Commonwealth Conference, because it was possible that this country would need the assistance of the Commonwealth countries at the international gathering. It would have been wise if the Government of India decided to send (somebody even in an advisory capacity to watch the proceedings of this Conference. Sir Fazal then went on to say that it pained him very much to hear the remark\* in regard to discriminating protection. Had it not been for protection, India would have been in a very sad position and those who have done this work should receive congratulations for giving help and assistance to India with regard to discrimination. It was laid down in the Fiscal Commission's report as to why the word discrimination was used. Proceeding, he said that he would like to move one or two resolutions in order to help the Committee to formulate their views. Firstly, he would like to move that India should take part in the negotiations, and secondly, that the report of the Sub-Committee of the Economists Consultative Committee should be accepted *in general terms*.

*Mr. Tadilal Lalhifhai* said that he was very pessimistic about the results that may come out of the negotiations. There was no harm however, in joining these conferences, as it would then be possible for this country to put its case before the world forum. Explaining why

Mr. Vadilal was pessimistic. He said that the U. S. Government proposals would be found to be discriminatory against the interests of undeveloped countries. There was nothing to suggest in the proposals as to how the undeveloped countries were to be helped in industrialising themselves and to achieve full employment. It was not possible to have world trade and employment if the world as a whole was not industrialised. Mr. Vadilal added that the real reason for not reaching the goal of freedom from want was the lack of industrialisation in undeveloped countries. Unless all the countries of the world were equally developed it was impossible to find a way to freedom from want. Regarding the statement in the proposals that no nation should seek to maintain employment through measures which were likely to create unemployment in other countries or which were incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies production, he said that he could not understand how there was going to be comparative efficiency in production in undeveloped countries which wanted to develop new industries. Every country which developed new industries had to go through a period of inefficient production *no* that it could develop its industries and ultimately come up to the level of world efficiency. If it was desired by the industrialised countries that tariffs had to be reduced, it should be made clear by the Indian delegation that unless India was allowed to develop herself like the other countries of the world it would be impossible for her to reduce tariffs. As a result of this country's attempt to industrialize, there was bound to be unemployment in other countries. But, he thought that India's case was so just and so clear that she should not be afraid of joining *these* conferences and try to get accepted the principle that undeveloped countries should be helped to develop their new industries so that they could come up to the level of the other countries. He added that in the proposals there ought to have been a separate section clearly laying down how the undeveloped countries *H<JV tc he heii-cd.* Regarding » voting strength, Mr. Vadilal observed that it should not only be based on population, but also on trade and national importance and various other factors. Referring to the delegation, he said that it had to be such that it would in all cases see that the prestige and self-respect of this country was being maintained at all costs.

Mr. T. A. Ramalingam Chettiar referred, to the unfortunate fact that the development of the world had not been uniform. Some countries which had advanced politically and economically wanted to maintain that position to the detriment of other countries. The two countries which were foremost in the industrial field, had made certain proposals which were quite contrary to all the methods that they had advocated and practised during the last 200 or 300 years. The Conference which was going to meet and consider the proposals put forward by these developed countries was aimed at maintaining their present position. Continuing, Mr. Ramalingam Chettiar said that the U.S.A. ought to have come forward and said it would allow Indian industry to have branches in that country, and purchase as well as sell goods there. He thought, however, that the U.S.A. would not do this. It was necessary

therefore to surmount all such obstacles. Referring to the safeguarding of the price, of commodities, he said that some sort of control would have to be continued. There would be need to control imports, and customs duties would have to be imposed to bring up the price to the level that was necessary. As regards the safeguarding of industrial labour, he said that was a matter of adjustment between capital and labour. Mr. Ramalingam Chettiar then went on to say that he had no objection to the delegates attending the Conference at the first meeting and explaining the position of undeveloped countries with reference to the position of agriculture and labour. If India's difficulties were appreciated, then this country could join in the organization, subject to its being a share in the management of the organisation. He suggested that the Trade Policy Committee should appoint a Committee which should be in close touch with the delegation that would be sent abroad. This Committee ought to be informed of any matters of policy or any draft that was being prepared either by the delegation or the Government. That seemed to him the only way in which the Government could keep itself informed and be in touch with industry, agriculture and public opinion in this country. Mr. Ramalingam Chettiar concluded by saying that he was pessimistic, and he did not share the view that India was going to gain largely by joining the organisation. A lot of appreciation of the difficulties of this country on the part of those who were in power was required. Whether that appreciation and adjustment would be forthcoming was, however, a matter which was in great doubt.

*Dewan Bahadur Sir A. Ramasivami Mudaliar* said that it would be of some help to the Committee if he were to give a little background of the American proposals which were being discussed. This, he hoped, would indirectly at any rate remove some of the fears and apprehensions that were expressed at the meeting, lest the delegation that was going from this country should commit itself to all sorts of things, or however powerfully it might be backed up by the present Government it would be pusillanimous or in an enfeebled condition in dealing with this problem at the international table. He, however, did not take any such views, as even before the dawn of independence had risen on economic matters and in international councils the voice of India was a powerful, and respected voice. Proceeding, he said that the genesis of this conference went back to 1942, when even while the most desperate of wars was being fought, even while everything was going against the Allies, particularly when Japan joined the war in December 1941, preparations were being made both in the H.S.A. and U.K. to have a set of economic conditions after the war which would be satisfactory from their point of view. In September-October 1942, the countries of the British Commonwealth met together in London and discussed two sets of problems under the very able guidance of the late Lord Keynes and these problems were those relating to the monetary conditions that should prevail at the end of the war and other questions like exchange and stabilisation and of currency policies [generally]. These matters were afterwards discussed ultimately by a joint committee of the I.T.K. and the U.S.A. Simultaneously with the discussions in September and October in London, there were similar



preparations going on in the U.S.A., and under the very able chairmanship of Mr. White of the U.S.A. similar proposals were being drafted for the consideration of monetary problems. It was past history now, but Bretton Woods was the result of these deliberations and several countries joined the international agreement, of which now today India was also a party, whereby on the monetary side certain arrangements had been made for the regularity of transactions and for arrangements so far as various nations of the world were concerned. At the same time as this monetary conference was going on, the question of commodities, trade and commerce was also taken up by both countries. A memorandum was produced under the guidance of Lord Keynes,^—it was called the buffer stock programme,—with reference to commercial relations and exchange of commodities, proper stabilisation of price of commodities, the evening out of the inequalities which arose consequent on sudden depression so far as raw products were concerned and the assurance of a steady market for these products, and what was more important, a fair price for these products. In the buffer stock scheme, similar proposals were also being adumbrated in the U.S.A. and it was partly that part of the scheme which was now being considered in connection with the trade and tariff policy and the memorandum that had been submitted to the U.S.A. Government. An international agreement similar to that which had been arrived at in the monetary sphere had also to be equated with reference to commercial transactions and trade pacts. As a result of the joint discussions between the U.K. and the U.S.A. the document now under consideration was prepared sometime in 1945 and put forward by the U.S.A. Government. In 1945, along with the Anglo-American loan, this document was agreed to by both countries and it was decided that the U.S.A. should call a conference first of 15 countries which was to be called the preparatory conference and ultimately a full conference of all the nations. The U.S.A. Government had taken upon itself the task of convening this conference because at that time it was not quite fully expected that the U.N.O. would come into existence. The Economic and Social Council, an important organisation of U.N.O., was elected on 18th January 1946. Sir Ramaswami proceeded that it was felt by all the members of the Economic and Social Council, excluding the U.S.A., that it was not proper for one Government to take upon itself the lead in such matters and convene a conference when the purpose and duty of convening such an international conference had been specifically laid upon the Economic and Social Council. It was under these circumstances, that the idea of calling this conference and of establishing a Preparatory Committee in preparation for the work of that conference was taken up by the Economic and Social Council. Actually the resolution for the convening of such a conference was moved by Mr. Wiant, late Ambassador to the U.K. The resolution suggested that the document prepared by the U.S. which was distributed to the delegates might form the basis for the agenda of the international conference.

Sir Ramaswami then said that he wanted to explain what happened in the Economic and Social Council, because many of the members present at the meeting of the Trade Policy Committee had taken it

for granted that the document prepared by the U.S. was going to be the Bible for the Preparatory Committee which was to meet in London. *U* was hotly contested by the Soviet Union that that document could not be the basis for consideration of the International Conference or even by the Preparatory Committee, that it should not be taken that the delegates had adopted anything in that document, that the whole basis of preparing the draft agenda for the International Conference should be altogether different, and that members of the Preparatory Committee, while they *could* consider the suggestions that had been put forward by the U.S. were equally content to consider the suggestions put forward by any other member States for the purpose, and that the draft agenda should then be evolved after considering all the proposals of all the member-States. Sir Ramaswami then read out the resolution of the Economic and Social Council of 18th February 1946, regarding the calling of an International Conference on Trade and Employment, and pointed out that there was no reference at all to the U.S. Proposals in the resolution. Continuing, he observed that he wanted to draw attention especially to para. 4 of the Resolution which said that the Economic and Social Council would request the Preparatory Committee when considering the agenda to take into account the special conditions which prevailed in countries whose manufacturing capacity was still in its initial stages of development, and the question that would arise in connection with commodities which were subject to special problems of adjustment in international markets. This clause, he said, was inserted as a result of the amendments moved by two countries, viz., Chile and Ecuador, which emphasized that the less developed countries *should* have opportunities of developing their industries. The second part of the paragraph which referred to the question of fair prices for raw products, Sir Ramaswami added, had a history. In the Atlantic Charter a clause was inserted to the effect that vanquished and victors alike should have equal access to raw materials. Those connected with the drafting of the Atlantic Charter had no conception of the economic principles that were involved in making that declaration. When this matter came up before the United Nations and the Charter of the United Nations was being framed at San Francisco, particularly the chapters and sections relating to the Economic and Security Council, the French delegation tried to include equal accessibility to raw materials for all nations as one of the objectives of the Economic and Social Council. It was expected that that would be accepted. But nation after nation and those so-called backward and undeveloped nations said that access to raw materials meant nothing at all. Other questions were also raised such as regards bulk purchases, the distribution of raw materials pro rate among all competing nations and the prices at which the raw materials were to be distributed. The question was also raised as regards equal access to manufactured goods. Manufactured goods were made out of raw materials and could not be separated and were equally important, and therefore it was pointed out that there was no point in talking of equal accessibility to raw materials if the same condition did not apply to manufactured goods also. The amendment was lost by an overwhelming majority, and the Charter was free from any such unintelligent and

unintelligible clause so far as the Economic and Social Council's objectives were concerned.

This then was the background of the proposals. Sir Ramaswami then went on to say that he would like to remove a misunderstanding as regards the Preparatory Committee. This, Committee, he said, had nothing to do with actual bargainings on a bilateral or multilateral basis of tariff reductions. The original proposal of the United States was that the 15 countries who were invited to the first meeting should come to some sort of agreement initially and ultimately possibly arriving at a multilateral agreement whereby a scheme would be evolved by which the 15 countries would all agree to certain ceiling tariffs for various products and the removal of certain barriers. The Economic and Social Council did not however take into consideration this aspect of tariff reduction at all. Whereas the United States had invited 15 Governments, the Economic and Social Council suggested that the invitees for its meeting should also include some of the undeveloped countries like Chile and even countries of Europe like Norway. According to the original programme the 15 countries would sit side by side and conduct negotiations bilaterally and ultimately multilaterally. It was considered that in October these 15 countries should sit side by side and conduct negotiations between the countries themselves, and the result would go as an annexure to the draft to be discussed by the subsequent meeting. As regards the actual reduction of tariffs. Sir Ramaswami said that the countries that had been invited were those which had signed the Mutual Aid Agreement, that is, those countries which during the war were connected by a policy of tariff reductions. The only country that was not committed to the Agreement was India. The Government of India was threatened with the fact that Lend Lease aid from America would be cut short and would be completely prohibited if the Mutual Aid Agreement was not signed. Ultimately, however, the American State Department and the Congress agreed that it was not necessary for the Government of India to sign the Mutual Aid Agreement, in view of the fact that this country was industrially backward and that the existing protection which was given was very discriminating.

Sir Ramaswami then referred to the question of shipping which had two aspects. The first related to cartels, during the war particularly, there was no country which had suffered more than India on account of lack of her own shipping. The first thing needed was, therefore, the breaking up of cartels or monopolies. Then again there was a wider aspect to this question. If there was to be equal access to raw materials against manufactured products, if trade was to be really free in the real sense of the word, then he said that every country should have sufficient shipping at its own disposal to carry on its own trade and bring back its own commodities. Therefore, the first essential to really free international trade was that a minimum amount of shipping should be guaranteed to every country. A separate conference had to be convened to consider the question of shipping and the equitable distribution of shipping among foreign countries. As regards the composition of the delegation and the resources that should be placed at its disposal, Sir Ramaswami said that he would like to endorse

practically all the remarks of Mr. Shroff. He wanted particularly to emphasize the importance of cocktail parties and he ventured to suggest that much more could be resolved through the aid of these parties than could be done at the conference table. He trusted that the Finance Member would be much more generous than the old Finance Member. In conclusion, he said that he would like to refer to Commonwealth Conference. Having taken part in some of the Commonwealth Conferences, he said that the Indian delegation would be listened to with a great deal of attention. He felt that this country would be missing something very vital if it did not attend this Conference. Finally, as regards voting strength, he thought that out of a total membership of 18 on the executive committee, he was certain that India would come in amongst one of the eight and thus find a permanent place. This was likely to be a more feasible solution of the proposition by having India as a permanent member on the executive committee than any elaborate calculation based on her industrial and commercial capacity.

*Mr. E. S. Malik* felt that after Sir Ramaswami Mudalier's statement the apprehensions expressed by some of the previous speakers must have disappeared. He had very little to say but there were one or two things to which he wanted to draw attention. While he was in America between 1938-44, there was a very distinct and influential move on the part of some very prominent businessmen to tell the American people and the world generally that it was to the interest of the industrially advanced countries—countries that had a very high standard of living, to help in the improvement of the purchasing power and the standard of living of the peoples of India and China. He had frequent occasions to discuss this very question and the reaction of his American friends invariably was that they realised that it was in their own interest that they should help this and other backward countries to industrialize. Continuing, he said that in order to achieve the economic development that was determined, this country ought to work under a planned economy, in which controls would have to be exercised over industries and trade. He added that he would like to support what Mr. Shroff and Sir Ramaswami Mudaliar had said about our delegations to these international conferences, particularly in America. He had participated in four of them, and he thought that every Indian delegation to these conferences had won the praise of all. He was confident that if the Government of India sent a big delegation now, it would have the support of the entire country at its back. This delegation would not only achieve distinction but it would be effective and he also endorsed even the word that Sir Ramaswami had said about the necessity for the Finance Department taking a more liberal attitude with regard to the social expenses side.

*Mr. Zind Hussain* said that he had very little to say except to add his support to the idea that had been put forward for participation in international deliberations on the question of trade and unemployment. He did not see why India should have any fears on the score. India would have a number of friends and she had a very good case to present. The poverty stricken masses to the tune of 400 million had got to develop themselves and have their standard of living raised.

ijje added that he had *no* reason to doubt that when India's case was properly represented, the bigger nations would listen to the needs of undeveloped countries.

*Sir Shanmukham Chetty* referred to the unanimity of opinion prevailing at the meeting on the advisability of India participating in the proposed international trade conference. He said that this country's own self interest would dictate the need for throwing in its lot in any international scheme for the expansion of trade and a free interchange of goods. In the plan for industrialisation this country would be needing capital goods from the more advanced industrial countries of the world and every international agreement that would facilitate the transfer of capital goods to India should be welcomed. Apart from this, as a creditor country, India would insist on the orderly transfer of the debts due to her. This result could be achieved only by the expansion of international trade. Referring to international organisations, *Sir Shanmukham* said that a great deal had been said about the effectiveness of India's participation in them. Whatever might be this country's political status in the forthcoming conferences, he had no doubt that the political status would certainly be higher than it had been hitherto. From the economic point of view this country had got the bargaining power. For one thing, India was in the position of a creditor country and therefore need not be over anxious about these international trade arrangements with a view to balance her international payments. Apart from that, this country's ability to supply certain essential raw materials could also give it a strong position at these international conferences, he hoped, therefore, that the Indian delegation would use its undoubted bargaining power to the best advantage of the Indian people. Continuing, he said that a country which went prepared with a draft for discussion in a conference was in a very strong position. For example, at Bretton Woods it was found that the U.S.A. put forward a document which formed the basis for discussion and so that country was in a very strong position. While such a document was presented, the other countries were put almost on the defensive and the suggestions therefore had to be in the form of amendments. He was, therefore, very apprehensive that the U.S.A. proposals would be taken as the basis for discussions at the Preparatory Conference, and he was very much relieved to know from what *Sir Ramaswami* had said that that would not be so.

*Sir Shanmukham* then went on to say that a great deal would depend upon the preamble to the proposed organisation, i.e., the preamble setting forth the purpose of the organisation. At Bretton Woods, the Indian delegation tried unsuccessfully their best to persuade the U.S.A. delegates to accept the amendment that in the working of the international monetary fund, special consideration should be given to the needs of the less developed countries of the world. He hoped that that danger would be avoided in the Preparatory Committee. He said that it was his experience of all these international gatherings that the agenda that was placed before the conference and the documents that were prepared for the guidance of the delegates were all prepared from the point of view of the economic and social conditions that prevailed

in the European countries and in America. This worked as a great handicap to the delegates of less advanced countries like India and China. He therefore thought that it was essential at the preparatory meeting to persuade the other delegates to accept as the purpose of this proposed trade organisation the object, viz., of increasing the standard of life and promoting full employment amongst all the countries of the world with special reference to the less economically advanced countries, he wanted even to go further and say that the Charter ought to contain something more positive than merely dealing with the elimination of restrictions. It was essential to demand that there should be an international understanding under which the more advanced countries would take upon themselves the obligation of helping the industrially less advanced countries by the supply of capital goods and other things. If it was possible to have a preamble to the whole Charter of this organisation on these lines, then half the battle would be won. He therefore hoped that the Indian delegation would keep this point of view in their mind. Referring to the question of tariffs, Sir Shammukham said that he thought this question would play a most prominent part in these forthcoming discussions, and he added it was now time for the Government of India to make up their mind as to what was to be their long term tariff policy during the post-war economic period. To say that the initiative for this long term tariff policy depended upon India's international commitments was, he thought, to look at the picture from the wrong side. He would, therefore, suggest that India's international commitments in the forthcoming conference, should be based upon her long term tariff policy which the Government of India ought to enunciate well in advance of the international conference. Referring to protection of industries of this country, Sir Shammukham observed that as a result of their own experience of the Tariff Board within the last few months, he had come to the conclusion that so far as India was concerned, she had to depend predominantly on tariff protection. It was not possible to protect industries by the grant of subsidies as India could not simply find the necessary resources for this purpose. To his mind, therefore, it was very clear that for a long long time to come and until this country reached a very high level of industrial advance, it had to depend on the instrument of tariffs for affording effective protection to its industries. If that proposition was accepted, it was time he said that the Government of India enunciated in clear and unambiguous terms what their long term tariff policy was going to be.

The Chairman at this stage said that the general points were sufficiently discussed. There seemed to be unanimity on two important points, first, as regards India's participation in the Preparatory Conference, where at any rate no commitments were to be made, and, secondly, as regards the general lines that this country's delegates should take at the Conference.

The Committee then adjourned till the next day.

*20th September 1946.*

The Committee resumed its discussion on the 20th September 1946 at 11-30 A.M. with the Honourable Mr. C. H. Bhabha, the Commerce Member, in the Chair.

The Chairman said that at the end of the previous day's discussion Home members of the Committee had suggested that a Resolution embodying the points on which there was a decision of the Committee be drafted and placed before the Committee. On further consideration he had come to the conclusion that in conformity with past procedure the discussion on any specific modifications as submitted in the documents before the committee should be continued, and there was no need of a Resolution as such. He took it that the general feeling was unanimous in the Committee so far as India's participation in these international talks was concerned. As regards the delegation, he said that it would be impressed upon them that they should press the points of view as embodied in the Economists' Sub-Committee's report which was before the committee. If, however, any of the member, in the Committee wanted to make any suggestions in respect of these various modifications embodied in the Sub-Committee's report on the U.S. proposals, he could welcome such discussion. ^

*Mr. T. A. Eamalingam Chettiar* said that the modification he wanted was that this country should be free to enter into any regional arrangements with adjacent countries having the same common interest.

The Chairman explained that that was exactly his modification, viz., that India should be free in her negotiation at this international level and adopt such policies as would be most suitable for the needs of this country and its economic growth. In reply to a question by *Mr. VadiJal I^allubhai*, as to whether the proposals were to be taken up for discussion paragraph by paragraph, the Chairman further explained that this was not necessary at present. Later on, if the Preparatory Committee drafted a Charter, it could be discussed clause by clause, and every interest in the country would be consulted.

*Mr. pramanik* said that the new Indian Government should not be a party to any international commitments that would place India on the *road* of industrial and naval powers which dominated world trade and *rad*2 routes, world shipping and the monetary system. He emphasized that the delegation should also be advised that India should not make any commitment that might involve herself in any war or antagonism with the Soviet Union and she should not participate in any bloc along with main industrial and naval powers,

*Mr. H. S. Malik* referred to the suggestion made by Sir Shanmukham Chetty,—viz., that one of the instructions to be given to India's representatives at the preparatory meeting to be held on 15th October should be to press on behalf of industrially backward countries for specially favourable treatment in the matter of supply of capital goods, technical advice and facilities for the building up of our mercantile marine,—which he said should be adopted by the Committee.

*Mr. A. D. Shroff* put forward a suggestion that before a delegation was sent to the conference of 15th October this country should prepare something in the nature of draft proposals particularly embodying its own requirements. The Preamble to these draft proposals should set out clearly and unequivocally the requirement of underdeveloped countries. His suggestion was that it was now up to the Department of the Government of India to get busy and prepare their own draft proposals

ou *the* deadlines indicated in the Resolution of the Economic and Social Council.

*Dewan Bahadur Sir A. Ramaswami Mudaliar* referred to the work of the Preparatory Committee, namely the preparation of a draft annotated agenda. He said that in the annotations much of the matter that was contained in the U.S. proposals could probably come in, and that was the time for the proposals of this country also to equally come in. He wanted to repeat that there had been no advance since the Economic and Social Council's proceedings in February 1946, except that in the Resolution it was stated that a Preparatory Committee would meet in the summer of 1946. The exact date was not fixed but it was understood that *the meeting* place and the time would, in consultation with the U.S. and the U.K., be announced by the U.S. When the Economic and Social Council met again in June and nothing was done, it was decided by the Council in consultation with the Secretary-General that some step should be taken in pursuance of that Resolution, and therefore it was announced by the Secretary-General that the date would be October 11 and the place will be London because it was found that the U.S. would not be suitable owing to the dilatory procedure adopted by the Congress in connection with the Anglo-American loan. Whatever other miscellaneous documents might be circulated either by U.M.G. or the U.S., the Economic and Social Council's Resolution and proceedings would be the only guide.

*Sir H. Shanmukham Chetty* thought that no useful purpose would be served by the Committee making specific amendments to the United States proposals. There were two stages he said in the evolution of international matters. The first was when principles as enunciated by one or more countries were embodied in the proposals, and then an actual draft charter was made for the consideration of the final contract. In the interim phase the draft proposals were prepared only by the United States Government. He wanted to suggest that apart from the proposals made by Indian economists, an alternative draft proposal should be prepared by the Government of India for consideration by the Preparatory Committee. The United States proposals had been prepared purely from the point of view of a highly industrialised country. He suggested that nothing more useful could be done at the Trade Policy Committee meeting than to view the general consensus of opinion that the Committee was in favour of Indian participation in the Conference, and, secondly, to give general approval of the Committee to the proposals made by the Consultative Committee of Economists. He further suggested that the Commerce Department should prepare an alternative document for the Preparatory Conference and circulate it to the members of the Committee.

*Sir Chunilal H. Mehta* said that he fully agreed with *Sir Shannukham Chetty* as regards the preparation of fresh draft proposals. He had found that the Lokanathan Committee had entirely recast the whole proposals by a number of suggestions paragraph by paragraph. The Committee had done a very good job but there was something more to be done. *Sir Chunilal* said that he had certain suggestions to make which might be taken into account while the new draft was prepared or the present one was being considered. Regarding export subsidies, the



Lokanath Committee had suggested one year instead of three which was quite all right. Then on page 14, para 3 of the U.S. proposals under "Commodities and surplus supply" there were paragraphs (b) and (c) which, to his mind should be omitted, as by these paragraphs the United States Government desired to maintain export subsidy on some surplus commodity. As regards inter-governmental commodity arrangements referred to in para. 3 of the same page, it should be recognised, he said that inter-governmental agreement involving restrictions on production, for trade would be justified.

*Mr. Mokamed Hussein Hasham Premji* said that he was inclined to agree with the suggestions made by Sir Shjmiukham Chetty regarding the draft Charter. He suggested that the Government should consider the various suggestions that had been made along with the suggestions of the Economists' Committee and something on those lines should be embodied in the directive to be given to the Government delegation that was going out to attend the Conference. He added that, if possible, a Charter might be prepared to be put forward for the consideration of the preliminary conference.

*Mr. Vadilal Lailubhai* said that he also agreed with the view that this country should go to the Conference with a separate draft of its own, a draft not only about its own problems but also those of the other countries which were producing raw materials. If there was not the possibility of this country's draft being considered, then the alternative he wanted to suggest was that a separate section should be prepared in respect of the undeveloped countries, so that that section at least could be considered and included in the general draft that could be considered in respect of the undeveloped countries. He thought that as there was little use for suggestions at this juncture, all suggestions should be sent to the Commerce Department for consideration and inclusion in the draft that would be prepared.

*Miss Maniben Kara* said that she would like to make a few suggestions on the Report of the Trade and Tariffs Sub-Committee of the Consultative Committee of Economists. She supported the proposals in the Report, but there were some minor changes which she would like to suggest at the meeting. On page 4, in para. 7, where it was said "and by positive methods. . . . peoples" she said she would like to add the words "and their real income". On the same page at the bottom where it was stated "accompanied by effective. . . ." after that she wanted to add the words "continuous expansion of internal markets". On the same page again in the last but one line where it was written "accompanied by effective development of resources" she wanted to add the same words as suggested by her previously, viz., the words "expansion of internal markets". On page 5, in the first para, where it was stated "and also the achievement of a rising scale of employment. . . . their purchasing power" she wanted to put in the word "the peoples" instead of the word "their". She did not agree with the recommendation of the Sub-Committee regarding the deletion of para. 7 on page 6. On page 7 in the last but one line, she would suggest the addition of the words "in order to provide adequate price to the primary producer of such products," after the words "or to support the prices of such products".

Finally, she said' that sflc would lite to Suggest on page 9 the addition in para 10 of the words " such measures should under similar conditions be linked up with measures for promoting a steady rise in the wages of the industrial and agrarian labourer ", after the words " prices of manufactured articles."

*Mr. A. D. Shroff* suggested that a special chapter might be devoted to what would be called unfair trade practices, in case the Government of India decided to accept the suggestions that were made in the draft proposals. He was sure that the Commerce Department would have on its files a number of complaints from the Indian commercial and industrial community regarding insurance practices. It was true that there was a law in the U.K. for supporting statutorily the practices which were followed by the British insurance companies. It had, however, been found that these practices which were fully aided and supported by the British banking resources, were detrimental to the growth of Indian insurance business, particularly on the marine side. Those who had some experience of the working of the very mysterious and invisible institution which was described as the City of London, he continued ought to be fully aware of the very widespread tentacles which that City of London had spread over all business activities. The British had developed a wonderful technique of bringing about certain conditions so that business migV be carried on by the people of that country. It was high time, Mr. Shroff went on to say that when the de'egation from India disussced the wider aspects of development of world trade, it might well be pointed out before the world conference the unfair trade practices which had been experienced by India and which had definitely been, hindering the growth of India's foreign trade. Whenever question of difficulties that were experienced by India were raised at the world forum of international conferences, he added this country was always told that this was a matter of high policy in which other countries were more vitally concerned. He repeated again that India's interests would be very greatly served if some one was sent to the 1st October Conference.

*Sir Gokul Chavd, Narang* asked whether the Government of India was prepared to accept the recommendations made by Mr. R. K. Nehru. If it did, then a good deal of time could be saved, because it appeared that most of the speakers at the meeting had expressed similar views. If these suggestions were accepted and a draft prepared on the lines of the recommendations of the Lokanathan Committee and on the lines suggested by Mr. Nehru in his excellent memorandum, that would serve the purpose.

*Afr. Vadilal Lalluhhai* thought that the very title of the proposals was wrong and he would like to add the word " Industry " before " Trade and Employment ".

The Chairman then summed the whole discussion as follows :—

Gentlemen, as far as I can see there seems to be unanimity of opinion regarding our participation in this international conference. The second point also that clearly emerges from all these discussions is that we accept most of the suggestions contained in the documents that have been placed on the table. Along with these there have been certain views expressed by several members of this Committee and very useful and valuable guidance and hints have been thrown out which I am sure Government will

take due notice of. If you agree with me that we proceed on this basis we can take this as the basis of our bringing this meeting to a close. I must thank you once again for the great trouble that you have taken in coming here at such short notice and making valuable contributions to this important subject.

I should like to refer very briefly to a few points that have been stressed by several members here. With regard to the point about the representation of labour and agricultural interests on these Committees I can give the assurance that it will always be our endeavour to see that all the vital interests of this country including labour and agriculture are duly represented and consulted before any particular lines of policy are adopted.

With regard to the point raised about the importance of internal trade in this country, and not merely looking towards the international or the external trade, I can say that we are not impervious to the importance of internal trade in the trade of this country. And while estimates may vary regarding the volume of internal trade, Governments are fully aware of the importance of developing internal trade in this country. But in this international conference we feel, as one member of this Committee has pointed out, that there is a very big scope for co-operation on the lines of development of our external trade also. So we cannot segregate the one from the other and we have to work accordingly for the development of both these trades. One point that I should like to emphasise at this stage is that we are not prepared to take any selfish or narrow point of view so far as India alone goes. We shall sponsor and champion the cause of similarly placed countries and, if necessary, take a lead in this matter of the evolution of a process whereby countries similarly placed like India will have the right place in the economic development and industrial progress of the world. I am specially very grateful to my distinguished predecessor Sir Ramaswami Mudaliar for a very elaborate elucidation of the historic background of all these international talks. As he has pointed out, the Preparatory Committee that is coming out now will have very limited functions to perform and, as I have just said a little earlier, we shall stress the main points of view as embodied in the documents that have been on the table before you.

Regarding the other aspect of which our experienced member Sir Shanmukham Chetty has said as to the preparation of a draft document by India, while I see great force in that I should like to draw his attention to this fact that if each of the countries at this Conference came with such documents readily prepared it would tend to such a confusion that no progress can ever be made. The amendments as embodied here in the export Committee's document and the very valuable suggestions thrown out by the members of this Committee which may be incorporated in our ideas on the general lines on which our delegation will work, should I think be a fair substitute for a ready-made draft or charter that has been suggested. In such circumstances, I am sure my friend Sir Shanmukham Chetty will agree that a substitute document of such a nature—though it may not be in the nature of a detailed draft Charter—will prove a useful guide in all our deliberations and we will not be handicapped or

left behind other countries who have got such Charters prepared. As regards the point made by Sir Chunilal Mehta about the preparation of lists I may say that the document before you on the table prepared by the Commerce Department regarding the broad principles that will guide India, will not form part of discussions regarding tariff barriers and reductions. The list will, of course, be prepared very soon if the general principles embodied in the document are accepted, as they seem to be acceptable. Such a list of course America is over-anxious to get as early as possible. It will be submitted not later than January if the Conference is to take place in April as was mentioned. Of course it will not be a very hard and fast list nor will it be a list in which very specific or definite suggestions will be thrown out regarding what India's reduction of these articles will be. There will be enough room for bargaining and I am prepared to accept Sir Chunilal's suggestion that when the stage arises we shall definitely consult public opinion in this country, and specially several of our worthy members of this Committee on the list that will be sent out or on which we shall start our negotiations.

Regarding long-term tariff policy, as said by Sir Shanmukham Chetty, I am afraid that cannot be enunciated at so early a stage by this Government. Sir Shanmukham Chetty is fully aware of the various problems that this Government is faced with at the very start of its career and it has been only a short time that we have been in office. So, if I may frankly say so, plans for the economic development of this country are still being formulated. No definite plan has yet been accepted so far as this country goes. If such definite plan is adopted I do not think that any distinct or definite line of action, so far as our long-term tariff policy went, can be enunciated at this stage. Of course when we are ready with our plans then definitely the next question that will have to be considered will be our tariff policy and that will be the opportune moment when the Government of this country, in consultation of course—I again repeat—with representative opinion in this country will formulate its long-term tariff policy, as Sir Shanmukham Chetty has said.

I think these are the main points. I am very thankful to you for the very valuable and frank and free discussion we have had. I look forward to such useful guidance from you in future when we need it.

The meeting then terminated.