

United Nations

Nations Unies

**ECONOMIC
AND
SOCIAL COUNCIL**

**CONSEIL
ECONOMIQUE
ET SOCIAL**

RESTRICTED
LONDON
E/PC/T/W.14
21 October 1946
E/PC/T/5
(See Corr. 1)

PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

GOVERNMENT OF INDIA

DEPARTMENT OF COMMERCE

C O M M E N T S

on

U.S. PROPOSALS FOR EXPANSION
OF WORLD TRADE AND EMPLOYMENT

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 Organization, 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.

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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 been 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.

(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.

(iii) 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".

(iii) 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 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 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 industrialization of the country to the fullest extent possible" with a view to achieving the three-fold objects of industrialization, 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 industrialization. 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, 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 organization; 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 recognised 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 organisation. 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

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 recognized, 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 interest 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.

(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

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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; and

(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.

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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.

(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 recognized 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 organized campaigns conducted on the lines of the "Swadeshi" or "Buy British" movements. Whatever may be the American ideas on this subject, there

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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 -

(i) 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-manufacturers, 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 dependant 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 purpose. 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 purpose, 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

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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) (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 of 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, 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 (5); 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. Those 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 exports 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 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 Organisation.

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 illegalizing 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 industrialization.

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

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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

Joint Secretary to the Government of India,
Commerce Department.

The 6th July 1946

II. 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 visualized 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 Chapter 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 recognized 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-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 organization 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 neutralized 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 275 to 235 per ton, cotton from 8d. to 4½d. per pound and wool from 170d. 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

* 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 stabilization 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 stabilizing 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 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. 245)

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 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 arrangement 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 Steevenson 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 1 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 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 $3\frac{1}{2}$ 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 Organisation.

B. N. ADARKAR.

Deputy Economic Adviser to the
Government of India.

The 20th July, 1946.

III. 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. Dr. 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 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 recall 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 generalised 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 are 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 on 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 co-operation 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 stereotyped; it will not necessarily help backward countries to realize 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.

6. 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 co-operation 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 8 above would entail the addition of the words -

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

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

"2A. 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 practiced 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 III. 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
- (b) 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:-

- (a) 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 Swadeshi" or "Buy Indian", directed to encourage the consumption of home produced goods.

Should, however, this clause be retained, we suggest that the words "or in directly" 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 I, 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 I. With regard to India in particular, the following considerations are relevant and must be borne in mind:-

(i) The protective duties in India are few in number and in every case 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.

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

(iii) 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 I. 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:-

"(f) 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
- (iii) 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 of domestic products even when no restriction is imposed on the production or marketing of such products. In order to cover such cases, 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 I. 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 I 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 1. 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 industrialization 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 United States 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)
CYAN CHAID.
B. N. GANGULI.
ANWAR IQBAL QURESHI.
D. GHOSH.
B. N. MADARKAR.
(Members).

M. A. MULKY,
(Secretary).

NEW DELHI,)
19th August 1946)