THE EFFECT OF THE E.E.C. ON INDIA
WITH SPECIAL REFERENCE TO BRITISH ENTRY

by

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SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
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Certified by..
Faculty Advisor of the Thesis

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Professor Philip Franklin
Secretary of the Faculty
Massachusetts Institute of Technology
Cambridge 39, Massachusetts

Dear Professor Franklin:

In accordance with the requirements for graduation, I herewith submit a thesis entitled "The Effect of the E.E.C. on India with Special Reference to British Entry".

I would also like to take this opportunity to thank my advisors, Professors Louis Lefeber and Sidney Alexander for their invaluable advice, counsel and criticism. I would also like to thank the Department of Industrial Management for affording me an opportunity to write this thesis, which has given me a very interesting insight into the foreign trade patterns of my country.

Sincerely yours,

Signature redacted

Adi Burjor Godrej

ABSTRACT

THE EFFECT OF THE E.E.C. ON INDIA WITH SPECIAL REFERENCE TO BRITISH ENTRY

by

Adi Burjor Godrej

Submitted to the School of Industrial Management on August 16, 1963 in partial fulfillment of the requirements for the degrees of Bachelor of Science and Master of Science.

The purpose of this thesis is to investigate the effect the formation of the European Economic Community is likely to have on India, with special reference to the question of British entry.

The treatment is qualitative in nature and very few quantitative assessments are attempted. An attempt to theorize some effects of a Customs Union on a non-participating country is made at the outset.

The method of investigation consists of looking at several important commodity groups one by one. One chapter considers the effects with the present six members of the Common Market, another one looks at the effects if the United Kingdom were to become a member.

The conclusions can be summarized by saying that little effect can be expected on India if Britain were to stay out. Exports of coffee, cotton textiles, and tobacco might be slightly affected. The effect would, however, be much more if the United Kingdom were to enter. Again, cotton textiles and tobacco exports will be adversely affected.

Some miscellaneous effects together with steps that might be taken in anticipation are presented towards the end of the thesis.

Thesis Advisor: Dr. Louis Lefeber
Title: Associate Professor of Economics

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* Obtained from the Embassy of India, Brussels.

CHAPTER I

INTRODUCTION

The purpose of this thesis is to investigate the effect the formation of the European Economic Community is likely to have on India, with special reference to the question of British entry.

At the outset an attempt is made to theorize some effects of a customs union upon a non-participating country. Several assumptions such as infinite supply elasticity, perfect information and perfect mobility, not quite accurate in the real world, are made in the interests of simplicity.

Descriptive notes on the Common Market, export picture of India and the highlights of Indo-European and Anglo-Indian trade follow. It is essential to gain a clear insight into the basic facts in order to be able to better evaluate the pertinent points. In this respect, it is imperative to consider, not only the present trade situation, but to look at it in a dynamic framework. Work done by the Perspective Planning Department of the Planning Commission as well as by other sources is utilized for future estimates.

In order that a clear picture be obtained, an investigation of the effects of the Common Market, both with and without the United Kingdom, upon specific commodity groups is undertaken. Cotton textiles, tobacco and coffee are the commodities most likely to be adversely affected. On some commodities like manganese and iron ore the effect might even be beneficial.

A description of the problem of adequate foreign exchange is undertaken. Towards the conclusion of the thesis some miscellaneous effects are considered and some steps that might be taken to lessen the effects are indicated.

It is my belief that considerable scope exists in expanding upon this thesis. My suggestions and recommendations are given in the concluding chapter.

The thesis is basically qualitative in its scope. Very few quantitative conclusions are made. But with a sound knowledge of a trend and the various factors that make it, several quantitative inferences can be made as more data are obtained.

It is fortunate that the field - International Trade - is one in which adequate statistics are obtainable. Several sources are freely drawn upon in this thesis. A list of references is included in the bibliography.

Lastly, it must be clearly borne in mind that the subject is continuously in a flux. The rules and regulations of the E.E.C. are changing. The export patterns of India are changing, and soon.

CHAPTER II

EFFECT OF A CUSTOMS UNION ON A NON-PARTICIPATING COUNTRY

The object of this chapter is to look into some general effects of a customs union upon non-participating countries. The approach is basically qualitative. Towards the end an attempt is made to take a look at some quantitative aspects.

Basically, there are two effects to be considered:

1. What I shall call the Trade Effects, otherwise known as the substitution effects or diversion effects. These are the effects due to the primary increase in trade (due to lowering or elimination of customs duties between member countries) and its secondary and tertiary repercussions.

2. The dynamic factors, which Professor Balassa [1] discusses in Part II of his book, give rise to an impetus to accelerated growth in the participating countries. Through the mechanism of the marginal propensity to import from non-participating countries, this would give rise to an increase in imports from the latter. I will call this generally beneficial effect the Income Effect.

The rest of the first half of this chapter will concern itself with analyzing in further detail the two effects outlined above.

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1. Bela Balassa, The Theory of Economic Integration, Homewood, Ill., R. D. Irwin, 1961.

A. TRADE EFFECTS

When tariff barriers are lifted upon formation of a customs union or common market between two or more countries, the existing trading patterns tend to change. Since tariffs on commodities from non-participating countries are retained, whereas those on commodities from contracting countries are eliminated, the relative price structure between commodities from non-participating countries and those from participating (contracting) ones undergoes a change. The demand curves for commodities from non-participating countries (ceteris paribus) will tend to change as the prices of complimentary and substitutable products from participating countries decrease. The result is usually a south-westerly displacement of the demand curve. The above effect is the familiar trade diversion effect Professor Viner [2] referred to.

Due to lowering or elimination of tariffs, a participating country might now find it advantageous to divert its imports from a non-participating country, e.g., say there was a uniform tariff (25 per cent) on automobiles. France might have found it cheaper to import British automobiles (cost 100 + 25 = 125) rather than German automobiles (cost 120 + 30 = 150). But after France and Germany form a customs union and the tariff on German autos is eliminated, France finds it cheaper to import German autos (cost 120) than British autos (cost 125 as before). Thus France's import trade has

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2. Jacob Viner, <u>The Customs Union Issue</u>, Carnegie Endowment for International Peace, New York, 1950.

been diverted from Britain (non-participating) to Germany (participating).

We thus see that the trade effects upon a non-participating country stem from a change in demand or supply curves, due to change in prices. We saw one reason for a change in price upon formation of a customs union. With the elimination of tariffs on commodities from other participating countries, the price of these commodities fell. This is what might be termed a primary price change.

The primary price change, however, is not the only price change. As trade in a commodity is created, that is, as it becomes more expedient to import from another participating country than to produce domestically, domestic prices tend to fall and prices in the other participating exporters tend to rise. These secondary changes in price again have corresponding effects on non-participating countries. If the price rises, it has a beneficial effect upon a non-participating country and if it falls, a detrimental one.

Other secondary and tertiary effects of less importance could be traced. The dominant one, however, is the primary trade diversion effect. Professor Balassa [3] and Erdmann and Rogge [4] in their analysis look merely at the primary trade diversion effect and overlook the other secondary and tertiary effects. Perhaps in

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3. Bela Balassa, The Theory of Economic Integration, Irwin, Homewood, Ill., 1961.

4. Paul Erdmann and Peter Rogge, Die Europäische Wirtschaftsgemeinschaft und die Drittländer, Basel: Kyklos Verlag, 1960.

their opinion the latter are negligible. Erdmann and Rogge call the trade diversion effect the Präferenzeffekt - the preference effect.

At this stage it might be well to point out that the trade effects on a non-participating country are dependent upon the characteristics of the demand curve for the latter's products. It is conceivable althought unlikely that the net trade effect on a particular country might be beneficial. For a large country like the U.S.A. or India, which is likely to trade with a customs union such as the E.E.C. or EFTA in more than just one commodity, the trade effects will almost certainly be detrimental.

B. INCOME EFFECTS

Erdmann and Rogge in their book, previously referred to, call the income effect the Wachtumseffekt, literally translated as the growth effect - growth in national income. It is the boost given to imports as a result of accelerated growth of incomes in the participating countries.

Whence stems this accelerated growth? The answer lies in the following three main areas.

1. The customs union might lead to an accelerated growth in national income due to the classical effect of freer trade. Some goods will now be imported from other participating countries whose factor endowments give them a comparative advantage in their production. This is the familiar trade creation. Of course there will be

some adverse trade diversion, but usually a customs union will be embarked upon only if trade creation is expected to outweigh trade diversion.

2. The next reason for expecting a rise in national income of participating countries may be called production efficiencies accruing out of economic union. These might stem from various sources. Increasing competition might lead to lower costs. Industry, being able to serve a larger duty-free market, might discover efficiencies of scale. Investment trends, methods of production, etc. might also make for increased efficiency. If the union is a common market, capital and labor flow to where their marginal productivity is maximum, might boost income. Most of these production efficiencies are gradual in nature. Some of them are long-run effects, so that whatever benefits accrue to non-participating countries from them, might bot be realized until some time after the formation of a customs union or common market.

3. The third reason for a probable rise in income among the contracting parties stems through geography. What geographically is the evident region to trade with is often neglected due to customs barriers. This is especially true in an area like Europe, where contiguity is not necessarily on a national basis. Professor Kindleberger says [5]

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5. Charles Kindleberger, International Economics, Irwin, Homewood, Illinois, 1963.

"Some international trade then can be based primarily on transport costs and has nothing to do with factor proportions. This is particularly true of local trade which takes place across a long international boundary. With the elimination of trade barriers as a result of the European Coal and Steel Community, Germany now exports steel to France in the north and imports steel from France in the south. This economizes transport."

Thus we see that with the formation of a customs union, free trade across former customs barriers might accelerate the growth in national income, too.

Now that we have investigated the reasons for accelerated growth in the national income of a customs union, let us take a brief look at how this extra growth in income gives rise to the positive income effects upon non-participating countries.

The quantitative amounts of these income effects (increased imports due to accelerated growth) depend upon several factors such as the amount of the accelerated growth, and the marginal propensity to import from non-participating countries. Thus the income effect would probably be high due to, say, the E.E.C. upon Switzerland (watches), for demand for watches is quite income elastic. The income effect does not always have a rosy outcome. The consumption of inferior goods falls with rising income and hence their imports or imports of raw materials for their manufacture might fall too.

By now it is evident that to evaluate the effect of a customs union upon a non-participating country one must consider the Trade effects and the Income effects. The former will tend to be detrimental, whereas the latter will usually be beneficial.

Erdmann and Rogge [4] looked at the effect of the European Common Market upon several countries. They analyzed the situation by comparing the Präferenzeffekt with the Wachtumseffekt. Their findings can be summarized thus:

1. For temperate agricultural producing countries such as Argentina and Australia the negative trade effects would outweigh the positive income effect.

2. For tropical agricultural products, due to their high income elasticities, the positive income effect would outweigh the negative trade effects.

3. For agricultural raw materials, the positive income effect would outweigh the negative trade effects.

Finally, we must realize that although negative diversionary and other effects are immediately felt by non-participating countries upon the formation of a customs union, the positive income effects are only realized in the long run when growth has taken place in the participating countries.

As yet I have only qualitatively referred to the effect of a customs union upon a non-participating country. Although a thorough numerical analysis in general equilibrium is beyond the scope of this work, a quantitative discussion might provide further insight into the problem.

The two basic results of a customs union are trade creation and diversion. The former is desirable from the point of view of economic welfare; the latter is not. If the former outweighs the latter (trade creation and diversion might be measured as Professor Meade [6] does as the product of the dollar volume involved and the relevant tariff) a customs union is desirable, from the point of view of the contracting parties. So that if the net of trade creation and diversion, that is, if the income change due to the customs union is positive, the union is, from the point of view of the contracting parties, desirable.

When looked at from the point of view of a non-participating country, however, only part of this income change (creation less diversion), that part which will go towards increased imports from the non-participating country, will be available to counteract the negative trade effects - principally constituted of trade diversion. Thus, from the point of view of a non-participating country, a customs union is beneficial only if at least one of two conditions holds. The first one is that trade creation as a result of the customs union <u>far</u> outweighs the resultant trade diversion. The other one is that the marginal propensity to import from the non-participating country, of the participating countries, be very high.

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6. James Meade, <u>The Theory of Customs Union</u>. Amsterdam, North Holland Publishing Company, 1955, p. 36.

Let us at this stage attempt to specialize our attention. First, let us see what conditions among contracting parties lead to a relatively large amount of trade creation and a relatively low amount of trade diversion. For trade to be created, it is essential that the economies of the contracting parties be similar or competitive. How can cheaper imports from a partner replace domestic production unless the partner's economy is geared to produce commodities similar to ones produced domestically? For trade diversion to remain at a minimum, it is essential that non-participating economies not be similar to the economy of a contracting partner. Thus it might be summarized that the more actually competitive but potentially complementary (for productive efficiency) the economies of members of a customs union are, the better off the outside world is. Also the more complementary and less competitive the economy of a non-participating country is to the economies of the members of the customs union, the less likely it is to be adversely affected by the customs union.

How do the Six, with or without Britain, vis à vis India, fit into this picture? Let us take a look at various opinions.

Professor Scitovsky in his book <u>Economic Theory and Western European Integration</u> refers to Professor Verdoorn's estimates as to the likely amounts of trade creation and diversion in a customs union between the Six, Scandinavia and Britain. Although it is recognized by Scitovsky that the Verdoorn assumptions tend to underestimate the benefits of such a customs union, the figure for net of trade creation and diversion of approximately $70 million is extremely low, being less than one-fiftieth of one per cent of the gross national product of these countries.

The O.E.E.C. has rosier predictions for the income effect of the European Common Market. It is true that the rate of growth of member states of the E.E.C. has been extremely high (the G.N.P. of the six rose 62 per cent between 1948 and 1958). However, whether this spectacular growth stems from customs union or from other causes independent of such a union - or rather how much from the one and how much from the others - is a more perplexing question.

If we look at Table 1 in this chapter we see that although the volume of extra-European imports did not rise anywhere as much as intra-European trade, they did record between 1948 and 1958 an increase of 55 per cent, a very respectable, and from the point of view of non-European countries, a very gratifying increase.

TABLE II.1*

ACHIEVEMENTS OF OEEC COUNTRIES

1958 Index, 1948 = 100

Population	109
Industrial Production	193
Agricultural Output	139
Private Consumption	150
Gross National Product	162
Gross Domestic Capital Formation	192
Volume of Extra European Imports	155
Volume of Extra European Exports	230
Volume of Intra European Trade	290

* The source is OEEC at work for Europe, Chateau de la Muette, Paris, 1960.

This trend might well continue, although one comes across more and more newspaper and periodical articles doubting whether the Common Market has accelerated the growth in the national income of the Six. The spectacular economic development of the Six, they insist, stems from circumstantial reasons independent of the Common Market.

Thus we see that opinions and estimates vary as to the amount of acceleration of growth in national income due to the Common Market. In future chapters I will not assume any specific numerical income effect, but will rather attempt to tie in the effect on Indian exports to this income effect, however much it might be.

As to the nature of the Indian economy vis à vis the E.E.C., a postponement until a detailed investigation by commodity groups in the chapters to follow is conducted, will better indicate specific effects.

CHAPTER III

THE COMMON MARKET AND ASSOCIATED COUNTRIES

The European Economic Community is the final step in a logical sequence of events leading to European economic integration. The Marshall Plan, Benelux, the European Coal and Steel Community and other such agreements led to the signing of a treaty in March of 1957 at Rome by the representatives of Belgium, Western Germany, France, Italy, the Netherlands and Luxembourg, establishing the E.E.C.

The E.E.C. called for the establishment of a Common Market with gradual elimination of customs duties, quantitative restrictions, restrictions to the movement of persons, services and capital between member countries, and with the establishment of a common external customs tariff.

To implement these plans, the treaty calls for each member country to submit authority where applicable by the treaty to a supra-national authority - the community, which is not responsible to any one country and to which each member state sends its representatives.

The reduction of intra-European tariffs was to be affected in three stages, spread out four years each, to establish zero interna~~tional~~l tariffs by 1970. In May 1960, however, a decision was arrived at to speed up the process and to accomplish what was expected in 1970, by 1966.

A timetable has already been drawn up for elimination of all quotas for trade between member states. Quotas on all industrial items were eliminated by 1961 and elimination of all other quotas, such as on agriculture, are called for by 1970. It is also prohibited to introduce any new quotas in the interim.

The setting up of a common external tariff is also to be accomplished in three stages by 1970. The common tariff in most cases is to be the arithmetic average of the rather high French and Italian ones and the relatively low German and Benelux ones. Article 19 of the treaty [1] calls for certain exceptions to this average rule. Annex 1 [2] lists 7 categories, A to G. List A includes products where a lower specified duty is to be used for France in calculation of a common external tariff. These products are mainly ones for which the French duty is exceedingly high. Commodities on List B, mainly consisting of raw materials, will have a maximum duty of three per cent. Those on List C will have a maximum duty of 10 per cent. List D is mainly composed of chemical products on which the duty shall not exceed 15 per cent, while List E, also of chemical products, consists of those upon which the duty shall not exceed 25 per cent. List F consists of products, the common external tariff upon which has been fixed by common consent, while the tariff upon those on List G has to be negotiated between member states.

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1. Refer to Treaty Establishing the E.E.C. and Connected Documents, pp. 33-34.

2. Ibid, pp. 189-229.

Part Three [3] of the treaty calls for harmonizing of such things as fiscal and monetary policies, exchange control, policy against collusion, business law, social policies, etc., in order to make for a more thorough economic union.

The treaty also calls for the elimination by 1970 of all restrictions of movement of capital or labor. In May 1960 the Six abolished all restrictions to movement of investment or returns on these investments between themselves. Any restrictions upon business concerns of one country to establish branches in other member states are also to be removed by 1970.

The free movement of labor has already manifested itself through the influx of over a quarter of a million Italians into West Germany helping to relieve the serious unemployment in the Italian south and helping to ease the labor shortage in Germany.

Having described the European Economic Community in brief, let us proceed to briefly look into the economies of member states with special reference to their import pictures. This will undoubtedly aid us in analyzing the effect of the E.E.C. upon the trade of India.

The Federal Republic of Germany, otherwise known as West Germany, is, both on the basis of population and Gross National Product,

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3. Ibid, pp. 81-121.

the largest member state of the E.E.C.

In recent years, soon after the Second World War, Germany's growth of national income has been at a tremendous rate. This rapid economic growth has been termed the "German Miracle". The G.N.P. of Germany in 1959 was 91 per cent higher than that in 1950, corrected for prices, corresponding to an average of over 6 per cent in per capita growth of income per annum [4].

West Germany is a predominantly industrial country, whose volume of foreign trade is very high. In 1960 the foreign trade of West Germany was over $10 billion. Table 1 gives a list of West Germany's most important trading partners. The main German imports consist of food, especially cereals, fruits and vegetables; iron ore and raw cotton; and crude petroleum. For a detailed list a good source is the United Nations Yearbook of International Trade Statistics, and is the one that will be employed here on.

The next largest member state from the viewpoint of G.N.P. is France. Although France has a very large portion of her population engaged in agriculture, she is a highly industrialized country. Unlike Germany and the U.K., she exports considerable amounts of food (approximately 10 per cent of French exports in 1960 were of food). 1960 was the first year in many that France did not have an adverse balance of trade. In that year her exports amounted to approximately 33.9 billion

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4. See The West German Economy - A Handy Guide, Deutsche Industrieverlags-GmbH., Köln.

TABLE III.1

THE MOST IMPORTANT TRADE PARTNERS OF WEST GERMANY [5]

in mill D.M [6] for 1960

Countries	Imports		Exports	
	Value	°/o Total	Value	°/o Total
U.S.A.	5,974	14.0	3,724	7.8
France	3,991	9.4	4,200	8.8
Netherlands	3,638	8.4	4,210	8.8
Italy	2,631	6.2	2,846	5.9
Belgium-Lux.	2,442	5.7	2,889	6.0
Switzerland	1,627	3.8	2,991	6.2
Sweden	1,804	4.2	2,593	5.4
U.K.	1,956	4.6	2,147	4.6
Austria	1,151	2.7	2,444	5.1
Denmark	1,155	2.7	1,641	3.4
Norway	543	1.3	1,166	2.4
U.S.S.R.	666	1.6	779	1.4
India	185	.4	834	1.7
E.E.C.Countries [7]	12,702	29.8	14,145	29.5
E.F.T.A. " [7]	8,391	19.7	13,432	28.0
Total (Including Others)	42,673	100.0	47,939	100.0

5. Ibid, table 36a and 36b.

6. A D.M. approx = 25 cents, or 4 D.M. to the U.S. $.

7. Not including overseas territories.

new francs or about $7 billion, her imports in the same year amounted to about 31 billion new francs. Below is a list of France's main trading partners.

TABLE III.2

THE MOST IMPORTANT TRADING PARTNERS OF FRANCE [8]

In million New Francs[9] for 1960

Countries	Imports	Exports
West Germany	4,888	4,656
U.S.A.	3,677	1,953
Algeria	1,840	5,355
Belgium-Luxembourg	1,838	2,534
Italy	1,247	1,979
Netherlands	1,152	916
U.K.	1,137	1,713
Switzerland	628	1,550
India	122	204
E.E.C. Countries	9,125	10,185
Total(Including Others)	31,016	33,901

8. Yearbook of International Trade Statistics 1960, United Nations, 1962, p. 218.

9. A new franc is worth approximately 20.4 cents, U.S.

France's main imports are cotton, wool, petroleum, metals, machinery and wine. She has extensive trading relationships with her former colonies in Africa, especially with Algeria, Morocco, Senegal, Ivory Coast and Tunisia. Her African suppliers almost completely dominate the French market for tropical and Mediterranean commodities. More along this line will be discussed later in this chapter.

Next in size among member states of the E.E.C. is Italy. The north of this country is quite industrial, whereas the south is mainly agricultural. The G.N.P. of Italy has been growing at a considerable rate. In the 1950's the annual per cent growth rate was 5.8. Only Germany among member states had a higher rate (7.2).

Italy's foreign trade is considerably less than that of France or Germany. In 1960 Italian imports amounted to 2,946 billion lire or about $5 billion but exports were only about $3.7 billion, resulting in a considerable trade deficit. Italy has suffered from an adverse balance of trade for the last several years.

Below is a list of Italy's main trading partners. (See page 21.)

Italy imports relatively little food, being largely self-sufficient. The main imports in 1960 were wool, cotton, petroleum, metals and machinery.

Although Belgium is a small country, it is highly industrialized. Belgium-Luxembourg (for the purposes of this discussion they will be considered one) engage very heavily in foreign trade. In 1960 its imports

TABLE III.3

THE MOST IMPORTANT TRADING PARTNERS OF ITALY [10]

In million lire [11] for 1960

Countries	Imports	Exports
West Germany	419,180	376,000
U.S.A.	417,118	240,732
France	248,768	172,243
U.K.	155,962	156,513
Austria	111,604	69,659
Netherlands	78,246	66,803
Belgium-Luxembourg	72,415	59,065
India	11,448	32,618
E.E.C. Countries	818,599	654,111
Total(Including Others)	2,950,934	2,280,983

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10. Ibid p. 316.

11. The Foreign Exchange Rate is approximately 620 lira = $1.

amounted to about a third of its G.N.P. - a very high ratio indeed. In 1960 they were at about 198 billion Belgian francs or about $4 billion. Belgium's main imports are food, textile fibres and fabrics, petroleum, coal, chemicals, paper and diamonds. Her main trading partners (imports) are Germany (17 per cent), Netherlands (15 per cent), France(13 per cent), U.S.A. (10 per cent), U.K. (7.5 per cent) and Congo (7 per cent). Belgium's rate of growth (2.6 per cent) has been much less in comparison to other member states.

The Netherlands, although smaller than Belgium, according to G.N.P., import even more than the latter. In 1960 Netherlands' imports amounted to about 17 billion guilders or about $4.7 billion - almost one-half of the G.N.P. of the Netherlands. The rate of growth in the Netherlands has been a promising 5 per cent during the 1950's. The main imports of the Netherlands are petroleum, textiles, and iron and steel. The Netherlands' main sources for imports are Germany (21 per cent), Belgium-Luxembourg (18 per cent), U.S.A. (13 per cent) and U.K. (7 per cent).

Specially associated with the European Economic Community by the Common Market Treaty are those non-European countries which had special relations with its member states. Most of these are situated on the African continent. The adjoining map indicates the associated countries and territories and cites some important statistics.

The economies of these associated countries and territories are in some respects similar to that of India in that they export several commodities in competition with those from India. It is therefore necessary that we understand the relationship the E.E.C. has with these countries and the nature of their economies (export commodities) in order to fully comprehend the effect of the E.E.C. on the trade of India.

Part Four of the Treaty (Articles 131-136) is concerned with the association of overseas countries and territories. The following are the salient points outlined in Articles 131-136.

a) The Member States of the Community shall gradually abolish all import quotas and tariffs on commodities from the associated countries and territories by 1970.

b) Any preferential terms granted by these associated countries and territories to any Member States shall be granted to all Member States.

c) The associated countries are free to impose uniform tariffs on imports from the Member States of the E.E.C. and remain entirely free in their trade with the rest of the world.

d) There is no provision for free movement of either labor or capital between associated countries and territories, and the Member States of the E.E.C.

Annex IV of the Treaty [12] lists the overseas countries and and territories to which the provisions of Part Four of the Treaty

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12. Treaty establishing the European Economic Community and connected documents, p. 237.

TABLE III.4

PARTNERSHIP WITH AFRICA*

Main Products of the Associated Countries

	Production 1960 ('000 metric tons)	Percentage of world production
Bananas	522.0	3.5
Coffee	347.0	7.5
Cocoa	142.8	14.1
Groundnuts	1,591	12.4
Palmkernels	239.9	23.3
Diamonds (thousands of carats)	16,700	59.6
Copper (concentrates and metals)	300.7	7.3
Aluminium	43.9	1.0
Tin	10.5	5.5

The Associated Countries' Share in the Common Market

Percentage of the Community countries' imports of key commodities coming from the Associated Countries (1960)

	Bananas	Cocoa	Coffee	Ground-nuts	Ground-nut Oil	Palm Oil
Belgium-Luxembourg	25.7	24.3	22.6	-	17.8	89.1
France	97.7	85.0	70.1	71.8	95.4	91.6
Germany (F.R.)	0.2	14.5	1.8	0.1	-	60.1
Italy	90.4	13.0	22.2	3.0	-	60.6
Netherlands	-	34.2	1.0	0.3	1.5	-

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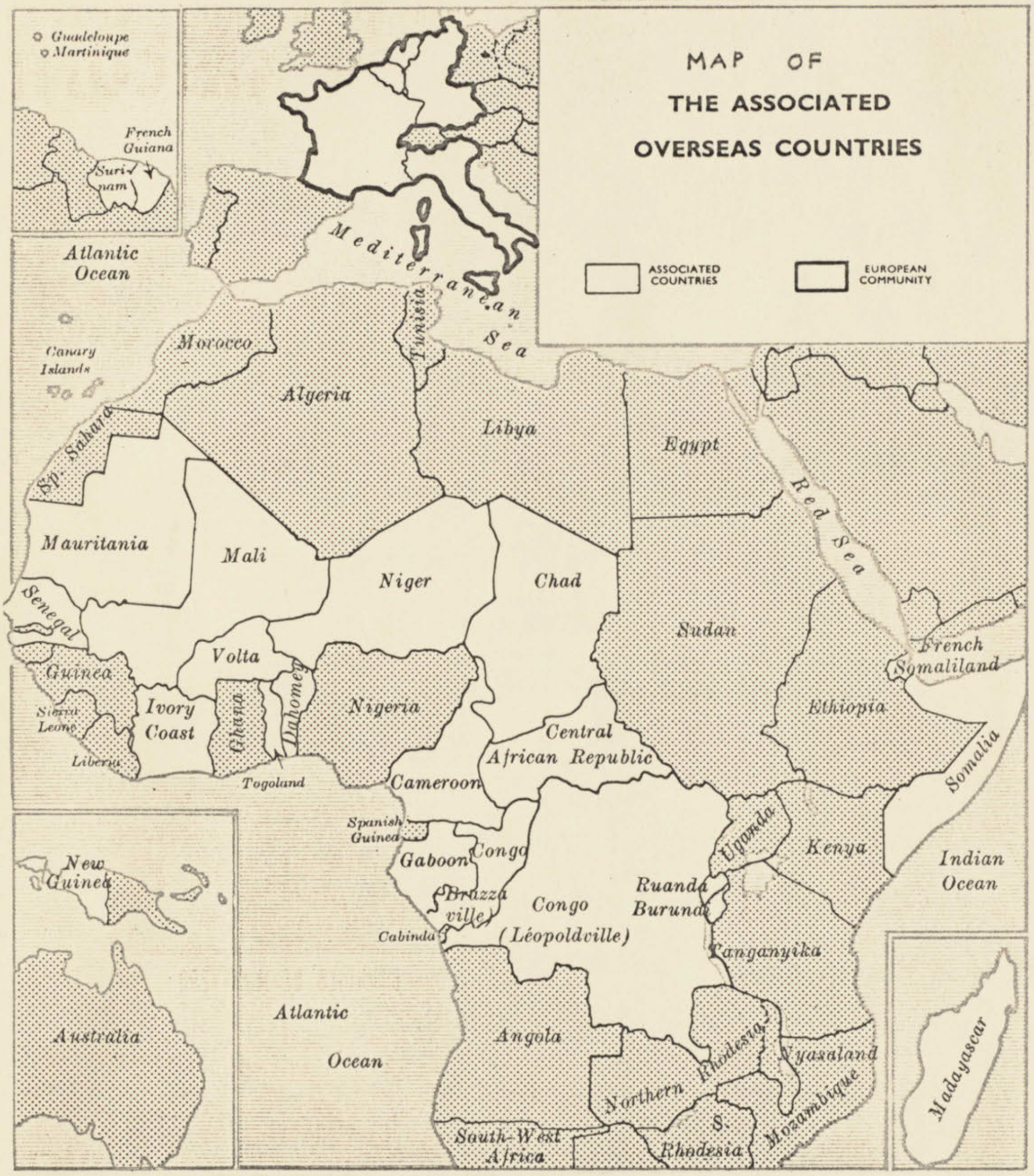
* Source: The European Community, The Facts, E.E.C. Information Service, Brussels, 1962.


MAP OF
THE ASSOCIATED
OVERSEAS COUNTRIES
ASSOCIATED COUNTRIES
EUROPEAN COMMUNITY
Guadeloupe
Martinique
French Guiana
Surinam
Atlantic Ocean
Canary Islands
Mediterranean Sea
Morocco
Algeria
Tunisia
Libya
Egypt
Red Sea
Sp. Sahara
Mauritania
Mali
Niger
Chad
Sudan
Senegal
Volta
Guinea
Sierra Leone
Liberia
Ivory Coast
Ghana
Dahomey
Togoland
Nigeria
Cameroon
Central African Republic
French Somaliland
Ethiopia
Somalia
Spanish Guinea
Gaboon
Congo
Brazzaville
Congo (Léopoldville)
Cabinda
Ruanda Burundi
Uganda
Kenya
Tanganyika
Indian Ocean
New Guinea
Australia
Atlantic Ocean
Angola
Northern Rhodesia
Nyasaland
Mozambique
S. Rhodesia
South-West Africa
Madagascar

apply. I reproduce it below.

French West Africa including: Senegal, the Sudan, Guinea, the Ivory Coast, Dahomey, Mauretania, the Niger and the Upper Volta;

French Equatorial Africa including: the Middle Congo, Ubangi-Shari, Chad and Gabon;

St. Pierre et Miquelon, the Comoro Archipelago, Madagascar and dependencies, the French Somali Coast, New Caledonia and dependencies, the French Settlements in Oceania, the Southern and Antarctic Territories;

The Autonomous Republic of Togoland;
The French Trusteeship Territory in the Cameroons;
The Belgian Congo and Ruanda-Urundi
The Italian Trusteeship Territory in Somaliland; and
Netherlands New Guinea.

It is evident from the table listing the percentage of the Community countries' imports of key commodities coming from the Associated Countries that France is the Member State importing most from these countries. The reason is partly explained by traditional French contacts with these countries most of which were former French colonies. But it must be understood that part of the answer lies in the preferential entry that the products of most of these countries enjoyed in the French Market. When the exports of the associated countries and territories will receive preferential entry into the other Member States by 1970, it is conceivable that the percentage of imports of some other Member States of key commodities from these countries will increase. Germany is the largest importer among the Member States of the E.E.C. Its share in imports from the associated countries was, in 1960, the least. The diversion of imports towards the associated countries on the part of not only Germany but also Italy, the Netherlands and Belgium will therefore undoubtedly be substantial.

Nine important products and the percentage of world production for each has been listed together with the adjoining map. I will now list some other major exports of the larger (in export trade) associated countries [13].

The Congo [14] in 1959 exported a total of $600 million worth of commodities. The chief exports were copper ($200 million), coffee ($80 million), diamonds ($50 million), palm oil ($50 million), and raw cotton ($30 million).

Ivory Coast exports in 1960 amounted to $140 million. The chief exports were coffee ($65 million) and cocoa ($30 million).

Senegal in 1960 exported $100 million worth of commodities. 90 per cent of these were groundnuts or related products such as groundnut oil.

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13. Source: Yearbook of International Trade Statistics, 1960, United Nations, 1962.

14. Then a Belgian colony: The Belgian Congo.

Cameroon exports in 1960 amounted to $90 million. The main exports were cocoa ($30 million) and coffee ($20 million).

The Malagasy Republic [15] exported $25 million worth of coffee out of a total of $70 million in exports in 1960.

Besides the major exports listed, the associated countries and territories also export several commodities such as tea, jute, cotton, leather, etc. in direct competition with exports from India. Of course these other exports are in smaller quantities. Thus it can, by now, be clearly discerned that the preferential entry, commodities from the associated countries will receive, has a vital bearing upon the effects of the E.E.C. upon India's export trade.

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15. When it was a French colony it was called Madagascar.

CHAPTER IV

INDIA'S EXPORT TRADE

In this chapter we will take a look at the pattern of India's exports, both at present and in the predictable future. We will then turn our attention to the relationship between India's exports and her national economy. Finally we will take a brief look at the finances of the Third Five Year Plan, and the projected needs of future Plans, and see how the overall level of exports ties in with their successful fulfillment.

India is a predominantly agricultural country. Accordingly, it is but natural that her main exports are of agricultural commodities. She also has a well-established textiles manufacturing industry, accounting for the other major group of Indian exports. Industrialized countries are the main markets for raw materials and food; it is therefore again quite natural that the countries of Europe and America are the main importers of Indian goods.

Table IV.1 lists the main Indian export commodities and Table IV.2 the main countries of destination.

TABLE IV.1

MAJOR ITEMS OF EXPORT[1]

(Statistics are for 1960, value in million rupees)

	Item	Value	% of Total
1	Jute Manufactures	1317.2	20.8
2	Tea	1235.9	19.5
3	Cotton Fabrics	881.2	13.9
4	Leather	248.4	3.9
5	Iron Ore and Scrap	223.5	3.5
6	Cashew Kernels	189.1	3.0
7	Spices	166.4	2.6
8	Tobacco	146.1	2.3
9	Oil Cake and Meal	143.0	2.3
10	Manganese Ore	140.4	2.2
11	Cotton, Raw and Waste	115.6	1.8
12	Mica	101.5	1.6
13	Coir	86.0	1.4
14	Vegetable Oils	85.1	1.3
15	Coffee	72.2	1.1
	Total Exports	6,328.9	100.0

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1. Source: Yearbook of International Trade Statistics 1960, United Nations, 1962, pp. 280-281.

TABLE IV.2

MAJOR COUNTRIES OF DESTINATION [2] (1960)

Value in million rupees

	Country	Value	°/o of Total
1	United Kingdom	1708.2	27.0
2	United States	1003.4	15.8
3	Japan	348.4	5.5
4	U.S.S.R.	288.2	4.5
5	Australia	222.8	3.5
6	Germany	189.6	3.0
7	Ceylon	183.9	2.9
8	Canada	176.3	2.8
9	Egypt	134.1	2.1
10	Sudan	95.3	1.5
11	Pakistan	95.1	1.5
12	Italy	91.7	1.4
13	Netherlands	84.5	1.3
14	EastAfrica	77.3	1.2
15	France	76.2	1.2
	Total Exports	6328.9	100.0

2. Ibid, p. 282.

In a book entitled Looking Ahead by the National Council of Applied Economic Research, New Delhi, an estimate is made of India's export trade in 1981. A detailed table of their estimates is given below. As is shown in the table, annual exports are expected to rise threefold. The levels of export in traditional items will not change much. According to the estimate, steel will become the largest single item of export, accounting for over 20 per cent of total exports. Other important exports will be iron ore, machinery, durable consumer goods and cement. It is important to see the effect the formation of the E.E.C. will have upon the likely Indian exports of the future, for these new items will account for a large part of India's foreign trade and upon them will depend the successful fulfillment of future Indian foreign exchange requirements.

Let us now investigate the role of exports in the economy of India. We will thus take a look at the role of exports in the jute, tea, cotton, and other industries of India.

The raising of raw jute and the manufacture of jute textiles both depend upon export outlets to a considerable extent. In 1961, production of raw jute was at about 7.3 million bales and of jute textiles at 1,006,000 tons. About 80 per cent of the jute manufactures were for export. Domestic production of raw jute is insufficient to meet the demand. It is therefore necessary to import raw jute into India. In 1960 imports of raw jute into India amounted to approximately 75 million rupees. In 1961 about 2-1/4 million acres were under

TABLE IV.3

EXPORT TRADE, 1961 AND 1981[3]

Industry	Unit	1961 Quantity	1961 Value (Rs.crores)	1981 Quantity	1981 Value (Rs.crores)
A. Basic Metals					
1. Steel	Million tons	Neg.	-	5.0	400.0
2. Aluminium	"	Neg.	-	0.2	80.0
B. Machinery other than Electrical					
1. Machine tools	Rs. crores	-	0.3	-	20.0
2. Steam boilers	"	-	Neg	-	10.0
3. Power driven pumps	Nos.	1,600	0.2	200,000	24.0
4. Others	Rs. crores	-	1.8	-	20.0
C. Electrical Machinery					
1. Transformers	KVA	Neg.	-	1,000,000	5.0
2. Electric motors	kW	500	0.02	1,000,000	5.0
3. Others	Rs. crores	Neg	1.10	-	20.0
D. Durable Consumer Goods					
1. Radios	Nos.	942	0.02	200,000	3.0
2. Sewing machines	"	22,123	0.22	500,000	5.0
3. Refrigerators	"	2	Neg.	5,000	0.7
4. Electric fans	"	90,000	1.00	1,000,000	10.0
E. Transport Equipment	Nos.				
1. Bicycle		3,748	0.05	2,000,000	24.0
2. Other transport equipment	Rs.crores	-	0.06	-	20.0
F. Chemical and Allied Industries					
1. Cement	Million tons	0.09	0.64	8.0	80.0
2. Paper+Paperbd.	"	0.008	0.56	0.1	7.0
3. Glass+Glassware	"	0.002	0.25	0.1	12.5
G. Food Products					
1. Sugar	Million tons	0.06	2.4	1.50	60.0
2. Coffee	"	0.02	7.1	0.05	18.0
3. Tea	Million lbs.	398	123.5	500.0	155.0
4. Vegetable oil pr	" tons	0.006	1.0	0.5	75.0
5. Tobacco	'000 tons	47	14.6	85	25.0
H. Consumer Goods					
1. Soap	Tons	743	0.17	100,000	15.0
2. Cotton tex.	Million yards	692	69.0	1,500	150.0
3. Woollen "	'000 yards	293	0.3	4,000	4.00
4. Jute "	Million yards	0.80	135.1	1.00	170.00
I. Minerals					
1. Coal	Million tons	1.10	3.05	10.0	28.00
2. Iron ore	"	3.19	16.78	40.0	208.00
3. Manganese ore	"	1.16	14.03	1.0	12.00
4. Bauxite	"	0.09	0.34	0.5	1.80
5. Ilmenite	"	0.16	1.10	0.1	0.68
6. Minerals,oth.	Rs. crores	-	10.7	-	10.0
J. Other Items	Rs. crores	-	237.9	-	150.32
TOTAL			643.0		1829.00

3. Looking Ahead, National Council of Applied Economic Research, New Delhi.

jute cultivation in India. Unless exports of jute goods fall drastically, the jute agriculturist in India would be little affected. The lower demand for raw jute will only lead to lowering of imports from Pakistan and leave the demand from domestic sources unaffected. Any slump, however, in demand for jute manufactures from India will have a very grave effect on the jute mill industry. India possesses over 50 per cent of the world's total number of looms for jute textiles. According to the 19th census of manufactures, 1958, 90 mills had a fixed capital of Rs 373.6 million and a working capital of Rs 345.8 million. In the same year, 234,107 persons were employed in the 90 mills. The ex-factory value of the products and by-products and work done for customers was Rs 1270.4 million. Thus, the jute industry accounted for over 5 per cent of total Indian industrial production and employed about 10 per cent of all Indian factory workers in 1959. It might be noted here that the index of production in this major Indian industry, so dependent upon export outlets, has been at a standstill for several years. Thus, decrease in exports of this commodity could not be absorbed through slower growth in the industry. It will necessitate lower production, leading to idle capacity, unemployment, and crash in stock prices in the jute industry.

The tea industry is another major one dependent to a large extent upon exports. Although India is a basically tea-drinking country, annual production of the commodity far outstrips domestic demand. In 1960 production stood at 706 million pounds and exports at 430 million pounds or about 60 per cent. There are about 9,000 registered tea estates with a total area of about 800,000 acres under cultivation. There are over 700 joint stock companies engaged in the tea industry with a paid-up capital of about 750 million rupees. The Indian tea industry provides employment to over a million persons and accounts for approximately 2 billion rupees towards India's G.N.P. (over 1.5 per cent). It is thus evident that a considerable section of the economy of India is dependent upon exports of tea. Besides sustaining such a large labor force and capital investment, Indian exports of tea are an important source of revenue. There are three taxes of considerable importance levied upon the tea industry. There is an excise duty that realized 76.5 million rupees in 1960 - about .8 per cent of the total budget of the Government of India. There is an export duty that realized 127 million rupees in 1960 - about 8 per cent of all customs revenue and approximately 1.4 per cent of the total budget of the Government of India. The State Governments also derive considerable revenue from agricultural income tax on tea grown within their jurisdiction as well as from the sales tax, carriage tax, octroi, etc. on the commodity. It goes without saying that revenue in the form of income tax and corporation tax is derived from the tea industry as from any other.

Cotton textiles is the largest industry in India and is less dependent upon exports than jute and tea. After Japan and the U.K., India is the world's largest producer of the item. In 1961 there were about 500 large-scale units in the country. They account for over 5 billion yards of cloth per annum, and provided employment for about one million persons. In addition to the organized sector, there are over 10 million persons employed in the handloom production of yarn and cloth, but they account for only 35 million yards of cloth. The Indian cotton textile industry is a 5 billion rupee industry, less than 20 per cent of which is for exports. As in the jute industry, considerable imports of raw cotton are necessary to stem the gap between domestic production and demand. Although it is true that a considerable fraction of the 14.7 million Kg. of imports of raw cotton in 1960 were of the long staple Egyptian variety, it is unlikely that domestic producers of raw cotton would be seriously affected in case of an export slump for, as I have explained, exports account for less than 20 per cent of production and as much as 20 per cent of the demand for raw cotton is imported. However, again as in the case of the jute industry, the index of production in the cotton manufacturing industry has been constant and hence the industry would suffer from any reduction in export outlets. Although excise duties, etc. exist, they are of far less importance than in the case of the tea industry.

Below is given a summary of the approximate output and exports of the other major exporting industries of India.

TABLE IV.4

OTHER MAJOR INDUSTRIES

Industry	Output in million rupees	Exports in million rupees	Exports / Output
Leather	800[4]	248	
Iron Ore	750	180	.24
Tobacco	500	146	.29
Manganese Ore	300	140	.47
Mica	110	101	.93
Coir	200	86	.43
Vegetable Oils [5]	irrelevant	85	
Coffee [6]	160	72	.45
Lac	70	60	.86
Electric Fans	150	8	.08
Sewing Machines	60	2	.07
Bicycles	150	1	.01

4. Organized sector only.

5. Most of the exports are of castor oil whereas the industry deals mainly in groundnut oil. The industry is very large.

6. The industry employs 200,000 persons.

Indian economic development, as is well known, is on a planned basis. The Third Five Year Plan (1960-61 to 1965-66) is intended to carry forward the development in earlier years. It aims to increase the national income at the rate of 5 per cent per annum and to achieve progressive expansion of foodgrain production and industrial capacity. It is an outward-looking plan in that it aims at expansion in the level of foreign trade.

The Third Five Year Plan involves a total outlay of Rs. 118 billion (approximately $24,167 million), over 80 per cent of which will be met from internal resources. Over the period of the Third Plan, a sum of Rs. 63 billion ($13,125 million) in foreign exchange will be required to pay for:

	Rs million
1. machinery, equipment, etc. for Plan projects	21,000
2. capital transactions (net)	5,500
3. maintenance imports	36,500
	63,000

Receipts from external assistance are expected to amount to Rs 26 billion ($5,417 million). The remaining amount of Rs 37 billion ($7,708 million) will have to be obtained through earnings from exports. This means that if the foreign exchange requirements of the Third Five Year are to be met, a minimum annual average in exports during 1960-61 to 1965-66 of Rs 7.4 billion ($1,541 million) will be required. Thus, assuming a linear rise in exports, annual export earnings will have to rise from $1,385 million per annum in

1960-61 to $1,771 million in 1965-66.

At the time of writing of this chapter, it appears to be unlikely that the foreign assistance of Rs 26 billion expected will be received. Fulfillment of the Plan, therefore, relies all the more upon a successful increase in the level of exports. It is obvious that any diversion of trade at the expense of imports from India due to the E.E.C., or upon British entry into the Common Market, will render it all the more difficult to meet the foreign exchange requirements of the Third Five Year Plan.

Again, developments which have taken place since the Plan was formulated are likely to involve a diversion of Indian resources into non-Plan expenditure, to meet the defense requirements of the country. While some revision of the plan and some re-allocation of its priorities may become necessary, the Indian authorities have re-iterated their determination to abide by its main objectives. If these objectives are to be reached, however, India's earnings from exports may need to be stepped up to levels appreciably higher than those envisaged in the Plan.

It is the economic policy of India to rely more and more for foreign exchange requirements of future plans upon earnings from exports than upon foreign aid. This will mean that exports will have to be further stepped up. As has been previously mentioned, one source puts the export target by 1981 at approximately $3.8 billion per annum. It is therefore evident that for Indian development efforts, both now and in the future, to be viable, she must not only be able to maintain her export trade, but also be able to expand it.

CHAPTER V

INDIA'S TRADING PATTERNS WITH THE UNITED KINGDOM AND THE SIX

In this chapter, we shall take a look at India's export trade with the U. K., West Germany, France, Italy, Belgium, Netherlands and Luxembourg. In order to evaluate the effect, the policies of the Common Market might have upon Indian exports, it is essential to understand the what, where and how much pertaining to these exports. We will also investigate some other salient points.

UNITED KINGDOM

The United Kingdom is the largest single market for Indian exports. For historical reasons and for the fact that most major Indian exports enter duty-free into the British market, over one-fourth of India's export trade is with the United Kingdom. As is indicated in Exhibit 1, in 1960 the percentage share of the U.K. in India's total exports was 27.5.

Exhibit 2 lists both the dollar value and percentage of total exports, for major items of export from India to the United Kingdom.

At the head of the list stands tea. 63 per cent of all Indian exports of tea were destined for the United Kingdom. Not all of it was for British consumption. Traditionally about 5 per cent of the imported Indian tea is re-exported, sometimes after some packaging changes, mainly to countries on the European continent.

The United Kingdom is the world's largest consumer market for tea, per capita consumption being over 10 pounds per annum. To realize the importance of tea exports to the United Kingdom it will be well to note that tea to the United Kingdom constituted about 12 per cent of total Indian exports of all products and 42 per cent of total production of tea in India in 1960.

Other important suppliers of tea to the United Kingdom are Ceylon, Portugese East Africa, Indonesia, Pakistan, Kenya, Rhodesia, Nyasaland, etc. Below is given a chart of British imports of tea, broken down by country of origin.

TABLE V.1

BRITISH IMPORTS OF TEA BY COUNTRY OF ORIGIN [1]

Country	Imports in £ mil
India	63.5
Ceylon	33.6
Rhodesia + Nyasaland	3.7
Kenya	2.6
Portugese East Africa	2.1
Indonesia	1.6
Total Imports	116.0

It will be noticed that India ranks as the largest supplier of tea to the United Kingdom. In recent years, Indian tea exports to the United Kingdom have decreased although total imports of tea in

1. The source is: The Trade of the United Kingdom 1960, Her Majesty's Stationery Office, London, 1962.

the United Kingdom have been higher. The main reasons are lower costs of production in Africa and the fact that other countries do not levy export tariffs on tea, as does the Indian government. Indian exports of tea are controlled by the government for quality and prices and the main promotional efforts on behalf of Indian tea inthe United Kingdom are carried out by the Tea Board.

Cotton piecegoods constitute the second most important item of Indian export to the United Kingdom. In 1960, 30 per cent of Indian exports of cotton piecegoods went to the United Kingdom. India is the largest supplier of this item, accounting for more than 30 per cent of the total value of imports of cotton cloth (grey and bleached) into the United Kingdom. Exports of cotton manufactures to the United Kingdom have been steadily rising during the last decade. Other important suppliers to the United Kingdom are Hong Kong (20 per cent) and Japan (10 per cent). In recent years Pakistan has made itself felt as a supplier in the United Kingdom market. It must be remembered that the United Kingdom domestic production of this item is approximately five times as much as its total imports. 90 per cent of Indian exports to the United Kingdom of cotton manufactures is grey cloth,which is thereupon reprocessed in Lancashire, in order to be reexported. Thus a peculiar trading relationship exists whereby an important buyer of Indian grey cloth is itself a competitor in finished (bleached) cloth in other markets. In recent years the concern of the Lancashire textile industry has been met by voluntary restriction of exports by the three main suppliers enjoying duty-free entry, India, Hong Kong and Pakistan.

Manufactures of jute ~~is~~ are another important Indian export to the United Kingdom. Jute is a tough fiber grown in the Bengal regions of India and Pakistan, whose fabric is used in packaging. The United Kingdom imports of Indian jute goods account for only 8 per cent of Indian exports of the item although they supply approximately 80 per cent of the British market. The other supplier of any considerable size is Pakistan. Jute manufactures export to the United Kingdom has fluctuated between $10 million and $20 million per annum. Jute goods compete with paper containers and kenap fiber. Paper containers have of late been offering keen competition. Another source of competition is the British jute manufacturing industry, mainly centered around Dundee in Scotland which imports raw jute from Pakistan to be processed domestically. All Indian imports of jute manufactures into the United Kingdom are handled by the United Kingdom Jute Control. To keep prices in line with Dundee goods, the Jute Control marks up Indian imports by up to 40 per cent above landed cost. This renders the price too high for successful competition with paper containers. A three-way problem involving the Dundee industry might only be solved by a gradual closing down of the latter.

Leather, both undressed and manufactured, is an important item of export to the United Kingdom. Exports of this item have been decreasing from about $35 million in 1955 to about $30 million in 1960. However, India continues to be a major supplier with approximately 50 per cent of the market. Other important suppliers include Australia, Eire, U.S.S.R., France, etc. Only Australia among them enjoys the same duty-free entry into the United Kingdom market that India does. Thus, this market for Indian leather is to a large extent dependent upon preferential treatment. In some instances, the United Kingdom demand for leather has exceeded available supply in recent years. In spite of substitutes, employed especially for glove leather and shoe soles, this market is constantly growing.

Tobacco, in the raw form, is another important Indian export to the United Kingdom. After having remained stagnant for a good many years, tobacco exports to the United Kingdom have risen to $21.4 million in 1960. (See Exhibit 2.) After the United States, Rhodesia and Nyasaland, India is the major exporter of tobacco to the United Kingdom. India's share in the market has been around 10 per cent. Tobacco is the only major item of Indian export to the United Kingdom that faces an import tariff [2]. Moreover, this tariff in the United Kingdom is the highest in the world on unmanufactured tobacco. However, India does enjoy a slight commonwealth preferential tariff rate. More than 80 per cent of Indian tobacco exports to the United Kingdom are of the flue-cured Virginia type. As yet the large and growing United Kingdom market for tobacco manufactures such as cigarettes and cigars has not been penetrated by Indian exports. The United Kingdom absorbs about 70 per cent of all Indian tobacco exports.

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2. Not considering the mark-up on jute manufactures, which although not technically a tariff, has similar effects.

Indian exports of manganese ore to the United Kingdom have decreased considerably in the last decade. The competition comes from the U.S.S.R., which is at present the main supplier.

Indian shellac exports have been dropping due to competition from Thailand, and substitution in phonographic disc-making with plastics.

Other exports from India to the United Kingdom include oil cakes, oils, woolen manufactures, mica, spices, coir, handicrafts, raw cotton, sports goods and raw wool.

THE E.E.C. (SIX)

Due to lack of historic contact and high tariff barriers among other reasons, India's exports to member states of the E.E.C. have been rather low. In 1960 total exports to the E.E.C. amounted to $102 million which constituted 7.7 per cent of India's total exports, less than a third of India's exports to the United Kingdom. India has a very unfavorable balance of trade vis a vis the member states of the E.E.C. Indian imports from the E.E.C. as is indicated in Exhibit 1, amounted to $384 million in 1960, adding up to 17 per cent of her total imports, only slightly less than those from the United Kingdom (19 per cent). The exports to the member states of the E.E.C. are usually of the traditional variety, tea, coffee, cotton, leather, oils, manganese ore, etc.

WEST GERMANY

Among the member states of the E.E.C., West Germany is India's principal buyer. Below is given a table [3] of West German imports from India tabulated by products.

TABLE V.2

INDIAN EXPORTS TO WEST GERMANY

(In U.S. $millions)

	Principal Commodities	1955	1956	1957
1	Coffee	1.5	3.5	6.1
2	Hides and Skins	3.9	3.7	4.9
3	Tea	2.2	4.5	2.9
4	Manganese Ore	1.0	1.4	2.6
5	Mica	1.6	2.1	2.5
6	Coir	2.1	2.3	2.0
7	Gums, Resins, Lac	3.0	2.0	1.4
8	Cotton Waste	1.7	1.4	1.1
9	Oils	6.1	.7	1.1
10	Wool	1.2	1.1	.8
11	Jute	.4	.4	.7
12	Raw Cotton	1.7	.6	.6
13	Spices	.2	.5	.3
	TOTAL(including other items)	32.5	30.0	33.5

3. The source of this table is Our Export Trade, F.I.C.C.I., New Delhi, 1959.

For the last few years, India's adverse balance of trade with West Germany was the highest among all countries. Exports to West Germany have risen from about $30 million to about $40 million from 1956 to 1960 [4], while imports have soared to more than $200 million.

Coffee is a major export to West Germany, a largely coffee-drinking country. In 1957 coffee exports amounted to about $6 million accounting for about a third of Indian coffee exports, although supplying only 2 - 3 per cent of the German market [5]. Indian coffee is a high-grade variety that competes with the Colombian rather than the Brazilian or African variety. The coffee is grown mainly in plantations on the gentle slopes of the Nilgiri hills in the South Indian states of Madras and Mysore. Some is also grown in Kerala. As is indicated in Table 2, coffee exports to West Germany grew from about $1.5 million to $6 million within two years from 1956 to 1957. Total Indian coffee exports have fallen in dollar value although they have increased in tonnage, due to vagaries in world coffee prices.

TABLE V.3

EXPORTS OF COFFEE FROM INDIA f.o.b. [6]

(weight in thousand metric tons; value in million rupees)

1957		1958		1959		1960	
Weight	Value	Weight	Value	Weight	Value	Weight	Value
13.6	77.3	15.0	71.8	14.7	62.5	19.7	72.2

4. Yearbook of International Trade Statistics 1960, United Nations, 1962, p. 282.
5. According to Reference 4, West German imports of coffee in 1957 amounted to $232 million.
6. Yearbook of International Trade Statistics 1960, United Nations, 1962, p. 280.

Leather goods, both hides and skins and manufactured products, are another important item of Indian export to West Germany. In 1957 leather exports amounted to about $5 million, a little less than 10 per cent of total Indian leather exports and only about 5 per cent of total German imports of leather. The competition here stems mainly from countries on the African continent, some of which enjoy special status with the E.E.C.

Yet a third item of traditional export to West Germany is tea. Although tea consumption in Germany is relatively small, the per capita consumption being a quarter of a pound per annum, India is the chief supplier of this item, whose export value hovers anywhere between $3 and $5 million per annum. India accounts for about 40 per cent of West German tea imports, the latter absorbing about half of all Indian exports of tea to member states of the E.E.C., but only about one per cent of total Indian exports of tea. Imports of tea into West Germany face a high tariff barrier adding to the unpopularity of this beverage, A large brunt of the German consumers of tea are in the north, near Hamburg, The main competitor in this market is the United Kingdom. The latter repackages Indian or other tea for reexport to the European continent. Other countries exporting tea to West Germany include Ceylon, Indonesia and some African nations.

Jute manufactures, an important item of export in the early 1950's, has now declined considerably. West Germany possesses an extensive jute manufacturing industry which imports raw jute from Pakistan.

Added to this is the extensive substitution of jute with synthetics and paper.

Manganese ore is another important item exported from India to West Germany. Essential for steel manufacture, it must be imported for the giant steel mills of the Ruhr. In 1957, Germany absorbed about $2.6 million worth of Indian manganese ore, only about 5 per cent of total Indian exports of the item. Competitors in this item include the U.S.S.R., Brazil, and certain African countries, like the Union of South Africa and the Congo.

Other Indian exports to Germany include mica, coir, shellac, cotton, oils, wool, etc.

FRANCE

India's trade withFrance is very small. In 1960 India exported $16 million worth of goods to France. The exports have varied between $10 million and $20 million during the last few years. France absorbs only a little over one per cent of India's total exports and about 15 per cent of her exports to member states of the E.E.C. France has had chronic balance of trade difficulties. This led to high tariff walls in order to protect domestic agriculture and industry. This fact added to traditional French preference to her colonies or ex-colonies in Africa, Oceania and Indochina has led to very little trading between India and France. It might be pointed out that India has an adverse balance of trade of more than 2 to 1 with France. It is, however, considerably less than the 6 to 1 with Germany. Below is given a table of main French imports from India, tabulated by products [7].

TABLE V.4

INDIAN EXPORTS TO FRANCE

Product	Imports in $(1957)
Manganese Ore	9,700,000
Leather	1,500,000
Mica	920,000
Essential Oils	880,000
Total Imports	22,000,000

France, like the United Kingdom, reexports a significant portion of its imports, being an important supplier for African markets.

Almost one half of Indian exports to France consist of manganese ore. In 1957 approximately $10 million worth of manganese ore, about 15 per cent of total Indian exports of the item, were exported to France. The main competitors here are the U.S.S.R., South Africa and Morocco.

Other items of export to France are in very small quantities. Aside from the ones listed in the table, they include jewels,

7. The source is Our Export Trade, F.I.C.C.I., New Delhi, 1959.

dried fruit and nuts, hemp, tobacco, shellac, castor oil, spices and green tea.

ITALY

India's volume of trade with Italy has been traditionally low, the level being about the same as that with France, fluctuating between \$10 million and \$20 million per annum.

The three main items of export are manganese ore and concentrates, coffee, and iron ore. Italy bought over \$3 million worth of manganese ore from India in 1957, about 5 per cent of her total exports of the item. In 1957 Italy bought about \$2 million worth of coffee from India, about 15 per cent of India's total exports of the item but only about 3 per cent of Italy's total imports of coffee. About \$1.5 million worth of iron ore was imported by Italy from India in 1957 accounting for about 5 per cent of India's exports and also about 5 per cent of Italy's imports of the item. It might be mentioned at this stage that the 1957 figures cited for Indian exports of iron and manganese ore do not include the exports of the former Portugese enclave of Goa, a considerable exporter of these materials. In the case of Germany and Italy, these would add a considerable amount to the export of these items from India. Other exports to Italy include cotton, oils, hemp, leather, pepper and nuts.

A trade agreement was negotiated between Italy and India in 1954. It led to a widening of trade outlets and paved the way for some Italian imports of non-traditional items from India. They include handicrafts, handwoven fabrics, sewing machines, etc.

BELGIUM and LUXEMBOURG

Belgium and Luxembourg are highly industrialized nations engaged among other things in metal processing and fabrication. In spite of the fact that India exports raw materials eagerly sought by Belgium, exports to the latter have been very low. They have fluctuated between $10 million and $15 million per annum.

India is the main supplier of manganeseore to Belgium. India accounts for over 40 per cent of total Belgian imports of the item. In 1957, it amounted to a little over $3 million - about 5 per cent of Indian exports of manganese ore. In recent years India has been losing a foothold in this market. Increasingly, Belgium has been turning to the Congo and after the Congolese crisis to the Union of South Africa.

Coffee comes next in importance after manganese in Indian exports to Belgium. In 1957 India sold over $1 million worth of coffee to Belgium, accounting for about 6 per cent of total Indian exports of the item, although it accounted for only about 2 per cent of Belgian imports of coffee.

India also exports about a million dollars worth each of jute, leather and raw wool to Belgium. The jute trade is increasingly being cut into by Pakistan and India accounts for only a fraction of the market in the other two categories. Tobacco and cotton textiles from India each account for about 5 per cent of Belgian imports. Only negligible amounts of other products are sold.

It might be mentioned here that Indian exports to Belgium-Luxembourg have fallen to about $10 million during 1960, although in the same year Indian imports from Belgium-Luxembourg amounted to about $30 million.

THE NETHERLANDS

The Netherlands have been well known as a trading nation. In 1955 Indian exports to the Netherlands amounted to about $40 million, but they have decreased tremendously since. In 1956 they stood at about $25 million and in 1957 at approximately $18 million. In 1960 they were the same as in 1957 after having dropped to $14 million in 1958.

Manganese ore again is the major export. In 1957 over $4 million worth was exported, about 6 per cent of Indian exports of the item. In 1957 the other major items of export were coffee ($1.7 million), tea ($1.1 million), tobacco, vegetable oils, and cotton fabrics.

In conclusion, it might be summarized that, whereas between 1952 and 1960 overall Indian exports increased by 13.4 per cent, those to the member states of the E.E.C. increased by only 6.3 per cent; and whereas between 1948 and 1958 extra-European imports by the member states of the E.E.C. increased by 55 per cent, those from India increased by only 30 per cent. Thus trade between India and the E.E.C. has not kept up with the trend.

In the following section, I will try to enumerate some salient points of a general nature in the relationship between the European Economic Community and India in foreign trade.

1. Even prior to the formation of the E.E.C. and the signing of the Rome treaty, India's exports to the E.E.C. were negligible. They have not increased since. In 1960, for example, Indian exports to the Six accounted for only 7 per cent of India's total sales overseas and had remained virtually stagnant for a decade. India's inability to increase its exports to the E.E.C. - a market in many respects similar to that of the United Kingdom - largely arises from high tariffs, internal taxes and quota restrictions applied by Member States of the Community. It is interesting to note that while over the last three years there has been a tremendous expansion in intra-Community trade and a large increase in imports from third countries, expansion in Indian exports to the Community has been imperceptible.

2. The Community's common external tariff as at present established will have a more restrictive effect on India than before because it will lead to a substantial increase in the tariff rates so far applied to commodities like tea in Germany and Belelux, which, among the Six, have been traditionally the largest importers of

Indian commodities. The restrictive effect will be further aggravated by the fact that production surpluses from within the Community will be freed from payment of all import duties.

3. In the event of the present tariff and commercial policies of the Six being extended to the United Kingdom, if and when the latter enters the Community, India will be called upon to face the following consequences:

(a) Disappearance of duty-free entry into the United Kingdom;

(b) High tariff walls against semi-processed and processed products and simple manufactures;

(c) Loss of preference in the United Kingdom market; and

(d) Reverse preferences of varying dimensions in competition with goods originating in Member States and overseas countries and territories associated with the Community.

4. The above changes would affect most of India's exports to the United Kingdom or as much as a quarter of India's total exports. Indian exporters will suffer a price disadvantage which might in certain cases be as high as 30 to 40 per cent. Even if the changes are effected in slow stages, adjustment of costs and export prices to overcome such a large disadvantage will prove well nigh impossible.

5. The fear has been expressed in some quarters that duty-free entry of Indian manufactures would lead to disruption of domestic industries in Europe. These fears are baseless from the point of view

both of the facts of the Indian economic situation, as well as empirical evidence. Low wages do not necessarily mean low costs; low levels of productivity in India actually result in most manufacturing industries having higher labor costs per unit of output than in several advanced countries. The low levels of Indian labor productivity stem from two basic reasons. The first is the quality of labor. The conditions in which the Indian laborer has to live and work are, to say the least, poor. His educational standard, his sense of participation and his eagerness for advancement are at a low level. Under such circumstances it is only natural that the Indian laborer's productivity is low. Another reason for low levels of labor productivity in India is lack of capital. The Indian laborer has less capital in the form of machines, tools, air conditioning, labor-saving devices, automation, etc. to work with. It is again only natural that his productivity is lower than his western counterpart.

Another reason why the cheap labor - cheap costs theory is untenable is the existence of high rates of corporate taxation, monopoly control in several industries, and extensive labor welfare policies in India [1]. High taxes in a seller's market mean high prices in order to recover a reasonable return on investment. In the same way, labor welfare expenses such as bonus (a form of profit-sharing) lead to higher prices.

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1. The maximum marginal rate of corporate taxation with the Super Profits Tax of 1963 is 80 per cent. The minimum rate is over 50 per cent.

It is interesting to note that although the import duties on Indian manufactures entering the United Kingdom is virtually nil and those entering Italy and Benelux face no quota restrictions and only low duties, the British, Italian and Benelux markets have not been flooded with "cheap Indian manufactures".

India, it seems to me, not only lacks the capacity, but with her growing domestic markets, lacks the desire too, to "invade" foreign markets and "disrupt" foreign industries.

And finally

6. It is conceivable that it is to Europe's advantage to arrange terms upon British entry into the Common Market so as not to overly disrupt India's trade.

In the future, factor endowments point to a trading relationship wherein the capital-abundant nations of Europe and America concentrate on heavy industry while labor-abundant countries like India concentrate on light consumer goods and other such labor intensive commodities. This would lead to better utilization of resources in Europe. If India is thwarted in its attempt to industrialize, Europe would be a loser too.

With a population fast approaching half a billion, and the per-capita income steadily rising, India is in a position to become a consumer market of considerable size for commodities from the E.E.C. Europe might lose this potential outlet for her exports if Indian economic growth is thwarted through disruption of India's trade upon British entry into the Common Market.

CHAPTER VI

THE EFFECT ON SPECIFIC COMMODITIES

In this chapter we will investigate the effect of the European Economic Community upon the exports of specific commodity groups from India. At present we will only be concerned with the effect of the E.E.C. in its present form (six members). In subsequent chapters we will discuss the possibility of the entry of the United Kingdom into the Community and any further effects the event might have upon Indian exports.

The analysis will be on the basis of the discussion in Chapter II. However, we will have to keep in mind not only the effects on the quantity of Indian exports as in Chapter II, but also the effects upon the terms of trade. It is well known that both tariffs and quotas are accompanied by a change in the terms of trade. The higher the tariff faced, the worse are the terms of trade for an exporting country. In the case of quotas, however, the effects upon an exporting country depend upon the bargaining mechanisms employed in the course of trading. As has been explained earlier, since a major portion of Indian trade with member states of the E.E.C. is with Germany and Benelux, and since the German and Benelux tariffs were generally less than the new common external tariff structure, Indian exports will face a general level of higher tariffs and quotas than before. Again the preferential entry, products from the associated countries, will receive, when the association is completed, as explained in Chapter II, must be clearly borne in mind. Besides the countries mentioned in the treaty of Rome, several other countries have applied for associated status. Greece is already an associate member.

We will now investigate the effects upon specific commodity groups.

1. JUTE MANUFACTURES

1960 exports of jute manufactures to the member states of the E.E.C. amounted to $11 million, approximately 5 per cent of total Indian exports of the item. They were about equally divided between jute (Hessian) cloth and jute sacks. The E.E.C. common external tariff rate upon jute manufactures is to be 23 per cent. Exhibit 5 shows that imports from India accounted for only 36 per cent of the imports of jute cloth and 23 per cent of the imports of jute sacks of the member states of the E.E.C. The main importers of jute manufactures among member states of the E.E.C. are France and Belgium.

Although it is true that international jute prices have been rising fast and several alternate fibers such as sisal in East Africa, flax in New Zealand, henequeen in Mexico and figue in Colombia have been substituting for jute, it is unlikely that jute will be replaced as the most economically feasible packaging fabric in the near future. The main threat to Indian jute manufacture exports to member states of the E.E.C. will arise out of alternate sources of raw jute to be processed in Europe, or from other sources of jute manufactures.

The only other large exporter of jute manufactures outside of Europe is Pakistan, but the latter does not enjoy any preferential entry into the E.E.C.

The member states of the E.E.C., especially Germany and France, have domestic facilities to manufacture jute goods from raw jute imported, mostly, from Pakistan. With the enlarged duty-free market, and especially with the possibility of stepping up imports of raw jute from associated countries such as the Congo which would enter duty-free (against a 23 per cent duty on Indian jute manufactures), it is conceivable that some of the demand for Indian jute goods will be diverted.

India, by far the world's leading producer of this item, has a great advantage, both from factor endowments and research facilities to keep up this market from the few diversionary tendencies mentioned. In any case, jute manufacture exports to the E.E.C. are very small, and even if they are affected they are more likely than not to do little harm to the Indian jute industry, which is busily engaged in searching for new markets for exports. Also, as indicated in Chapter IV, India, in the years to come, will rely less on earnings from such exports as jute manufactures than it does today.

2. LEATHER

In 1960 leather was the largest item of export from India to the Member States of the E.E.C. 1960 exports of leather to the Six amounted to $13.1 million, approximately 28 per cent of Indian exports of the item and about 16 per cent of the total imports of the item by the Six. Among the member states, the larger importers were

France and Germany. Germany accounted for over 70 per cent of the exports to the Six in 1960. The common external tariff to be applied to this item varies with the category of leather. Exhibit II indicates that it will be 9 per cent on Bovine, zero on Indian goat and sheep, and 6 - 8 per cent on other categories.

Leather is not a homogeneous product. It is therefore quite common that a particular country is both an importer and an exporter of leather. This is true in the case of the Six too. There is extensive intra-community trade in leather, France being an important source. The large importer of leather among the Six is Germany. In 1960 France accounted for about 30 per cent of German leather imports, India accounted for slightly less (25 per cent). As French products receive preferential entry, some imports from India are bound to be diverted to imports from France. As the case of the United Kingdom clearly illustrates (where Indian and other Commonwealth leather exports receive 10 per cent preferential entry, and account for an overwhelming proportion of U.K. imports of the item), even this low level of preference can play an important part in diverting imports to a preferential partner.

Again, the preferential entry, leather exports from the associate countries will receive, will affect Indian exports. The Malagasy Republic and Mali are the main exporters. However, the exports from them do not amount to much.

A large portion of Indian leather exports to the member states of the E.E.C., however, will enter duty-free and therefore the effect will be considerably dampened. Since the common external tariff does not differ substantially from the prevailing ones, the effect on the terms of trade will be negligible. However, since leather might be a slightly income-elastic import, the income effect on leather imports might be of importance.

3. TEA

In 1960 Indian exports of tea to the Six amounted to approximately $4.8 million, accounting for 2 per cent of Indian exports of the item, and 20 per cent of E.E.C. imports of the item. The largest supplier of tea to the E.E.C. was Indonesia. Ceylon and India came next. Imports of tea from associated countries are negligibly small. The tariffs on tea before the formation of the Common Market were as follows: Benelux (10 per cent), France (30 per cent), Germany (52 per cent), Italy (50 per cent). The common external tariff will therefore be 35 per cent (arithmetic average). Although there might be slight diversion of tea imports from India towards imports from associated countries, they will be a drop in the bucket of Indian tea production. Any drop in Benelux imports (due to higher tariff) is likely to be more than counteracted by increased exports to Germany and Italy (due to lower tariff), as German imports accounted for over 90 per cent of Indian exports to the E.E.C. Erdmann and Rogge [1] estimate the income elasticity of tea imports into the E E.C. as 0.5. This figure seems reasonable. It would lead to a considerable income effect on exports of Indian tea to the member states of the E.E.C. Recently negotiations between India and the E.E.C. led to a decision to declare zero external tariffs on 11 categories of commodities. Among them is tea. Although this zero tariff is not yet in force, when it is, it will further help boost Indian tea exports to the Six. All in all, it seems that beneficial effects will outweigh adverse ones in the case of Indian tea exports to the E.E.C. In any case, the quantities involved are small enough not to have much effect on the Indian tea industry.

4. COTTON MANUFACTURES

Indian exports of cotton manufactures to the member states of the E.E.C. stood at $2.3 million in 1960, accounting for only 2 per cent of Indian exports of the item. The main importers were the Benelux countries. The other member states have extensive cotton fabrics manufacturing facilities. When the common external tariff of 19 per cent comes into effect, it will most likely have a prohibitive effect on Indian cotton fabrics exports. Added to this high rate of tariff will be the common external quota restrictions and the lower transportation costs for intra-community imports of the item.

Even in 1960, with the preferential entry not yet completely applicable, Belgium and the Netherlands imported large

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1. Paul Erdmann and Peter Rogge, Die Europäische Wirtschaftsgemeinschaft und die Drittländer, Kyklos-Verlag, Basel, 1960, p. 307.

quantities of this item from other member states of the E.E.C. It is therefore evident that there will be a substantial negative trade effect upon Benelux imports of cotton manufactures from India. Over the years trade statistics indicate that cotton textile imports into Benelux have remained remarkably constant, indicating little income elasticity. Thus not much of an income effect can be expected for imports of cotton goods into the member states of the E.E.C.

A few items of cotton manufactures from India such as handloom cloth might not face competition from the preferential entry European mill cloth, and thus imports of these categories might not be affected. They, however, account for only a small fraction of the total Indian exports of cotton manufactures to the member states of the E.E.C.

All in all, it is quite likely that there will be a net decline in exports of cotton fabrics from India to the E.E.C.

5. IRON ORE

Although Indian exports of iron ore to the member states of the E.E.C. have been very small (most Indian exports of the item go to Japan), the exports from the former Portugese colony of Goa have been considerable. 1960 exports of iron ore from India to the E.E.C. were about $2.5 million, over 90 per cent of them to Italy. In the same year, exports from Goa to the member states of the E.E.C. amounted to approximately $40 million, over two-thirds to Germany.

Since iron ore is one of the categories in List A discussed in Chapter III, the maximum common external tariff on this item is not to exceed 3 per cent. Since this tariff is negligible when compared to the difference in transportation costs of this bulky item, it is unlikely that the preferential treatment afforded to intra-community trade of the item will have any substantial effect on exports from India (including Goa) to the member states of the E.E.C. A similar argument holds with regard to imports from the associated countries. This does not, however, mean that exports from Goa will not fall. If the Indian Government goes along with its plan to bring Goan iron ore prices in line with the higher Indian ones, exports from Goa are bound to decline, but then, this is not strictly relevant.

German and Belgian imports of high-grade (Swedish) iron ore are quite substantial. It is therefore conceivable that the income effect on imports of high-quality ore from India will also be substantial, in which case the slight trade diversion might be more than overcome.

6. RAW COTTON

In 1960 India exported over $2 million worth of raw cotton to the member states of the E.E.C. - most of it to France and Germany. Raw cotton is imported into the E.E.C. on a quota basis. Several countries associated with the E.E.C. export raw cotton. Prominent among them are the Central African Republic, Chad, Congo, Malagasy Republic, Cameroon and Mali. When the common external tariff goes into effect, imports from the associated countries might cut into German imports of Indian raw cotton, due to the preferential entry the former will receive. However, the common external tariff will be less than the former French tariff on raw cotton and as the margin of preference received by the associated countries in the French market diminishes it is likely that Indian exports of raw cotton to France will increase.

The income effect on E.E.C. imports of raw cotton is not likely to be significant. But even if Indian raw cotton exports to the E.E.C. were to diminish, it would not affect India in any way. India is a net importer of raw cotton, and if her exports fall she could cut down on imports of the item, although it is true that not all of the exports and imports are of the same variety.

7. TOBACCO

India exported about a million dollars worth of tobacco in 1960 to member states of the E.E.C. Most of these exports were to the Benelux countries. The common external tariff on unmanufactured tobacco is to be 28 per cent. When this common external tariff sets in, it will almost certainly be prohibitively high, especially when it will compete with Greek imports of the item that will enter duty-free. Other associated countries that also export unmanufactured tobacco to the Benelux countries areEquatorial Africa, Cameroon, and Congo. Imports from these countries, too, will receive preferential entry. Tobacco imports into the Benelux countries have been increasing in the past five years. However, it is very doubtful whether India's share in this income effect will counteract the negative trade diversionary effect. The preference, tobacco imports from Greece and other associated countries will receive, will also make it difficult, if not impossible, for Indian tobacco to enter the French, German and Italian markets, hitherto hardly penetrated.

8. COFFEE

Indian coffee exports to the member states of the E.E.C. have varied vastly in the past few years. In 1960 they amounted to approximately $3.7 million. Germany, Belgium and Italy are the larger buyers. Germany has always absorbed a large segment of Indian coffee exports. As is indicated in Chapter IV, about 45 per cent of Indian coffee production is exported and of these exports, Germany has traditionally absorbed one-quarter to one-third. Although a large percentage of Indian exports of coffee is absorbed by the member states of the E.E.C., India accounts for less than 1 per cent of coffee imports into the E.E.C.

The common external tariff on coffee will be higher than existing German and Benelux tariffs. When preferential tariffs set in vis à vis imports from associated countries, imports from India will certainly diminish, especially since world coffee supply outstrips the corresponding demand. Several associated countries are large exporters of coffee. The associated countries, as indicated in Chapter III, accounted for 7.5 per cent of world coffee production in 1960. In the same year the percentage of the member states' imports of coffee coming from associated countries were: Belgium-Luxembourg (22.6), France (70.1), Germany (1.8), Italy (22.2), Netherlands (1.0). As the common external tariff takes effect and as preferential treatment sets in, it is safe to presume that the percentage of German and Dutch and perhaps even Belgian and Italian imports of coffee from the associated countries will increase. Some of these increases are bound to be at the expense of imports from India.

Another effect of considerable importance to India will be on the terms of trade. A large portion of German imports of coffee comes from Brazil, El Salvador, Colombia, and other South and Central American countries. As the common external tariff will be greater than the existing German tariff, the terms of trade of coffee originating in countries not associated with the E.E.C. might deteriorate. The same process will take place in the Netherlands and Belgium. France and Italy, where the new tariff would be lower, already import large amounts of coffee from the associated countries, and hence the opposite effect of improvement of terms of trade will not be much.

Thus, unless it can find alternate markets, such as the United States, the Indian coffee industry will suffer.

9. MANGANESE ORE

Manganese ore is a major export from India to member states of the E.E.C. The volume varies from year to year having reached $20 million in some years. Since the other major exporters of the item (U.S.S.R., Brazil, Union of South Africa) are not associated with the E.E.C., there is little chance of any effect upon Indian exports of the item. Moreover, manganese ore is one of the items in List B mentioned in Chapter II and consequently the common external tariff on the item is not to exceed 3 per cent. Again, with India's steel industry rapidly burgeoning, her surplus of manganese ore will be reduced, too. Summing up, one may infer that there will be no adverse setback to the Indian manganese ore industry due to the E.E.C.

10. PRODUCTS OF THE VEGETABLE OIL INDUSTRY

There are several different commodities exported from India that would fall under this category. We shall look at them one by one.

Oil cakes are the most important export of the vegetable oil industry from India to the E.E.C. 1960 exports of the item amounted to $4 million, 12 per cent of Indian oil cake exports. No effect, except any positive income effect, is envisaged on exports of this item, for it is to enter duty-free into the E.E.C.

Groundnut oil is an important Indian export to the E.E.C. 1960 exports of the item amounted to $2 million. The common external tariff is to be 8 - 10 per cent. Several associated countries are large exporters of the item. Almost all French imports of groundnut oil come from associated countries. When the preferential tariff sets in other E.E.C. member states will find it advantageous to divert imports of groundnut oil towards the associated countries. This difficulty, which Indian groundnut oil exporters will suffer, will affect yet another important Indian industry. The Indian soap industry needs imported palm oil, which is allowed to be imported only upon exports of Indian vegetable oils by the same firm. This has led all important Indian soap manufacturers to export groundnut oil at a financial loss. The difficulty of exports to the E.E.C. will further add to their problems.

Castor oil is yet another item of export in this industry. E.E.C. imports of castor oil, though , are quite small and unlikely to be affected for the common external tariff is to be only 5 - 8 per cent.

CONCLUSION

All important commodities of export from India to the member states of the E.E.C. have been discussed. There are a few other smaller items of export such as carpets, coir (coconut husk) products, etc., that will be adversely affected by the rather high rates of common external tariffs.

The most obvious inference with regard to Indian exports being affected by the E.E.C. is that the quantity of trade is small, and hence whatever effect there might be could be easily absorbed in most cases. Manufactures of cotton, coffee and tobacco are three exceptions. The Indian coffee industry will be the one most adversely affected. As far as beneficiary income effects are concerned, except for a few items such as tobacco, India does not export large quantities of highly income-elastic, luxury commodities.

In a later chapter we shall see that it is the involvement of the United Kingdom in the E.E.C., if and when that event takes place, that will have a significant effect on India's exports. In comparison, the above effects with the United Kingdom not a member of the Community are insignificant.

CHAPTER VII

THE QUESTION OF BRITISH ENTRY

In this chapter we will investigate the question of British entry into the Common Market. As we shall see later, the effect of such an event would indeed be grave upon the export trade of India. The degree of gravity, however, will depend upon the terms upon which the United Kingdom enters the E.E.C., if and when it does. It will therefore be of interest to investigate the various alternative arrangements that can be expected. May I point out at this stage that this discussion, in now way, shall be a detailed anthology. It will merely be a brief factual note.

The United Kingdom was invited to join the Six in negotiations both for the European Coal and Steel Community in 1950, and for the Common Market in 1956. At that time, the British refused. The Six, nevertheless, continued their negotiations and when their experiment was successful and the British were quite impressed with their achievements, the latter had second thoughts. Britain's answer was to form the European Free Trade Association, or the Seven, comprising the United Kingdom, Austria, Denmark, Norway, Sweden, Switzerland and Portugal. The latter, however, was limited in scope and so the British, by the end of 1962, found themselves knocking at the door of the E.E.C. As is well known, the negotiations were indefinitely suspended in the early months of 1963.

Why did the negotiations fail and how might they succeed? France, for one, says it feels that the United Kingdom should enter the Common Market adhering completely to the Treaty of Rome and with no special concessions. Their argument is that any deviations would add to cleavages in progress towards European unity, and that it was a price not worth paying for British membership.

Such a solution cannot be acceptable to the United Kingdom. She is a party to several arrangements, she has a responsibility to. Moreover, she would lose several advantages she now enjoys.

One such advantage is E.F.T.A. If the United Kingdom were to join the E.E.C. she would have to sever relations with E.F.T.A. She would thus lose the preferential entry she now enjoys in the outer Seven, and the other members would lose the preferential entry they enjoy in the United Kingdom market.

A far more important organization is the Commonwealth. Several countries prominent among which are the United Kingdom, Canada, Australia, India, New Zealand, Pakistan, Ceylon, Malaya, Ghana and Nigeria have instituted a system of preferential trade among themselves. Thus, for example, as indicated in Chapter V, most Indian exports enter free of duty into the United Kingdom; and a large quantity of British manufactured goods, in turn, enter at a preferential rate into India. There are two consequences to be faced if the United Kingdom joins the Common Market upon adherence to the Rome Treaty, whereupon she will have to relinquish her Commonwealth ties. First, her exports will lose the preferential entry into the Commonwealth countries, at present accounting for about 40 per cent of her exports. Second, several

Commonwealth countries would suffer severe reductions in their exports if they lost the preferential entry into the United Kingdom. In fact. in several cases, as will be seen in the next chapter, the imperial preference would be changed to an anti-imperial preference.

Besides some concessions vis à vis E.F.T.A. and the Commonwealth, the United Kingdom desires special arrangements with regard to agriculture (to subsidize her few agriculturists) and with regard to the labor migration clauses of the Rome Treaty.

All in all, the British did not deem it wise to give up preferential entry to 50 per cent (Commonwealth, 40 per cent plus E.F.T.A, 10 per cent) of their export market and see their former trading partners' exports being reduced, to gain, in return, preferential entry into the E.E.C. (15 per cent of her export market).

There exist in Britain several groups that doubt the wisdom of entry into the Common Market, no matter what the terms. Although they are probably in the minority, they exert considerable political force. The British Labor Party is less anxious to obtain British entry into the Common Market than the present government of Conservative Prime Minister Harold Macmillan. In fact, their former leader, the late Mr. Hugh Gaitskell was considered by many to be an opponent of British involvement with the Common Market. With the recent political upheaval in the United Kingdom, a general election and a Labor victory seem imminent. If the Labor Party does come into power, chances of British entry into the Common Market will become even more remote.

Whatever be the short run likelihood of British entry into the Common Market, most people are agreed that the other members of the E.E.C., especially a Germany under Erhard, and the Benelux countries who fear French supremacy, will not long tolerate French action to keep Britain out. Even the French admit that Britain will be in before long. When Britain does enter, what arrangements can India expect?

Even if some form of association is offered, which in itself is doubtful, the Indian Government is not likely to accept. Prime Minister Nehru has denounced association with the Common Market as a form of economic neo-colonialism.

The most likely alternative, often suggested by the Member States, and repeated by Professor Walter Hallstein, President of the Commission of the European Economic Community, during his recent visit to India, is that the Six, U. K. and India get together to make special arrangements. The following are areas of substantial agreement arrived at before the deadlock:

Special arrangements were already foreseen for certain products exported by India [1]. Jute: annual quotas. Sports material, tea, ginger, spices and essences; zero tariffs. Cotton textiles: gradual alignment of British tariffs with the common external tariff (20 per cent of the difference between the two, then 20, 30 and 30 per cent).

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1. From an authoritative document, not so far made public, drawn up by Mr. Luns, Dutch Foreign Minister, quoted in Eastern Economist, Vol. 40, No. 5, p. 214.

Another question of considerable importance to Indian trade with a Common Market including the United Kingdom is the possibility of some of the U. K. colonies, trusteeships, etc. being afforded associate membership. According to Foreign Minister Luns' document, previously referred to, most of English-speaking Africa, having refused associate status as enjoyed by French-speaking Africa, would later be offered a modified form of association. Associate status for most colonies and dependencies is expected. Aden, Malta, Gibraltar and Hong Kong might make for some difficulty.

If and when the United Kingdom does enter the Common Market, it is quite likely that some of her E.F.T.A. co-partners will make overtures to join too. Denmark and Norway are likely to be immediately accepted. Swedish and Swiss neutrality will pose a problem. Austria, under treaty to remain neutral, might encounter legal difficulties. Underdeveloped Portugal might be unacceptable.

All in all, British entry into the Common Market will considerably alter the picture, especially with regard to a trading partner as important as India.

CHAPTER VIII

THE EFFECT WHEN THE UNITED KINGDOM ENTERS THE COMMON MARKET

In this chapter we will investigate the likely effects British entry into the Common Market will have upon exports from India. We will look at each commodity group separately. As in the previous chapter, effects on both the quantity of exports and the terms of trade are to be investigated. Below I will summarize the various types of effects to be looked for.

1. Diversion of imports into the Six from India to the United Kingdom

2. Diversion of imports into the United Kingdom from India to the Six or associated countries.

3. Terms of trade deterioration due to higher tariffs in the United Kingdom market.

4. Loss of trade due to elastic demand in the United Kingdom when tariffs rise.

5. Increased imports from India due to accelerated growth of income, stemming from United Kingdom entry into the Common Market.

Bearing the above-mentioned points in mind, let us see how they apply to specific commodity groups.

1. TEA

As was mentioned in Chapter IV, tea exports from India to the United Kingdom are of great importance to the Indian economy, in terms of foreign exchange earnings. In 1960 these exports amounted to

$157 million, accounting for 63 per cent of all Indian tea exports, and 52 per cent of all British tea imports. The common external tariff on tea is to be 35 per cent, whereas at present tea enters duty-free into the United Kingdom.

The production of tea in the associated countries, mainly in the Congo, is very small. In 1960 imports of tea from the Congo into the United Kingdom amounted to only $1.5 million. Although tea from the associated countries will enter at a preferential rate of 35 per cent, the relatively small quantities involved can have but a slight effect on imports from India. In the same year tea of the value of about $30 million was imported from Britain's African colonies of Kenya, Tanganyika, Rhodesia and Nyasaland. If, upon British entry, these territories were to receive some preferential access to the Common Market, the effect upon imports from India would be more severe. However, most African exports of tea end up in the United Kingdom already, and expansion of tea production is not likely to rise overnight, so that the effect cannot be substantial.

Tea is an inexpensive and very popular beverage in the United Kingdom. Its demand in the United Kingdom is likely to be very price-inelastic. A 35 per cent tariff is not likely to make any substantial difference to British tea drinking. For the same reason, there is little likelihood of any deterioration in the terms of trade for India. The added tariff is likely to be borne by British consumers.

The income elasticity of tea imports into the United Kingdom is not likely to be substantial. Total imports of tea into the United

Kingdom have wavered around a quarter of a million metric tons in the past several years. One is likely to find that the tea imports correlate better with the weather than with the level of the national income! It is, thus, unreasonable to expect any substantial boost in British imports of Indian tea, due to acceleration in growth of the national income stemming from British involvement in the Common Market.

All in all, it may be summed up that tea exports to the United Kingdom will not be unduly affected by British entry into the Common Market.

2. COTTON MANUFACTURES

Cotton textiles are, after tea, the most important item of Indian export to the United Kingdom. It is also the item likely to be most severely affected. In 1960 India exported $34.4 million worth of cotton textiles to the United Kingdom, accounting for 30 per cent of Indian exports and 33 per cent of British imports of the item. Cotton textiles enter duty-free into the United Kingdom. If and when the United Kingdom enters the Common Market, it will be obliged to apply the common external tariff of 19 per cent on these imports.

The United Kingdom is a large exporter of cotton textiles. In 1960 United Kingdom exports of the item stood at about the same level as those from India. When the United Kingdom joins the Common Market and consequently receives a 19 per cent preference in the European markets, it will surely displace some of the Indian exports to the Six. Again, all the present member states of the E.E.C. are large exporters of cotton fabrics too. When they, in turn, receive preferential entry into the United Kingdom market, imports from Germany and France and elsewhere in Europe will displace imports from India. Again, at present imports from India receive preferential entry of 17 per cent into the United Kingdom market over imports from other countries such as Japan. With the application of the uniform common external tariff, India will lose this preference. Thus India will further lose part of this export market. The international market in cotton textiles is extremely competitive. Unless some special safeguards can be negotiated, more than a third of the export market of this largest of Indian industries will be seriously affected. To estimate the exact amount of the trade diversion, we would have to look at each category of cotton textiles. Lack of data makes such an estimate impossible at this stage, but several prominent persons with experience in the cotton textile business in India have ventured the opinion that India would be wise to expect a fall of over 50 per cent in exports of cotton textiles to the United Kingdom and the Common Market, if the former were to enter the latter. If these exports do drop as drastically as predicted, it will pose a serious problem to the foreign exchange requirements for Indian development. It will, however, in all probability have little effect on the Indian cotton manufacturing industry. The growing domestic market, added to exports to new markets in Asia, Africa and Eastern Europe will probably absorb the fall in exports to the United Kingdom and the Six.

As in the case of tea, an inexpensive and basic necessity such as cotton fabrics, would probably face a fairly inelastic demand in a prosperous Western Europe. Thus any slight deterioration in the terms of trade, or any decrease in exports due to the increase in tariff would have a negligible effect when compared to the trade diversion previously described. Again, very little rise in imports can be expected in the case of cotton textiles from any accelerated growth in national income due to British entry in the Common Market.

3. LEATHER

Leather is another important item of export from India to the United Kingdom. In 1960, leather exports from India to the United Kingdom amounted to $27.5 million, accounting for 58 per cent of Indian exports of the item, and 48 per cent of United Kingdom imports of the item. Leather exports to the United Kingdom fall into two broad categories: bovine leather, that is, leather from buffalo or cow skins, imports of which will be subject to a common external tariff of 9 per cent; and goat and sheep leather that will enter duty-free.

It is my contention that upon British entry into the Common Market, not only will bovine leather exports be affected, but exports of goat and sheep too. At present Indian leather enters the United Kingdom at a preferential rate of 10 per cent. When the common external tariff is applied, leather from the Six will enter with a preference of 9 per cent, thus leading to a net change of 19 per cent in relative tariff rates. A 10 per cent preference originally was sufficient to make India the largest by far supplier of the item to the United Kingdom. With this reverse preference setting in, some Indian exports of bovine leather will be diverted towards countries like France, who are strong competitors in the leather market. Of course, factor endowments and natural resources give India a comparative advantage in some types of leather production, so that this diversion will certainly not be total. In the case of goat and sheep leather, the effect will be less, for although Indian exports of the item will lose their preferential entry of 10 per cent, the common external tariff is to be nil.

Since the margin of preference is not very great, it is unlikely that there will be any substantial deterioration of the terms of trade in this item, nor is there a likelihood that the demand for Indian leather will decrease much due to the additional tariff.

Again, imports from the associated countries such as Mali or the Malagasy Republic, might cut into imports from India too.

It might be summarized that although British entry into the Common Market will bring about some decrease in Indian leather exports to the United Kingdom, these will not be much and can perhaps be substituted by exports to countries like the United States which imports heavily from France and Germany. This last statement will have special significance if French and German production capacity does not increase and further exports to the United kingdom will be at the expense of exports to countries such as the United States.

4. TOBACCO

Raw tobacco is another important item of Indian export to the United Kingdom. In 1960 India exported $21.4 million worth of raw tobacco to the United Kingdom, accounting for nearly 70 per cent of Indian exports of the item, and 9 per cent of United Kingdom imports of the item. Although tobacco does not enter the United Kingdom duty-free, it does enjoy a 24 per cent preferential rate of entry. The common external tariff on this item is to be 28 per cent. Thus, upon United Kingdom entry into the Common Market, the net change in preference, exports from the Six and associated countries will receive will be 52 per cent.

Several associated countries and Italy are large exporters of raw tobacco. Tobacco is one of the principal exports of Greece, now associated with the E.E.C. Newspaper reports indicate imports from Greece are already displacing E.E.C. imports of tobacco from India. In the case of the British market, the net change in preference being even higher, it is likely that imports from Greece will have even a greater effect in displacing imports from India. Tobacco is an important product in some African associated countries too. Prominent African exporters of the item are the Central African Republic, Chad, Congo, Cameroon, and the Malagasy Republic. Rhodesia and Nyasaland are also important suppliers of the item to the United Kingdom. If these territories receive any kind of associated status, then imports of tobacco from these countries, too, will enter at a preferential rate. Traditional ties, British tobacco merchants have with Indian producers of the item, will certainly lessen the diversionary tendencies to a considerable extent. Nevertheless, it would be naive not to expect a drop in tobacco exports to the United Kingdom, if and when that country enters the Common Market.

Tobacco is a commodity that might be expected to have some price and income elasticity. At present, even with the preferential rate as indicated in Chapter IV, United Kingdom tariffs on tobacco imports from India are among the highest in the world for this item. The tariff rate is approximately £3 per pound, averaging several hundred per cent ad valorem. When this tariff is reduced to the common external tariff of 28 per cent, it is quite likely that United Kingdom imports of tobacco will rise and the terms of trade Indian tobacco will receive, will improve. Any acceleration in growth of national income, upon British entry, will also be reflected in added imports of tobacco from India.

The net effect on Indian tobacco will therefore be a function of the price elasticity of tobacco demand in the United Kingdom. On the whole, it seems that Indian exports of tobacco to the United Kingdom will decrease. Since the Six and the United Kingdom account for a large proportion of world tobacco imports, it is unlikely that the Indian tobacco industry can readily find alternate buyers. With rising per capita income and a growing lower middle class in India, however, the increased domestic demand for tobacco might leave tobacco farmers unaffected.

5. JUTE MANUFACTURES

Although jute manufactures are a very important item of export from India, exports of the item to the United Kingdom amounted to only $18.2 million in 1960, accounting for 7.5 per cent of total Indian exports of the item and approximately 80 per cent of United Kingdom imports of the item. As indicated in Chapter V, although jute manufactures enter the United Kingdom free of duty, they are marked up by up to 40 per cent to keep their prices in line with Dundee goods. The E.E.C. common external tariff on this item is 23 per cent. Thus, if the Jute Board reduces the mark-up as the common external tariff goes into effect, Indian jute manufactures will compete with Dundee goods on the same basis as they do now. German and French jute manufactures will obtain a preference, but this will not have much of an effect on imports from India, for India has a strong comparative advantage in the commodity and the productive capacity of the Six is not very large. Any effect on the level of jute exports to the United Kingdom, when she joins the Common Market, will be small compared to the competition that sisal, artificial fibers, and paper containers will offer.

The income effect on demand for jute manufactures would normally be substantial. The demand for packaging material usually rises even faster than production, especially in the case of industrial machinery. Thus other things being equal a slight net beneficial effect can be expected on United Kingdom imports of Indian jute manufactures when that country enters the Common Market.

6. PRODUCTS OF THE VEGETABLE OIL INDUSTRY

As indicated in Chapter VI, there are several products that would fall under this category. We shall investigate the effect upon each, separately.

Oil cakes are an important item of Indian export to the United Kingdom. The value of oil cake exports to the United Kingdom was $22.3 million, accounting for about two-thirds of Indian exports of the item, and 27 per cent of United Kingdom imports of the item. Oil cakes are a byproduct of the oil milling and extracting industry, and hence the supply is dependent upon the demand for the oil, mostly groundnut. Thus any rise in demand for oil cakes in Europe will not necessarily be matched by a corresponding increase in supply from India. The preference oil cakes enjoyed in the U.K. market was only 10 per cent and since they will enter duty-free in the Common Market, there will not be any significant decrease in oilcake exports from India to the United Kingdom, when that country joins the Common Market.

In 1960 India exported about half a million dollars worth of groundnut oil to the United Kingdom. This is admittedly a very small quantity, when compared to the large size of the Indian groundnut oil industry. Nevertheless, when the United Kingdom enters the Common Market and when India loses its preference and imports from African associated countries will enter at a preferential rate, United Kingdom imports of groundnut oil are bound to be diverted towards imports from the associated countries. This loss of groundnut oil exports will, as explained in Chapter VI, also have an adverse effect on the groundnut oil exports, necessary to the profitable survival of the Indian soap industry.

Castor oil exports from India to the United Kingdom amounted to $7.3 million in 1960, accounting for 38 per cent of Indian exports of the item, and all of the British imports of the item. Several associated countries in Africa grow this plant and can extract its oil. If demand rises several more can enter, and increase their production of the item. Thus with the loss of present preference and the setting in of anti-Indian preference, when the common external tariff goes into effect, some castor oil imports into the United Kingdom will be diverted from India to the associated countries.

A similar effect can be envisaged for linseed oil. 1960 imports of linseed oil from India to the United Kingdom amounted to $1.2 million, accounting for 60 per cent of Indian exports of the item, and 10 per cent of United Kingdom imports of the item.

In summary, it might be said that when Britain does enter the Common Market, oil cake exports from India will hardly be affected, whereas vegetable oil exports are likely to register a decrease.

7. CARPETS

Woolen carpets, manufactured in the regions around Kashmir are another important item of export from India to the United

Kingdom. In 1960 exports of carpets from India to the United Kingdom amounted to \$5.2 million, accounting for approximately 50 per cent of Indian exports of the item and about a third of United Kingdom imports of the item. Carpets from India enter the United Kingdom free of duty, and enjoy a preferential treatment of approximately 30 per cent. If and when the United Kingdom enters the Common Market and the common external tariff goes into effect, not only will Indian carpet imports lose their preferential treatment, but they will also be faced with a 32 per cent tariff, resulting in a net change of 62 per cent in preference vis a vis imports, into the United Kingdom, from competing countries such as Belgium. In 1960 India was the largest supplier of carpets and rugs to the United Kingdom. Belgium was a close second. Again Belgium is the world's largest exporter of this item. Although it is true that Indian carpet exports are of the more exquisite variety, wherease Belgian ones are more utilitarian, they do compete strongly. Bearing the above facts in mind, it would indeed be naive not to expect a significant diversion of United Kingdom imports of Indian carpets towards imports from Belgium, when the United Kingdom joins the Common Market.

With the large tariff increase, the terms of trade for Indian carpets might deteriorate. For the same reason, the demand for a price-elastic commodity such as Indian carpets might decrease too.

Thus we see the probability of a considerable detrimental effect on Indian carpet exports to the United Kingdom. The effect becomes more serious from the fact that the carpet manufacturing industry is centered in Kashmir. With the Kashmir problem so much in the air, it would adversely affect Indian claims of Kashmir' prosperity since accession of that province to India.

The bright side of the story, however, lies in the fact that imports of Indian carpets into the United Kingdom probably are very income-elastic. Thus any acceleration in growth of British national income due to United Kingdom entry into the Common Market is bound to have a beneficial effect upon Indian carpet exports to the United Kingdom.

8. MANGANESE ORE

India is a major supplier of manganese ore to the United Kingdom. In 1960 Indian exports of the item to the United Kingdom amounted to approximately $5.5 million, accounting for about 20 per cent of Indian exports of the item, and about 27 per cent of British imports of the item. The major competitors were the U.S.S.R. and the Union of South Africa. Since the common external tariff on this item is to be less than three per cent; and since in 1960 less than 4 per cent of British imports of the item were from member states or associated countries of the Common Market; and since manganese ore is a necessary, insubstitutable item for the British steel industry, no adverse effects can be expected, due to British entry into the

Common Market, upon Indian exports of manganese ore to the United Kingdom. A beneficial income effect might be forthcoming.

9. MICA

In 1960 India exported approximately $4 million worth of mica to the United Kingdom, accounting for over 80 per cent of United Kingdom imports of the item. Germany, France and Madagascar whose products will enter preferentially in the U. K., also exported small amounts of the item. However, since the preferential treatment on this mineral commodity will be small, and since India is an overwhelming supplier of the item, there is not likely to be any perceptible effect on Indian mica exports to the United Kingdom, when the latter country joins the Common Market.

10. RAW WOOL

Raw wool exports from India to the United Kingdom amounted to approximately $7.5 million in 1960, accounting for about half of Indian exports of the item and about 2 per cent of United Kingdom imports of the item. When the United Kingdom enters the Common Market, India will lose the preferential entry she now enjoys in that market. However, the common external tariff on the item is to be nil, so that whatever little of the market is lost to the Six is more than likely to be made up by increased exports to the Six (where the tariff will come down from present levels to zero). It is thus unlikely that British entry into the Common Market will have any adverse effect on

Indian raw wool exports. In fact, any acceleration in British national income due to entry into the Common Market might have a beneficial effect, in the form of increased inports of raw wool from India.

CONCLUSION

We have discussed the likely effect, British entry into the Common Market in the near future, will have upon ten major items of export from India to the United Kingdom. These ten items account for over 85 per cent of the value of Indian exports to the United Kingdom. There are a few other items of less importance, such as coir products, where the high common external tariff will affect Indian exports. The commodity upon which the adverse effect of British entry into the Common Market will be the greatest is cotton manufactures. Raw tobacco and woolen carpets will be affected to a smaller degree.

All the commodities mentioned above are ones that are important items of export at present. But, as described in Chapter III, India's export picture is likely to change considerably in the future. How would British entry into the Common Market affect the future prospects for India's exports? Referring back to Chapter IV, we see that a large part of the exports in 1981 are expected to be in the traditional items. Basic metals such as steel and aluminium will play a major part too, but in all probability will be directed more towards Asia, Africa and Australasia than Europe or the United Kingdom.

Exports of durable consumer goods such as radios, sewing machines and electric fans might be affected by competition from intra-European trade, and here I include the United Kingdom in Europe. In order to achieve diversification, India will, in the future, look more and more towards Asia and Africa to expand her exports and thus the Common Market with or without Britain will not pose too much of a problem.

CHAPTER IX

SOME MISCELLANEOUS EFFECTS

In this chapter we will take a look at some other effects the formation of the European Economic Community is likely to have on Indian trade, especially in the light of possible British entry into it.

1. In the preceding few chapters we have seen how the Common Market will have an effect on Indian exports. We have also seen how British entry into the Common Market will exaggerate this effect. In a similar way, and for some of the same reasons, we can expect corresponding effects upon other countries of the world. Latin American countries, competing with the associated countries of Africa, will be affected. So will some Asian countries that have a large amount of trade with the Six, such as Indonesia and Iran. Several Commonwealth countries will be adversely affected, too, if Britain joins the Common Market. Australia, New Zealand, Nigeria, Ghana, Malaya and Ceylon are bound to be affected. Under these circumstances Indian trade with these countries might take a turn for the better. With their exports to the Common Market decreasing, these countries might be hard put to keep up their imports from the Common Market. Their resources of hard currencies might dwindle. India might thereupon, in many cases, be turned to as a logical trading partner. Thus, for example, when the United Kingdom joins the Common Market and her imports of Australian wheat decrease,

Indo-Australian trade might increase with India buying Australian wheat, and Australia diverting some of her imports of simple manufactures and textiles from the United Kingdom towards imports from India. In this manner, it is conceivable that India will expand her trade with other countries, due to the effect of the Common Market.

2. An important result of the formation of the Common Market and of possible British entry into it will be increased competitiveness. European industry will no more be able to hide behind a protective mantle of tariffs. French industry will be challenged by German industry, and German by Italian, and so on. Europe will surely exhibit increased industrial vitality. Inefficient, marginal producers will be weeded out. Costs and supply patterns will both change. In fact, a major argument for British entry into the Common Market is the shock and resulting vitality that will follow in British industry. The various provisions against cartels and monopolies, laid down in Part Three of the Treaty of Rome, will further add to the competitive jolt European industry will receive.

As costs decrease and supply patterns of various commodities change, it is conceivable that the terms of trade of Indian imports from the Common Market improve. In 1960 Indian imports from the Common Market amounted to $384 million, accounting for 17per cent of total Indian imports in that year. In the same year, imports from the United Kingdom amounted to $420 million, or 19 per cent of total imports. Again, most of these imports consist of heavy engineering items and materials such as steel, where the potential of considerable change due to intensive competition is very great. Thus, even a slight lowering of costs or change in supply patterns can have a considerable effect in easing India's adverse balance ~~out~~ of payments situation, and would help check her dwindling foreign exchange reserves.

As the Common Market gets increasingly competitive, it will oblige other industrial countries such as Japan and the United States to follow suit. Thus increased competitiveness in the Common Market might, in the long run, play a part in improving the terms of trade with regard to Indian imports from such countries as Japan and the U.S.A., too.

3. India's trade with the countries associated with the Common Market is very small. But in the future this trade is likely to increase. India would be a very suitable supplier for simple manufactures, textiles, steel, etc., to these markets. The Common Market, however, will act as a drag to any possible increase in Indian exports to the associated countries. Goods from the Six will enter the associated countries with a preferential treatment. The adverse effect is especially important in light of the fact that the Six are important competitors in manufactured commodities, the very item in which there is immense scope of export expansion to the countries of Africa and other underdeveloped parts of the world, from India.

4. Just as exports from India enter the British market at a preferential rate, so do British exports in the Indian market. Granting of preferential entry to British goods sometimes constitutes a loss of economic welfare for India. Thus, if steel from Japan costs $100 and that from the United Kingdom $120, but the Indian tariff on Japanese steel is 50 per cent and that on United Kingdom steel is 20 per cent, Indian importers will buy British steel (cost 120 + 24 = 144), rather than economically less costly Japanese steel (cost 100 + 50 = 150). When the United Kingdom does enter the Common Market and abolishes preference for imports from India, India will in turn abolish preference for imports from the United Kingdom. The abolishing of the preference might add to the economic welfare of India. In this way, some of the adverse effects of British entry into the Common Market will be counteracted.

5. All the members of the Common Market are members of the Aid India Club that pools together economic aid from the West for the development Plans of India. It is conceivable that the aid forthcoming from the Six will be augmented by the increasing prosperity due to the Common Market. Again, the fact that authority in the future will be vested in a supranational authority, that might be expected to be more sympathetic and less political than individual nations, in its sanctions for aid, might be expected to lead to more Foreign Aid for India.

CHAPTER X

CONCLUSIONS AND RECOMMENDATIONS

In this chapter we will summarize the conclusions of the thesis. We will then look at some steps that India can take in anticipation. Finally, recommendations for future studies in the field will be provided.

The first part of the thesis brings into focus the various factors that are to be considered in evaluating the effect of the Common Market and British entry into it, upon the exports of India. In Chapters VI and VIII we looked at the effects on some specific commodities. The inferences can be summarized thus. As trade with the Six is very small, the effect with Britain out will not be appreciable. Exports of some commodities will, however, be adversely affected when Britain does enter. Cotton textiles will be the commodity group likely to be affected the most. Raw tobacco, woolen carpets, and vegetable oil exports will be affected to a lesser degree. The effect on the exports of certain commodities, such as manganese and iron ore, might even be beneficial.

Having talked about the effects likely to be expected, let us now take a look at some steps India might take in anticipation.

1. The Indian economy is a planned one. Through a system of licenses, the government controls industry capacities. Thus, if the government fears overproduction in a particular industry, it can

stem its growth. We have seen how British entry into the Common Market will have an adverse effect on Indian exports of cotton textiles. We have also seen how exports of simple manufactures, etc. have a considerable potential. In these circumstances, it would be wise for India to restrict the growth of her cotton textile industry, and step up the growth of industries such as appliances, sewing machines and even steel.

As exports of traditional items to the Common Market decrease, it might be impossible to substitute them with other exports. Domestic resources then might be channeled into import substitutes. In this way deterioration of the balance of payments situation can be reduced.

2. India has a very large trade deficit vis à vis the Six. 1960 imports from the Six amounted to $384 million. In the same year exports to the six amounted to $102 million. The deficit was therefore $282 million. This is a large deficit and might be used as a bargaining tool to obtain concessions in entry terms for some imports from India.

3. Another step in anticipation might be devaluation of the rupee. Although the pros and cons of devaluation of the rupee must be weighed in a broader framework, the fact that the Common Market, especially in the case of British entry, will reduce the competiveness of several items of export from India is of considerable

importance. Jagdish Bhagwati [1] argues that the various opinions, that devaluation would be inflationary, are merely specious. Devaluation would be of special advantage in the case of extremely price-competitive commodities such as textiles and consumer durables.

RECOMMENDATIONS

Below I will list some recommendations for further study.

A. A quantitative analysis into the effect on one or more specific commodity groups might be undertaken. Price and income elasticities will have to be established. Various extraneous factors such as traditional trade contacts, etc. would also have to be considered.

B. A more detailed investigation into Point 1 made in Chapter IX might be attempted.

C. Some of the effects expected might be tested at a later date with actual observations. The correlation obtained might be used to make further quantitative predictions.

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1. See Jagdish Bhagwati, The Case for Devaluation, The Economic Weekly, August 4, 1962.

APPENDIX

(EXHIBITS I TO X)

EXHIBIT I

INDIA'S FOREIGN TRADE - ROLE OF THE UNITED KINGDOM AND THE MEMBER STATES OF THE E.E.C.

(Value U.S.$ Millions)

	1952-53			1960			Percentage increase in 1960 over 1952-53	
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports
1. Overall Trade	1410	1165	(-)245	2275	1321	(-)954	61.3	13.4
2. Trade with the U.K.	318	257	(-) 61	420	363	(-) 57	32.1	41.2
3. Percentage share of the U.K. in India's Total trade.	22.5	22.0		19.0	27.5			
4. Trade with the Member countries of the EEC.	168	96	(-) 72	384	102	(-)282	128.6	6.3
5. Percentage share of the Member States of the EEC in India's Total trade.	11.9	8.2		17.0	7.7			

EXHIBIT II Value in U.S.$ Millions

MAJOR ITEMS OF EXPORTS FROM INDIA - TRADE (1960) AND TARIFFS - U.S. AND E.E.C.

Major Items	Total Exports	Exports to U.K. Value	Exports to U.K. %	Exports to EEC Value	Exports to EEC %	U.K. TARIFF Preferential	U.K. TARIFF Marg. of Pref.	EEC TARIFF C.T.
1. Tea	250.0	157.1	63.0	4.8	2.0	Free	Appx.5%	Loose 18% Pkgs,3 kg or less 23%
2. Jute cloth	148.0	14.0	10.0	5.2	4.0	Free (Markup 20%)	20	23%
3. Jute bags	100.4	4.2	4.0	5.8	6.0	Free	20	23%
4. Cotton piecegoods (millmade)	114.0	34.4	30.0	2.3	2.0	Free	17-1/2	17%(85% cotton),others 19%
5. Leather undressed	47.7	27.5	58.0	13.1	28.0	Free	10	Simply tanned Bovine 9%,Indian goat + sheep-Free,others 6-8 %
6. Cashew Kernels	38.3	2.3	6.0	1.2	3.0	Free	10	5%
7. Oil Cakes	33.5	22.3	66.0	4.0	12.0	Free	10	FREE
8. Tobacco Unmanufactures	30.4	21.4	69.0	0.8	2.0	*see below	app 24	28% with a minimum of $29 per 100 kgs. with maximum of $ 38 per 100 kgs.
9. Castor Oil	18.5	7.1	38.0	0.2	1.0	Free	12-1/2	Crude 5%, others 8%
10. Linseed Oil	2.1	1.2	61.0	-	-	Free	15	Industrial - crude 5%,others 8 + for other uses-crude 10%, others 15 %
11. Woolen Carpets (hand-knotted)	10.0	5.2	52.0	0.2	2.0	Free	app. 30	32%
12. Essential Oils	8.0	2.0	25.0	1.7	21.0	Free	10%(for Sandalwd. oil)	5%
13. Coir Mats and Mattings	6.0	2.7	48.0	0.4	8.0	Free	20	24%
14. Paraffin Wax	2.7	1.4	36	0.2	7.0	Free	10	3 - 10 %

*	10% Moisture	Others
	(per lb.)	
Unstripped	£3-2-11-1/2	£3-3-9-1/2
Stripped	£3-2-11-7/8	£3-3-9-7/8

EXHIBIT III

IMPORTS INTO INDIA DURING 1960 - OF MAJOR ITEMS - FROM THE UNITED KINGDOM AND THE MEMBER STATES OF THE E.E.C.

(Value U.S. $ Millions)

	Total Imports	Imports from U.K. Value	Imports from U.K. Percentage	Imports from E. E. C. Value	Imports from E. E. C. Percentage
1. Machinery other than electric	373.1	127.3	34	112.5	30
2. Electric machinery	111.7	41.0	37	36.9	33
3. Transport equipment	125.6	42.5	34	30.4	24
4. Chemicals	82.1	20.2	25	20.0	24
5. Dyeing, tanning + coloring materials	25.4	7.0	28	10.6	41.7
6. Fertilizers manufactured	22.1	neg.	neg.	12.5	57
7. Medicinal and pharmaceutical products	22.9	4.6	20	5.0	22
8. Paper, paper board and manufactures etc.	24.4	1.9	8	2.3	10
9. Base metals	330.2	63.5	20	69.1	21
10. Professional scientific and controlling instruments photographic and optical goods, watches and clocks	21.7	6.4	30	6.0	28
11. Manufacture of metals	39.4	17.5	45	10.6	27

EXHIBIT IV

FOREIGN TRADE OF THE MEMBER STATES OF THE E.E.C. - ROLE OF INDIA IN IT

(Value U.S. $ Millions)

	Total Imports	Percentage Share of India
1958	16164	0.67
1959	16128	0.59
1960	19488	0.55
	Total Exports	
1958	15888	2.0
1959	17064	2.0
1960	19488	1.7

NOTE: The above statistics relate to E.E.C.'s trade with third countries.

EXHIBIT V

IMPORTS INTO THE UNITED KINGDOM AND E.E.C.(1960) - ROLE OF SELECTED IMPORTS FROM INDIA - A COMPARATIVE VIEW

(Value U.S. $ Millions)

	Total imports into U. K. Value	Percentage Share of India	Total imports into E.E.C. Value	Percentage Share of India
1. Tea	340.6	52.0	27.5	20.0
2. Jute bags	6.5	79.0	20.8	23.0
3. Jute cloth	17.3	79.0	6.5	36.0
4. Cotton fabrics	102.7 x	33.0	171.5	1.0
5. Unmanufactured tobacco	283.3	9.0	237.5	0.9
6. Woolen carpets	17.0 ∅	33.0	31.7	0.8
7. Linseed oil	12.5	25.0	37.1	-
8. Groundnut oil	14.6	4.0 xx	65.0	3.2
9. Castor oil	7.3	100.0 xx	7.3	23.0
10. Essential oil	0.5 =	88.0	40.0	4.7
11. Undressed leather	75.0 +	48.0	97.5	16.0
12. Hides and skins	57.0	2.0	294.4	0.6
13. Coffee	40.0	0.6	523.5	0.7
14. Oil cakes	103.5	27.0	154.2	2.5
15. Bones for manufacturing purposes	3.5	N.A.	7.7	38.0

x Grey bleached only.

∅ Handmade carpets only.

= For sandalwood oils and for the year 1958.

\+ Includes also dressed leather. Leather manufactures and furs.

xx Percentages refer to quantity.

EXHIBIT VI

INDIA'S EXPORTS(1960)-IMPORTANCE OF THE MARKET IN THE UNITED KINGDOM AND THE EEC - BROAD CATEGORIES

Value U.S. $ Millions

Broad categories[a]	TOTAL Value	%share of U.K. in total group exports	% share of E.E.C. in total group exports	Exports to U.K. Value	% share of group to total expts. to U.K.	Expts. to E.E.C. Value	% share of the group in total exports to E.E.C.
1. Raw materials	182.5	13	15	23.0	6	27.3	27
2. Semiprocessed and intermediates	76.2	50	26	37.8	10	20.0	20
3. Tropical products	428.3	50	6	213.5	59	25.6	25
4. Processed goods	378	16	4	60.4	17	14.0	14
5. Total of above	1065.0	31	8	334.7	92	86.9	86
6. Others	256.0	11	6	28.3	8	15.1	14
7. Grand total of exports	1321.0	28	8	363.0	100	102	100

(a) Only major items of India's exports to the U.K. and the E.E.C. have been taken in the groups and details of the items included have been indicated below:
Raw materials include: Hides and skins raw, animal hair, cotton raw, cotton waste, jute raw, hemp raw and waste, palm fiber, mica, iron ore, kyanite ore, sillimanite ore, chrome ore, manganes ore, bones for manufacturing purposes, opium crude, raw wool, guns and resins, lac.
Semi-processed and Intermediates: Leather, coir yarn, paraffin wax, essential oils, glycerine crude.
Tropical products: Oilcakes, rose wood, oilseeds, cashew kernels, linseed, groundnut oil, castor oil, tea, coffee, pepper, cardamons, tobacco unmanufactured.
Processed goods: Cotton piecegoods, jute cloth, jute bags, coir carpets and mattings and woolen carpets.

EXHIBIT VII

INDIA'S FOREIGN TRADE 1948-49 to 1960-61

(Value U.S. $ Millions)

Figures within brackets indicate percentage share.

Year	IMPORTS Total	IMPORTS U.K. Value (percentage)	IMPORTS E.E.C. Value (percentage)	EXPORTS Total	EXPORTS U.K. Value (percentage)	EXPORTS E.E.C. Value (percentage)
1948-49	1341	317.0 (23.6)	75.0 (5.6)	956	204.9 (21.4)	61.7 (6.5)
1949-50	1350	N.A.	N.A.	1054	N.A.	N.A.
1950-51	1355	292.1 (21.6)	113.3 (8.6)	1251	291.3 (23.3)	114.4 (9.1)
1951-52	2021	357.9 (17.7)	173.8 (8.6)	1527	395.2 (25.9)	93.8 (6.2)
1952-53	1391	293.8 (21.1)	142.9 (10.3)	1203	256.9 (21.4)	96.0 (8.0)
1953-54	1181	299.0 (25.3)	174.6 (14.9)	1106	315.4 (28.6)	70.2 (6.3)
1954-55	1368	319.6 (23.4)	211.9 (15.5)	1237	394.6 (31.9)	99.6 (8.0)
1955-56	1468	359.8 (24.5)	246.9 (16.8)	1270	346.3 (27.3)	116.7 (9.2)
1956-57	1770	443.5 (25.1)	371.5 (21.0)	1291	379.0 (28.6)	99.0 (7.7)
1957	2226	497.0 (22.3)	455.6 (20.5)	1289	335.4 (26.0)	101.7 (8.1)
1958	1829	351.0 (19.2)	341.0 (18.6)	1188	346.5 (29.2)	81.3 (7.0)
1959	1970	383.8 (19.5)	408.0 (20.8)	1300	357.7 (27.5)	99.2 (7.7)
1960-61	2306	441.0 (19.1)	407.0 (17.6)	1338	359.6 (26.9)	108.0 (8.0)

EXHIBIT VIII

SOME STATISTICS RELATING TO THE PLANNED DEVELOPMENT OF THE INDIAN ECONOMY

				Estimates	
	1950-51	1955-56	1960-61	1965-66	1970-71
1. Population(million)	361	397	438	492	555
2. Net investment(Rs.million)	33.6	67.5	104.0	170.0	250.0
	(1st Plan)	(2nd Plan)	(3rd Plan)	(4th Plan)	(5th Plan)
3. National income(Rs.billion)	102	121	145	190	250
4. Net investment as proportion of national income (°/o)	5 °/o	8 °/o	11 °/o	14.5 °/o	17.5 °/o
of which domestic savings	n.a.	n.a.	8.5 °/o	11.5 °/o	15.5 °/o
5. Per capita income (Rs.)	284	306	330	385	450
6. Foodgrains production(M.tons)	52	66	76	100	125
7. Consumption of nitrogenous fertilizers(000 tons of N)	55	105	230	1,000	2,000
8. Area irrigated(million acres)	51	56	70	90	n.a.
9. Steel ingots (million tons)	1.4	1.7	3.5	9.2	18
10. Aluminium (000 tons)	3.7	7.3	18.5	80	240
11. Machine tools(value:Rs. Million)	3.4	7.8	55	300	16,000 (all machines)
12. Sulphuric acid(000 tons)	99	164	363	1,500	n.a.
13. Coal (million tons)	32	38	55	97	175
14. Power,installed capacity(m.Kw.)	2.3	3.4	5.7	12.7	22
15. Rail freight (m. tons)	91.5	114.0	154.0	245.0	about 400
16. Exports (Rs. million)	6,240	6,090	6,450	8,500	13,500
17. Imports (Rs. million)	6,500	6,790	11,070	11,700	n.a.

EXHIBIT IX

TOTAL OUTLAY AND EXTERNAL ASSISTANCE

(in Rs. Billion)

	First Plan	Second Plan	Third Plan
1. Total Outlay	37.6	77.0	116.0
2. External Assistance (exclusive of repayments and private inflows).			

EXHIBIT X

FINANCING OF FOREIGN EXCHANGE REQUIREMENTS FOR SECOND AND THIRD PLANS

(Rupees Billion)

	1956 - 61 Second Plan Total	1961 - 66 Third Plan Total
Receipts		
1. Exports	30.5	37.0
2. Invisibles (net)	4.2	Nil.
3. Capital transactions (net) excluding official loans and private foreign investment	-1.7	-5.5
4. External Assistance	9.3	26.0
5. Draft on Foreign Exchange reserves	6.0	Nil.
Total ...	48.3	57.5
Payments		
6. Imports of machinery etc. for plan projects		19.0
7. Import of components, intermediate products, etc. for raising production of capital equipment	48.3	2.0
8. Other current imports		36.5
Total ...	48.3	57.5

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