

TRADE WITHIN THE EMPIRE

WHAT ARE VITAL INTERESTS?

3.6.78

I.—MUTUAL ADVANTAGE

By Sir George Schuster

The critical scenes in the international drama which have been played in the last few weeks have brought home to us the need for clear thinking on fundamental issues, a process which has been helped by the realistic honesty of the Prime Minister. Yet on the questions "What are our vital interests?" and "Do these conflict with vital interests of other nations?" there is still much confusion of thought. This applies particularly to the connexions between our position as an Imperial Power and the material interests of the British people.

In the area of political discussion the Opposition, especially the Opposition Liberals, have frequently brought the charge that our recent Imperial economic policy, exemplified mainly by the Ottawa Agreements, has invited the jealousy of the world and created a legitimate ground for discontent among the "have-not" Powers. Nor is this kind of argument merely used as a weapon in political controversy. It finds a place in scientific studies of the position. For example, in his stimulating book "Ends and Means" Mr. Aldous Huxley accuses the British Government of having

chosen the moment when it no longer possesses command of the seas to reverse the free trade policy by means of which its predecessors (though at the head of a country incomparably stronger and less vulnerable than contemporary Britain) thought fit to placate the envy of other Powers. It has closed the doors of its Colonies to other nations, thus forcibly reminding them of their own poverty and giving them new grievances against the British Empire.

GETTING AT THE TRUTH

Such criticisms from within are very harmful, for not only do they furnish discontented dictators with material for propaganda against us and help to create unfavourable opinion in countries like the United States, but they produce weakening discords at home. It seems important, therefore, to get at the truth on these matters. How far have we used our position as an Imperial Power to the advantage of our own economic interests and to the detriment of other countries? Has our policy in recent years represented such a departure from the pre-war "open door" policy that its effects afford a new justification for the envy and resentment of the rest of the world?

The only way to get a convincing answer to these questions is to examine the trade figures of the various countries of the British Empire. If there has really been a closing of the door in the Empire countries to the rest of the world, that must be visible in a decrease in the proportion of their trade done with countries other than the United Kingdom. Although charges such as that quoted from Mr. Huxley only refer specifically to the Colonies, popular thought on these matters undoubtedly envisages trade with the Empire as a whole, so that it is necessary to examine the whole range of that trade. Such an examination can be made most instructive by dividing the Empire countries into four classes:

- (a) The Dominions, which are as free as any foreign country to determine their fiscal policy.
- (b) India, which, since the establishment of the Fiscal Autonomy Convention after the Montagu-Chelmsford reforms, has acquired for all practical purposes a freedom not generally appreciated, although that fact is not generally appreciated.
- (c) Those Colonies and Dependencies where the United Kingdom Government's direction of fiscal policy is limited by obligations to give British trade no sort of preference; a class which includes Dependencies covered by the Congo Basin Convention and, since the War, Mandated Territories.
- (d) The remaining Crown Colonies, Protectorates, &c.

SIGNIFICANT FIGURES

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SIGNIFICANT FIGURES

In this last class the British Government has greater freedom than in the other three classes to impose its own fiscal policy, but even here, in a great number of cases, systems of representative government with considerable powers for elected members of the local legislatures have been created. A mere consideration of the four classes brings out how limited is the field in which the British Government remains free to utilize its position as an Imperial Power to dictate fiscal policy in its own interest; but, if this limited freedom has been utilized at all, evidence of its effects must obviously be sought specially in the trade figures of the countries falling under class (d) in the above classification. The following table, which illustrates the position, has been prepared to facilitate comparison between, first, the pre-War period; secondly, the post-War and pre-Ottawa period; and, thirdly, the post-Ottawa period. The pre-Ottawa period has been divided into two parts, 1925-29, representing a period of prosperity, and 1930-32, a period of depression. To afford a further comparison corresponding figures for British trade with Argentina have been added. Imports and exports in the respective tables are shown as a percentage of the total for each group, and the bracketed figures indicate the actual value in millions sterling of the trade done with the United Kingdom.

IMPORTS FROM THE UNITED KINGDOM					
	1913	Average 1925-29	Average 1930-32	1935	1936
A. Dominions (excluding Irish Free State) ..	39 (106)	31 (160)	32 (96.1)	36 (107.7)	34 (119.6)
B. India ..	65 (83.4)	48 (89.5)	38 (41.7)	24.8 (19.2)	24.9 (8.7)
C. "Open door" dependencies ..	30 (1.8)	29 (9.6)	29 (7.3)	29.8 (19.2)	24.9 (8.7)
D. Other dependencies (including Hongkong) ..	32 (30.2)	25 (55.2)	27 (17.9)	30 (60.8)	29.9 (63.8)
Argentine Republic ..	31	20.2	20.6	23.4	23.5
EXPORTS TO THE UNITED KINGDOM					
	1913	Average 1925-29	Average 1930-32	1935	1936
A. Dominions (excluding Irish Free State) ..	55 (116.4)	41 (205.2)	44 (125.1)	50 (150.6)	48 (178.6)
B. India ..	2 (38.2)	21.6 (53.3)	26 (32.9)	31 (37.9)	32 (47.2)
C. "Open door" dependencies ..	37 (1.3)	44 (10.7)	40.3 (6.8)	38 (8.9)	39.2 (10.9)
D. Other dependencies (including Hongkong) ..	36 (30.0)	27 (51.7)	30 (28.3)	37 (61.2)	32 (41.2)
Argentine Republic ..	24.9	27	37.2	34.3	35.1

The figures are based on statistics which are common knowledge, and yet their significance is ignored in general controversy. They bring out several very interesting points. In the first place they show that there is actually less ground now than in the days of free trade for envy of our position as an Imperial Power, whether envy arises from our finding outlets for exports or sources for the supply of raw materials. In the case of every group of countries we have throughout the post-War period supplied them with a smaller share of their imports than we did in

1913 while, as regards exports, we have also taken a smaller proportion except for a slight increase in the "open-door" dependencies and a substantial increase since 1929 in India.

LOST INDIAN MARKETS

Our trade with India provides so clear a refutation of the charge that we are doing more than formerly to excite the envy of other countries that it deserves special attention. The position, looked at from the Indian trade figures, is that before the War India used to pay over £80,000,000 for British products and to receive in return less than £40,000,000 for exported Indian produce; and to-day India buys from us less than £40,000,000 and sells about £47,000,000. Thus we have lost markets for over £40,000,000 worth of goods (mainly textiles) and have provided India with extra markets for her products. In doing so we have not shut out other purchasers of her products but have provided her with a much needed outlet to replace the falling off in the European demand.

Another notable fact brought out by the table is that, whereas (subject to the slight exceptions noted) the percentage we have taken of the British countries' exports has decreased in comparison with the pre-War period, our share of Argentine exports has notably increased. This points to a conclusion, which is surely borne out by the general comparison made in the table, that, broadly speaking, our trade with the Empire countries depends on normal economic factors and mutual advantage, just as it would do if there were no Imperial connexion. It is, of course, possible to point to particular cases in the past where we have gone beyond this and attempted to use our political position for economic advantage, and in the case of particular Colonies there may be a tendency still to attempt the same thing. These are exceptions from general practice which it is not sought to defend. Indeed such exceptions have always proved to be mistaken; and in the long run no one has suffered more from them than our own traders. But such exceptions are to-day, of very minor significance.

DEPENDENCIES

Special attention may be directed to the figures for the Class D Dependencies. They do indeed show a greater recovery than is noted in the "other" classes since the pre-Ottawa period in the percentage of their imports supplied by the United Kingdom. This may possibly be interpreted as the result of a policy designed to give artificial encouragement to British imports, though the details in each case must be examined before a final judgment is passed. But the significant point is the minor importance of the effect of such a policy in relation to the whole of Empire trade. Moreover, our share in the trade of the Class D Dependencies is still less than it was before the War, and on the whole less than our present share of the trade with the other classes, while the course of its development has not markedly differed from that of our share in the trade of Argentina.

Perhaps the most instructive comparison of all is that which can be made between the British position in regard to all the four classes of Empire countries and that of other Imperial Powers; a point on which interesting figures are available in the recent Chatham House report on the "Colonial Problem." These show that, on the basis of 1935 figures on the French Colonies and Mandated Territories, France supplied 61.5 per cent. of their imports and took 72 per cent. of their exports; Belgium supplied the Belgian Congo with just under half its imports and took 76 per cent. of its exports; while Japan supplies even its Mandated Territory with 85 per cent. of its imports and takes 89 per cent. of its exports. The Netherlands is the only country which, in trade with its colonies, takes a less share than we do.

To be concluded

AN ECHO FROM 1360

EAVESDROPPING AND THE LAW

FROM A CORRESPONDENT
Eavesdropping is a comparatively rare

TRADE WITHIN THE EMPIRE

II.—OTTAWA RESULTS

AN OASIS OF ECONOMIC SANITY

By Sir George Schuster

The trade of the Empire countries was examined in the preceding article, with a view to bringing out what percentage of their total imports or exports came from or went to the United Kingdom. It was pointed out that on both sides, notwithstanding the Ottawa Agreements, the percentage in 1935 and 1936 was lower than in the days of the so-called free trade and open-door policy before the War. The question may now be asked, "What is the significance of the Ottawa policy, for which its advocates claim such merits?"

It is difficult to assess the exact effect of that policy by comparing trade figures before and after it was inaugurated, because so many other factors have been at work; for example, a uniform and stable exchange basis within the "sterling area." Subject to that reservation, the trade figures show interesting results. In regard to the Dominions (excluding the Irish Free State), the United Kingdom took 55 per cent. of their exports in 1913; for the period 1925-29 (a period of pre-Ottawa prosperity) this proportion had dropped to 41 per cent.; it recovered to 44 per cent. over 1930-32 (a period of pre-Ottawa depression); and by 1936 it had further expanded to 48 per cent. Turning to the imports of the Dominions the percentages of the United Kingdom produce for the same periods were 39, 31, 32, and 34. There has thus, both in Dominion exports and imports, been an appreciable recovery in the United Kingdom share from a low point touched in the period 1925-29, but it is important to note that a good part of this recovery had been made before the Ottawa Agreements came into operation.

FREE AND HEALTHY

The effects of the Ottawa policy can be more clearly seen by examining the course of United Kingdom trade. An essential fact is that the Dominions have been increasing their proportion of our trade to a much greater extent than we have been increasing our share of theirs. The distinction is important. Looked at from our own point of view, it seems fair to say that, as a result of the recognition of the advantages of international exchange and the encouragement given to that process which were the key-notes of the Ottawa policy, trade as between the nations of the British Commonwealth has been conducted in a more free and healthy spirit than elsewhere, so that, while there has since 1932 been a recovery in British trade with all countries, that recovery has been much more marked in the trade with the Commonwealth countries. The position as regards these developments is clearly illustrated in the following table:—

UNITED KINGDOM TRADE WITH VARIOUS COUNTRIES
Retained imports and exports of United Kingdom produce and manufactures shown as a percentage of total United Kingdom trade.

Imports	Average			
	1913	1925-29	1930-32	1936
Dominions	11.9 (78.7)	14 (155.9)	15.4 (123.8)	22.4 (177.7)
British India	5.5 (36.1)	4.7 (52.1)	4.0 (31.8)	5.8 (45.3)
Colonies, &c.	3.1 (20.3)	5.1 (56.4)	5.2 (41.8)	7.0 (55)
Irish Free State	—	3.8 (42.3)	4.3 (34.5)	2.5 (19.7)
Argentina	6.2 (40.7)	6.4 (71.4)	6.4 (51.3)	5.6 (43.7)
Total imports from all countries	100 (659)	100 (1113)	100 (802)	100 (787)
Exports				
Dominions	17.6 (92.2)	19.8 (142.3)	18 (80.1)	25.3 (111.4)
British India	15.3 (70.3)	11.6 (83.0)	9.0 (19.8)	7.7 (34.1)
Colonies, &c.	6.2 (32.8)	9.0 (64.4)	10.1 (44.7)	11.4 (50.3)
Irish Free State	—	5.1 (36.5)	6.9 (30.3)	4.8 (21.1)
Argentina	4.3 (22.6)	3.9 (27.9)	3.8 (16.9)	3.5 (15.3)
Total exports to all countries	100 (525)	100 (718)	100 (442)	100 (441)

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The main facts brought out in this table speak for themselves. Apart from the special changes in Irish trade, and the remarkable reduction in the importance of India as a market for our produce, which has already been dealt with, the outstanding feature is the increasing share of our trade taken by the Dominions, and to a less extent the Colonies, both as suppliers of our imports and absorbers of our exports. Since 1929 the Dominions' share of our imports has increased from 14 to 22 per cent., while that of Argentina has declined from 6.4 to 5.5 per cent. This illustrates an important point—namely, that if there are any countries which have any pretext for feeling a grievance against the Ottawa policy it is countries such as Argentina which are finding the market for their products in the United Kingdom restricted by the greater inflow of the products of the British Dominions.

GERMANY AND ARGENTINA

Here is precisely the reverse of the charge brought against British policy by critics like Mr. Aldous Huxley (referred to in the first article). The material result of this policy is to make a country like Argentina more anxious to dispose of its primary products to countries which are supposed to be short of raw materials; and, indeed, this is happening, as is shown in the recent increase of frozen beef taken by Germany from Argentina. Apart from such special results it is fair on the figures to regard the post-Ottawa course of our trade with British countries as indicating a healthy expansion of international exchange based on mutual advantage, which shows all the more clearly in terms of percentages of our trade because of the artificial restrictions hampering the expansion of international trade in other directions. To this extent the trading relations between the British countries, and the purpose of the Ottawa agreements, may be regarded as indicating an oasis of comparative economic sanity in a world concerned with other things.

This examination of the use which we are in practice making of our position as an Imperial Power might well lead to a consideration of what are our vital needs in the matter of retaining that position. Though so much cannot now be attempted, it may be thrown out as a concluding suggestion that, so far as mere trading interests are concerned, it is hardly too much to say that we have no need to maintain that position if we could rely, as we do at present, on the natural economic inducements of mutual advantage to keep our trade going on its present basis. Our vital need might more truly be stated in another way, as a need to prevent the Empire countries falling under the domination of other Powers whose policy would forcibly restrict the "natural economic inducements" to trade. Such a policy would surely not justify the resentment of