

EUROPEAN COMMON MARKET & INDIA

Dr. Hannan Ezekiel
C. K. Narayanaswami
Prof. C. L. Gheevala



FORUM OF FREE ENTERPRISE

"SOHRAB HOUSE", 235 DR. D. N. ROAD, BOMBAY-1

INTRODUCTION

Basic facts with regard to ECM are summarised as follows:¹

The Community of the Six aims, through the establishment of a Common Market and the gradual assimilation of the member states' economic policies, at promoting:

- harmonious development of the economy within the entire Community,
- steady and balanced economic expansion,
- increased stability,
- faster raising of the living standard, and
- closer relations between the member states.

With a view to realising these aims the following measures are, according to the Treaty, to be adopted:

- * Combination of the six participating states in a Customs Union. This implies realising free trade in goods between the member states, plus the establishment of a common Customs tariff and a common trade policy in relation to non-member countries.
- * Liberalising the movement of persons, services and capital.
- * Introducing a common policy in the spheres of agriculture and communications.
- * Coordinating economic and social policy.
- * Applying the agreed terms of the Treaty as regards the safeguards against distortions of competition and the assimilating of the provisions of the countries' internal laws, so far as this is necessary for the proper functioning of the Common Market,

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

EUGENE BLACK
President, World Bank

- * Associating the member states' overseas territories.
- * Setting up a European Social Fund and a European Investment Bank.

Its significance is illustrated by the following chart:²

For 1959

<i>Economic Areas</i>		<i>Common Market</i>	<i>USA</i>	<i>USSR</i>
Population (in millions)	..	170	178*	210
Area (in million sq. km)	..	1.17	9.36	22.4
Crude steel production (in millions of tons)	..	63.2	84.8	60.0
Gross national product (in billions of <i>US\$</i>)	..	163	483	—
Hard coal production (in millions of tons)	..	238.8	390.0	506.4***
Electricity production (in billions of kwh)	..	243.0	794.5	264.0
Automobile production (cars and trucks) in millions	..	3.5	6.7	0.5
Exports (in billions of <i>US \$</i>)	..	25.2	17.4	5.4
Imports (in billions of <i>US \$</i>)	..	24.3	15.0	5.1

* Including Alaska and Hawaii,
 ** 1 billion = 1,000,000,000
 *** Including lignite.

With a view to educating public opinion in India on this important issue, the Forum of Free Enterprise, in accordance with its educative efforts, arranged a symposium in Bombay on November 3, 1961. Participants were: Dr. Hannan Ezekiel, Financial Editor of *Economic Times*, Bombay; Mr. C. K. Narayanaswamy, Assistant Editor of *Free Press Journal*, Bombay, and a well-known economic commentator; and Prof. C. L. Gheevala, Secretary of Indian Merchants' Chamber. The results of discussion are presented in this booklet.

¹ and ² from a publication entitled "European Economic Community", published by Deutsche Bank.

EUROPEAN COMMON MARKET AND INDIA

I

Dr. Hannan Ezekiel

I SHALL discuss primarily the economic aspects of the relationship between India and European Common Market. This European Common Market was born out of the success that attended the European Coal and Steel Community. After disagreement between the members of what is now the European Free Trade Association and what is now the European Economic Community, a final draft of the Treaty for the creation of a common market was signed on March 25, 1957. This was supposed to come into effect on January 1, 1958. The European Common Market has, therefore, been in effective existence for more than two years. Because of the disagreement of the countries outside the "Inner Six" with regard to the way in which the countries of Europe should co-operate with each other in agricultural development and other matters, these other countries remained outside the Common Market and formed the European Free Trade Association.

In any discussion of the relationship of India with the Common Market, we have, therefore, to keep the following main elements in mind. First, there is a Common Market in existence which will develop along certain lines as laid down in the Rome Treaty with possible modifications in that Treaty in the future. Second, there is the European Free Trade Association, of which Britain is a member and which, if Britain did not enter the Common Market, would develop along the lines laid down in the treaty under which

the Free Trade Association has been set up. And third, there is the Commonwealth of Nations of which both India and Britain are members — a Commonwealth which came into existence many years ago as far as the economic aspects are concerned. This Commonwealth could develop along certain lines if Britain did not enter the Common Market. These are three different elements, changing in character, with possibilities of the one merging into another. It is not that, if Britain did not join the Common Market, nothing would happen. The changes that have been planned within the Common Market would continue, the changes planned within the Free Trade Association would also continue and though no changes are planned to take place within the Commonwealth for the present, certain changes would surely take place within the Commonwealth also.

It is not, therefore, that we have to consider or compare an existing situation with what would happen if Britain joined the Common Market. But we have to consider what would happen if Britain joined the Common Market as compared with what would-happen if Britain did not. There are changes here and changes there. We have to think of the future. It is not so simple because there is no clarity about how the Common Market would develop, the Free Trade Association would develop or the Commonwealth would develop if these remained independent of each other; there is no clear picture either of the conditions and circumstances under which Britain would join the Common Market if eventually it did, so that we can say little about the possible impact of Britain's entry into the Common Market on India or on Britain herself with any degree of certainty.

The terms and conditions of the Rome Treaty provide for the creation of a Common Market, to be established progressively over a period of 12 years, in three stages of 4 years each. During this transitional period various changes will take place by which the tariffs, the import

duties and quota restrictions of these countries with respect to each other will be slowly liberalised. Ultimately, at the end of the period, when the Common Market comes into existence, there will be no restrictions at all on trade within the area. Apart from providing for no restrictions on trade, the Common Market also provides for a common tariff and a common set of policies with regard to imports from outside. As a matter of fact, that is the basic decision. In a common market there is not only free trade within the area, there is also a common tariff, and quota restrictions on imports from outside. Incidentally, this is not true of a free trade area.

The Common Market arrangement provides for reduction of duties and quota restrictions as between the members of the Common Market. It also provides for common tariffs or duties, to be established, which are to be the weighted average of the duties of the members of the Common Market, prevailing before the creation of the Common Market. In other words, the rates that will ultimately be established for the Common Market as a whole will be a sort of average of the rates that existed for the individual members of the Market. It is important to know that this is what the original Rome Agreement provides and that these changes are to be brought about within a short period of time. Already there are provisions under which the Common Market tariff rates may be even lower. There are provisions under which the rates of import duty into the Common Market countries from outside the area may be slowly lowered apart from creating complete freedom of trade within the area.

Keeping these facts in mind, we shall consider what the benefits are for the Common Market countries. There are benefits in the form of freedom of movement of capital and labour. The locational advantages of a particular area can be taken full advantage of for the industries for which

such advantages exist. In other words, industries can be established anywhere within the Common Market area wherever they can find maximum economy. As a result of that and with the widening of the overall market, there will also be economies of scale freely available to industries established at any particular point. We should, therefore, expect an acceleration of the rate of growth in these countries. The existence of the Common Market, whether Britain joins or not, involves an acceleration of growth. Such an acceleration of growth should also be expected within the Free Trade Area, but not to the same extent.

The Common Market provides for common social policies also, for instance, common labour, educational policies and so on. There are reservations in connection with agriculture and other minor difficulties which need to be looked into.

The European Free Trade Association also provides for a reduction of duties. If Britain does not join the Common Market, it will remain a member of the Free Trade Association. As a member of that Association, it will reduce its import duties in relation to other members of the Association over a period of time. It has already done that to some extent. Therefore, if there is any competition for our goods in the British market from the other members of the Free Trade Association — between the goods we produce and those other countries produce — this competition will become more acute, as these duties are reduced over the next few years.

With regard to the Commonwealth — for so many years membership of the Commonwealth was a political issue. We were very strong in saying that India should not be a member of the Commonwealth at all, that we were being exploited and so on. At the very stage when Britain itself is deciding to withdraw from the Commonwealth and take

care of itself, it is the members who are outside who are saying that Britain should maintain its Commonwealth ties. It is we who are saying it — India, Pakistan, Hong Kong, Australia, Canada. The last two countries have other links with Britain which may justify their saying that Britain should not withdraw from the Commonwealth. We ourselves are saying this, very frankly, on **selfish** grounds, because Britain provides a market for our goods. It is a protected market because we have certain concessions in duties which are not open to members outside the Commonwealth. Textiles, for instance, form an important commodity that we export to Britain. There are duties ranging from 17% per cent to 25 per cent on imports of cloth from countries in general, but no duty for imports from India. Relative to Japan, which is also an exporter of textiles, this is an important advantage to India. Of course, there are textile industries also in the countries of the Free Trade area. We have to keep that in mind. The duty on imports of textiles from the free trade area has been reduced. It is now 12%; ultimately it will also become nil, so that *vis a vis* the textile industries of the free trade area countries, there will no longer be any concession in our hands in the future.

Suppose Britain joins the Common Market and some other countries also join, what will happen? It is very difficult to say. But one thing is clear, that the common external tariff for trade round the Common Market will have to apply to India as well, unless special exception is made, unless India joins the Common Market, or is made an associate member of the Common Market or unless some concession is given to India as a member of the Commonwealth. If some concession is given to us, well and good. If not, we have to face the fact that the common external duties of the ECM will have to be paid by us on our exports to the countries concerned. We will have to pay these duties in Britain as well as in the Com-

mon Market. This appears disastrous. That is exactly why, in fact, faced with the loss of a free entry into the British market our businessmen reacted at first very strongly to the possibility of Britain entering the Common Market. They said that if we were unable to export our textiles to Britain free of duty, we would not be able to export enough and our foreign exchange earnings would fall. It is not necessary to explain here why foreign exchange earnings are important for our future economic development. The importance of maintaining our exports need, therefore, hardly be stressed.

Whether our textile exports to Britain will fall or not, will depend upon what the Common Market external tariff is. That external tariff is to be the weighted average of the existing rates. If you attach due weight to the existing tariff of Britain, which provided for free entry for Commonwealth goods, the net result would any day be a very low duty for all the countries of the Common Market. Just consider this possibility; as a result of Britain's entry into the Common Market, the rates of duty on the imports of cotton to the entire Common Market including Britain will be very low instead of being zero for Britain and high for the rest of the Common Market. Should we not expect our exports of textiles to expand? All this is not in a static context. The context is dynamic; because of the changes planned, there is likely to be rapid economic development. If we can have dynamic economic growth in Europe and if we can have the possibility of an expanding market for our goods in Europe, any fall we might suffer in our exports to Britain at this stage might well be something that we could neglect. In the long run, we might well gain from Britain's entry into the Common Market. Britain's entry into the Common Market will accelerate the rate of growth in Britain as well as in the Common Market countries and it will, therefore, accelerate the rate of growth of British demand for the goods we produce.

British entry into the Common Market, because of the liberal attitude that Britain has always possessed on the tariff duties, may also result in the evolution of a fairly liberal trade policy in the Common Market provided Britain has a say in the councils of Europe. Therefore; Britain's entry into the Common Market is a very good idea. It would help to give us a much more liberal policy in Europe as well.

The problem must always be considered in this context. Throughout the world, opinion is swinging round in favour of more liberal policies; more trade and more help for the underdeveloped countries of the world is the slogan that is put forward by no less an authority than the Economic Commission for Europe. It is a policy to which support is being given by the United States Government. The Kennedy Administration has very clearly stated its view that throughout the world more liberal trade policies are necessary if the economic development of the underdeveloped countries is to be fostered. All these ideas, if translated into practice within the Common Market, would yield, external tariff and import policies which would be favourable to the underdeveloped countries of the world.

Tariff rates should not be considered alone. It is also important to consider quotas, because the European countries have very small quotas for imports of certain commodities from us. These quotas would enlarge as a result of the influence that Britain will exercise in the councils of Europe. That would be a very desirable state of affairs. Therefore, I for one press for this. Let there be a weighted tariff system in Europe, giving due account to the fact British duties have been nil for imports from the Common Market and the rest. We should be confident of our own ability to find markets for exports in these countries and develop rapidly because of the rapid development of the areas now covered by the Common Market.

C. K. Narayanaswami

WHEN we talk about the European Common Market, we should not forget that it is not a movement which started yesterday. This movement for a European Economic Community and political unity has been going on for quite a number of years and gathered momentum after the Second World War. When this question was being discussed in Europe, Britain was also invited to join. But Britain at that time scoffed at the idea and even snubbed those who invited her to become a member of the Economic Community. When the European Economic Community under the Rome Treaty became a reality and six countries of Europe, popularly known as the "Inner Six", joined together into the Common Market, it was Britain who initiated the move and succeeded in forming the European Free Trade Association consisting of seven other European countries known as the "Outer Seven".

At this stage, it is necessary to trace in brief outline what is the European Common Market organisation, how it functions and what are its dynamics. Only then can one view it and the present controversy *vis a vis* Britain's entry into it in the proper perspective. The germ of the idea lies in the Council of Europe which came into existence in the wake of the setting up of the European Economic Administration under the Marshall Aid Programme. It was the first important step towards the building up of a United States of Europe. The Council had a statute which provided for a Ministerial Committee and a Consultative Assembly. The signatories of the Statute were Britain, France, Italy, Holland, Belgium, Luxemburg, Ireland, Norway, Sweden and Denmark.

The statute provided for discussion of questions of common interest, and for agreements and common action. The Committee of Ministers could consider any action to further the aims of the Council of Europe, including a common policy, and conclusion of agreements and report to the Assembly. The function of the Assembly was purely consultative or advisory. Neither body, however, had any powers of enforcement. That statute was signed in London in May, 1949.¹

Then came other developments, this time on the initiative of France and Western Germany. Negotiations started for pooling the iron, coal and steel resources of France and Germany one year after the Council of Europe came into existence, in May 1950, and in April 1951, the European Coal and Steel Community was born under a formal treaty at Governmental level. Besides France and West Germany, Italy, Belgium, the Netherlands and Luxemburg came together in this organisation.

A Common Market developed for coal, iron ore and ~~crap~~ and then for steel. The organisation proved to be a success from the start and functions as a real supra-national authority,

This was followed by the formation of the European Economic Community or the Common Market and the European Atomic Energy Authority which is known as Euratom with the same six members under the Treaty of Rome which was signed in March, 1957.² According to the provisions of the treaty, within the community both industrial and agricultural goods are to be completely free from barriers at national frontiers while a common external tariff is to regulate imports from third countries. But, we

¹ *Encyclopaedia of World Politics*, by Water Theimer, Edited revised and enlarged by Peter Campbell: Pages 155-156.

² *Inside Europe To-day* by John Gunther, Pages 246-248.

must realise, the objectives of the Community are not limited to the economic field only. Indeed, the Preamble to the Rome Treaty opens with a declaration of the determination of the Community "to establish the foundations of an ever closer union among European peoples". The Treaty covers a wide range of financial, social and legal matters, which, together with the economic objectives, have clear political implications. Though the community is at present an association of independent states, its common institutions such as the European Parliamentary Association, the Court of Justice, the Council of Ministers, the Economic and Social Committee and the Commission, give a supra-national character to it.³

When the negotiations to constitute the European Economic Community – the Common Market – started, it is important to remember, Britain was invited to join the first discussions which took place in 1955, but refused. Instead, she offered to join the Coal and Steel Community and the European Atomic Energy Authority. This offer was not entertained. The attitude of the Rome Treaty countries was: all or nothing.⁴

It is this circumstance that impelled Britain to move in the direction of setting up a rival organisation to the Common Market. Thus it was that the European Free Trade Association came to be established with Britain, Switzerland, Austria, Portugal, Sweden, Norway and Denmark as members in May 1960. But it was evident at the outset that this organisation could not compete with its rival, nor had it the underlying political motivation for cohesion and instinct for future unity as the other.

In this context, it is necessary to realise that the Inner Six, or those six countries which formed the European

³ *External Affairs Review*, Vol. XI, No. 7, July 1961, New Zealand.

⁴ *Inside Europe To-day*, Page 250.

Common Market or the Economic Community, constitute the core of the industrially developed economy of Europe and comprise one of the richest concentrations of industrial power in the world. The Free Trade Association countries are not so developed. Further, it may be of interest to know that the trade in the European Economic Community countries increased by about 29 per cent over that of 1960 and in Italy, steel production increased four times. Trade outside the member states has gone up by 8 per cent.⁵ Let us take a closer look. The gross national product of the Common Market countries has been growing at the average rate of 5 percent since 1950, while their industrial production has averaged more than 7 per cent.⁶ This is an indication that where countries come together with common purposes and objectives, there are certain decisive advantages.

What is the position of Britain? It was all right for her when Britain had a vast Empire. It was all right when Britain could command large raw material sources and had a dumping market for her manufactured goods. Britain could then stand alone because of her political strength, and economic advantages.

That Empire is now dissolved and the imperial market as such is shrinking rapidly. Those countries which were associated with the British Empire are free and they want to develop their own economy. They want to industrialise and expand their own markets. It may be that in the initial stages of development, they have to look for support from more developed countries. That may be true; but it is not true that these countries will ever be spoon-fed from outside or allow themselves to be spoon-fed for a long time. Nor will these countries which are growing and

⁵ *Inside Europe To-day*, Page 251.

⁶ Eric Johnston in *New York Times*.

which are planning for their own development depend very much on large outside markets when they have got an expanding and immense market within their own countries.

I think the disadvantages to certain sectors of India's trade by Britain's entry into the Common Market will be offset by the incentive that such entry will give for industrialisation and the development of our own unexplored domestic markets. It will give an incentive to the country to produce such goods and in such manner as the people need and as would diffuse economic power and purchasing capacity among the people. This will lead to a more purposeful planning of industrial growth resulting in the distribution of economic advantage among larger and larger sections of the community.

It is from this point of view that we should look at Britain's decision to join the Common Market. It is not probable that Britain's voice will immediately be so strong within the Community to influence economic policies in favour of the Commonwealth and countries outside the European Economic Community. We must be very clear on this point.

This explains why at the Accra Conference the Commonwealth Finance Ministers were very angry. Perhaps, they were affected by a mood of frustration. If Britain's joining the Economic Community results in a greater awareness among the Commonwealth countries and in the newly free and developing countries of Africa and Asia and if these Afro-Asian countries come together on an understanding about development policies and developmental requirements and create a community of interests in Asia and Africa, it might, to a large extent, offset the disadvantages that the European Economic Community may heap on them.

After all, our trade with the Common Market countries has not been very big. Afro-Asian trade with them is mainly in raw materials. If the Economic Community is allowed to have a free hand and free play and they exercise the advantage they have economically and politically today over these countries, they will be able to dictate the prices and the terms of trade. Why should they accept such a position? Is it not possible for raw material exporting countries, side by side with development plans for their own internal growth, to combine and evolve a trade mechanism of their own? One action must be matched by another.

There is no use saying that Britain is betraying us. There is no betrayal. It is a matter of survival. If Britain wants to survive, Britain will have to join the European Community. There is no escape and it will be wrong for us to say that Britain should be so charitable as to help us against herself. It cannot happen. It has never happened.

What are the compulsions which are forcing Britain into the European Common Market? The United Kingdom has reached the conclusion that should it remain dissociated from the developments in Europe it would be increasingly exposed to the threat of economic isolation. As the Community became more firmly established and as the provisions of the Rome Treaty were implemented, discrimination against British trade in the Community's expanding market and increasing competition in the markets of third countries would be encountered. The United Kingdom's assessment of the economic dangers in the present situation points to the possibility that, if it remains apart from Europe, the United Kingdom would face serious political consequences also. A decline in the United Kingdom's economic strength would, it is felt, inevitably reduce the political influence Britain would be able to exercise on international affairs both in relation to its present position

and in relation to the increasing ascendancy of the Six as the Community moved towards the achievement of its immediate objectives.⁷

Let us, therefore, not look at Britain's entry into the European Common Market in a tragic spirit. It may act as a godsend inasmuch as it could lead to and promote a sense of self-reliance and self-help. It may also help us to think in terms of new avenues and alignments. If we can come to some sort of an arrangement between the African and Asian countries and develop a sort of a common economic interest, it may be that, sooner rather than later, our position will be economically strong.

There is already a proposal mooted to have an Asian Common Market. The idea may be good, but the development in Asian countries is so unbalanced or unequal between country and country that any common market will result in an advantage to the most developed member. The question will have to be considered and explored in greater detail and in order to see how far and to what advantage such an idea can be worked out. But, in the meantime, it may be possible for us to assess the economies and developmental requirements of our neighbours and the newly freed African nations and together with them discuss and examine possibilities of closer economic union. We should not ask for charity or look for it. We have struggled for our Independence and we have said that independent India will look after herself.

All this fear about losing our trade with Britain comes out of our failure to develop our own internal resources. Six years ago, a Ford Foundation team toured our country and explored the possibilities of developing our internal markets. That team came to the conclusion that "the Indian

⁷ *External Affairs Review* (op. cit.)

market is one of the largest potential domestic markets in the world. If this market is fully developed in both the cities and the villages, it can stimulate perhaps the greatest industrial revolution ever seen, and make India one of the foremost producing and consuming areas in the world."

But our consumption standards are low because our planning is defective. Our plans will have to be adjusted in such a manner as will pump purchasing power into the hands of the masses. If that happens, India will not only have no cause for complaint about the loss of an outside market or lack of it. There is a market right here and there will ever be that market. The only thing needed is that economic growth should be such that there is an all-round development which will generate the desire to consume more.

If our economic development is directed towards this purpose, the loss of the British market will cease to worry us. It may be that we want foreign exchange for development purposes. But when we consider the needs of our development in terms of foreign exchange and if we think that this foreign exchange can only be had through exports, let us also consider one other point.

It may seem insignificant to the great economists who are our planners; but to practical men of commonsense, it is of great value. Take our traditional markets for textiles in South-East Asian countries and East African countries. What had happened? We have lost our traditional markets for textiles. Why? We do not ask that question ourselves. These countries are now free. Each of these countries has got development plans. They are as eager and anxious to industrialise and develop. They will consume what they produce. Will they look for our goods?

We must take a commonsense view of things. What requires to be done is to bring about a greater unity of interest among these developing countries and, if possible, devise methods and measures and set up institutions and organisations which will create a certain community and agree to have developmental and resource planning which will result in maximum benefit to all without injury to any. Development of an Afro-Asian Economic Community and Common Market need not be a daydream. The feasibility of serious efforts in this direction will be apparent if these countries will only realise the political implications and consequences of the European Common Market.

If European regional development is taking place in this manner, it is necessary that other regions should begin to think about it and gather strength to hold themselves together and to hold their own. If this happens, Britain's entry into the Common Market will be an undisguised blessing to us.

III

Prof. C. L. Gheevala

JOINING the European Common Market is a compulsion which the U.K. cannot avoid. Particularly after the Second World War with the shrinkage of the Empire and its political power, the consequent effect on her markets and all the implications arising out of that have necessitated that step. Thus, the U.K., for her survival, has no choice but to join the Common Market. India can have no quarrel with this decision.

The other aspect regarding the European Economic Community is that it is not purely an economic community.

The main force behind it is political. It is an attempt on the part of these European countries to consolidate themselves against the powerful might of the Soviet bloc. It is, therefore, the social, economic and political aspects of the European Economic Community which have to be borne in mind when looking at this problem. It is not merely expansion that they are trying to seek, but also an acceleration of industrial development as rapidly as possible with a view to raising the standard of living of the people in the region.

The U.K. has to live on exports. The markets for the U.K. have shrunk and she has realised by experience that her progress as compared to the European Economic Community and the Common Market countries has been sluggish. For example, industrial production between 1952 and 1960 went up in the U.K. by about 30 per cent while in the European Economic Community countries it went up by about 70 per cent. Even in respect of exports, they went up only by 29% for the U.K. while in the Common Market countries they went up substantially by more than 60 to 70 per cent. That being the position, the U.K. which had hitherto prided herself by living in splendid isolation can no longer choose to continue in that isolation, because of the shaking of the Empire. It is a 'categorical imperative for Britain to join the Common Market. Unless she joins, she cannot have the benefits of an expanding market, which increases the purchasing power, and all the advantages which follow. Keeping in view the political and social implications, it is not merely going to be a freedom of movement of goods and services, it is also going to be a freedom of movement of manpower and industrial development. A bank has also been established in the region. Therefore, the EEC is an integrated approach to the several problems which have developed in the post-war world in Europe. It is a move which has to be viewed from a much broader angle. We shall examine what would

exactly happen to India if the U.K. joins the Common Market.

I do not believe that things will crash the moment the U.K. joins the Common Market. But we have to take a very realistic view of the implications of the U.K. joining the Common Market at this stage of our development, particularly when we have been told that either we have to export or stagnate. We have launched the Third Five-Year Plan. The most crucial problem during this period is that of foreign exchange. Unless we earn enough foreign exchange, our development is going to be retarded. We are yet to develop the internal market with all its infinite potentialities and I share that promise of the future. But today that is not the position. In the present stage of development, unless we export, we will not be able to maintain the industries that we have developed, much less can we talk about the foreign assistance that will be necessary for the numerous industries we propose to start in the Third Plan period.

If the U.K. joins the Common Market, the "Inner Six" as they are called, the sixes become Sevens and as regards the "Other Seven", they will become six. We will be at sixes and sevens as far as they are concerned. The U.K. has been accounting for nearly 27 per cent of our exports and the European Common Market countries for nearly 8 per cent. Both combined account for 35% of our exports. Likewise, in imports the U.K. accounts for 20% and the Common Market countries, which accounted for only 8 per cent formerly, now account for up to 18%. These imports are mainly of goods which we badly want for development purposes. Another aspect we have to remember is that some of these countries are also members of the Aid-India Consortium which has undertaken to provide the necessary foreign exchange for us. This is particularly the case with West Germany. These countries have to see that the existing pattern of trade is not disturbed very

much. It is not charity that operates on the international sphere, it is only enlightened self-interest which governs the countries in making their choice of one policy or the other. There is, therefore, no question of charity or begging. What we really ask them to consider is this! They have been exporting goods to us. We have been importing capital goods and machinery and raw materials for building our industries. It would be entirely in their interests to see that they do not also bring down our exports to them. They want to be paid back and would like to be paid back only in terms of trade, which is the most honourable way of doing it. Therefore, unless they want us to turn to other countries, which I am sure will not be in their interest, politically and otherwise, they should continue to so evolve the Common Market pattern and their tariffs that India continues to enjoy at least the existing status quo if not any other privileges. This will be desirable both from the point of view of enlightened self-interest of India as well as of the Common Market countries themselves. There is, therefore, no question of favours from them. If they want to send their capital goods and machinery, which they are certainly very anxious to send, they have also to provide for some additional markets for our exports.

The Union Ministry of Commerce and Industry has analysed some of the facts and believes that India is likely to lose about one-fifth of her trade with the U.K. Our overall trade with the U.K. is of the order of Rs. 200 crores and that would mean our losing about Rs. 40 crores of trade. It is not much from that point of view. We have to build up markets elsewhere. Tea is one of our major exports to the U.K. accounting for nearly Rs. 85 crores of foreign exchange. In this regard also, it has been worked out that there will be only a marginal difference as far as exports are concerned, though certainly for the average Britisher, it will mean that he will have to pay something higher for his cup of tea because to the extent

of the tariff the price of tea will go up. But that is a situation of their own creation and they cannot blame us for it. Jute, which accounts for nearly 21% of our exports, is not likely to be very seriously affected. Dundee jute is already protected and the only rival we have is Pakistan and there is not going to be a material difference from this point of view. The only export item which comes into trouble is textiles. It is estimated that nearly 50% of our exports of textiles is likely to be affected. The export earning of Rs. 19 crores might come down to Rs. 10 crores. This is obvious because India today enjoys a preference of 17% over the Common Market countries. By 1970 those countries will enjoy over us a preference to the extent of 15%. That naturally cripples the competitive capacity of India.

The question is how far safeguards would be safely negotiated for us. I am not very sanguine about these safeguards. If safeguards are ever negotiated, that would be done on the basis of mutual interest. It is quite likely that in the context of the larger developmental problems with which we are concerned, the Common Market countries may agree to provide certain safeguards, liberalisation of quotas etc. If that comes about, it will be as a result of appreciation of common interests by both the groups.

The question of an Asian Common Market arises in this context. This idea has been mooted by quite a few. A sort of a vague suggestion is thrown out that if the European countries can organise themselves into a Common Market, why not the Asian countries? The idea of an Asian Common Market, on the lines of the European Common Market, is likely to be premature. We have all common problems of the same nature. What can be achieved with a certain measure of success is the possibility of a closer integration between these Asian and African countries. There can be a certain amount of integration among the raw material producing countries with a view to enabling them to nego-

tiate in a better way with the advanced countries. But there is a snag. All these so-called backward countries are in a state of development. They will soon become, as we are ourselves trying to become, rapidly industrialised. In this context, we will have to use our own raw materials, barring a few items. The whole pattern is so rapidly changing that it is difficult to categorise countries as raw material producing and industrially advanced countries from that point of view. However, it appears that a certain amount of integration is possible and that might add to our bargaining power.

Then there is also a move about an Atlantic Common Market. The long and short of the matter is that India is very peculiarly placed today. We are in a very critical position and particularly because of our development programme. There is talk today of reaching the take-off stage. We are promised that at the end of the Third Plan. It appears to me to be a little far off and not by the end of the Third Plan. If it happens, it will be a miracle for the Planning Commission. In the midst of this critical position, we are faced with a serious crisis on the export front. Our exports are stagnant today. They have not moved up with all our talk of export promotion, giving incentives etc. We have before us a target for raising our exports by nearly 30 per cent. I am very very doubtful about it. In the midst of these circumstances, if we are faced with another challenge that we are likely to lose some of the established markets as a result of the U.K. joining the Common Market, certainly it is a challenge which is much more serious. If we are not up to the challenge and the Government, the people, the trade and industry do not face this in a bold way, we might stagnate rather than forge ahead as we have thought today. Therefore, the challenge remains "Export or stagnate" and it will be better if we can devise a plan whereby our exports can show up. The reasons are obvious,

We have to look within. It is not that other countries can always help us in the sphere of export.

International trade will continue to flow for all time to come, whether India industrialises herself or not, and no country can be self-sufficient. Even U.S.A. and the U.K. have exports. All these countries have to enter into international trade. When we industrialise, we have to look to South-East Asia and to the Middle East as our natural spheres for exports. But at the rate at which we are developing, the manner in which we are doing it, and the high-cost economy which we are building up, as a result of inflationary pressures in the economy, whether we would be able to stand the competition in the international sphere is a question of great importance. If we are unable today to succeed in some of the foreign markets, the main snag is price. Our products, apart from their quality, are also high cost products. These high cost products are the result of inflationary pressures which have been generated in the economy. Unless we look into this problem with all earnestness, we shall be failing in our efforts to meet the challenge posed by the proposed entry of Great Britain into the European Common Market.

The views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

-A. D. SHROFF

**HAVE YOU JOINED THE
FORUM ?**

Annual membership fee is Rs. 10/-
only.

Bona Fide students can get our
literature for a year by becoming
student associates on payment of
Rs. 2/- only.

Published by M. R. PAI, for Forum of Free Enterprise, "Sohrab
House", 235 Dr. Dadabhai Naoroji Road, Bombay 1, and printed
by P. A. RAMAN at Inland Printers, Victoria Mills Building, 55,
Gamdevi Road, Bombay 7.