



MODY-LEES PACT

Dr.T.Jayanthi

Assistant Professor in History Sarah Tucker College (Autonomous), Tirunelveli

Email : jayatr88@gmail.com

Abstract

The Mody-Lees Pact was signed on the 8th October under the head of Mr.H.P.Mody, Chairman of the Bombay Mill Owners Association. In this Pact the British Textile Mission gave an undertaking that it would take effective steps for promoting the use of Indian cotton in Lancashire mills and make a periodical report of their work to popularize Indian cotton. It was agreed that the Manchester Chamber of Commerce should promote the sales of Indian cotton manufactures through some of the well-known British firms in places where Indian textile producers have no contact. One of the most important features of the Mody-Lees Pact was that it was made without the intervention of the Governments and solely on the understanding arrived at by the representative's interests of both the United Kingdom and India. The Indian cotton interests with the Lancashire textile industry in 1933 and 1934 on the basis of the understanding reached in this trade agreement, ad valorem duties on British goods were reduced in 1936 from 25 percent to the minimum of 20 percent specific duties from 4 3/8 as per lb to 3 1/2 as per lb. During 1939 a new India British trade agreement permitted the import duties on British goods to be reduced further to 17 1/2 on printed goods 15 percent on other goods and a minimum of 2 annas per lb on place in grey goods.

Keywords : Trade agreement, Mr.H.P.Mody, Bombay Mill Owners Association, Lancashire textile industry, Indian cotton, British goods.

Introduction

The Mody-Lees Pact was one of the cotton trade agreements of India.ⁱ It was signed on the 8th October, 1933 under the head of Mr.H.P.Mody, Chairman of the Bombay Mill Owners Association.ⁱⁱ During his visit to England in connection with the work of the Reserve Bank Committee, Mr.Mody impressed upon Lancashire the possibility of securing great gains by an agreement with Indian mill owners and the advisability of seizing the opportunity such an agreement would offer for checking Japanese competition by joint endeavour. Lancashire had found the Indian tariff rates very burdensome and she knew friendly talks with Indian mill owners could pave the way to tariff concessions in her favour. There was also the opinion that, on the eve of great political changes in India an agreement between the two commercial interests would be widely appreciated by the political circles in England and India. So a delegation was sent to India under the Chairmanship of

Mr.Clare-Lees, the Indian Government had abrogated the Indo-Japanese convention of 1904 and thereby indirectly invited the Japanese Cotton Association's boycott of Indian raw cotton. At about same time, Japan also sent a delegation to India to restore friendly relations with her.ⁱⁱⁱ

After some weeks of discussion and negotiation, an agreement was finally arrived and signed by Mr.H.P.Mody, Chairman of the Bombay Mill Owner's Association and by Mr.Clare-Lees on behalf of the Lancashire Delegation.^{iv} The pact was signed on the 8th October, 1933 and it was to remain in force till the 31st December, 1935.

Features of Mody-Lees Pact

A remarkable feature of the Mody-Lees Pact was that it was made without the intervention of the Governments and solely on the understanding arrived at by the representative's interests of both the United Kingdom and India.

For the first time the Governments of the United Kingdom and India stood aloof and allowed the commercial association of the two countries to suggest trade relations and tariff adjustments. This attitude of the Government of India dispelled some of the suspicious entertained by the public that the tariff policy of India was always dictated by the vested interests in Britain and without any regard to the commercial progress of India.

Another important feature of the agreement was that one of the parties did not fully represent the country's interests. The Bombay Mill Owners Association stood for but 50 percentage of the total looms and spindles in the country and the view that what was good for half the section of textile industry in the country would be good for the other half also was greatly challenged. Bengal and other half also were greatly challenged. Bengal and other parts of India engaged in cotton textile production questioned the claims of Bombay to represent the whole of the cotton textile interests of India, especially because the spindles and looms in Bombay at this time were estimated to amount to very much less than half the total number of spindles and looms in this country.

The consumer interests were said to be jeopardized by the agreement. In this connection it was pointed out that Bombay mill owners had never shown any sympathetic consideration for the consumer's interests and that they were desirous of raising tariffs to the detriment of the consuming public even at a time when the purchasing power of the masses was curtailed enormously by the depression.

A bilateral trade pact between the capitalists of the two countries would naturally tend to sacrifice the consumers interests. In order to safeguard the consumer the Government's intervention to bring about a just pact should have been sought.

The Mody – Lees trade pact did not altogether consider the need for ensuing the prosperity of the cotton trade in India. Non-empire countries like Japan having extensive trade connections with

India resented both the bilateral trade pact between India and Lancashire and the restriction of India's trade to imperial channels.

The Clauses of the Trade Pact

Clause: 1

It was agreed that the Indian Cotton Textile Industry is entitled, for its progressive development, to a reasonable measure of protection against the imports of United Kingdom yarns and piece-goods. It was also agreed that under present conditions, owing to lower costs and other factors operating in foreign countries, the industry required a higher level of protection against them than against the United Kingdom.

The recognition by Lancashire that the Indian textile industry required a reasonable measure of protection against the imports of United Kingdom yarns and piece-goods helped only to make the fiscal autonomy of India a myth. It gave rise to serious misgivings that the Indian tariff policy was merely being adjusted according to the dictates of Lancashire interests. If the fiscal autonomy of India were real, the recognition, by Lancashire, of the need to safeguard the Indian textile industry by some reasonable measure of protection would be uncalled for. Even the term 'reasonable measure of protection used by Lancashire interests was a very elastic one.

Japan was the biggest single consumer of Indian cotton and tariff policy against Japan, however welcome to Lancashire interests, would end in the Japanese boycott of Indian cotton. Britain could not certainly offer to India any compensation for the loss Indian cotton would suffer by its boycott in the non-empire countries.^v Britain would not offer to utilize Indian cotton in Lancashire mills.

In the early years of the decade commencing from 1930, Indian mills captured the whole of the Indian market for drills and jeans dhoties domestics, etc. Indian mills also supplied at this time about 80 percentage of the country's of the demand for piece-goods. British imports into India, however, mainly consisted of textiles coming under the above categories, and Britain was hence the most formidable competitor Indian production had to face, it was against British imports that Indian mills required more protection.

The lower costs of the cotton goods of foreign countries, of which Japan occupies a prominent place, were not attained by low wages, Japan observed the Washington convention concerning labour conditions from 1929 and if Japan succeeded in lowering the costs of production, it was due solely to the many special advantages, economic and non-economic possessed by her.

The first clause of the pact was objected to vigorously by important traders associations in this country. Lancashire enjoys the advantage of free entry of raw cotton and because of the depreciation of the English currency, the cost of production of English cotton goods is substantially lower than those of Indian mills which are handicapped by import duty on raw cotton machinery and

stores. Indian mills are fully capable of producing India's requirements of cotton goods supplemented by the production of hand looms and this Association declares that it will be seriously detrimental to the interests of the country to lower the protective tariff at the present time.

Altogether, the first clause of the Mody-Lees Pact was a direct concession to the British claim for protection and it was based too much on questionable assumptions to pass unnoticed.

Clause: 2

It was stated that "As regards cotton piece-goods it was agreed that, if and when the revenue position of the country made it possible for the Government of India to remove the general surcharge on all imports imposed in October 1931, the Indian side would not make any fresh proposals with regard to the duties applicable to the United Kingdom imports"

The financial condition of India was very unstable during the depression years and the Finance Member had given an assurance that relief would be granted first through the income- tax before any other item of taxation was considered. Besides the Indian Government could not be expected to yield to the pressure of the Indian Cotton Industry, just one among the many industries of India, just one among the many industries of India, for the retention of surcharge as a protective measures. The surcharge of 5 percentage as well as the duty of 20 percentage on British imports of cotton textiles was imposed for revenue purposes only and without any protectionist motive. In the clause 2 of the Mody – Lees Pact, India did not lose anything since the Government's financial position did not promise any reduction of surcharges nor could the Indian cotton industry have got a higher protection than 20 percentages.

Clause : 3

"In the matter of cotton yarns the India was an agreed that, so far as imports from the United Kingdom are concerned, the duty may be 5 percentage ad-valorem with a minimum specific duty of 1 ¼ annas per lb"

Clause :4

India was agreed to the United Kingdom, the duties of 30 percentage ad valorem or 2 annas per square yard for mixture fabrics of cotton and artificial silk. Artificial silk goods were not produced in large quantities in India and the reduction of duty on their import only helped to stimulate the increased use of this cheap luxury.

Clause: 5

It was agreed that the Manchester Chamber of Commerce should promote the sales of Indian cotton manufactures through some of the well-known British firms in places where Indian textile producers have no contact.

Clause: 6

According to clause 6, the British Textile Mission gave an undertaking that it would take effective steps for promoting the use of Indian cotton in Lancashire mills and make a periodical report of their work to popularize Indian cotton. In the years 1935 – 1936 and 1937 – 1938 there was a greater off take of Indian cotton by Britain than in the previous years, but in 1937 – 1938, there was a decline.^{vi} Besides Lancashire could not make increased use of Indian cotton because its machinery was only suited to the use American long - staple cotton.^{vii}

Conclusion

Mody- Lees Pact was much criticized on the score that, while it gave definite concessions to Lancashire, it gave nothing more substantial than vague promises to India in return. There was no definite promise for the off-take of Indian cotton and Indian textiles and yet India granted tariff concessions to British yarns and artificial silk. It was said that the agreement would secure the co-operation of the United Kingdom to drive out Japan from the Indian market, but it should be remembered that Japan was one of the main customers of India for cotton and it was desirable to maintain friendly relations with a good customer. Britain could not help Indian market to withstand the Japanese invasion of her interests especially because no big reduction in prices would be possible. Further, India produced most of the varieties of goods imported from the United Kingdom and it was in the interests of India to make Britain resist Japanese imports and clear the Indian market for Indian manufactures, but instead the pact tended only to protect British imports through tariff concessions. When the Government of India gave legislative sanction to the pact there was naturally much opposition to it from important sections of the textile industry in India.

References

ⁱ *Legislative Assembly Debates Report*, Vol.III, Government of India, New Delhi, 1932 p.975.

ⁱⁱ Aditya Mukherjee, *Imperialism, Nationalism and the Making of the Indian Capitalist Class – 1920 – 1947*, New Delhi, 2002,p.60.

ⁱⁱⁱ Marguerite Dupree(ed.), *Lancashire and Whitehall -The diary of Sir Raymond Streat*, Vol.I,Manchester, 1987, p.251.

^{iv} John Crabar, *Cotton Literature*, Vol.3, U.S, 1933, p.179.

^v Sunga Jae Koh, *Stages of Industrial Development in Asia – A Comprehensive History in Japan, India, China & Korea*, London, 1966, p.174.

^{vi} Rao Shahib and B.V.Narayanaswamy Naidu, (ed.), *Indian Trade*, Madras, 1942, p.162.

^{vii} Dhires Bhattacharyya, *A Concise History of the Indian Economy*, Kolkatta, 2007, p.151.