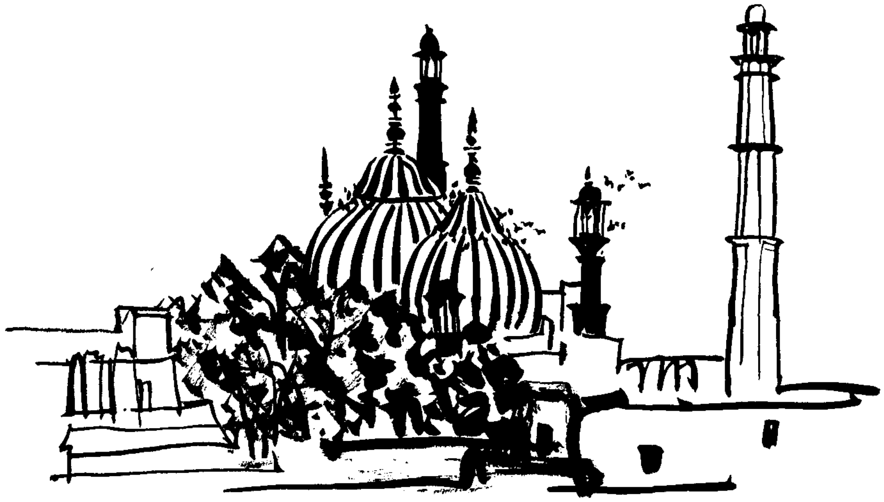


New Customers For the Shoemakers of Agra

WILLARD J. HERTZ

During the past winter and spring, tourists invaded Agra as usual to see the Taj Mahal, but most missed the new touch of Soviet Russia in the Indian city's Mogul architecture.

The tourists might have seen a colony of large white canvas tents on a hill not far from the Taj and dismissed it as a circus or carnival. Closer inspection would have revealed, over the compound entrance, a display of Soviet and Indian flags and a yellow-on-red sign in Russian: "Welcome to the Visitors." Inside, the curious would have found portraits of Bulganin and Khrushchev, and photographs of them with Prime Minister Nehru.

Although less satisfying aesthetically that the Taj, the tent-covered hilltop also was a monument—a monument to Russian skill in combining business with propaganda. The Soviet government had moved into Agra's failing cottage shoemaking industry with an order for 250,000 pairs, and the tent colony was an Indian government depot for inspecting and shipping the Russian purchases. (Cottage industries are those whose wares are manufactured entirely or mostly in the home, from raw material to finished product.)

With their order, the Soviets were distributing needed work and winning many friends among Agra's twenty-four thousand desperately poor and underemployed shoe artisans. They also were making quite an impression on other Agra citizens. Bicycle-rickshaw drivers were referring to the Indian government depot as "the Russian office," and the depot switchboard operator was answering the telephone "Russian sell."

At the same time, with a chronic shortage of shoes at home, the Soviets were investing in a sure bonanza. The Soviets were paying from twenty to twenty-five rupees a pair. (The rupee is worth about twenty cents.) The shoes now are retailing at government outlets in more than a dozen Russian cities for the ruble equivalent of from one to two hundred rupees.

The Soviets guarded their investment well. They had submitted twenty-six design specifications complete with samples, and Russian shoe experts, with sharp eyes for wrinkled linings and uneven seams, came down from New Delhi once a week to make sure their government was getting shoes of superior quality. As a result, Agra footwear, except for buffalo-hide soles, which are too porous, compares favorably with Russian and Czech shoes.

The Indian government and the Agra shoe industry also made a healthy profit. Shoes like those for which the Soviets paid from twenty to twenty-five rupees a pair normally bring from eight to twelve rupees in the Agra market. The government-owned National Small Industries Corporation (N.S.I.C.), official middleman in the deal, split in the windfall with Agra manufacturers and factors.

In other words, everyone came out ahead—except the Russian consumer, who still is paying for his country's shortage of consumer goods.

The Indians apparently learned early in the game how to do business with the Russians. I asked an official of N.S.I.C. whether the Indian government would display the American flag and pictures of President Eisenhower if Americans bought Agra shoes.

"My dear fellow," he replied, "you must remember that this is a transaction between governments. Since the Soviet government is the purchaser, we're displaying the Soviet flag as a matter of courtesy. If Americans were buying the shoes, the purchaser would be some private firm like Macy's or Gimbel's, and if they have flags, we'd fly them."

When I expressed a certain degree of skepticism about this explanation, the official lowered his voice and said: "The truth is that we hang the flags and pictures to soften up the Russians a little. Their first inspection was pretty rough."

An Agra manufacturer told me afterwards that the Russians rejected twenty per cent of his first delivery. Later, because of improved quality as well as government "softening up," rejections decreased tenfold.

With a critical shortage of foreign exchange threatening to cripple India's Second Five-Year Plan before its second birthday, India is delighted to do business with any foreign customer regardless of political implications.

The plan was launched on April 1, 1956, and in its first year it developed a much greater appetite than had been anticipated for foreign machinery, steel, cement, raw materials, and other developmental needs. As a result, T. T. Krishnamachari, the finance minister, now estimates that the plan will run up a fifty per cent greater foreign-exchange deficit than the government had bargained for.

Furthermore, under the impact of the plan, rising world prices, and the Suez Canal crisis, India's trade balance took a serious turn last year. While exports dropped by almost a third from 1955 to 1956, imports jumped by almost a quarter during that same period. Starting January 1, 1957, the government imposed a drastic import-curtailment program, but recent figures indicate the balance has become increasingly lopsided. In the fiscal year ended March 31, 1957, India ran up a trade deficit of more than three billion rupees, compared with 1.095 billion in the previous fiscal year; foreign exchange reserves dropped from 8.5 billion to less than five billion.

No wonder, then, that Krishnamachari, in his May budget message to parliament proposing perhaps the stiffest tax program in India's history, termed the foreign-exchange drain "the major problem before the country."

A Far Cry from Gandhi's Dream

In May, 1956, the Indian government founded its State Trading Corporation to promote foreign trade. The Agra shoe deal was part of one of the corporation's biggest achievements to date—a ten-million-rupee order for 500,000 pairs of shoes placed by Razno-Export, the Soviet trading agency. Through the affiliated National Small Industries Corporation, State Trading allocated three hundred thousand pairs to the cottage shoe industries of Agra, Delhi, Bombay, Madras, Calcutta, and Bangalore; it turned over the remaining 200,000 pairs to large commercial manufacturers.

The major problem of N.S.I.C. in holding up its end of the deal was to find enough cottage workers capable of making quality shoes to given specifications. Only Agra, the largest cottage shoe center in Asia, could offer a sizable reservoir of skill.

Agra workers, however, make more than eighty per cent of their shoes on speculation, with little concern for design or workmanship. Manufacturers qualifying for the Russian business tended to be the larger and more progressive producers. The mass of backward and depressed workers who needed the business the most benefited only indirectly—by taking up some of the regular Indian market demand spurned by the progressive producers, who preferred the lucrative Russian order.

Agra was allocated the lion's share of the Russian order as an additional spur in the government's efforts to keep the cottage shoe industry gain. The industry, which directly supports twenty-five per cent of the city's 375,000 population, reached a peak production of twenty-five thousand pairs a day during the Second World War. It now has slumped to about ten thousand pairs, which puts a damper on the city's economic life that the postwar influx of tourists has only partly offset.

The Agra shoe industry is a far cry from the Gandhian dream of skilled cottage artisans working in village homes close to nature and taking a craftsman's pride in the product of their labor. The Agra workers toil in one-room mud hovels clustered in filthy and insanitary slum colonies known as *bustis.* They usually work in family teams of three or four, with the children doing menial chores instead of attending school. The great goal in the lives of these people is to stay ahead of their creditors and of rising food prices.

Where the Shoes Pinch

Every evening the workers pile the day's output into large baskets and carry them on their heads to the open-air shoe market. Because they cannot store their products and wait for better prices, they are at the mercy of the middlemen. Chances are they bought leather on credit at high interest rates. They will need more leather tomorrow. Furthermore, they live from hand to mouth, and the family is waiting at home for dinner. The workers are forced to sell their shoes for whatever they can get, and exploitation is inevitable.

Since the war the shoe workers have felt the pinch of rising prices, both on leather and on living necessities. But because of their weak position in the market, they have been unable to claim a fair share of the rising price level, and inflation has filled the pockets of the middlemen. To stay alive, the workers have had to cheapen quality, substituting cloth, paper, cardboard, and even sawdust for leather. As a result, they have lost much of their market to the large foreign-built factories of Kanpur, which have been able to capitalize on the rising market.

In one *busti,* two cottage workers gave me an idea of what they are up against. Tota Ram told me that he and his two brothers make twelve pairs of cheap varnished sandals a day; they get a maximum of three rupees (about sixty-two cents) a pair, leaving them a profit of a quarter rupee, or about five cents, on each pair.

Chandra Bhan, a more conscientious craftsman, can make only two pairs a day, but he sells them for 10½ rupees ($2.20) a pair. His profit of five rupees a day makes him middle-class.

THE AGRA shoe workers' plight is aggravated by the fact that they are all Chamars, the untouchable caste of leather workers. Depressed by Hindu society for centuries, the Chamars have no resources and are nearly all illiterate. They cling desperately to traditional tools and techniques, which, however primitive and inefficient, are the only ones they know. Mechanization has passed most of them by.

If Agra were in a western country, the larger, more efficient industrial manufacturers would drive the cottage shoe industry out of the market. It is assumed that after a certain amount of adjustment the technologically unemployed would find more productive jobs in other industries.

But even leaving aside the emotional attachment of Gandhian intellectuals to cottage industry per se, in present Indian conditions the Agra shoe industry's death would be disastrous. Unemployment and underemployment already are pressing. Industrial development is still too limited to provide job opportunities. The shoe workers themselves are ill suited by training and caste outlook for other types of employment. "We can't ask a man to starve today," one government planner told me, "just so we all can be rich in twenty years."

Weak but Not Hopeless

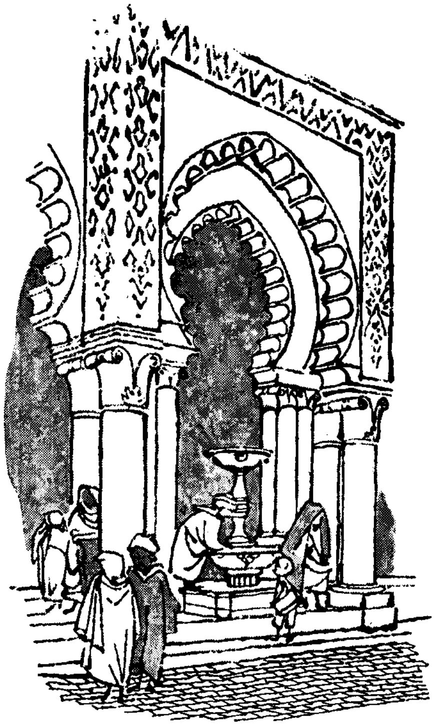
With India's shortage of capital and foreign exchange, moreover, the government is channeling heavy investment as much as possible into the manufacture of capital rather than consumer goods. Only about fifteen per cent of India's population wears shoes, and if any market is bound to grow as living standards rise, it is footwear. To meet this demand, the government is stressing cottage production to conserve the country's capital resources for steel mills.

Agra's competitive position, while weak, is not hopeless. There still is a residuum of skill—even within families there is frequent division of labor whereby each member is a specialist in a given operation. Cottage manufacture also has a major advantage over big industry: negligible overhead. The problem, then, is to salvage traditional skills with improved technology, financing, and marketing.

To help cottage workers make better shoes with less drudgery, the Indian and Uttar Pradesh state governments have converted an abandoned buffalo stable into a model workshop with the help of Erich Beyrodt, a German shoe expert brought in by the Ford Foundation. Artisans come to the workshop for designing and sizing assistance, and bring baskets of leather and semi-finished shoes for key mechanical operations, such as skiving (cutting or paring) and closing. The workshop charges only nominal fees. It makes no finished products and thus is not competitive.

The workshop is a "pilot project," a favorite term in India. This means that if the workshop is successful on a modest scale, six more will be built in the city. Once artisans are convinced of the advantages of key mechanical operations, moreover, the government hopes to make machinery available to them through loans or installment purchasing.

At the outset, the project ran into a wall of indifference. In April, 1956, its first month, only six manufacturing units brought shoes for servicing. By December the number increased to fifty-five—a sizable gain but still a small fraction of Agra's six thousand



manufacturing units. Workshop machines still are running at half capacity.

Although only two hundred yards from the workshop, Chandra Bhan, the conscientious artisan, won't bother taking his two pairs of shoes a day for servicing. His volume is so small, he explained, he might as well do the operations by hand and save a few annas. When I asked why he couldn't use the workshop's services and increase his production, he replied, "The middleman will take only two pairs a day."

To improve financing and marketing, the government is organizing and co-ordinating artisans' co-operatives. The state industries department receives orders for shoes and allots them, with raw materials and, if necessary, tools, to the co-operatives. When the finished shoes are returned, the department pays the co-operatives their selling price minus the cost of materials and reasonable wear and tear on the tools. The co-operatives pay their members wages and, if possible, annual dividends. By eliminating the middleman and the leather merchant, the system adds about twenty-five per cent to the worker's income.

There are twenty-nine co-operatives in Agra, taking in about twelve hundred of the twenty-four thousand shoe workers. So far, unfortunately, the government has been unable to get enough orders to keep them busy, and they have had to rely on the local market for much of their business.

A refinement of the government's marketing system is the Quality Mark Footwear Manufacturers Co-operative Association, whose members include the artisans' co-operatives and twenty-one individual firms. The association merchandises only superior shoes, identified by a "quality mark," and is assisted by the state government, billboards, and movie advertising for promotion of a wide variety of "quality mark" products made by cottage and small-scale units.

But the association can sell only about fifty thousand pairs a year, and many of these go to the police and army. With most Indian consumers more interested in gloss than in quality, merchants prefer shoes wholesaling for five rupees to those for twelve. The market can be upgraded only by consumer education—a long and arduous process in a country with eighty to eighty-five per cent illiteracy.

A favorable omen is that the large commercial shoe manufacturers are starting to subcontract with the association to avoid the government's ten per cent excise tax on factory production. The manufacturers previously had shied away from cottage-made shoes because of the difficulty of controlling quality. Now the association employs three inspectors to assure conformity to specifications.

Shoe Buying in Agra

The problems of Agra's shoe industry appear with only minor differences in nearly all of India's cottage and small industries, and the government is making similar efforts to improve products, ease financing, and expand markets. The Indian government spent three hundred million rupees ($60 million) on cottage and small industries in the First Five-Year Plan, and in the Second Plan has budgeted two billion rupees ($420 million).

Despite the publicity given to large-scale industrialization, India remains a nation mainly of cottage and small-scale manufacture. More than twenty million persons are employed in units with fewer than fifty workers—five million are engaged in the hand-loom industry alone, nearly as many as in all large organized industries combined, including steel, heavy and light engineering, consumer goods, mines, and plantation work.

The range of cottage and small-industry products, moreover, staggers the imagination. While most are made only for local consumption, many are suitable for big-city and foreign markets. In exhibitions in only two states, Uttar Pradesh and Punjab, I saw everything from pottery to radios, glassware to machine tools.

IN THIS CONTEXT, Russian shoe buying in Agra takes on far more significance than a one-shot, quick-profit business coup. It may inaugurate a new and mutually profitable trade between India and the Iron Curtain countries. India has been getting most of its imported machinery, transport equipment, steel, and cement from the West in exchange for jute, tea, and raw materials. Now, pressed for dollar and sterling exchange, it has an eye on developing an alternative flow from the Iron Curtain countries in exchange for consumer goods.

Indian-made consumer goods are among the cheapest in the world, and the Iron Curtain countries are under increasing pressure at home to make more consumer goods available. If nation-to-nation trading works for shoes, it can work for other Indian cottage and small-industry products. Already the Russians are buying trial amounts of hand-loomed textiles, sporting goods, hosiery, knitwear, and the Moradabad brassware often displayed on American bargain counters. They are negotiating a second, larger order for shoes, and the Hungarians and Poles are also window-shopping the Indian footwear.

Many Indian cottage and small industries could expand overnight if their customers gave the word. Hosiery and knitwear production is only at sixty per cent of installed capacity. To meet the Russian order, Agra shoemakers readily doubled their daily production from ten thousand to twenty thousand pairs. Sporting-goods and lock manufacturers also could double output. The potential for hand-loomed textiles is almost limitless.

As for the Soviets, the cheapness of Indian consumer goods fits neatly into the strategy of their trade offensive. Soviet monopoly pricing of imported consumer goods at home bears little relation to costs—the government can charge whatever the traffic will bear. As a result, the Soviets can undersell the West on exports, recovering their losses on imports at the expense of the Russian consumer.

In the Soviet trade offensive in India, the emphasis has been on the Russian export of machinery, steel, and technical assistance in exchange for rupees and rupee credits. Despite pious statements by Indian and Russian leaders about the great trading opportunities in the Second Five-Year Plan, Russia's rupee proceeds are starting to pile up. The shoe order gave the Russians a chance to use these rupees profitably, and purchases of other consumer goods would go a long way toward cutting them down.

IN THE PAST eighteen months, trade between India and the Iron Curtain countries has leaped ahead. In the first nine months of 1956, their exports to India amounted to $42 million, compared with $22 million in all of 1955, and their imports from India totaled $20.5 million, compared with $9.6 million. Iron Curtain trade during the nine-month period in 1956 still lagged far behind U.S. exports to India of $144.3 million and imports from India of $137.8 million, but the American figures have been stable for the past four years. The Iron Curtain countries may close up a large part of the gap by trading more machinery, steel, cement, and equipment for Indian consumer goods.

Indian officials, of course, are as eager to sell consumer goods to the United States as to the Iron Curtain countries. "We don't like putting all our eggs in one basket," an N.S.I.C. official told me, "particularly when the basket is made as much of politics as commerce. If politicians can start trade, they can stop it."

But in any competition for Indian cottage and small-industry products, it should be remembered that the Iron Curtain countries need consumer goods while we don't.

A Threat to the West

American interest in Indian cottage and small-industry products is limited for the most part to luxury goods such as fine fabrics and handicrafts—areas in which Indian producers are ill equipped to cope with the mass-buying, standardization, and quality demands of the U.S. market.

With the help of American experts, the government is trying to tailor hand-loom and handicraft products for the U.S. market. As a result, the flow of these products to the U.S. is increasing sharply, but it still represents only a small fraction of India's foreign trade. U.S. purchases of hand-loomed textiles, for example, went from 76,000 yards in 1954 to 835,000 yards in 1956, but India's total exports in 1956 amounted to nearly 60 *million* yards, most of which went to African and Asian countries.

The bulk of Indian exports to the United States continues to be items like jute, tea, and manganese, for which the demand is fairly stable. Apparently the only way to meet Soviet trade competition is through more persistent efforts by American government and private industry to find new Indian products and raw materials for sale in the United States.

The United States is also at a disadvantage because it does not practice state trading. In dealing with the Indian government, it is difficult for private traders to compete with the Soviet Ministry of Foreign Trade.

The Russian shoe deal belies the notion that in Soviet state trading, profit making necessarily takes a back seat to propaganda. For the Russians' shrewd agents, state trading is both a political and an economic tool. Razno-Export is no more averse to making a ruble than Macy's to making a dollar.

The threat to the West is that Soviet state trading can operate in India in the black, and that this highly lucrative phase of Russia's economic offensive seems to offer almost unlimited possibilties.

Egypt's Seizure of Suez —A Lawyer's View

ROBERT DELSON

EGYPT'S *Official Gazette* is normally no best-seller, in the Middle East or anywhere else. But on July 26, 1956, it published one of the better-read sentences of the decade: "The Universal Company of the Suez Maritime Canal . . . is hereby nationalized."

The alarm that this sudden announcement produced gave rise to a host of legal arguments directed against the nationalization, most of which have been so tortured by political considerations as to obscure the real issues, both legal and political.

Now that the United States has expressed its *de facto* acquiescence—at least provisionally—in Egypt's régime for the Suez Canal proposed in that country's declaration of April 24, the atmosphere may be more conducive to an analysis of the legal issues on their merits. Such an analysis, here attempted, reveals that the legal basis of the opposition to nationalization is exceedingly weak. Even so, the opponents reacted vigorously to the nationalization, in striking contrast to their prior failure to enforce Israel's right to freedom of passage, a right which was clearly acknowledged by the Security Council's resolution of 1951 calling upon Egypt to terminate its restrictions against Israeli shipping.

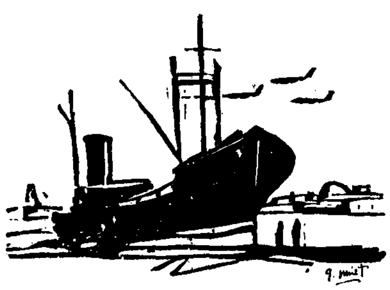
If the users had acted with determination to enforce Israel's rights in 1951, they might not have found themselves in the position of attempting to deny to Egypt its rights to nationalize in 1956, since the principle of passage without discrimination would by then have been established beyond doubt.

The weakness of the opposition to nationalization may be seen from a consideration of the two main legal issues. Who ought to own the equipment and other assets necessary to the operation of the canal? And who ought to manage and control its operation? When you look at the questions closely, they merge into one: Did Egypt have the right to nationalize the assets of the canal company located in Egypt, terminate the company's concession, and replace it with an agency of the Egyptian government?

A Diet, a Ditch, and 'Dizzy'

The Suez Canal and its company were the proximate result of a piece of nineteenth-century diplomacy by Ferdinand de Lesseps, a diligent man when it came to promoting what he liked to call "piercing the Isthmus." As a young vice-consul at Alexandria back in 1832, de Lesseps won the affection of Viceroy Mehemet Ali's son Said by surreptitiously feeding him bowls of macaroni, in circumvention of a strict diet imposed by his father. When Said became viceroy twenty-two years later, de Lesseps sailed for Alexandria and popped the question to his old friend. Said thereupon approved the first of the canal concessions.

These concessions—there were three of them, in 1854, 1856, and 1866—are in the nature of grants from the viceroy to de Lesseps and the Universal Suez Canal Company he had created. They gave de Lesseps permission to pierce his isthmus, and set out in considerable detail both the legal and physical mechanics of how he and the company were to go about it. Among other things, these mechanics included authority for the company to operate the canal for ninety-nine years, and a declaration by the khedive (as the viceroy came to be styled) that the canal would be open to transit by all merchant ships without discrimination.



Egypt maintained a sizable block of shares in the canal under these contracts, but Said's successor, Ismail the Profligate, sold them in an unsuccessful attempt to pay off the mortgage on his lavish standard of living. They were snapped up by Britain's Disraeli in a shrewd transaction that put the British squarely in the canal picture and has helped keep them there ever since.

The concessions were followed by another legal document that both sides have been quoting to support their views on the nationalization of the canal—the Constantinople Convention of 1888. The convention brought together nine nations with a common concern for encouraging sea-borne commerce. It produced a treaty designed to establish ". . . a definitive system intended to guarantee, at all times and to all the Powers, the free use of the Suez Maritime Canal . . ." Thus the convention's signers put into the binding form of an international treaty the guarantee of free passage, which up to then had been expressed only in a private agreement between the khedive and the company.

IN NATIONALIZING the canal, Nasser made it clear that he regarded Egypt's position under the concessions as the product of a confidence game in which Egyptian money and Egyptian lives had been exploited for foreign profit—"They used to suck our blood, our rights and take them. Today . . . we regain our rights . . ." His decree nationalized the canal company, transferred all its assets, rights, and obligations to the Egyptian government, and transferred its management functions to an Egyptian government agency; it promised that stockholders would be compensated once Egypt had taken delivery of all the company's property.

This discussion of the validity of Nasser's nationalization will be confined to its effect on the company's assets located solely within Egypt, which includes the concessions as well as the physical operating assets. It will not deal with the validity of the termination of the corporate existence of the company