



Industrial development and role of foreign capital in 19th and early 20th century in India

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Abstract

The development of the British economy holds a close linkage with the international economies. India was considered as the largest and economically most important economy. Being in such a position India had the most to lose or gain due to any activity undertaken by Britain whether good or bad. In this paper, we look the impact of foreign investments in India for the period ranging fairly between 1800s and 1920s. However, there was a very little contribution of any foreign investment for first half of this period and the transaction were more of the kind of “drain” of wealth or tribute extracted by British official from India. In fact this prevailed throughout the period of imperial dominance in India. India was ruled by British for more than 200 years and has been the victim of continuous exploitation throughout the period.

This article divide the entire time period into two parts, the first being the period before 1857 and the subsequent period from 1857 to 1947, to analyze the role of foreign inflows in shaping economy of India at that time.

Keywords: Industrial development, role of foreign capital, British economy.

Introduction

After the conquest of Battle of Plassey (1757) British extracted huge amount of tax revenues and tributary payments and converted them into funds which could be used as investment to purchase Indian goods which could be carried overseas and sold to the world for profits. In this period there was hardly any inflow of British capital to India, instead it represented a wholesale transfer of India’s revenue to the British pockets. In addition to this the East India Company officials made personal gains by unfair means like extortions, bribes and by extracting profits from the local monopolies. The one way transfer from India to Britain generated a huge amount of export surplus in India’s balance sheet.

This transfer underwent a crisis from 1800 onwards. The textile exports were unable to pay Britain’s incessantly increasing demand of wealth since Indian Textile were out of the market due to competition faced by British’s own manufactures. A solution to this was seen in the export of opium from china in exchange for silk and tea.

Imperialism of free trade started since British was experiencing Industrial Revolution and were looking for markets both for dumping processed goods and extracting raw materials. India served the purpose. An increasingly favorable atmosphere of free trade was created, this principal of free trade was set forth mainly by Adam Smith (1723-90) and David Ricardo (1772-1823). Noninterference of state in the economic matters (laissez-faire) was the essentials of this doctrine. Goods now moved freely, external product entered the market cheaply which lowered the cost of raw materials extracted and goods used for mass consumptions. This transfer of surplus was in the form of plunder. Talking about the industries, cotton industry was the most flourishing of all the industries. Trade of Indian cotton was extensive since the starting of eighteenth century. Britain only focused on flourishing its own industry and Indian cotton industry declined heavily. The main reason for this was invention of

power looms and other machines that were used by the British^[1]. Indian industries remained under developed due to the lack of investment in this sector. East India Company now created a monopoly in trade which worked in their favour. A heavy tariff was imposed on Indian cotton and the import of British staples was exempted from any such duty. Thus it gave a tough competition to Indian cotton at home and abroad. East India Company never thought India as an investment outlet. They procured Indian goods at price less than 15% to 40% below the free market price. This type of exchange was not barter but a kind in which goods were taken without giving anything in return. This led to the impoverishment of Indian economy and prosperity of East India Company.

For so many years the reasons for limited growth and development of India under colonial rule has been debated. According to the externalists, the countries with advanced capitalism to expand on a world scale basis exploited the technically and economically less developed countries. This exploitation was rather pragmatic as it helped to fulfill the interests of the developed economies. The main purpose of the British was to achieve monopolistic trading position and make India a major market for British goods and also the source of raw materials for which they introduced the regime of free trade. The British were not averse to Indian economic development since it only increased their market but they were increasingly chary to help in the areas where they felt there was conflict with their own economic interests. Their effort was limited in the field of education and they did very little to improve the cast system, the position of untouchables, joint family system or in the production techniques in agriculture. Deterioration of Indian economy began and in a rather short time span India was squeezed out of all its resources and was left impoverished and under developed.

¹ Industries in India during 18th and 19th century, Usha Rani Bansal(BHU)

Period From 1857 To 1947

After the Sepoy Mutiny of 1857, India came under the control of British Crown. There was an inflow of capital from Britain. New avenue of exploitation in form of public works opened. The surplus generated from export was used to finance transfers of men and capital to new colonies of Britain like Australia, America, Canada and New Zealand.

The company started building railways. This was also one of the many tactics of the British government to extract profit. The "guarantee" promised by the Government of India to the investors for making investment in railways which was considered risky contributed to the drain of funds. Railways ran under losses for a long time. Other works like digging of new canals and repair of the old one also started. No attention was given to the development of irrigation. It was seen that whatever capital flowed from Europe was spent on railways or otherwise into the production of raw materials for exports and on jute, tea plantation etc. Overall there was very little transfer of capital from Britain to India. Other industries where British showed interest were coal mining, cotton plantation, steel, iron, paper etc.

Various plantation industries like tea, coffee, indigo, rubber etc developed during 18th and 19th century. Indigo, famous for dyes saw its decline in the 18th century due to the competition from Southern America. However, with the growth of cotton manufacturing in England, America and France demand for indigo saw a shooting rise. Indigo factories were setup. This industry later saw a decline due to the competition offered by Germany's synthetic dyes which later led to the extinction of this industry. In the field of tea, Assam Company formed in 1839 expanded in this period due to the increase in the total production of tea in Assam for the period 1850-1871. Rubber industry also expanded during this period. Under coals and mines, Bengal Coal Company created in 1843 expanded. New industries and their auxiliaries were created which led to the increase in the demand of coal. Thus, during this second phase most of the growth occurred in those areas of industries which were concerned with the export.

The introduction of railways had the potential to start the industrial revolution but in contrary, it destroyed more occupational opportunities than it could have opened. This lying down of railways did not lead to any sudden overflow in innovation. The main reason was to make possible the transport of raw materials for internal and external markets, majorly raw cotton to Britain. There was very little done in the field of railways by the external economy. Whatever was done by them was in the interest of the operation policy of British which made railways fully British managed. Investments were often clubbed with investments in other field like iron, steel, coal etc. The sole purpose of railways had become to dump the imported goods from Britain to India.

In 1908, the Tata Iron and steel company was started, with Indian capital. The vast lines did not help to flourish the company. The uncertainties attached with Indian railways only hampered the Tata plan for more than decades. Finally in 1924, Government turned away from the policy of protection that it offered to give to some of the industries in India. It received railway orders only when Tata's products became competitive enough in the market. Later, the subsidies received by Tata were also abolished and the basic duties were lowered, this made Tata suffer a difficult time. Also, no other manufacture of locomotives took place and there was no

progress in railways too, basic equipments of railways didn't see any up gradation for the entire century i.e. not until independence.

Looking at the Export-based Private Investment, in the field of export-oriented plantations 20% of the total foreign investments were accounted for. In the mixed category mining and manufacturing accounted for 5% and 28% respectively. This export biasness in the foreign investments led to indigenous capital flows in many export oriented channels. Many British controlled banking systems guided huge amount of indigenous funds to foreign markets and enterprises. The Exchange Banks of Britain received about one-third of bank deposits from India which were then employed to finance foreign trades. The Imperial Bank of India was also indulged in a similar activity. Both these banks had better access to bank credits thus they used them to serve the British interest. Only when the Indian Banks came into the framework during the war did the share of Exchange Banks in total deposits reduced.

The RBI report of 1948 throws light on some of the problems relating to the channeling of the indigenous investments by the foreign enterprises and using them to serve their own purpose. The foreign investments was classified into direct and portfolio investments. Direct investments were under the control of foreign investors and portfolio investments under indigenous enterprises. Around Rs. 253, 62 lakhs out of Rs. 353, 89 lakhs of investments was controlled by foreign enterprise. Around 53.41 percent of the capital was contributed by the Indian shareholders.

Other than this, in the field of development, expenditure went up in the twentieth century but most of it was taken up by the provinces and the local authorities. In 1940-1 up to 50% of the total expenditure on social service went to education^[2]. Very little was spent on other kinds of economic or social developments like research or extension in agriculture. In the field of public works, after the series of terrible famine a need for irrigation, roads and railways emerged. The government estimated that around Rs. 15 million should be set aside in good years to meet the cost of famine relief so as to not depend on borrowings. However, this was hard to follow in reality. From 1921, all the kinds of works were could be financed only by borrowings.

There was a steady growth in the public investments between 1898-1914 but the overall rate of growth of capital formation remained very low for the period of 1860-1947, which was as low as 1 to 1.5% of national income of the country^[3].

Conclusion

Thus, the whole discussion shows that the role of foreign private investments in India was not much. In the early 19th century, the company rule only plundered India leading to deindustrialization and other kinds of troubles in India like decreased employment. Also, the number of British enterprises in terms of Indian enterprises increased after 1857. The only good done to India was the introduction of railways, even that was established to serve British purpose. Railways gave hope for industrialization but led to the drain of resources and thus the opportunity to grow, from India to Britain. The materials and machineries were imported from Britain which

² The fiscal system, Dharma Kumar

³ The Financial Development of India, 1860-1970, Raymond W. Goldsmith

could have very well produced in India itself. This would have produced employment opportunity for the Indians. Railways also opened up market for agriculture, but the investment on irrigation was seen nowhere. We also saw that during the inter-war periods British investments took place. British ran a current account deficit with rest of the world and a current account surplus with India. The hope of industrialization started with the Tata industry which was functioning on its own leading to the increased use of Indian capital. India was merely used to meet the balance of payments of Britain with rest of the world.

Thus, India was only important as a market and the source of supply and all the kinds of private foreign investments were done only to fulfil these purpose. India was the focus of the operation for most of the companies of the British, who dominated trade and industry in India in the 19th century. They used India mainly for the 'Drain' and export surplus, which comprised of the transfer of income of European officials to Britain. They also acquired assets in India and extracted the earnings on these assets. Thus, it was rather pragmatic for the British to not involve in any kind of industrial development here. More or less, all the needs of the British were catered by India without making any substantial contribution in the development of Indian economy. Therefore, 19th and early 20th century saw very little industrial development and India majorly remained an under-developed nation till independence.

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