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Trade strategies implemented during British Raj in India

Vikas Nain
Assistant Professor, Subject History, CMRJ Government College, Mithi Sureran Ellenabad, Haryana, India

Abstract
Interpretations of the role of the state in economic change in colonial (1858-1947) and post-colonial India (1947) tend to presume that the colonial was an exploitative and the post-colonial a developmental state. This article shows that the opposition does not work well as a framework for economic history. The differences between the two states lay elsewhere than in the drive to exploit Indian resources by a foreign power. The difference was that British colonial policy was framed with reference to global market integration, whereas post-colonial policy was framed with reference to nationalism. The article applies this lesson to reread the economic effects of the two types of state, and reflects on ongoing debates in the global history of European expansion.

Keywords: Colonialism, nationalism, developmental state, industrialisation, institutions

Introduction

The literature exploring the link between European imperialism and economic development in the non-European regions has grown in the last 15 years, thanks to a shift of focus from empires as a political system towards the broader issue of European expansion and settlement. India, possibly the largest colony in territorial size and population in the 19th century, is yet to be closely integrated within this literature. Leaving India to the margins amounts to missing an opportunity, to refine the new paradigms being used to study the economic history of European expansion. On the other hand, within India, popular and academic discourse on the economic effects of British rule is yet to absorb the new trends in global economic history, with the result that impressions of the empire still derive from ideas popularised by Marxist and nationalist historiographies of an earlier era. These theories need revision too.

Colonial power in India was not institutionalised in the form of land grab and servile labour. India then represents a case where Europeans did not settle in large numbers and yet they did not create the institutions of extraction either. Neither the crop theory nor the germ theory offers a way to conceptualise that particular case. India is not an exception in that respect. Economic historians acknowledge that in a wide range of instances, colonial power did not conform to the «standard» settler model. Africa, for example, presents a diverse pattern of change following European expansion, though land distribution policies often resembled counterpart institutions in the New World 8. Comparatively, other large examples like India and Indonesia receive less attention in the settler economy discourse 9. Both examples require of us a historiography that needs to take leave of the settler economy, and go back to a top-down or core-periphery type of imperial relationship.

Reading the British Indian state with the lens of a 19th century political ideal faces a further problem. Many pre-British Empires in India also shared the two features, small government and unregulated markets. Recent interpretations of the Mughal state and fiscal system have revised earlier views of a highly centralised state, by placing a great deal of stress on the dependence of the political centre upon local power structures, consisting of the landlords and military tenure holders known as jagirdars and zamindars, among others (Hasan 2004). Beyond collecting taxes, the state did not have a policy on regulating markets either. Merely having the outward features of a liberal ideal — small state and free trade — did not make the Raj distinctive.

Many pre-British regimes in India may have entertained ambitions of fostering market integration on a large scale. However, they did not have the means to do so. The Raj had the means, a large military force to begin with, and used these to foster economic globalisation. Such a state cannot be understood either as a limited government or as a free trader. It was a government small in size but strong in military might, and it used power to keep trade routes open, extend the network of routes and thus sustain and extend market integration on a world scale. Again, we would go too far to suggest that the Empire did this to serve one overriding aim, be it ideology, British business interest, or political interest, or indeed the lure of resources. It would be safer to say that the Raj functioned as if it saw itself as the guardian of a set of interconnected markets. While liberalism does not fully explain why the Raj did what it did, its actions did follow a liberal blueprint. Instead of looking at the Empire as one kind of state, we can therefore perceive the Empire as the guardian of a network of markets, or what one historian describes as «an enabling system for global capitalist operations.

In the 19th century, the global capitalism was made up of unprecedentedly larger flows of goods, capital and labour, thanks to the Industrial Revolution and new communication technologies, together with a compatible political and institutional setup supplied by the Empire, which encouraged British investment abroad. The Empire fostered a common language of business, uniform laws and easy exchange of

knowledge over a large part of the globe (Roy 2012). Together, rising market exchange resulting from fall in trade costs and the emergence of a pro-market political force spawned a network of multinational businesses.
If industrialisation was possible at all in spite of these obstacles, two factors were responsible above all, the availability of indigenous entrepreneurship in trade and finance, which brought down the cost of capital in transactions within the business community, and factor market integration. By facilitating movements of goods and people, the Empire reduced the cost of accessing knowhow needed by industry. As opposed to an earlier time when knowledge was carried abroad by migrant artisans, in the late 19th century useful knowledge travelled in the shape of traded machines and manuals. Mass production of textile machines in England considerably reduced the transaction cost in the knowledge market. Bombay's merchants bought the machines, and hired from Manchester the foremen to work these. The language of business in the port cities was not English, but English was widely understood.

Research study

A significant function of the state — managing the monetary system — was performed in London. The India Office raised money from the City of London, balanced international obligations by selling bills and invested the reserves in the City. The decision to conduct these financial operations in London was justified by the argument that London could supply funds in larger volume more cheaply because the transaction cost of financial operations was moderate there. The facility to borrow abroad was crucial for the Raj because its main source of income, land taxes, was unstable and insufficient for investment plans. The relationship between the City's finance capital and the Indian Office was so close that debt instruments took a bewildering variety of forms each serving a specific need, including government stock, sterling bill, war loan and loans of railway companies.
One of the goals of the monetary system was to stabilise the exchange rate. An appreciation of the Indian currency, the Rupee, hurt Indian trade, and depreciation made it difficult for the budget to meet its foreign obligations (known as Home Charges). The balancing act was difficult but manageable as long as the British economy was growing. The only crisis then came from fluctuations in the value of silver. The Indian rupee being a silver coin, its market value was sensitive to the gold-silver exchange ratio. A depreciation of silver should devalue the rupee, and rise in silver price revalue the rupee. These processes were not automatic, and in the case of a delayed adjustment, the exchange rate management hurt either business or the budget.
An analysis of the revenue budget would explain the size of the state. More than half of the revenue came from land tax in the 19th century. The land tax was a tax on area of agricultural land privately owned. The tax per area was low because agricultural yield per area was low in India. And it was stagnant because yield was stagnant. As land tax per area remained roughly constant over time, population growth made tax per head fall. Compensating forms of taxation such as customs duties and income tax were not tried until World War I due to the free trade policy or resistance by wealthy Indians.
The estimated volume of foreign trade to and from India more than doubled in 1865-1914. The volume of trade through the three British Indian ports increased from 1.6 million tonnes in 1863 to 8.6 million tonnes in 1913 (the figure includes coastal trade). The figure dropped thereafter to recover to 10 million in 1937. The estimated ratio of foreign trade in national income increased from 8-10 to 20 per cent in 1865-1914. Because foreign trade involved agricultural goods, overseas trade and overland trade became interdependent in the 19th century. In the coastal trading world, a string of British and European firms purchased agricultural commodities for export from merchants specialised in overland trade. Exports of agricultural goods began to rise, and overland trade in agricultural commodities was further stimulated by railway expansion. Shipping tonnage data suggest that the acceleration in maritime trade had started from the 1850s, when the first major railway lines were opened. The railways that came up in the Indo-Gangetic plains drew cargo away from boats and carts, but the lines that appeared in peninsular India, which had earlier relied on the expensive and slow bullock caravans for the transport of bulk goods, revolutionised transportation links between the land-locked interior and the seaboard. The bankers and traders who remained inland took part in commodity trade on a larger scale than before. The merchants were financed not by the small number of corporate banks, but by indigenous bankers and moneylenders. By 1920, the biggest market for rediscounting of indigenous trade bills, the hundi, was located not in the interior, but in Bombay and Calcutta.

Discussion

In the second-half of the 19th century, some of these entrepreneurs were setting up large-scale mechanised factories. Manufacturing industry was embedded in the trading world of Bombay, Calcutta and Madras. Among those Indians who dominated industrial investment around 1900, one segment had always been based in the coasts, like the Parsis, and another segment, like the Gujaratis, had moved from overland trade or banking towards overseas trade from the late 1700s. After the Crown took over Indian administration from the Company (1858), foreign investors joined these indigenous business communities. The first modern factories were established by these groups making use of their knowledge and control of commodity trade, especially trade in cotton, and overseas markets. In turn, profits accumulated in business went into public and community goods. At the time of Indian independence, these cities were homes to some of the best schools, colleges, hospitals, universities, banks, insurance companies and learned societies available outside the Western world. A big part of that infrastructure had been created by the Indian capitalists.
By 1914, the fourth largest cotton textile mill industry in the world financed and managed by Indians had come up in Bombay. A third of the cotton spindles in use outside Western Europe and the United States was installed in India, and over half of the spindles installed in the tropics was in India. A jute textile mill industry, which supplied packaging material to the commodity traders of the whole world, had emerged in Calcutta under European management, with considerable Indian shareholding. Between 1850 and 1940, employment in

factories increased from < 100000 to 2 million, at an average annual rate of 4 per cent (Roy 2011). Real GDP at factor cost originating in factories rose at the rate of 4-5 per cent per year between 1900 and 1947, and employment at 4 per cent (Sivasubramonian 2000, pp. 201-203, 287-288, 293-294). These rates were comparable with those of the other emerging economies of the time, Japan and imperial Russia, and considerably more impressive than the patchy and uneven industrialisation in the rest of the contemporary tropical world. Much modern enterprise such as factories, corporate banking, insurance, technical schools, hospitals, universities and public services needed to import services from Europe. India had goods to sell. It did not have an adequate supply of skills and technology. In order to set up factories, Indian businesses imported not only machines, but also the engineers and the foremen to operate these. Likewise, expatriate doctors, scientists, university teachers, lawyers and military personnel were routinely hired by firms and organisations, even when these were owned by Indian firms. In this way, there emerged a distinctive feature of the Indian balance of payments. From a book-keeping angle, India maintained a surplus on the trade account, and a deficit on the services account. One of the larger components in the payment was the Home Charges, a payment made by the government on account of debt service, pensions, railway subsidy and other heads. Private outflows, such as repatriated profits or remittances by managers and employees of foreign firms, were probably larger.

Significance of the study

The Empire helped capitalist growth indirectly by keeping borders open, passing new laws of contract and negotiable instruments, and making sure that the military and naval power protected sea routes and aided South Asians going to China, Southeast Asia, Central Asia and Africa for trade. And it made India an attractive destination for British capital. Directly, the Empire neither helped nor obstructed the growth of trade and industry. After the large defence spending was taken out of the budget, the state had little left to spend on welfare or infrastructure. The Raj did not directly help Indian industrialisation, as the openly pro-Lancashire tariff policy until the 1920s showed. But nor did it try to stop it.

The most striking legacy of the open economy was industrialisation. Interestingly, industrial capitalism emerged in a region where textbook prerequisites for industrial capitalism to emerge had been missing in 1850. Factor prices, for example, were unfavourable; interest rates were twoto-three times higher in India than in the financial centres of Europe. An activist state, which Alexander Gerschenkron and his followers treat as an axiom for catching up industrialisation, was absent. The Empire that ruled India was as far away from the «big push» of early development economics or the «embedded autonomy», «developmental state» and «governed market» that account for the industrialisation of East Asia as we can imagine.

Conclusion

A summing up of the narrative history is in order. The British Empire of the 19th century inherited two things from the East India Company, a commitment to maintain an open economy, and a large military force. In the 19th century, these two things became compatible assets of great value to Britain. The open economy sustained by British military might was an asset for many Indian capitalists too. National income statistics show that private non-agricultural enterprise experienced significant growth in the early 20th century. But the means used to maintain openness — London's control of monetary and military policy, and a neglect of developmental expenditure — became controversial and eventually brought the Empire down by making it unattractive to Indian capitalists

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