WHAT IS MODERN AND INDIAN ABOUT THE BUSINESS HISTORY OF MODERN INDIA?

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12 May 2015

ABSTRACT
An ongoing contest between globalization and cosmopolitanism on the one hand, and nationalism and protectionist sentiment on the other, is a key dynamic in Indian capitalism today. This essay argues that both these forces derive from historical experience. Cosmopolitanism was a feature of the business world of the Indian Ocean littoral from before 1600, deepened during the era of European trade in the Indian Ocean (1600-1800) and the British colonial rule in South Asia that followed it, worked as a foundation for industrialization, and took a new direction more recently with the rise of the information technology industry. In the last century, globalization also produced nationalistic backlash, to which big business lent tacit or overt backing. This essay explores the roots of these two forces of change by studying the history of large firms in trade and industry.

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1 Paper presented in the business history seminar series, Bocconi University, 18 May 2015. This is a preliminary draft for limited circulation, please do not cite.
INTRODUCTION

Why write a business history of modern India? Generalizations about business history tend to be shaped by the mood of the times. In the early twentieth century Indian poverty was attributed by western scholars to weakness of entrepreneurship, which was historical and cultural in origin. In the 1960s, Marxist economists held the ‘immaturity’ of India’s capitalists responsible for poverty and underdevelopment, and traced that syndrome to British colonialism. In the 2000s, against the backdrop of economic emergence, teachers in business schools read history to discover why capitalism flourished in India. One author concludes that, thanks to ‘a long tradition as buyers and sellers, .. Indians are very entrepreneurial.’ And yet, this haven of enterprise scores poorly on Global Competitiveness (71/144, 2015), Ease of Doing Business (142/189, 2014) and expatriate satisfaction indices. Few Indian banks and fewer Indian universities figure in world league tables. Who does history support then, the pessimists or the optimists?

These examples together suggest two good reasons to write the business history of modern India. One of these is to free the field from all manners of belief about the present, and create a historical perspective that is invariant to such beliefs. Secondly, it is necessary to see that whatever perspective we come up with can explain both the strengths and the weaknesses of Indian capitalism. These two propositions set the conceptual agenda for this essay. The narrative part of the essay follows a somewhat different aim. Any region-specific business history should show how historical contexts shape entrepreneurial choices, and yet produce a capitalism that retains a distinctively regional character. This broader agenda is broken down in

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4 N. Kumar, ‘Indian Companies as Customers, Competitors and Collaborators,’ Indian Journal of Industrial Relations, 45(1), 2009, 148-159.

5 An HSBC index comparing expat lifestyle ranks India very low (20-30 among 34 countries) on healthcare, accommodation, utilities, finance, and ease of local travel. India, paradoxically, is among the top six countries in the world today in the scale of expatriate assignments, and also among the top three in the difficulty of relocation and failure of assignment. Brookfield Global Relocation Survey, http://www.brookfieldgrs.com/wp/wp-content/uploads/toolbox.v.2/PS_India-in-Focus.pdf (accessed on 8 May 2015).
this essay into two simpler questions. One of these stresses the context. What is modern about the business history of modern India? The other lays stress on regional characteristics. What was distinctively Indian about the evolution of entrepreneurship in the region in the long run?

Economic history of India and its poorer cousin business history do lay a great deal of stress on the context. Usually, the dominant element in the context is the state, the British Empire in India for much of the nineteenth century, and the aggressively nationalistic, part-socialist, developmental state of the late twentieth century. In part, excessive attention to politics derives from a lack of private archives; business historians must rely on the state archives and use the lens that state papers provide on private enterprise. But state papers can be biased because the state often exaggerates its own role as an agent of change. The British Empire (1757-1947) was a prime example of this. Although powerful in military capacity, and carrying a bloated sense of self-importance, the Empire in India did not possess sufficient capacity to intervene in the economy either by institutional means or by spending money. It was, fiscally and institutionally, an exceedingly weak agent. The Empire mattered to entrepreneurship, but only as far as it sponsored market integration throughout a large part of the world. As the Empire example shows, politics is important, but it is also important to be aware that a preoccupation with politics could entail an oversight of the importance of markets and institutions.

One key premise for this essay follows from the foregoing. Market openness and trade costs (both resource cost and the transaction costs of accessing resources) mattered as much as politics did in shaping capitalism in India. The answer to the question ‘what is modern’ needs to be constructed with reference to openness to trade and in trade costs, as much as with reference to politics. This is a general lesson useful for studying a large part of the world. But openness produced a range of outcomes in India that were quite singular to the region. The managing agency system, associations based on caste or community, the tropical world’s largest cotton mill industry in the nineteenth century, knowledge industry in the twenty-first century and a fierce nationalism that holds further globalization in check, require us to probe the second issue, ‘what is Indian’ in a systematic way.

How well does business history scholarship in the region answer the two questions? It is not polite to criticize scholars whose work has contributed greatly to
my own understanding of the subject.\textsuperscript{6} It must be said though that as a field, business history of modern India does not quite answer the two questions. As a discipline, it has a shallow presence even in the business schools. Its analytical part rests too heavily either on simplistic concepts like caste; or on economic history, which in India arose out of an anti-colonial political movement and tends to be more interested in the state than in business. Its narrative part tends to be biographical, which supplies excellent raw material for business history, but falls short of testable generalizations that can take the field forward. If this supplies a broad justification for a new business history, I also believe that a \textit{long-durée} history provides the traction needed to make strong historiographical claims.

The rest of the essay presents a mainly chronological narrative drawing on published sources, my own research and writing, and on the work of the few stalwarts in the field. This is set out in the next four sections (precolonial, colonial, business and nation building, return of openness). The last section concludes by returning to the broader aims of the essay.

BEFORE 1800: PORT CITIES CONNECT MARITIME AND OVELAND TRADES

From ancient times until early in the Second Millennium CE, two very different capitalist traditions had evolved in India.\textsuperscript{7} One of these formed along the coasts, lived on overseas trade, and usually operated from small coastal states. The other one formed in the land-locked interior, served overland trade, and took part in moving the taxes that sustained vast powerful empires. The empires emerged in the fertile plains of the Ganges and the Indus, and lived on land taxes. Banking and trade in the second tradition, therefore, was linked to agriculture and the conversion of revenue from grain to cash.


These two worlds remained distinct for a geographical reason. The coastal world developed around deltas of rivers. In the Deccan plateau, the terrain and the seasonal pattern of monsoon rains ensured that these rivers were not navigable more than a few miles into the interior. Therefore, the agricultural hinterland of the ports was narrow, and connected weakly with the imperial core. The delta of the Ganges was different in that it was both fertile and vast in extent, but navigation was still seasonal and sometimes dangerous. The ruling classes understood the value of the seacoast, but could not easily take control of that zone. Roads there were few, and road-building was costly because of the uplands, the forests, and numerous rivers.

A turning point in this history was the rise of the Indo-Islamic empires after 1200, and the spread of their power from the Indus-Ganges plains to the south (the Deccan Plateau), the east (Bengal), and the west (Gujarat). In the 1500s, the land-based states did establish a foothold in some places on the coast, notably, Surat in Gujarat, Masulipatnam in the southeastern coast, and Hooghly in Bengal. Surat flourished by tapping into the Arabian Sea trade that interlinked three Asian empires of the seventeenth century, the Mughal, the Safavid, and the Ottoman. Hooghly and Masulipatnam were parts of a network of maritime trade traversing the Bay of Bengal.

The reputation of these towns attracted European merchant companies, including the Dutch and the English East India Companies around 1610. While trading from these sites, the Europeans also tried to reduce their reliance on local states and defend themselves better against rival Europeans by establishing new port sites. The English East India Company was notably successful in this project. It acquired three port sites on the coasts, in Bombay (c. 1660), Calcutta (c. 1690), and Madras (c. 1640). These towns initially had little significance beyond the Company’s own transaction and were not rivals of Surat or Hooghly. And yet, Bombay, Madras, and Calcutta became pivotal during a second turning point in the story.

As the Mughal Empire collapsed in the 1700s, overland trade was in disarray, Mughal cities were losing population, business, and tax revenue. More of the grain revenue went to the capitals of a number of regional states instead of the imperial capital. Indian business migrated from the heartland of the Empire – which was roughly the area overlapping the Ganges and the Indus plains – towards other more promising destinations. A significant flow went to the Company ports. In Bengal, migrant north Indian merchants of Calcutta, their counterparts in the regional capital Murshidabad, private European merchants, and officers of the Company, colluded to
effect a transfer of power from the regional ruler to the Company, laying the foundations of the British Empire in India.

From a business history standpoint, the transition was of extraordinary significance. What is modern in modern Indian business history has its answer in this transition. For the first time in Indian history, merchants took over state power, and moreover, a seaboard state began to play a role in the politics of the interior. The ports under its control, being safe and well-defended, became magnates to Indian capital. There thus emerged a situation where capitalists specializing in overland trade and those familiar with overseas trade assembled in port cities that forged strong links between the land and the sea. The three cities became staging posts for an economic globalization led by a range of Indo-European firms.\(^8\)

Who gained and who lost from this transition?

Coastal firms

Let us first see who the prominent merchants were in the Indian port cities at the time of European entry. In the Indian port cities like Masulipatnam, Surat, and Hooghly, the Europeans encountered ship-owning maritime merchants trading in the Arabian Sea littoral, Jain bankers, shipwrights, and individuals who later became brokers or agents of European companies. Historical scholarship has revealed a great deal of information on the Turkish merchants Chalebi and Mullah Abdul Gafoor of Surat. Both owned a number of ships that joined the main trade in the Arabian Sea, which was to import textiles from India through the Red Sea and the Persian Gulf routes to the Ottoman Empire, and meet the balance of payments with horses and silver.\(^9\) The scholarship also shows that these merchants were politically powerful, and received the backing of the Mughal state when harassed by the Portuguese in the Arabian Sea.

In the eighteenth century, the fortunes of the ship-owning merchants and the scale of the West Asia trade was in decline. It is, of course, possible to attribute that tendency to the breakup of the large Asian empires, but that factor is unlikely to

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\(^8\) This process is more fully explored in T. Roy, *An Economic History of Early Modern India*, London: Routledge, 2013.

explain why the businesses declined. In 1650, some of these firms would have been comparable in size to the European companies working in India. Why the Indians did not survive the fall of the empires, why they did not venture into intercontinental trade, and did not, as the Europeans did, try to tap the source of silver flows in the world, must remain a puzzle. In solving this puzzle, two ideas may be useful. The merchants appear to have been overly exposed to politics, just as the political classes depended on the merchants for a side income from trade. One work calls the situation ‘portfolio capitalism.’\textsuperscript{10} It is anybody’s guess if the combination strengthened capitalism or weakened it by raising barriers to entry for the merchant without political connections. Either way, political shifts would have hurt merchants who were part of the system.

The historian Ashin Das Gupta suggested another reason for their weakness, and one that made them more vulnerable to political shifts. The problem was an inability to organize strong collective action. The decline of the Indian merchant marine, and with it the substantial ship-owning merchants, began when the local rulers increased pressures on them to fund wars. The pressure was especially acute in those leading ports which formed parts of empires. Despite their large scale of operation, the Indian merchant marine in the 1600s remained family firms headed by individuals. Personal honesty and cooperation were important to their commercial success. These sentiments were often cemented by forming a community, or a cluster of families bound by religious and marriage ties. This was a positive and a negative resource. When merchants came from different communities, the reliance on personal ties did not lead to the ‘consciousness of being men of the same calling’.\textsuperscript{11} It was their incapacity to form professional collectives that made the merchants potentially vulnerable to political pressure. A particular effect of such divisions could be seen in the fragmentation of the financial market. The financial system could perform most routine tasks, but was not capable of meeting crises, for ‘money was not pooled together even within Surat’.\textsuperscript{12}


\textsuperscript{12} Ibid., 100.
Along the Coromandel coast on the southeast of the peninsular and the Konkan coast on the southwest, communities of Muslim merchants and shipwrights carried on coastal trade c. 1700. These communities had emerged centuries before European entry out of two tendencies mainly, settlement of Arab merchants prominent in spice and horse trades, and conversion of local merchants into Islam. Although these groups were allies of the local kings, having bases in small coastal states meant that they played a smaller political part than their counterparts in Surat.\footnote{Frank S. Franselow, ‘Muslim Society in Tamil Nadu (India): An Historical Perspective,’ \textit{Institute of Muslim Minority Affairs. Journal}, 10(1), 1989, 264-289.} Therefore, they were both vulnerable to targeted attacks, such as what the Portuguese subjected the Arabs to after Vasco da Gama, and more resilient to the passage of empires in the long run. In the 1800s, the Muslim merchants of the coast included the Marakayyars of Coromandel, whose name derived from the name of a locally constructed boat, and Mapillahs of Malabar region. Neither group was mainly mercantile, but moved to professions and cultivation in the 1800s.

A different set of actors in the coastal world were the bankers. While banking was an ancient livelihood, bankers gained significantly from Indian Ocean trade for a particular reason. Mainly because of climatic differences Indians did not want the goods the Europeans had to offer, such as broadcloth or woollen, in exchange of Indian cotton textiles. The trade, therefore, needed to move vast quantities of silver bullion and currency. The bullion for payment of Indian goods was imported in the shape of Spanish silver coins. The bankers arranged to have them recoined for a fee, or simply exchanged the peso for Indian money. The Companies, moreover, needed the bankers to borrow money from when bullion ran out, and convert the currency of one kingdom into that of another. In the eighteenth century profits and revenues earned in Bengal were sent to the other branches of the East India Company by means of bankers’ drafts, or hundi. The major operators in the hundi market were the Indian bankers.

Two seventeenth century bankers, Virji Vora (c. 1585-1670) and Shantidas Jhaveri (c. 1580-1659) appear frequently in early English documentation from Surat. Both were Jain merchants and bankers. Unfortunately, we know rather little about the organization of their businesses, and much more about their political clout. Jhaveri became infamous also for the hand he played in the religious politics of the sect he
belonged to, suggesting that the ‘monks needed the businessmen as much as the businessmen needed them.’ From the manner in which these individuals are described in European accounts, it is clear that these firms became richer by lending to the Europeans, and occasionally forcing the Europeans to trade with them or trade in the Arabian Sea on their behalf.

Unlike the ship-owning merchants and the bankers, the brokers and agents were more directly tied with the Companies. They were in charge of procuring goods and enforcing contracts with weavers on behalf of the company. When the English East India Company began operations in India, the agents were local political figures with influence in the local courts. In Coromandel, they often commanded small militias, and thanks to this resource, could undertake contracts to collect land revenue. With the establishment of Madras, Bombay, and Calcutta, the character of the brokers changed. They were more often individuals with financial resources. The agents of the Company in Calcutta were recruited from the families of the Seths and Basaks, textile merchants of lower Bengal, those in the regional capital Murshidabad were Punjabi Khatri or Marwari from western India; and those in Madras were the Bay of Bengal merchants mentioned before. Somewhat exceptional in this list were the Parsis, the Zoroastrians of Persian extraction settled on the Gujarat coast, who had little prior experience in the established traditions of commerce in India.

The biggest of the broking firms or individuals gained hugely from the backing of the Europeans. A good example of this is perhaps the best known of them all, Ananda Ranga Pillai. Pillai, chief broker of the French East India Company in the 1740s, was the most famous of the brokers because he kept a diary. The diary offers a glimpse of the huge scale of the contractual network that he needed to maintain as part of his job. Still, the relationship between the agent and the Company was ordinarily a disturbed one. The European principals did not fully understand the agent’s problems. Liability over unpaid debts was a contentious issue because Indian community law and European commercial law differed on the point. On top of this, there was a great deal of distrust and asymmetric information. The English did not trust their brokers for fear the latter would strike secret deals with the local kings, or with the Dutch or the French.

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Among other people directly affected by the advent of European trade were merchants operating on the littoral. Despite the decline of West Asia trade, indigenous shipping received a boost in the second half of the eighteenth century because of the operations of the East India Company. The Company ships did not transport materials and supplies, such as grain or timber, along the Indian coast. They did not even shuttle between the three Company ports often. The British or the French did not know how to build the kind of boats needed to navigate the dangerous rivers of the Bengal delta. At the same time, the growth of these towns, the rising volume of shipping in them, and warfare in the interior, increased the demand for coastal transportation.

European trade also increased the demand for ship repair services on the coasts. The most successful shipwrights were the Parsis of western India. They began as carpenters, entered ship-building and repair in the Company docks of Surat and Bombay in the late-1700s, and ended as merchants themselves. They were the master shipwrights in Bombay, mainly engaged in repairs, but already beginning in a small way to build ships for the coastal trade. In this transition, their knowledge of timber supplies from Malabar was especially useful. A well-developed system of artisanal apprenticeship that ensured that the master builder status continued down the family lines also helped develop these skills.

They were among the first Indian coastal entrepreneurs to have sent their sons to England to take training in shipbuilding. The exposure mattered during the transition from sail to steam in the 1840s. When the Company began its withdrawal from India trade (after 1813) and twenty years later, from China trade (the charter ended in 1833), the Parsi shippers bought up some of the ships and refitted these for coastal or China trade. Wars with China (1839-42) and Burma (1824-6) saw these ships being used for supplies. Already Indian opium had emerged as the main export to China, and the proceeds from opium sale funded huge quantities of tea imported from China to the Atlantic. The Parsi shippers also played a significant role in cargo transportation in the Bombay-Canton and the Calcutta-Canton routes.

Nothing quite comparable had occurred in the two Bay of Bengal port cities owned by the Company, Calcutta and Madras. A recent study of Akrur Datta, a Bengali freight contractor of late eighteenth century Calcutta has shown that a certain number of individuals owned and got made small vessels that could distribute cargo
from ships in the interior of the Bengal delta.\textsuperscript{15} This business died out partly because the Company ceased to be a trading entity, and partly, the quality of construction of the boats was in question. Datta’s family, however, turned into merchants and agents of American trading firms in Calcutta.

What happened to the interior world of capitalism that had been tied to the Mughal Empire of the past?

Business in the agricultural interior

There were big banking firms in the erstwhile Mughal capital, Agra, in the seventeenth century, their main clients were the military-political classes of the same cities.\textsuperscript{16} Specific information on individual firms, even good biographies, however, remain missing. Our ignorance reduces somewhat in the second half of the eighteenth century. Thanks to the European archives we know of a number of indigenous banking firms and flows of trade that interacted with the commercial and military activities of the Company. For example, the Jagatseths of Murshidabad held the license to carry on a variety of monetary functions that should ordinarily be done by the state. Coincidentally, Jagatseth operated in a part of middle Bengal that was famous for sericulture and the silk trade.\textsuperscript{17} Notwithstanding these examples, the axis of north Indian commerce was shifting in this time from north towards the east and west. Overland and river borne trade routes were less safe than before. The social history of major merchant-banker communities supplies many illustrations of migration. A number of the silk traders of Bengal were Marwari immigrants.

The Mughal invasion of Bengal around 1600 was followed by migration of Punjabi Khatri merchants into the region. They resettled as court officers, military officers, and landholders under some of the larger landed estates. Among Khatris, one individual became famous in the 1750s, Amrichand or Umichand, who was the Company’s principal agent and co-conspirator in the coup that made the British rulers of Bengal, though the Company constantly suspected Amrichand of double-crossing


\textsuperscript{17} Sushil Chaudhury, \textit{From Prosperity to Decline: Eighteenth-Century Bengal}, Delhi: Manohar, 1995.
them. In the 1700, Khatris were present in Calcutta as brokers and agents of European firms, though some of them were soon to be replaced by the Marwaris in that role. Migration of the Marwari merchant and banking firms followed a more commercial logic. Most of these firms originated in Rajputana where the east-west trade routes had offered them business opportunities and the princely states offered them legal autonomy and immunity. In the eighteenth century, some of them migrated to the newer capitals of Indore and Hyderabad. In the case of Indore, Marwari merchants, who were involved in the inland trade in opium, formed a link between Bombay and central India. But business opportunities in the princely cities seemed to saturate, for about 1800, these firms displayed a preference for moving inside British territories. From early in the nineteenth century, Marwari entry into Calcutta enlarged in scale and diversified in scope.

In the Deccan plateau, we observe another dynamic of change in interior commerce, the conversion of caravan operators from traders to suppliers of military stores during a period of rising warfare. Major caravan routes took off from market points located on the Ganges and the Indus and went towards central, western, and southern India. Along these roads, bullock caravans were managed by specialist carriers known as the Banjaras or Lambadas. The origin of the Banjaras cannot be firmly established. But there is no doubt as to their value to the commercial world of the arid interior and forested uplands of southern-central India, which had few navigable rivers, and few roads suitable for wheeled traffic until the railway era. The presence of bullock caravans in these regions was recorded from the fifteenth century, when the influence of the Delhi Sultanate (c. 1200-1526) began to spread southward.

Caravan trade in the Deccan plateau was stimulated in two distinct ways which benefited the Banjaras. The first of these was the necessity to supply raw cotton to the cotton textile exporting areas along the coasts. The caravan runners gained prominence for a different reason, frequent military campaigns in the Deccan between 1670 and 1818. Later in the nineteenth century, the railways and the

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20 Ibid.
enclosure of the common lands deprived them of markets, patrons, and pastures, and pushed many of them to disreputable livelihoods that the state connected with criminality.

The consolidation of a state created by merchants introduced a new political economy of trade, and mass transportation strengthened it.

1800-1947: EMPIRE SECURES OPENNESS

Colonial India (1757-1947) witnessed a dramatic growth in long-distance trade. Shipping tonnage handled at Bombay, Madras and Calcutta increased manifold between 1800 and 1914. Between 1860 and 1914, the construction of one of the world’s largest railway systems cheapened the cost of cargo movement from inland to the seaports. The carrying capacity of mass transportation system in peninsular India increased from a few thousand tons of the bullock caravan days of the early-1800s to millions of tons in 1920. The share of trade and commerce in national income increased from an estimated 1-2 per cent in 1800 to 20 in 1914. Although the port city spearheaded the commercialization, there was considerable variation in the way the process unfolded.

European traders

Between 1800 and 1860, export of Indian cotton textiles declined, but the overall volume of trade possibly increased. This increase was partly due to import of textiles from Manchester. But there was an even faster growth in exports. Exports were composed of a few goods procured from regions within easy access from the port city, opium from central India and Khandesh cotton in Bombay, and Bihar opium and Bengal indigo in Calcutta. The big firms of this era were dependent on one of these commodities. In indigo, these firms were mainly European, with occasional participation by Indians; in opium, their counterparts were mainly Indians, with occasional participation of European capital. In cotton, the firms were again mainly Indian. Coastal shipping was in Indian hands, intra-Asian shipping was shared, whereas intercontinental shipping was in Euroepan hands.

In 1813, the Company lost its monopoly charter to trade in India. For private merchants, it became not only easier to trade, but also to shift capital and managerial skills from Europe to India. From this pool, which drew in Scottish, Welsh, English,
German, and French capitalists, some traders moved inland and set up indigo-processing factories. Others remained in Calcutta and conducted three major functions connected with indigo: shipping, financing, and insurance. The most famous of these firms was Paxton, Cockerell, Trail, later Palmer & Co.\textsuperscript{22} Indigenous merchants worked as procurers of goods and sometimes as agents in credit contracts in firms set up by the merchants. Three significant partnership firms emerged from the collaborations that were at work, Carr Tagore, Oswald Seal, and Rustomji Turner. Other Indians such as Ramdulal Dey and Akrur Datta, mentioned before, acquired wealth as brokers, in both cases for American merchants. Private European trading firms in Calcutta started with these so-called ‘agency houses.’\textsuperscript{23}

The majority of the Indo-European enterprises went out of business during two trade depressions that occurred in 1833 and 1846. Their vulnerability to trade shocks came from slow transmission of market data, and from the fact that the Company state discouraged corporate banking. Consequently, these trading firms set up a banking department on the side, and suffered from insider lending as well as over-exposure to indigo. The bigger the trader, the bigger the bank, and greater was the risk of contagious bankruptcy. One of the effects of new company laws passed in the second half of the 1800s was the separation of banking from trading and of trading from manufacturing. This diversification of risk was a key impetus to the industrialization drive that was to follow.

From the last quarter of the nineteenth century and until the Great Depression, exports from India consisted of primary commodities (wheat, rice, cotton, jute, wool, oilseeds, semi-processed hides and skins) and the largest import, cotton textiles. In both cases, European firms dominated the overseas operations. But the Europeans did not dominate the channels that brought these goods from the interior to the ports, despite having branches in the interior of India. That sphere remained in Indian hands.

Several types of European firms with main interest in trading entered India after 1860, and continued on to the twentieth century. One of these sets consisted of the firms just mentioned, those engaged in the export trade in wheat and cotton. The


\textsuperscript{23} Amales Tripathi, \textit{Trade and Finance in the Bengal Presidency, 1793–1833}, Calcutta, 1979, 2nd ed..
second set consisted of firms importing metal products, engineering goods, scientific instruments, and chemicals. A third set would include the ‘produce brokers’, who traded on the side, but were mainly engaged in conducting auctions and certifying quality of goods. And in a fourth, loosely defined set, we should include a number of trading firms dealing in minor agricultural produce such as coffee, cashew and coir and manufactured consumer goods such as carpets or leather. Typically, these firms were smaller in scale and a substantial number of them was based in the interior of the country.

Salomon Volkart, who hailed from a business family in Zurich, was established in Italy as a commodity trader when the partnership with his younger brother started simultaneously in Winterthur and Bombay in 1851. In the same year, Pantia Ralli set up an operation in Calcutta. These two firms were the leading exporters of agricultural commodities until the Great Depression.

The import of machines and intermediate goods were done differently across industries. In cotton and jute textiles, the agents or branches of machine manufacturers in Britain usually conducted sales. The system was entrenched because a part of the duty of the manufacturer was to ensure after-sale service through the agency of foremen sent from the parent firm. For example, Platt Brothers were the largest suppliers of cotton mill machinery until the advent of ring spindles. In metals and engineering, on the other hand, the major buyer was the government, which preferred to procure goods from London through tenders issued by the India Office. London procurement was opposed by British trading firms with a large Indian interest (such as Richardson and Cruddas). They were later joined by Indian traders after World War I. The system changed thereafter towards procurement from Indian sources and from Indian intermediaries.

In 1920, there were a string of British engineering firms, which exported goods to India, but also at the same time were looking to expand manufacturing of tools in India. One example was the Calcutta firm Alfred Herbert dealing in machine tools. Alfred Herbert was the branch of a British firm, and as such obtained goods from the parent firm. But they also manufactured in India on a small scale. The British counterpart could bid for tenders invited by the London office, but with their eyes on expansion in India, they sided with the move for an India-based and decentralized purchase system. But they were not the only ones. Among similar firms, mention should be made of Marshall and Sons, Stewarts and Lloyd, Westinghouse
Electric, Thornycrofts Ltd., George Cradock and Co, Campbells Gas Engine, General Electric, Saxby and Farmer, British Thomson-Houston, and Mather and Platt.

The produce brokers were rather more akin to the commission agent in grain trade, that is, they contracted to procure goods for others, except that they also advised the buyer on the quality of the goods sold. The term ‘broker’ in Indian business history has been used in two distinct meanings, as an agent of trading or manufacturing firm and as an auction coordinator. The tea broker in the 2000s is an auctioneer and a tea taster. Within a few years after the Company’s China monopoly ended (1833), tea auctions began in London and Liverpool. London’s Mincing Lane was the main site of the auctions and housed a number of brokerage firms. These firms procured tea from the plantation companies as well as counterpart broker firms in Calcutta. For example, Thomas Cumberledge and Moss, later Thomas Cumberledge and Inskipp, a London broker, appears in the historical accounts of two Indian firms, J. Thomas, the premier broker of Calcutta, and Warren, tea planter group of Assam. J. Thomas survives in much the same kind of business it did in the 1850s. But the Mincing Lane cluster was finished with the rising popularity of teabags.

In the twentieth century, two new trends emerged that reduced the importance of the European trading firm in India. First, the range of consumer goods imported from Britain expanded to include such new articles as sewing machines, processed food, and bicycles.\(^{24}\) Selling these goods required heavy campaigning and advertising, which were done in India by Indian agents. The local agent was sometimes recruited from the established Indian mercantile groups - the most famous agent of Singer sewing machines was a Bombay Parsi merchant - but the agent performed a more entrepreneurial, more advertising-oriented service than in the other trades. From the 1930s, the growing interest of Indian consumers in household tools and cosmetics drew a new form of foreign investment to the region, the multinational manufacturer, such as Unilever or the Imperial Chemical Industries. These enterprises also strengthened retail-marketing networks in the cities.

The second factor that reduced European presence in trade was the increased Japanese participation in Bombay and Calcutta. In 1883, shipping between Bombay and Kobe began, attracting two zaibatsu, Mitsubishi and Mitsubishi, to trading with

India. The first major trading firms, like the Mitsui-affiliated cotton trader Toyo Menka, entered India in the 1890s. By 1915, India was Japan’s main export market. Recent scholarship on Japanese trade in South Asia has underscored several factors behind the very rapid growth in its scale in the next thirty years. These were competitive shipping, efficient information exchange between Bombay and Osaka, partnership with Indian businesses (Tata in Bombay and Andrew Yule in Calcutta were among the partners), and the role of Indian merchants in Kobe, Singapore, and Hong Kong in conducting the import trade from Japan. A spill-over effect of the collaborations between trading firms was collaborative industrial ventures, such as Toyo Podar in cotton and a cluster of match manufacturing factories.

Indian traders

Unlike many British firms, Indians in the port cities operated as family firms, and raised money from a network of friends and relations. They were nevertheless quite distinct from their counterparts in the agricultural interior. The port city merchants functioned in a cosmopolitan milieu. They could and did form partnerships cutting across caste, community or ethnic divide. They were tradition-bound in many ways, but they also knew more about foreign markets for Indian goods than did the merchants in north India.

A recent article has shown that such inter-ethnic collaborations as those between Jamsetjee Jejeebhoy, the most famous Parsi trader of the early-1800s, and the Gujarati Hindu Motichand Amichand to export cotton, or Jejeebhoy’s collaboration with first William Jardine, and then the firm Jardine Matheson, to export opium,

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represented a new business culture. These interethnic partnerships did not always work well, but they set a trend. For example, Dinshaw Manockjee Petit, the leading cotton mill owner of Bombay in the 1870s, was first an assistant and later partner to a European. His father was a broker of a European firm. The founder of Tata Steel, Jamsetji Tata had his apprenticeship as merchant in China opium. Parsi firms were the most reliable shareholders of the European concern Great Indian Peninsular Railway during a difficult period in the company’s history.

Almost all of these firms were family firms, that is, they were legally bound by Hindu, Parsi or Muslim succession laws rather than commercial law. But in the mid-1800s the joint-stock principle was beginning to become popular. We can guess this popularity from the presence of six stockbrokers in Bombay who had credit with the Bank of Bombay. Gujarati Hindu and Jain individuals dominated the stockbroking business. The cotton famine (1861–65) helped the cotton trade expand in Bombay city, but its major and lasting effect fell on financial markets. Following the pattern of many emerging market boom, a large number of traders who made money in trade employed their profits to sponsor banks and real estate projects. At the peak of the cotton famine, there were two hundred individuals recognized as brokers. The mass bankruptcy of the Bombay firms during the 1860s revealed, as did the bankruptcy of the Calcutta firms in 1833 and 1846, the basic structural weakness in which all overseas traders had to operate, the absence of organized banking.

The mainstay of Indian traders, however, was located hundreds of miles away from the coasts. Most Indian traders were involved in moving grain, cotton, jute, oilseeds, and other crop products from the farmland to the large markets. How was this done? If corporate banks financed overseas trade, overland trade was financed by a string of indigenous bankers. It is possible to draw vague lines of descent between the bankers discussed in the previous section, and the ones who funded inland trade in the early twentieth century. In both times, the bankers usually belonged in specific castes and communities, the prominent among these being the Multani and the Marwari, the Bengali Saha, Nattukottai Chettiar, Kallidaikurichi Brahmins in South India, the Jains and Gujaratis in Bombay, and occasionally Rohilla Afghans, though

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the main business of the last-mentioned was consumption credit. The major centres of indigenous banking had once been inside the country, such as Benares or Mathura. But in 1920, the centres were located in Bombay, Calcutta, Madras and Delhi.

The bankers never directly financed peasants, but financed each other, and bigger clients such as landlords, warehouse owners, merchants with personal reputation, agents of outstation trading firms, tea estates, and traders buying jute, tobacco and chilli crops where these cash crops were grown. They discounted trade bills and issued remittance instruments when they were branches of Bombay or Calcutta firms, or had close links with the latter. They financed merchant-transporters who could furnish bills of lading from the railway company. Some of these firms were of a size comparable with that of the corporate banks. Trading in the interior required of the banking firms to be knowledgeable about the negotiable instruments, such as the bill of exchange or draft known as ‘hundi,’ issued by bankers elsewhere. European banks had limited access to such information. Indigenous bankers knew many more bankers personally. In this exchange of information on who was trustworthy and who was not, community networks mattered.

One community of bankers that bridged the two worlds especially well was the Marwaris. They came from their places of origin in Rajputana to Calcutta and Bombay like many other groups, but a significant number of them also moved into the small towns that were hubs of grain, cotton, and jute trades. Their hold on banking and practices of intra-community lending meant that the Marwaris collectively had easier access to liquid wealth, ‘cash’ for short. Numerous other groups too engaged in agriculture and money-lending as the Marwaris did. Not surprisingly, few of them took to large-scale industry, which remained a preserve of the city capitalist. Preference for cash worked against putting money in long-gestation projects such as factories.

Contrary to what some historians believe, the circulation of the banker’s hundi was not wide at all, but very restricted to a few reputed firms, and therefore, the wider use of trade bills for agricultural trade was also limited. Underneath the biggest banking firms there were local moneylenders, merchants, landlords, and peasants. Few of these people issued or accepted payment in the form of a paper. Among them, most transactions were done with cash. Liquidity was the key because the conduct of agriculture under tropical monsoon conditions was marked by high risk and extreme seasonal fluctuations. Bankers needed to lend large sums of money at very short
notice on almost no security, and at a high default risk. They, therefore, charged high interest rates. And to keep default risks manageable, they never lent to a borrower whose circumstances they did not have personal knowledge of. Again, such a business the corporate bank could not do easily.

These two worlds of indigenous finance – formal or the big bankers who issued bills and whose bills were traded in the legally recognized money market, and informal or merchants-moneylenders-landlords-peasants who borrowed from the bankers but dealt in cash amongst themselves – were thus somewhat autonomous. Despite the autonomy, there was a tendency for the formal and the informal to converge in the interwar period. The fields of convergence were several. Sometimes wealthy outsiders joined the interior trading world. This was the case with Bombay’s trading firms that set up cotton gins in the countryside. In tanned hides and skin trades, a similar flow of capital from outside was present. Another bigger field was joint-stock banking, which experienced a boom in the interior towns and attracted large and small capitalists alike. To take one example, a large Marwari mercantile firm based in Bihar was also a part-time banker. The firm had started in 1840. Around 1920, it was trying to become a corporate banker.

In the interwar period, there was considerable evidence of institutionalization of commodity trade. A large and substantially new network of collaboration had developed between the Japanese and the Indian traders. More than a dozen Parsi cotton merchants formed agency with Japanese trading firms. In jute the rise of a forward market was a source of wealth and upward mobility for a few Marwari traders.

Growth of trade was connected with the emergence of industrial capitalism in the Indian port cities between 1860 and 1940. In this time-span, employment in Indian large-scale factories increased from near zero to two million. Real GDP at factor cost originating in factories rose at the rate of 4-5 per cent per year between 1900 and 1947. These rates were comparable with those of the two other emerging economies of the time, Japan and Russia, and without a close parallel in the tropical world of the nineteenth century. Cotton textiles were the leading industry of the nineteenth century. Outside Europe and the United States, 30 per cent of the cotton spindles in the world were located in India in 1910. Within the tropical zone, 55 per cent of the spindles were in India. This was quite an extraordinary development because costs of key resources necessary for industrialization - capital and skilled labour - were high in
India. If these costs were overcome, the key to that success can be found in the features of entrepreneurship in the ports.

In seeking the origins of industrial capitalism, it is necessary to note the process of commercialization. And yet, there was no inevitable logic by which the growth of trade led to manufacturing. The pioneer industrialists were almost always exceptional individuals, whose own trading profits were not enough to start a factory, and who had great difficulty persuading fellow merchants to invest. Most traders ended their careers as traders. In seeking the roots of industrialization, it will be a mistake to merely point at growth of trade. The more important factor was where the trade was growing. The port city merchants and the cosmopolitan milieu in which they worked had a better chance of accessing the capital and the skills required to industrialize.

There were distinct ways to do this.

Indian industrialists

The pioneer industrialists of Indian origin are often introduced in biographies as representative members of a caste or community. In fact, their biographies reveal how atypical some of these individuals were in comparison with other caste members. More than communal fellow-feeling, two other factors played important roles. One of these I call cosmopolitanism, meaning exposure to foreign merchants, foreign markets, British technologies, and skills. The exposure reduced the transaction cost of accessing scarce resources like skilled labour, even when the direct cost of capital and labour were high. The second factor was the tendency of industrial capitalists to join public service, especially, administration of the city. Their participation in political institutions in this way was from the start greater in extent than that for merchants and bankers in the interior of the country. This factor made the port city merchant politically central, both to the imperial administration and to their own community of capitalists. Both these factors were active especially in Bombay. In the decade after the Depression, these groups were taking an active part in nationalist politics, and gave shape to the outline of future economic policy.

Although the first successful cotton mill was established in Bombay by the Parsi merchant Cowasji Davar, it was a small spinning mill that did not leave much

31 For example, Gadgil, Origins.
trace behind. The real pioneer of the textile mill industry in India was another Parsi merchant mentioned before, Dinshaw Petit, who followed Davar within a year to start large spinning-cum-weaving mills. Petit survived the cotton famine crash to establish more mills, and his enterprise attracted more investment from other Parsis. His agent Nowrozjee Wadia (1849-99) started Bombay Dyeing in 1875. Other Parsi mill-owners had begun to move away from China opium trade and towards selling yarn to China. A notable move to industry was that by Jamsetji Tata (1839-1901), from China and Africa trades to the Alexandra mill. The majority of the mills set up in the 1870s belonged to Parsi owners.  

Next to the Parsis, the majority of the mills were started by the Gujarati Bhatia merchants. Prominent nineteenth century examples were Khatau Makanji and Morarji Goculdas. Others who invested money in mill enterprise included Bohra Muslim merchants, the Jewish family Sassoon and a few European firms.

One example of a pioneer reveals how atypical some of these individuals were. In Ahmedabad, the main town of Gujarat, the first cotton mill was set up by Ranchhodlal Chhotalal. Nothing that he had inherited from his family had a direct relationship with his becoming an industrialist. Chhotalal came from a Nagar Brahmin family. Nagar Brahmins were often appointed as court officers in the princely states of western India, and in that capacity, he acquired proficiency in a number of languages, including Persian, Marathi, and English. Ranchhodlal worked as an officer of the Company agent in a number of states, and though he lost this job owing to his role in a succession dispute, he was proficient in English and had among his closest associates one British military officer and a British gin owner. When the plan for a mill was first drawn up these individuals supplied information on the textile industry in Britain, and offered to share the cost. Bankers of Ahmedabad refused to subscribe any money. The machines for the mill were purchased in England. Installation was delayed by repeated misfortune that befell the British foremen. By 1863 it was up and running and by 1870 had grown four times the original scale. Two Manchester engineers had enabled that growth and the diversification from spinning to weaving. As these companies made profits and offered large dividends, some of the original

shareholders sold their stake. In this way there emerged a secondary market for mill shares. Chhotalal also took up leadership role in city administration. As with his industrial projects, he faced fierce resistance from other merchants of the city in some of his infrastructure schemes. His extensive political connection, personal wealth, and goodwill with the British administration eventually saw these schemes through.

The joining of business with public administration was to become a model for the future. The second generation owners of long-surviving textile mills all tended to be prominent public figures, working not only for community-bound charity or educational projects as many Parsis did, but also in the municipality, port management, famine relief, and general and women’s education. For some examples, Gordhandas Khatau, son of Khatau Makanji, was an elected member of the Bombay Corporation; Lalbhai Dalpatbhai, a prominent Ahmedabad mill-owner, was an elected member of the Ahmedabad District Board; Sylas Moses, a senior manager of the Sassoon group, was a member of the Bombay Port Trust; George Sutherland, partner of the Calcutta firm Begg-Dunlop, was a Sheriff of Calcutta and an elected member of the Bengal legislature.

Even when the cotton mill had been shown to be profitable, running a mill was a very risky business. The absence of an organized capital market was a constant source of instability. Community network was again of little help. The average life of mills tended to be short. The business survived at all because there were many trading firms available to buy up liquidating property. Between 1885 and 1925, out of a 100 odd mills in Bombay, 45 mills were taken into liquidation and reconstructed under other names; 12 were burnt or closed and dismantled; 16 transferred their managing agencies; and 24 mills were working under the same owner-managers. Of these 24, only 5 belonged to the five long surviving groups - Maneckji Petit, Morarji Goculdas, Thakersey Moolji, Khatau Makanji and Sassoon. Most of Bombay’s mills, thus, changed hands many times.34

In the agricultural interior, the industrialization drive was much weaker. Of the major trading-banking communities, there were several that were active and highly mobile along overland trade routes. But they did not invest in factories like the Parsis or the Ahmedabad Brahmins. Marwaris are good examples. After World War I there

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were exceptions to this statement, the leading exception was the Marwari G.D. Birla of Calcutta, who had made an entry into a mainly European field by setting up a jute textile mill. Elsewhere, some Marwari industrialists could be found. In Ahmedabad, a few cotton textile mills were Marwari owned. A Kanpur mill owned by Baijnath Juggilal, one of the founders of what was to become the Singhania house, a textile mill part-owned by Anandilal Poddar in Bombay, two cotton mills acquired in Bombay by Ramnivas Ruia and Chaturbhuj Piramal, the acquisition of the Jewish group E.D. Sassoon’s textile interest by a Marwari trader, and a few sugar mills in north India would exhaust the list. These firms were exceptional in the industrial landscape of India, and even more exceptional in the context of the Marwari world. It is doubtful if they represented the decisive break in Marwari enterprise that some economic historians read in them.\(^{35}\) Marwaris overwhelmingly remained tied to trading and banking. Between the few who set up factories, there was considerable difference and randomness in the manner in which they did so.\(^{36}\)

**European industrialists**

For the European industrialists, the direct costs of capital and skills were relatively low, because they could procure these from the British markets. The oldest of these had moved from trade to manufacturing in South India. The list includes Parry, Finlay, and Binny. In Bombay, the ‘country merchant’ firm started by the Charles Forbes c. 1800 was a long survivor. Forbes began in China trade and shipping and developed a wide range of partnerships with Parsi shippers and merchants. By 1900 the firm had turned industrial. Some Calcutta trading firms in the 1860s entered jute manufacturing, tea plantations, and mining after a short career in commodity trade. Of the traders turning industrial, the most famous example is the Bird Brothers, the leading jute manufacturer. The entry of Bird happened when banking was still limited, capital market non-existent, and laws not clearly set out. They made the move from commerce to industry by taking over the assets of a failed entrepreneur. Though a

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great deal of the background to these moves remains unknown, it would seem that the
Birds were helped by their friends among the European professionals in Calcutta.

More commonly, indigo, textile and tea trades were sources of initial
accumulation of capital for a number of Calcutta industrialists. Kilburn was one
example. McLeod was another partnership engaged in jute agency with Dundee
before they established a string of jute mills (1907–12). Shaw Wallace imported
Manchester piece goods, cement, metals, and paper and exported hides and skins and
raw cotton before they started in industry. Walter Duncan, who started the partnership
that was to become Duncan Brothers, a name in tea plantation and jute mills, was
originally a tea and jute exporter (after a short stint as an employee of the Bank of
Bengal). In the 1830s, Robert Mackenzie, partner of the shipping magnate William
Mackinnon after 1847, was a piece-goods trader in Ghazipur. Between 1847 and
1856, their partnership (Mackenzie died in a shipwreck in 1852) was still engaged in
merchandising, when Mackinnon started the British India Steam Navigation.37

Offbeat cases of traders turning industrial include T.A. Martin of Walsh, Lovett &
Co., a Birmingham firm that dealt in metals and construction material in South
America and opened a branch in Calcutta (1874). Later in the nineteenth century,
Martin formed a partnership with the Bengali R.N. Mukherjee to set up the largest
engineering firm in Eastern India, Martin Burn. Calcutta also included a number of
other jute, tea, and mining companies that are best described as born industrial, that is,
which raised capital in London in the process of starting a manufacturing enterprise in
India.

Some of the largest European firms in Bombay—such as the three firms
Greaves, Brady, and Killick—did not originate in trade or industry, but in the
enterprise of skilled mechanics. They were more akin to Martin of Calcutta. Around
1880, an American trading firm, Stearns Hobart & Co., entered Bombay’s history as
the first company to propose a mass urban-transit system (horse-drawn tram). This
proposal was the foundation of the Bombay Electric Supply and Transport Company,
which now runs Bombay’s buses.38

37 J. Forbes Munro, *Maritime Enterprise and Empire: Sir William Mackinnon and His
38 On the subsequent history of the firm, see William J. Hausman, Peter Hertner, Mira
Wilkins, *Global Electrification: Multinational Enterprise and International Finance in the
The factories made extensive use of the managing agency contract (more on this below), but in succession, inheritance, and management of property, the Indians tended to be family firms in the same way as the Indian traders. By contrast, European firms made more extensive use of corporate law and partnership forms of management. Why did the choices differ and did they matter to the protection of shareholder interest or efficiency of management?

Business organization

The discussion of business organization addresses especially the mix between indigenous and European institutional forms. Two questions, in particular, have preoccupied these discussions. How did the Europeans deal with their expatriate situation by organizational means? How important were caste, community, and religion for the Indians? And was the corporate form a European transplant or was it adapted to suit Indian conditions?

For the Europeans, having to operate thousands of miles away from homes, sometimes in collaboration with home firms, required institutional innovations to manage the risks associated with ‘diversification and redeployment of merchant capital’. Business historians underscore several aspects of the process. One of these was the emergence of multinational trading houses. Another was the adoption of formal legal identity by trading firms, allowing them to make fuller use of the commercial laws that held sway over the wide geographical space ruled over by the British Empire. The combination of family proprietorship and corporate identity also enabled some of the trading houses to use flexible strategies, conserve limited managerial resources, and mitigate the transaction costs that remote management entailed. By sharing business and personal ties, and briefly, a liberal economic ideology, the mid-nineteenth-century multinational merchant firms resembled an emergent social class.

Indians surely faced many of the same problems - mobility, distance contracting, collective negotiations - but their organizational choices were usually less formal or tied to sectarian property law. Indian economic history, in fact, supplies many examples of how capitalists used caste and communal loyalties to define property right and manage businesses. In the seventeenth or eighteenth century, cooperation amongst merchants was necessary to address missing markets, need for commercial codes, and collective bargaining. In an environment where capital markets were missing or information was scarce, cooperation was necessary. Merchants also needed to negotiate with kings in order to obtain diplomatic immunity or the authority to follow their own civil law. In the past, cooperation on such matters assumed ethnic character. Ethnic combines ensured that members followed rules by threatening to drive them out of society if they did not.42

Community may have brought people together. But did community also foster innovation, say, by ensuring that risks were shared widely? This was almost certainly not one of its benefits. As we have seen, for pioneer industrial entrepreneurs like Chhotalal, having to work within a community was probably more a burden than help. Community of merchants often tried to stop the pioneers from taking offbeat decisions. But community was not irrelevant in the diffusion of an idea. When an entrepreneur had shown the profitability of an idea, or when a pioneer industrialist started a second factory after the first one, there was usually more positive response to the call to finance it from friends and relations. This effect was in evidence among Parsis on many occasions. When the shareholders of the old mill sold their stake, the shares were purchased by professional traders and bankers often from the same social pool.

These ambiguities make the ‘community’ a notoriously difficult concept to work with. There are two particular problems. First, what is the core of a communal identity, if it is not, as Max Weber once thought, religion? The people that all north Indians used to call Marwari around 1960 did not form a single caste, were very diverse and unequal among them, and did not conduct the same kind of business everywhere. And yet, some features of a community did attach to them, there was after all a Marwari chamber of commerce each in Mumbai and Kolkata. Such

confusing scenario makes the very definition of a community unstable. Secondly, community does not remain strong for ever. In fact, today it does not function in the way it did in the nineteenth century. It has become obsolete as a business resource, if not as a cultural identity. Why did the change happen?

The first question can be answered by suggesting that the business community was never an inherited readymade cultural trait in South Asia. It was instead a product of its time. It had no fixed cultural core. It could draw on a variety of cultural traditions, including the idiom of caste. But to explain why it existed and what it did, the theory of the caste system is no help at all. In eighteenth century India, as the Mughal Empire collapsed and the axis of Indian capitalism shifted from overland trade to the ports, a massive migration and relocation of enterprise occurred. Most of the prominent business communities of the nineteenth century had changed the nature of their business at the time of this political shift. Several groups, including the Marwari, moved a long distance away from their original homes. They needed to reinvent cooperative bonds to help migrants survive and succeed professionally. In this way, eighteenth century turmoil, while it did not exactly give birth of the community, did lead to a major consolidation thereof.

The second question takes us to the other end of the cycle, the end of the community as historians know them. We see the beginning of the end already in the 1920s when the leadership in collective negotiation on business matters passed on from sectarian bodies to national chambers of commerce. Both the Marwari chambers then became absorbed in the pan-Indian bodies. More recently, the maturity of capital and information markets made informal mode of exchanging information about who was solvent and who could be trusted redundant.

Along with these two factors, globalization has changed the communities from within. The Parsis started moving away from trade and industry as early as 1900, and gradually became mainly engaged in the professions and the creative fields. Some of the most famous Parsis today are academics, writers, and musicians living outside India rather than owners of family firms. A similar diversification has characterized all ethnic business groups of India, and speeded up especially after India embraced globalization in the 1990s though the pace and the manner of the transformation differ.

The major institutional innovation in corporate management was the managing agency system, which had its origin in European insurance business in early-1800s
India. In this system, the directors or representatives of the owners of a company contracted a firm to manage that company for a fee (or commission on sales) for a fixed term. In some cases, the promoter started a company and wrote a management contract between the company and itself. The idea of a management contract had originated in the insurance business in the early-nineteenth century. It survived the 1840s depression that destroyed many of the firms that had used this system. By the 1870s it changed form to some extent and became established in large-scale industry, mining and plantations. Despite its importance, many practices associated with the operation of the system remained outside legislation until 1956.

The system had two major advantages. First, the promoter and the manager were often identical firms or families. But with the agency contract, the owners ensured two types of earning for themselves, dividend and commission, thus reducing the exposure of their income to market shocks. Second, by having reputation fixed on an established management firm, the promoters ensured interest from the wider public in startups. This second effect can be read as conservation of managerial resources, since the reputation of one manager was shared by old and new firms alike. But because it was poorly regulated, there were major distortions of the managing agency contract. It could be notoriously one-sided. The agent could gain almost complete and near-perpetual control (some contracts were valid for sixty years) over a cluster of companies with which it had management contract. This was not a problem when ownership and management vested in one family, but it was a huge problem after public shareholding expanded. This was so especially because company law did not intervene in managing agency as much as it needed to, and the broad outlines of an agency contract tended to be governed by the generic Contract Act. The upshot was that the shareholders could do little to stop the mismanagement of the firm they owned when the agency firm was in the hands of a bad manager, or a predatory takeover of one agency firm transferred control of an entire cluster of firms in one sweep to an incompetent and dangerous manager. This, as we shall see, was the fate of many of the British firms of Calcutta after independence in 1947.

Whereas internal trade remained somewhat remote from political movements, the port city industrialist was always politically engaged, as we have seen. Wealth accumulation in this sphere went hand in hand with a rise in the ambition to control policies that mattered to industrialization.
Business and politics through the interwar years

In the nineteenth century, Indian industrialists did not see British competition as damaging. The port city merchants unanimously lent support to the Company’s military campaign during the great Indian mutiny (1857-8), and made statements that showed that they saw their long-term economic interests to be best served by the British Empire. Chhotalal was an early example of entrepreneurs who made their views about politics and economic policy known in public. Although a cotton textile producer working in competition with Manchester interests, he was neither a free trader nor a protectionist, but advocated free trade with those countries which offered free trade to Indian goods and protection for others. In this view, Britain was an equal trade partner of India’s, and no specific worries were expressed from British competition in the textile market. Later, the expression of views on policy became institutionalized in public bodies and associations, and after World War I, the activity was becoming part of organized nationalist movement.

From the 1920s, short-term self-interest of Indian firms tended to become mixed up with debates on long-term development. Indian business firms had a grievance against the Empire. They resented London’s hold over Indian currency. Until 1920, such control was justified on the ground that Britain’s economic interests and Indian interests were compatible, and that the world’s biggest money market was located in London. As the world economy came under strain and Britain stared at economic decline, that argument lost force and the control looked cynical. As the British economy weakened, some Indian businesses formed partnerships with the nationalists, and joined them in raising demand for autonomy.

In interwar India, big business, especially industrialists based in the port cities, were vocal, joined public debates on policy, and agreed with the nationalist politicians that some version of socialistic planning was needed. In 1944, when independence was imminent, a blueprint of development drawn up by Bombay’s magnates and known as ‘the Bombay Plan,’ declared that the future of India should be a closed economy and a state-dominated economy. Where did that idea come from? Paradoxically, the signatories to the document without exception had made money in

the open economy with limited government presence. Why they should now turn their back on openness remains one of the puzzles of Indian history. The Bombay Plan, like a number of other plans designed in the decade before 1947, was shallow in its analysis of economic conditions, but deferred to a group of Soviet admirers in the Indian National Congress. The most famous member of the group was the first Prime Minister Jawaharlal Nehru. By doffing their hats to socialist politicians, the authors of the Bombay Plan hoped to gain unconditional access to Indian markets in exchange. And they did.

The blueprint of policy that emerged from these dialogues set out three things that was to decide India’s economic future for the next four decades - the state worked for economic development, economic development meant industrialization (and not private enterprise in trading or banking, which were discouraged), and industrialization needed an interventionist state. The state would regulate and direct investment in industry, nationalize businesses especially trading and banking, produce machinery and intermediates, and protect domestic industry. In this way, the colonial economic system consisting of free and open economy and small government came to an end in 1947.

Both these changes, in the size and reach of the government and in the degree of openness, imposed costs upon some incumbent firms while favouring others. What were these costs? And who gained?

1947-1992: BUSINESS JOINS NATION-BUILDING

Towards socialism

In two steps, taken in 1948 and 1956, the Industrial Policy Resolution reiterated the commitment to socialism and set apart industrial sectors where the government alone would operate. The idea of state dominance was operationalized in a number of ways. One of the most important elements was the licensing system. In 1951, the Industries (Development and Regulation) Act introduced the system of approval of investment plans by a number of ministerial bodies, the whole system being known as licensing. The second element was nationalisation of utilities, transportation companies, and financial institutions. In industry, nationalization was set as a future goal, but air transport and insurance were nationalized, and significant steps were taken to nationalize finance. In 1969, nearly all corporate banks were
nationalized. Although industrialists protested the socialist posture, in the end, they accepted the idea of heavy regulation.

The third element was protection, on which a broad front of agreement between the Congress politicians, Indian business, and economists had been achieved by 1960. By 1963, average tariff rates on manufactured consumer goods in India were among the highest in the world, above 70 per cent, and while average tariff rates on capital and intermediate goods were relatively low, their imports were regulated by state procurement and the licensing system.44

A fourth element of the regime, repression of trade, has received little attention from economists, partly because most economic historians subscribed to the official ideology that private enterprise in trading and banking was a bad thing. In turn, commodity traders never had the kind of political voice that the industrialists did. Industrialists were indifferent to them, and the socialist political lobby disliked them.

Trade repression

Step by step, the government erected a regulatory system that drove private capital away from commercial infrastructure and institutions. Starting with the Essential Commodities Act, 1955, restrictions were added on movement of goods across India, and on private storage. There was a ban on export of agricultural goods, ban on future markets, ban on private trade, and ban in many states on sale of agricultural goods except in approved sites. In the colonial era, an interdependence had developed between foreign trade, domestic trade, and private banking. All of that entrepreneurship and innovation disappeared in the next thirty years. With the link between foreign trade, domestic trade and private finance now snapped, all three dwindled. State procurement of goods did not apply only to government-consumed products as before, but almost all mineral and agricultural material as well. The State Trading Corporation was set up in 1956 ostensibly to act as a subsidiary to private enterprise in foreign trade, but in reality soon started encroaching on and taking over areas where private traders once operated.

This radical shift from private to public trading could not have been done without ideological support. Initially, the ideological support came from a view held by colonial provincial administrators especially of Punjab and Bombay-Deccan, that the merchant and moneylender had been responsible for exploiting the peasant potentially causing political instability in the countryside. These discussions had led to a slew of anti-moneylender legislation. The independent state supported the same view, devised a string of regulations to reduce the role of the merchant and eradicate the moneylender, and channelled state funds for agricultural finance through the cooperative system. In the 1970s, partly in response to an outburst of rural protest movements, a Marxist narrative on the history of trading firms emerged, which significantly reinforced the state repression of trade. According to the narrative, the root of a gathering economic crisis was under-consumption in the countryside, a direct legacy of colonialism. The colonial crisis originated in the fact that ‘merchants enjoying monopoly position advanced money to needy peasants for growing cash crops, and in the process absorbed the entire profit themselves.. To exploitation through taxes, rent and interest was added the exploitation by the merchant through the market. The nominally independent peasant became enmeshed and dominated by usurer’s and merchant’s capital.’45 This was an extreme narrative. But no other narrative was available. The extremist sentiment on trade and moneyleftselfing carried over into economic history scholarship.46

Trade repression and the decline of global firms

On foreign capital there was initially a difference between the tolerant stance of the Prime Minister Nehru and the nationalistic-xenophobic stance of the Deputy Prime Minister Ballabhbhai Patel. The divisions and infighting within Indian Chambers of Commerce reflected these divisions in politics. In actual action, direct restraints on existing foreign firms could not be either strict or sustained in the 1950s because of repeated shortages of exchange.47 A number of foreign investment

projects, or in the official language ‘collaboration agreements’ were drawn around 1960 to enable technology import.

It was another matter with the export-oriented industries like jute and tea, where the regulation of domestic trade in agricultural commodities, as well as restriction on imports of machinery, were damaging. Between 1950 and 1970, except a few multinationals selling goods to Indians, the British firms that were engaged in export-oriented trading and manufacturing were squeezed out of India. The firms in Calcutta lived on the export of jute and tea, procured capital and technology from abroad, and recruited top management internationally. The nationalist state sharply raised tariffs and capital controls, which made taking any of these steps more difficult than before. The investment policy raised investment cost in businesses that had long relied on imported capital, knowhow and expertise. Exports suffered in jute and tea. The global firms operating in India, thus, faced pressure from two ends; they lost their foothold in export trade whereas they never had a foothold in inland trade. A series of hostile takeovers by opportunistic Indian families with help from cynical politicians sealed the fate of these global firms.

Between 1950 and 1965, while the British managing agencies changed hands, there also occurred the transformation of the Calcutta Marwaris from traders to industrialists. Notwithstanding the example of G.D. Birla, few Marwari trading and banking houses of Calcutta had either become full-fledged industrial or showed an inclination to move in that direction before independence in 1947. In 1965, by contrast, four of the ten largest business groups of India were Marwari-owned and based in Calcutta. The Marwaris by then owned the majority of industrial firms in Calcutta. The move of the Calcutta Marwari capitalist towards modern industry, thus, reached a completely new and unforeseen level only after 1947. How did that dramatic change come about? In Calcutta, the transformation was made possible by takeovers of European industrial firms, which occurred in a relatively short period (1955-65) mainly by stock market manipulations.

In Indian business history, this story tends to be told in a somewhat sanitized fashion. In one account, the European firms were too conservative in their managerial outlook in comparison with the Indians, implying that it was inevitable that their businesses would be eventually sold off to the more dynamic Indians. In fact, the

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firms taken over had been profitable at the time of takeover, and with few exceptions, declined rapidly after their transfer to Indian ownership. The sordid nature of Marwari move into industry was revealed, not very successfully, in angry pamphlet-type works. One of these, written by a retired tax officer, targeted corporate governance in the house of Soorajmal-Nagarmal, which had taken over some of the assets of the Scottish company McLeod.\textsuperscript{49} A second book written by a Marxist teacher-cum-activist showed how politicians in Delhi favoured Marwari businesses in Calcutta.\textsuperscript{50}

More relevant evidence is now accessible in the proceedings of contemporary High Court cases published online. Court cases showed that the new owners were stock-market insiders, who had considerable liquid wealth amassed through speculation on real estate and commodities during World War II. Marwari involvement in share broking from the early days of organized stock trading in the late nineteenth century is well-known in Indian business history.\textsuperscript{51} The significance of that fact for the industrial world was limited until 1950. Thereafter, insider trading took on an insidious form. Cash was poured in to inflate the value and induce a sale of the shares of the European managing agency firms, which were then purchased by individuals loyal to the group. When the share value of the agent firm fell again, the losses were set off against the dividend income earned by these individuals, which move was challenged by the tax office. This was the context of several of these suits. These were filed not by the shareholders but the commissioner of taxes.

Marwaris were not the only people doing this. There were others. And in some cases, the transfer of ownership happened by mutual agreement. But the majority of the takeovers were done by Marwari individuals through insider trading in the stock market, and with few exceptions, it led industrial firms that were among the largest and most profitable in India in 1950 to recede into obscurity and bankruptcy in less than a ten years. The legal material on Marwari takeover includes, among others, the acquisition of India Jute by C.L. Bajoria, that of Kettlewell Bullen by Mugneeram Bangur, of Richardson Cruddas by Haridas Mundhra, and from Bombay, the takeover of Bennett Coleman by Ramkrishna Dalmia. Among the other large firms that lost control to Indians, and went into oblivion soon after, were Bird and F.W. Heilgers

\textsuperscript{50} D. Barman, \textit{Mystery of Birla House}, Calcutta: Jugabani Sahitya Chakra, 1950.
(Pran Prasad), Jessop and Company (Mahadeo Ram Kumar), and New Central Jute (Sahu). Subsequent to the transfer of control, two tea producing Marwari groups of Calcutta, B.M. Khaitan (who acquired Williamson and Magor, and Macneill and Barry interests) and Bangur retained prominence in the Indian industrial scene, though their relative position fell continuously. Nearly every other firm declined, and some allegedly suffered a plunder of their assets by their Indian owners. A similar example of mass decline of corporate culture and waste of entrepreneurial resources will be hard to find anywhere else in the world.

The mass decline of global firms sealed the fate of Calcutta. Once a global city, with a larger entrepreneurial base than that of Singapore and Hong Kong, Calcutta reached the 1970s as a provincial town. These other port cities did not turn away from their trading past, but built on that heritage, combining it with good governance. Calcutta witnessed a systematic destruction of its global past.

If commodity merchants, moneylenders, and export industries were the losers, who gained from the regime?

Who gained from import substitution?

Import substitution encouraged domestic firms already selling in the home market to diversify from consumer goods to capital goods, and led the state into the production of oil, steel, heavy chemicals, and engineering. That these changes resulted in a large expansion of the corporate groups, and cooperation, sometimes collusion, between the big Indian business groups and the state, is well-known.

A series of reports sponsored or commissioned by the government in the 1960s of the largest twenty odd Indian-owned family business groups revealed three significant changes. First, the major business families had diversified into a number of fields (the average was four or five unrelated areas per group). They formed conglomerates like the zaibatsu in prewar Japan. The push behind this tendency had little to do with comparative advantage, and more with the investment licensing system. Second, rather like domain-name registration today, the process of application for licenses was used by some groups to pre-empt investment by others. Birlas were especially known for playing the game, and were found to hold, around 1970, close to 60 unimplemented licenses. Reliance, India’s biggest company and now an energy firm, had started as a textile producer. Its early growth had owed to easier license and terms to import manmade fibres and raw materials, done allegedly by political manipulations and
at the expense of rival applicants. As one interested party would rue later, ‘you had to manage the system for all licences.’

And third, control over a large number of companies unrelated in their lines of business was maintained by means of an investment trust company, which was privately and fully owned by a family. The trust invested in some group companies, which then invested in other group companies, and so on.

The monopolistic character of the industrial system, therefore, was somewhat artificially created by licensing itself. It is possible that the resultant weakening of competitive pressure led to a slowdown in investment between 1965 and 1975, resulting in a phenomenon known as industrial stagnation. The stagnation was attributed by the Marxists to rural inequality and under-consumption and by the right to the regulatory regime. But surely there were institutional failures as well. Be that as it may, industrial investment and economic growth recovered somewhat in the 1980s thanks to government-owned investment companies pumping in a large quantity of money into the companies owned by the big private groups. The principle of channelling public money into private companies was introduced with the nationalization of the Life Insurance Corporation in 1955, and almost immediately ran into a huge corruption scandal. Allegation of corruption pursued both the licensing system and the state-run financial system throughout their career from 1951 to 1992.

Despite the many secret alliances between ministers and big business groups that it fostered, the licensing regime cannot be read as an example of ‘cronyism.’ For, the regime also made collective action by industrial capitalists more difficult than before. The major Chambers of Commerce lost considerable influence on policy-making in the aggregate, even though these bodies often successfully fought over minor provisions of policy. By contrast, business and state relationship was splintered into numerous instances of ‘particularistic lobbying’ by individual businesspersons with individual ministers and bureaucrats.53

The confusing scenario leads us to one of the enduring enigmas of business-politics relationship in socialistic India. Were industrial capitalists partners of the politicians, or victims of political repression? Contemporary analysts made a choice

between these two narratives depending on ideological sympathies. For example, the Marxist discourse on industrial capitalism in India favoured the former view of a state-business alliance, with the qualification that Indian industrial capitalism was too immature, too ‘financial’ in orientation in comparison with the corporate capitalism of the west to transform the whole economy and especially to help the countryside develop. Such views were expressed by the Soviet author A.I. Levkovsky and the French Marxist intellectual Charles Bettelheim.\textsuperscript{54} An Indian Marxist preferred the term ‘tycoon capitalism’ to express the same kind of negative view on the political economy of industrialization.\textsuperscript{55}

Thirty years later, the discourse had changed radically. The late twentieth century economists floated the completely opposite view that capitalists in the socialist economy had been shackled by the state, and that the pro-market reforms in 1992 released this Prometheus from bondage.\textsuperscript{56} This contrasting narrative is just as mythical as the Marxist-nationalist one. It has no particular virtue except that it suits the mood of the present times as well as the extreme leftist views represented the mood of the 1960s.

The truth is, in 1950 politically connected Indian industrialists had been complicit in the choice of the socialist system. Recent scholarship in the field shows that the practice of import substitution in postcolonial India reflected the influence of Indian capitalists on the policies of the developmental state, which enabled them to resist discipline by the state.\textsuperscript{57} That original partnership between the state and Indian industrialists stayed intact during Nehru’s lifetime. It soured around 1965 and turned into mutual hostility in the 1970s when for a number of reasons India was pushed to cooperating with the communist bloc. The hostility waned again in the 1980s as the East Asian miracle rekindled faith in private enterprise.

But both recent and old scholarship overlooks trade repression and its consequences. If shackles were imposed, they were imposed upon export-dependent global firms, commodity traders, and private entrepreneurs in the financial market.

\textsuperscript{55} Ibid.
\textsuperscript{56} For one example, Swaminathan S.A. Aiyer, \textit{Escape from the Benevolent Zookeepers}, Mumbai: Times Group Books, 2008.
The stymying of private enterprise in a large swathe of commerce and banking was the biggest failure of the state, and almost certainly delayed the diffusion of industrial capitalism to the regions.

Along with the beneficiaries of licensing system, public sector firms were a major new element in the business history of between 1950 and 1990. The growth of the public sector was connected in turn with inflow of technology and the means to purchase technology via foreign aid.

Foreign aid and technology import

Having restrained foreign investment, the government needed to manage technology imports from abroad by means other than the factor market. Further, the expansion of public expenditure added a budgetary gap. To meet these two gaps together, foreign aid became an important component of India’s development strategy and growth experience between 1950 and 1965. In these 15 years, aid flowed mainly into industrial development, and overwhelmingly into governmental projects. Of the total US aid, approximately half consisted of food and commodity assistance. Of the remaining amount, industrial development including oil, gas, steel and heavy machinery, all in the public sector, accounted for a little over half, and the rest went mainly to railways, power, and irrigation development under the government. West German, Soviet and British aid went mainly into industrial development. Foreign aid, in short, helped the government meet its twin deficit, but did little to alleviate the shortage of foreign exchange for the private sector.

By 1955, the government had signed agreements with Burmah-Shell, Esso and Caltex for refinery expansion. The Assam Oil Company was an existing firm for crude oil production and refining. In the next few years, the government painstakingly acquired a partnership in explorations projects in Assam through a new joint venture called Oil India Ltd., and began to establish itself as the main agency for explorations in Gujarat through a department called Oil and Natural Gas Commission (ONGC). On the refining side, a number of new refineries were set up, some with joint ownership, and some of them wholly owned by the government. At 1947, there were two large private sector integrated steel producers in India, the Tata Iron and Steel Company or TISCO, and the Indian Iron and Steel Company or IISCO. From early in the 1950s, the government decided to set up public sector units, while not curbing expansion in the private sector. The policy succeeded to the extent that by 1964, half of domestic
production was already coming from the new public sector units, and this proportion was projected to be 75 per cent by the early-1970s. All of the new capacity was heavily dependent on foreign aid, and 84 per cent of aid into steel went into public sector capacity expansion. Of the first generation of public sector steel mills, Bhilai was established with Soviet assistance, Durgapur with British assistance, and Rourkela with German assistance. A fourth project in Bokaro was conceived in the 1960s, and negotiations began first with the US government for official assistance.

Foreign aid made it clear that political choices were a necessary condition for receiving aid, and in turn, for expanding state-owned firms. The USA did not like being an instrument of India’s socialist experiment, and wanted to commit more money only to private enterprises. The resultant disputes mattered not only to industrial policy (India hardened its socialist planning), but also to American foreign policy vis-à-vis India. Financing of oil refinery and new steel plants both turned into sore points with the western governments, with western donors expressing reluctance to fund public sector projects. On the other hand, the Indian government had found it unpleasant to negotiate with the oil multinationals on profit margins and explorations. India, therefore, welcomed the emergence of the USSR as a large oil producer. Soviet aid began to enter refinery projects from the late 1950s. At the same time, restrictions on refinery expansion were imposed on the private companies. As the Cold War warmed up in the 1970s, USSR turned into a major trade partner and ideological support for public sector industrial production.

The alternative to receiving government channelled aid money, with which private firms might buy technology, was foreign collaboration. This route was subject to license, and license was always very hard to get. There were several high profile cases in the 1950s and 1960s of expansion plans being abandoned because the government delayed or denied collaboration license. One of these was special steels project of TISCO.

New dynamics

In the 1970s and the 1980s, roughly coinciding with aggressive socialistic regulation, two new forces of change began to shape industrial entrepreneurship. One of these was the promotion of high-yielding seeds that formed the mainstay of the 1960s Green Revolution. The seeds worked wonders together with water and nitrogenous fertilizers. Fertilizers were supplied by the state at a subsidized price.
Initially the strategy succeeded in wheat-growing Punjab where British engineers had earlier constructed canals out of Himalayan rivers. In the same region, major canal projects were taken up soon after 1947 to resettle migrant farmers from Pakistan. Later, the revolution spread to rice-growing deltas where peasants erected tube-wells to extract groundwater. Overall, the package raised farm output, yield, and wages above historical levels. Rural wages were rising in areas that directly took part in the Green Revolution. Profits were to be made in farming. Rich peasants invested in small-scale industry. This was noticed in Punjab. In small-scale textile production in the towns of Tamil Nadu, the presence of middle peasants as textile entrepreneurs was long established, and studied by numerous researchers. That particular pattern of diversification originated much before the Green Revolution, but was helped by the latter process.\textsuperscript{58}

Green Revolution also led to a revival of local trade, and while not removing trade repression completely, weakened it locally. A study on trade in North Arcot has shown that local trade in agricultural produce and especially agricultural inputs, such as chemical fertilizers, revived as an effect of the Green Revolution. The revived trade, called commercial explosion in one work, made land-holding peasants take on a trading role. This is a contrast with the colonial era of commercialization, when agricultural growth had attracted mobile capital from professional moneylenders from outside the region. Because of trade repression, and moneylender repression, that effect was absent. The state being stoutly against capitalism in agriculture, ‘the possibilities of private traders to concentrate capital through this kind of trade [was] limited.’\textsuperscript{59} But there was a change no doubt.

The second process of change began around 1980 and can be called a ‘backdoor globalization’. I mean by this term four separate and important steps to allow market forces to play a bigger role in industry, without formal announcement of an economic liberalization. The benefits of each one of these steps, however, were


confined to particular types of industry rather than being generalized to all. In that sense too it was backdoor, at any rate, a hesitant and piecemeal reform.

First, there was a move to float the Rupee (1982-). Secondly, there was a move to involve scientists in framing an information technology policy (mid-1980s). Third, a reform was introduced in the textile industry via the 1985 Textile Policy. And fourth, a joint venture in automobile manufacture began. All four steps were begun during the last days of Indira Gandhi’s Prime Ministership (she was assassinated in 1984), which was otherwise known for hard socialist leanings. Let us consider three of these four steps in turn. The fourth one, information technology policy, will be discussed more fully in a section below.

Protection had been raised to such high levels that import of technology was made difficult for smaller firms, with the result that potentially exportable light industry did not modernize, and did not flourish as much as they did in East and Southeast Asia. As soon as the Rupee was allowed to float, that is depreciate, exports of three light industries, clothing including knitwear, leather goods, and cut gems, jumped. Clothing exporters procured cloth from the textile industry. The cotton textile industry had been heavily regulated between 1947 and 1985 mainly to favour small firms by forbidding large firms from expansion. Some of these small firms matured into efficient producers, but by and large they did not produce the quality required in the world market. These firms had to wait the 1992 reforms to be able to obtain new machines and improve quality. Meanwhile, the 1985 Textile Policy allowed capacity expansion in the large cotton textile mills, and made technology import easier than before. By then, a large number of cotton mills had become bankrupt or nationalized. But a dozen or so firms did make use of these facilities to modernize and export. One of these was the maker of denims, an Ahmedabad firm called Arvind Mills.

Although India was a minor trade and investment partner, if a large receiver of foreign aid, of Japan between 1947 and 1991, the automobile joint venture between the government of India and Suzuki Motors in the 1980s turned into a more powerful symbol of industrial modernization than any other contemporary enterprise. The success of Suzuki had owed to the conservatism of its Indian rivals, but also to two particular features of Japanese foreign investment, which took off in the 1990s. One of these was promotion of ancillaries in India, and the other factor was the entry of keiretsu-affiliated firms, often in ancillary production itself. The presence of a large and capable component manufacturing complex attracted the next generation auto
manufacturers that came into India from Japan, such as Toyota, Honda and Mitsubishi.

Backdoor globalization could only go so far. Tariffs still remained high. Nothing had changed to industrial regulation. In 1991, there was fear of an exchange crisis because of poor export performance, import dependence, and the channelling of foreign currency into projects that did not create the capacity to repay in foreign currency. The end of the closed economy was formally introduced in 1992 with a sharp drop in average tariff rates.

What happened next?

AFTER 1992: OPENNESS RETURNS

As soon as the economy opened up to trade and investment again, GDP growth rate accelerated, led by huge rise in manufacturing and services exports. In the next twenty years, the share of agriculture dropped sharply, manufacturing growth maintained high levels, foreign investment flows greatly increased, and India emerged as one of the world’s leading hubs of software export.

None of this was fully anticipated when the reforms began. The initial reaction from Indian big business to trade liberalization was negative and protectionist, but by the middle of the 1990s, the Chambers of Commerce had come to terms with the reality of the reforms. In the new phase of trade diplomacy, big business chose to negotiate terms rather than oppose the reforms.60 This was in evidence, for example, in business participation in the later stages of the Uruguay round of multilateral trade negotiations. In the more recent times, the conditional support of big business for openness was reinforced through a process of overseas investment by Indian business and the spectre of Chinese lead in overseas markets. In the last decade or so, business sponsorship of policy dialogue has increased. ‘Indian business leaders are increasingly investing funds in think tanks and influential educational institutions in the US and other countries to influence people and win friends.’61 The impetus has been a sense that building bridges with intellectual centres that shape opinion matters increasingly more than old-fashioned lobbying with ministers in influencing policy.

61 Ibid.
There may also be a lurking feeling that Indian business leadership came in late in this relatively new game of shaping opinion.

Corporate shakeup

In the 1980s when the Maruti experiment began, the standard method of allowing foreign capital into manufacturing was a joint venture between a foreign and an Indian partner. A number of joint ventures were in fact established, but few survived the 1990s. Even long after 1992, when conditions for fully-owned foreign firms was eased, joint ventures remained the only sanctioned way that foreign capital could come in the service businesses (such as media, retail trade, or consumer banking). Given the unattractiveness of joint ventures, effective protection to the services remained high. Services (banks, insurance, universities, films, hotels, tourist infrastructure, hospitals, and mass media) are still the most protected sectors in the Indian economy, and though growing in size rapidly, deliver notoriously poor quality by world standards.

Studies on the failure of joint ventures found a fundamental flaw in the design of policy, the foreign partner was usually more capable and had deeper pockets than the Indian partner. In many cases, the inequality in technical or financial capability was outweighed by the fact that the Indian partner was the politician’s favoured child. After the reforms, leading foreign firms including Bayer, Gillette, Goodyear, Datacraft, EMI, Sprint, Suzuki, Merrill Lynch, Xerox, and Vodafone, which had entered India through a joint venture, started independent operations. In a few cases, one notable example being the Britannia Industries, the separation was acrimonious, politically charged, and costly for the foreign partner. In another case, NOCIL, which was a joint venture between Shell and an old textile family Mafatlal, Shell breakaway occurred amidst bitterness in the course of negotiations to bring in new patented technology.

The 1990s also witnessed a spate of acquisitions and mergers between (a) foreign firms in possession of global brands and Indian firms (as in the Coca Cola buying up a Bombay-based soft drink manufacturer Parle, or Lever buying up Kissan) and (b) Indian firms, desiring to restructure and develop areas of core competence.

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(Shri Ram Fibres or SRF, a tyre chord maker, buying CEAT tyres, big cement companies with all India reach bought up regional companies). As a component of the same process, there were also de-mergers, or highly diversified groups like the Tatas shedding non-core businesses like soaps and oils.

One legacy of the protected era was the coming into being of Indian consumer brands in soft drinks (Parle’s Campa Cola, Rasna), consumer electronics and white goods (Philips, Videocon, BPL in TV and radio sets), watches (HMT, a government firm), cars (Ambassador of the Birla-owned Hindustan Motors), and machine tools. Few of these survived the 2000s, whereas Korean and Japanese brand names swept the consumer market in cars, white goods, and electronics. The sinking of Indian brands did not necessarily sink a company, but sometimes led to a move away from finished goods to component manufacture (Videocon, for example, from TV sets to tubes). But why Indian brands by and large failed to survive globalization remains a mystery. Was the key failure in advertising, in quality control and R and D, after-sale service, or more simply, was nationalistic branding an unsustainable business idea in a globalized world?63

A major part of corporate shakeup was internal to the firms. The concept of the family firm underwent a change, from extended families to individualistic ones, even as the prominence of the family as such as owner-manager remained intact. At the time of independence, out of 127 large companies in India, 58 were foreign-owned. Both the Indian-owned and the foreign-owned firms usually had family-ownership, but in the case of the British firms, the owner had a small controlling stake and was often physically distant from the day-to-day working of the company, and had only a notional involvement in management. For example, it would be safe to say that the leadership succession in the company management was not strictly guided by family structure in the British managing agencies in the 1940s. This was not the case with the Indian firms, where the families had firm control on leadership succession as well. Between then and 1994, the role of families in deciding succession increased in a statistical sense, since 80 per cent of India’s Fortune-500 companies in 1994 were family-owned.

And yet, this was only the statistical picture. Inside some of the biggest families, the pressure towards division of assets between siblings and cousins had grown after the death of the founder. Between 1952 and 2000, nearly all of the major surviving business groups had split, usually amongst brothers, and not always in a friendly fashion. In the colonial era, comparatively fewer cases of succession disputes and splits can be found. It is not impossible that more cases in the recent past were publicized than in the earlier era, but it is worth considering that the economic reforms intensified the push to split. The reforms had increased opportunities as well as competitive pressures on individual companies, requiring closer management control. And the end of the licensing system removed the need to diversify unnecessarily and pre-empt rivals. Studies also find that after split, businesses tended to increase the stake of the owner or family in the firms they now controlled. Whether the aggregate trend should be called continuity or dissolution of the family firms, time will tell.

The most surprising development in the post-liberalization business world was undoubtedly the growth of the information technology (IT) related services. In this one field, Indian capability and scale shaped global capability in a big way. And in turn, IT was not just another industry in India, but one that shaped a new middle class with commitment to openness and cosmopolitanism. This cultural effect of IT is perhaps its most revolutionary aspect.

The IT revolution

If the birth of a cotton textile mills industry in India in the 1850s was a puzzle in the prevailing factor costs, so was the birth of a software exporting industry in the late twentieth century. No doubt software is a labour-intensive industry and low Indian salaries and the relatively high proficiency in English added to international competitiveness. But software needed to import hardware that were developed and produced elsewhere, and potentially faced protective tariffs. It required a milieu of free exchange of tacit knowledge, which again requires an open factor markets. Did

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these conditions exist in India? They did not in many conventional lines, but studies on the origins of the software industry find that in information technology the trade regime became flexible earlier. Somehow, software was allowed to escape the excesses of the closed economy, and enjoyed unusual openness. Although domestic production of computers had begun early in relation to the needs of the defence industry, the market openness had to wait until 1985 when technocrats empowered by the then Prime Minister Rajiv Gandhi managed to force open the doors to imports of components, even when import restrictions continued across the board. A few other specific government support measures such as help to foster clustering in ‘software technology parks’ were also quite important.66

In explaining the subsequent explosion in software production and export from India, attention has fallen mainly on the workforce. One of the factors was the training of literally millions of workers in a relatively new skill in a short time span. Much of this training and skill formation occurred outside the nationalized education system. Private institutes and in-house training met the need and thus demonstrated that the market rather than the state was a more efficient agent to supply vocational education. Industry insiders, however, complained that the quality of formal education did not improve at the same pace as the quantity of graduates being turned out. The second factor was reverse brain drain from the US involving Indian IT professionals. Many came back to start new firms, but a significant number were also hired as managers by the Indian large firms when they expanded their operations overseas.67

The literature on the origins of the industry has paid rather little attention to entrepreneurship and firm capability. A few Indian-owned firms, Tata Consultancy, which had in fact existed from 1968, Infosys, Wipro, Satyam, and National Institute of Information Technology, laid the foundation for the export industry in the 1990s. The Y2K challenge, cheap call centres, and consultancy spurred another round of growth in 1990s, mainly in small firms. By 2000, all major global firms – including Sun Microsystems, Microsoft, Lucent, IBM, Adobe, Accenture, and Oracle – had set up subsidiaries in India.

The representative firm, however, is still relatively small. These firms and the people who started them and now manage them contradict the entrepreneurial stereotype. They do not come from business families. They accumulate wealth by using skills rather than tangible assets. They work in a world that involves a great deal of firm-to-firm and person-to-person interaction, a world of collaboration and frequent exchange of tacit knowledge, rather than one of competition. They tend to be more cosmopolitan than the traditional business family representatives were before liberalization. Caste and community matter little in this world directly in forging relationships, though caste is still relevant as a predictor of higher, especially scientific and technological education.68

The software entrepreneurs, in other words, see themselves as members of the ‘middle class,’ their story is that of middle class capitalism in an integrated world. The life story of key entrepreneurs (especially that of the Infosys co-founder N.R. Narayana Murthy) became a symbol of this narrative of a new kind of capitalism in India that had no link with the old capitalism, and was even at odds with it. That narrative of the making of capitalism is tied to another narrative, that of a responsible and ethical capitalism that these new entrepreneurs believe they lead.69 The new cosmopolitan capitalism has faced challenges, famously in the IT hub Bangalore, where regional politics tended to project the IT industry as an imposition by outsiders. But it has also proved robust enough to become a part of the remaking of India into a cosmopolitan business destination.

The complexion of the corporate world today

Some idea of the current composition of big firms can be obtained from global lists. In 2015, 56 Indian firms figured in Forbes Global 2000 list. The number is small, measured in market capitalization the aggregate is smaller still, but the number is growing. In 2007, it was 34. The largest cluster of big firms consists of government banks and oil and gas utilities. In the private sector, the biggest cluster can be loosely called ‘knowledge-based’, IT and pharmaceuticals. Reliance Industries is diversified,

but its major interest is in energy. Only two firms, Bharat Heavy Electricals and Sail Authority of India, can be called the children of import substituting industrialization regime. These metallurgical and equipment making firms were started by the government in the 1950s. Nearly all of the privately owned firms had experienced their greatest growth and diversification, and acquired their present shape after the economy opened up to receiving technology from abroad, which fed back into the exporting capacity of some of them. Pharmaceutical production was helped by the import-substituting state via a protective patent regime, but the three firms that figure in the list expanded rapidly after that regime had ended.

Among some of these firms, there is a trend in increasing overseas investment. Indians expanded the scale of asset holdings abroad between 1948 and 1982, though a precise division of these assets into private industrial and other types is unavailable. In any case the scale of the recent increase dwarfs the older outflow. The recent outflow is unambiguously industrial and reflects a globalization of Indian corporate capital. How large is it? And what does it mean? Despite the rising scale of overseas investment from India, at least until 2008 when the flow began to drop, the relative scale of Indian investment is not as large as that from China. It is harder to answer the second question because outflows are strongly influenced by factors that are specific to industries and individual firms. Overseas collaborations and acquisitions by three automotive firms (Tata, Mahindra, and Bajaj) has received attention, but what lessons these cases have for overseas investment in general it is not clear.

Nevertheless, the existence and visibility of Indian multinational has led to a lively literature, because it overturns common prediction that foreign investment should flow from capital-rich to capital-scarce regions. In one interpretation, favoured by the Marxist-nationalist economists in India especially, the overseas expansion represents the success of import-substitution, when India ‘learnt to industrialize.’ But as we see from the preceding paragraph, not one of the private sector firms in the list satisfies this interpretation. Another contribution has made use of the ‘varieties of

capitalism’ literature to suggest that large firms in emerging markets tend to be state-dependent, illustrating the point with investment by state-owned financial institutions in large corporates.73 Again, the evidence cited for this does not explain well the decision to invest overseas. Public sector banks have opened more services abroad, responding to more relaxed rules about non-resident Indian investment in India. But quantitatively speaking, this is a small outflow since Indian banks are small fry in the global financial market. Overall, it remains difficult to explain overseas investment as a process.

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<td>Lupin</td>
<td>1580</td>
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<td>Dr. Reddy's</td>
<td>1946</td>
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<td>Government utilities and energy firms</td>
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<td>All</td>
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The emergence of large firms and global firms has owed a great deal to the recent liberalization of the economy. But it will be a mistake to overlook how insular the economy still remains. For example, the service sector is protected both by investment regulation and the general unattractiveness of India as an expatriate destination. Key services from retail trade, to healthcare, hotels, print media, tourism, banking and finance, education and films, which together contribute about half of the Gross Domestic Product (GDP), have grown in scale but not much improved in the
quality that they deliver. Being labour intensive, they should gain from skilled immigration. India, however, receives negligible number of skilled immigrant workers. Since these businesses do not compete in the world market, few economists and politicians seem worried about the poor quality of output. India-watchers believe that a bolder opening up is unlikely in these protected areas, because political sentiment against it is too strong.\(^7\) A media debate in 2012 about allowing foreign firms in multi-brand retail showed how fierce nationalistic sentiment could be when it came to embracing openness.

Such sentiment is not special to India. But it is rather odd in India’s case because of the region’s commercial heritage. Why should a people that engaged in globalization in the past underestimate the benefits of globalization in the present? The question brings us back to the point that this paper started from.

CONCLUSION

What is modern and Indian in the business history of modern India? Here is my answer to the question. An ongoing contest between globalization and nationalism is a central element in Indian capitalism today. That particular contest is perhaps not specific to India, but India’s size, diversity, federal democratic polity complicate the contest. Both these elements - globalization and nationalism - were inherited from history.

The first part of the essay suggests that cosmopolitanism was an inherited geographical trait, the coastal and maritime world was considerably more engaged with long-distance trade originating elsewhere than the agricultural interior from a long time past. The second part of the essay shows that the British Empire gave that cosmopolitanism a stronger foundation by extending transactions from commodities to capital, labour and knowledge. The emergence of an industrial capitalism cannot be understood without the transaction in knowledge and skills. Distinctively Indian features like the managing agency system, new modes of collective action, the tropical world’s largest cotton mill industry in the nineteenth century, or the knowledge industry in the twenty-first century were at one level a joint product of the exchange between local capability and global opportunity. These outcomes of

interaction constitute the modernity of Indian business and give Indian business its
Indianness at the same time.

The same interaction also gave rise to the second element of Indian capitalism,
its aggressive nationalist streak. Indian nationalism was ‘economic’ nationalism, but
in a particular sense. With reference to its nineteenth century European origin,
economic nationalism is defined as a worldview that sees economic growth as a
nation-building process. In this broad sense, economic nationalism can accommodate
a variety of economic systems. The term began to mean a specific type of economic system during the postwar era of development policy. In particular, it meant a statist
economy. This idea, in turn, was rooted in another older tradition in political thought,
where ‘economic activities are .. subordinate to the goal of state-building.’ The
Indian ‘economic nationalism’ shared ground with that tradition. But it was different
from it. It was fundamentally a reaction against openness, rather than being a
preference for dirigisme. It began as a criticism of the British colonial regime, and
therefore, had a strong element of reaction against the open economy that British rule
wanted to preserve. Fighting for political liberty, in this way, became synonymous
with fighting against foreign trade, foreign capital, and even foreign labour.

The sentiment against openness became shakier after the 1990s market
reforms, but has by no means disappeared from present-day India. Present-day India
has moved away a great deal from the aggressive protection and trade repression of
the 1960s and the 1970s. The drive to become more and more cosmopolitan is
reinforced, not least by the IT revolution. But implicit and explicit protection persists,
often, one suspects, with tacit support from anti-globalization business lobbies.

Cosmopolitanism in the past and the present created conduits for the flow of
knowledge. Nationalism created barriers to these roads while creating short-term
profit opportunities. The strength of Indian capitalism today lies in cosmopolitanism,
which is partly an inherited tradition and partly a recreated one. The weakness lies in
the persistence of nationalism.

75 E. Helleiner, ‘Economic Nationalism as a Challenge to Economic Liberalism? Lessons