UNIT 10 DE-INDUSTRIALIZATION IN INDIA

Structure

10.0 OBJECTIVES

In this Unit you will get to know, about:

- what is meant by de-inustrialization in our period,
- the impact of European trade on India's Industries, and
- the connection between de-industrialization and the policies of the East India Company.

10.1 INTRODUCTION

The increasing political and economic subjugation of India to Britain since the middle of the eighteenth century had a pronounced impact on the Indian economy. The destruction of traditional Indian craft industries was one of the earliest noticed manifestations of British economic control over India. The process has often been referred to as the 'de-industrialization' of the Indian economy in Indian economic history.

10.2 WHAT DO WE MEAN BY DE-INDUSTRIALIZATION

De-industrialization refers to the process of a continued and marked industrial decline. The proportion of the national income generated by industry and the percentage of population dependent on it are commonly used as quantitative measure of industrial growth or decline. An increase in these proportions suggests industrialization while a decrease indicates industrial decline or de-industrialization. The entire question of the destruction of Indian industries and the ruralization of the country received a lot of attention both in Colonial India as well as in Britain by the various political and economic interest groups. The Indian Nationalists used the destruction of Indian craft industries under early British rule to substantiate their point that India was being exploited under British rule. The nascent free trade group in Britain attacked the East India Company's monopolistic control over India by criticizing the destruction of the country's traditional crafts under the Company rule.

10.3 THE PRE-BRITISH ECONOMY

The pre-British industrial sector in India has been described as exceptionally vibrant and buoyant by some observers and as stagnant and technically backward by other. The very limited quantitative data on important indicators of industrial change such as output, productivity, capital investment and the size of the workforce prevent any conclusive assessment of pre-colonial India's industrial performance. Qualitative evidence, however, does help us in forming a fairly reliable picture of the state of the industrial sector during this period.

In spite of a highly uneven distribution of income in Mughal India the demand in the home market for essential manufactured consumer goods appears to have been large in absolute terms and exhibited an increasing trend. The rich nobility provided the marked for the production of high class luxury goods.

Cotton textiles which were produced virtually all over India constituted the most important manufacture. Dye stuffs (predominantly indigo) and sugar were the next most important commercial industrial products. The other significant agro-based industries included oils, tobacco, opium and alcoholic beverages. Although the mining industry was inadequately developed, India was self-sufficient in iron. Ship building was another important and developing industry.

In Mughal India, unlike pre-industrial Europe, there was no sharp division between urban centres where industries were concentrated and the countryside which supplied primary produce. Industrial production in India continued to be a largely rural based activity.

The Mughal economy while marked by expanding demand and organizational developments grew very slowly. Relative stagnation in demand, a low rate of capital formation and the absence of rapid technological innovations contributed to the Mughal industrial economy as a whole growing rather slowly.

10.3.1 The Nature of Early Trade with Europe

Early European trade with India was heavily balanced in India's favour. The seventeenth century saw Indian cotton textiles rapidly displacing pepper and other spices to become the most important Asian, import into the west. By 1664, the English East India Company imported more than 750,000 pieces of cotton goods from India, which accounted for 73 per cent of the Company's total trade. In the following two decades the figure further increased to 1.5 million pieces with cotton textiles now contributing to 83 per cent to the total import value. (Cambridge Economic History of India, hereafter CEHI Vo1.1).

The marked expansion of Indian cotton textile exports substantially accelerated the growth of the textile industry 'which probably employment to a sizeable section of the population.'

This unprecedented growth of Indian textile imports into Europe was accompanied by a steady inflow of bullion into India from the buyer nations, because India continued to enjoy a positive balance of trade vis-à-vis these nations. It has been suggested that the Indo European trade of this period, which has clearly tilted in favour of India could not have sustained at the level for nearly three centuries without the discovery of American mines. The increased European liquidity became a vital prerequisite for permitting the sustained financing of this trade with its highly adverse balance of payments.

Contemporary Western observers who were influenced by mercantilist thinking attributed the instability in national finances of Western counties to their, markedly negative balance of trade. The shipment of large quantities of treasure to Asia by the European companies made them the focus of criticism.

European trade with India up the early years of the nineteenth century was based upon the price differential between Asia and the rest world. That is European merchants bought goods at a low price in India and sold them for a much higher price in the European, African and New World markets. The profits were based on difference between the purchase price and selling price.

The main problem which the European companies faced in their trade with India was the financing of their Indian purchases. Since there was no demand for British or European exports in India the purchases of Indian goods had to be financed by bullion payments.

Although estimating the magnitude of bullion exports to India by European companies has proved to be problematic European trade by the first half of the eighteenth century appears to have had a significant impact on Indian foreign trade and industry.

10.3.2 The Fall Out of the Early Trade with Europe

The same period witnessed the emergence of Bengal as a significant commercial entity. European trade overtook 'country trade' in importance.

The Indian secondary industry responded by increasing localized manufactures to meet the increased demand. However, the European traders do not appear to have stimulated new form of commercial and industrial organization. They latched themselves on to the existing institutions of commercial and industrial production.

The expansion of Indian manufactured exports to Britain and other foreign countries however stopped by the first year of the nineteenth century. In the course of the first half of the nineteenth century India progressively lost its export market in manufactures. The community composition of India's foreign trade also underwent a radical change, with agricultural products gaining in importance and manufacture declining. This becomes clear from the table below:

Table 1: Commodity Composition and percentage share of selected items in the total value of Indian exports - 1811 to 1850-1 (Source CEHI p.842)

1811-12	18.5	33.0	8.3	4.9	23.8	1.5	90.0
1814-15	20.0	14.3	13.3	8.0	NA	3.0	58.6
1828-29	27.0	11.0	10.0	15.0	17.0	4.0	84.0
1834-35	15.0	7.0	8.0	21.0	25.0	2.0	78.0
1839-40	26.0	5.0	7.0	20.0	10.0	7.0	75.0
1850-51	10.9	3.7	3.8	19.1	30.1	10.0	77.6

10.3.3 Trade After Battle of Plassey

In the pre-1757 period, 80 to 90 per cent of the East India Company's exports from India were finance by bullion imports. Gradually this situation started changing and during the period 1795 to 1812 the East India Company were importing into Bengal goods worth nearly 33 per cent of the exports they made from Bengal.

The first six decades since the Battle of Plassey was a period dominated by the exploitation of India by merchant capital. During this period the East India Company began to establish control in India and monopolized all British trade with the subcontinent.

After the assumption of the Diwani of Bengal the pressure on the East India Company to export bullion into Bengal to finance its investments decreased. The Bengal plunder, profits from the duty free inland trade and the 'surpluses from Diwani revenues were not used to finance the Company's investments. The Company progressively abandoned free competition to secure its goods in the local markets. The producers of these goods were forced to supply their produce to the Company at low prices arbitrarily fixed by the Company. An observation by a contemporary commentator clearly highlights this point "The roguery practiced in this department is beyond imagination: but all terminates in defrauding the poor waver; for the prices which the Company's *gomastas*, and in confederacy with them the *jachendars* (examiners of fabrics) fix upon goods as manufactured would sell in the public bazaar or market upon free sale". (William Bolts "Considerations on India Affairs", 1772).

The years between the Battle of Plassey and 1813 saw the East India Company administration in Bengal in virtual anarchy. The English Company servants indulged in ‘private’ trade and stared remitting their money to Europe mainly through foreign companies and clandestine English trade.

10.3.4 The Impact of the European Trade

The pre-1813 British exploitation of India can be termed as exploitation by merchant capital in a context of mercantilism. The East India Company’s objective was to buy the maximum quantity of Indian manufactured goods at the cheapest possible price so that substantial profits can be made by selling these goods in Britain and other foreign countries. The reckless and anarchic attempts to increase their purchases while forcing down the price adversely affected the traditional Indian export industry, especially the cotton textile manufacture.

In the absence of reliable quantitative data on the various indices of indigenous industrial production for this period, historians and economists have been forced to rely largely on qualitative evidence on British exploitation of the Indian economy and the disastrous impact that it had on the artisans and the agricultural population.

Apart from the shortsighted, anarchic exploitation of the country’s industries by the Company during this period, British textile manufacturers at home had begun to force the British Governments to impose restrictive import tariffs and bans on the import of fine Indian textiles.

As early as 1720 the British manufacturing interests had successfully prohibited the importation of Indian silks and printed calicoes into Britain. The duty for home consumption of Indian calicoes and muslins was very heavy. In 1813 the Parliament again imposed an increased consolidated duty on home consumption of calicoes and muslins.

Thus we find that in the period till 1813 Indian industry, especially the textile industry was being adversely affected in two ways. One the one hand the Company in its eagerness to depress the purchase price of cotton manufactures in India virtually reduced the weavers to the status of indentured labourers, by forcing them to take advance from the Company and sell their products below market prices. By the regulation of 1789, for instance, they were forced to pay a penalty of 35 per cent on the advance taken if they defaulted in supplying the goods. The rapacious private trade of the Company servants and the shortsighted policy of making quick large profits severely affected the textile industry as well as the economy as a whole.

On the other hand, the East India Company, which had a monopoly on the trade with India itself became the focus of attacks from traders who had been excluded from having a share in the Indian trade as well as from the nascent British manufacturers who perceived the manufactures imported by the Company into British to be threatening their own industries.

The Company’s own shortsighted exploitation and the free trader inspired sanction against Indian manufactured imports into Britain resulted in a progressive decline in the share of Indian cotton piece goods in the Company’s investments from Rs, 92,68,770 in 1705 to Rs,90,51,324 in 1799 and to

Rs.25,50,000 in 1810. The value of cotton piece goods exported on Company account from Bengal declined from Rs.61,67,851 in 1792 to Rs. 3,42,843 in 1823.

The shift in the commodity composition of Indian exports from manufactured goods to primary products since the early nineteenth century is accompanied by a complimentary increase in the share of manufactured goods in Indian imports.

Table 2: Commodity composition of selected imports into India, 1828-1849 (Source: CEHI, p.857)

	Cotton Yarn		Cotton		Metals		Wines & Woolen		Piecegoods	
	Value	**(%)**	**Value**	**(%)**	**Value**	**(%)**	**Value**	**(%)**	**Value**	**(%)**
1828-29	4.2	7.8	11.8	22.0	8.6	16.0	4.6	8.6	2.6	4.9
1831-32	5.1	11.4	9.6	21.4	8.6	19.1	2.5	5.5	2.1	4.6
1834-35	4.1	9.7	8.9	21.0	6.0	14.0	3.4	8.0	2.2	5.2
1837-38	6.2	12.8	13.6	28.0	5.1	10.6	2.6	5.3	1.4	2.9
1839-40	7.5	13.3	18.3	32.3	6.1	11.0	3.1	5.5	1.2	2.1

Values Expressed in millions of rupees

This general change in the composition of India's foreign trade and the resultant impact that it had on the country's domestic industry led many contemporary observers as well as later historians to describe this phenomenon as one of de-industrialization or the destruction of Indian industry.

Check Your Progress1

Mark the Correct Answers:

1) De-industrialization refers to
   a) using of computers in industry
   b) lack of industry in a country
   c) lack of farming in a country
   d) decrease in the proportion of national income generated by industry and the decrease in percentage of population dependent on it.
2) Discovery of American mines during the early European trade
   a) enabled European to have the means to finance their trade with India
   b) enabled European to stop trading with India
   c) had no impact at all
   d) both b) and c)
3) By 1820s we see
   a) a change in the composition of European trade with Indian
   b) that there was no change in the composition of trade with India
   c) that the share of manufactures exported to Britain decline

d) both a) and c)

10.4 DE-INDUSTRIALIZATION

Early nationalist economist such as R.C. Dutt and subsequently Madan Mohan Malaviya (in his dissent note at the Indian Industrial Commission) argued that India underwent de-industrialization; their evidence was statistics of import of manufactures, particularly import figures of Manchester made cotton cloth. For instance Dutt showed that the value of cotton goods sent from England and its ports east of the Cape of Good Hope mainly to India, increased in value from 156 in 1794 to 108824 in 1813.

In the pre-1813 period it was the excessive exploitation of the Indian industrial sector especially the textile industry by the monopolistic East India Company which led to the progressive degeneration of this industry. Forcible reduction of purchase prices in India was resorted to by the East India Company to increase the different between its buying and selling price and consequently increase its trading profits.

The import restrictions on Indian textiles in England further weakens this industry. The income of weavers and spinners were drastically reduced, thereby restricting any possibility of capital accumulation and technological in this traditional industrial sector.

While India's traditional manufacturing sector was being steadily weakened under the Company, in the same period British had begun its Industrial Revolution and was rapidly expanding its industries by revolutionizing its technology as well as organization along principles of capitalist production.

The growing British textile industry had all the advantage which was dented to its Indian counterpart. The British industry had a rapidly developing technological base, it had the advantage of economies of scale and finally it was carefully protected in its formative years from foreign competition.

Some historians have put forward the view that the export of British machine made yarn and cloth did not harm the indigenous textile industry because under British rule the growth of political stability, better transport facilities and market expansion led to increased per capita agricultural productivity; moreover, it is argued that cheaper machine-made yarn strengthened the indigenous handloom sector, while a growth in per capita real income and new economic activities compensated for the decline in earlier enterprises. However, historical evidence does not bear out these arguments. There is no evidence real income in the nineteenth century.

Further, as Bipan Chandra has argued, the decline in per unit price of cloth was much faster than that of yarn. This combined with the fact that the ratio prevented any benefit accruing to the Indian weaver. However, historical evidence does not bear out these arguments. There is no evidence whatsoever for a growth in the demand for cotton goods or a rise in per capita real income in the nineteenth century. Further, the decline in per unit price of cloth was much faster than that of yarn.

10.5 CONCLUSIONS

The above discussion and the findings of various local and regional studies, when viewed in the context of an unequal exploitative metropolis-colony relationship, clearly suggest that Indian industry definitely declined in the first century of British rule in India.

Britian's deliberate policy of converting India from manufacturing country to a supplier of primary produce for its industries in very clearly reflected in the following extract from a Petition of the East India Company before the Select Committee in 1840- "this company has in various ways, encouraged and assisted by our great manufacturing ingenuity and skill, succeeded in converting India from a manufacturing country into a country exporting raw produce.. The peculiar state of the relation between this country and India and the necessity for extracting from the latter three millions of money for Home charges and the altered state of Indian industry in its being converted from a manufacturing country into a country exporting raw produce, are circumstances which ought to influence the Legislature to afford every possible protection to its agricultural produce."

Though imperialist rule in the India had a generally crippling effect on traditional Indian industries, he impact varied from industry to industry.

Peasant crafts which were practised as a subsidiary occupation in the agricultural slack seasons, using locally available cheap raw material such as basket weaving and coir work were the most immune to competition from machine –made foreign goods. Minor manufacturing in village by potters, smiths and carpenters were only affected marginally by the substitution of their products by foreign imports.

Workers in leather and cobbles were affected by the exports of hides from the country. Similarly rural crafts with wider markets were affected by the capture of these markets by foreign goods. The traditional urban based luxury crafts were badly hit by their customers (usually the nobility) changing over to patronising foreign goods.

Thus the differential impact of de-industrialization may be mainly explained in terms of

a) failure of imported manufactures to substitute certain varieties of indigenous products,
b) the protection afforded by the lack of market integration at the village level in many areas, and
c) finally the forced continuation of certain crafts in spite of their being uneconomic due to the lack of more viable employment opportunities.

Check Your Progress 2

1) Write a brief comment (100 words) on the view of nationalist economists on de-industrialization.
2) Why were different industries affected in different ways by the British colonial policies? Answer in 100 words.

10.6 LET US SUM UP

Finally on the basis of qualitative official and private observations, trade statistics, employment data (however unreliable it might have been) and a knowledge of the imperative and limits of the colonial economy in India, we can safely conclude that the Indian manufacturing sector did decline in the face of competition from machine-made, technologically superior manufactured imports from Britain during the first century of colonial rule in India.

10.7 KEY WORDS

National Income: Income generated from all the productive activities of the economy of a nation.

Output: By output we mean the final product of an industry.

Capital investment: Money, infrastructure, machinery etc. put in to the production process for the growth of the industry.

Bullion: here mean gold.

Positive balance of trade: A situation where exports exceed imports.

Commondity Composition of trade: Refers to the items of trade in export or import.

Mercantilist: Policies and activities related to trade.

Per capita income: Income per head in the country.

Real income: The actural income after taking into account things like price size etc. That is to say.

Productivity: The level of production in industry or agriculture after the input of capital and human resources.

10.8 ANSWERS OF CHECK YOUR PROGESS EXERCISES

Check Your Progress 1

1) d. 2) a. 3) d.

Check Your Progress 2

1) See Sec. 10.4.
2) See Secs. 10.4 and 10.5.