

Development of large scale industry and its relation with international trade in early 20th century

Shruti Vats

Assistant Professor, Aryabhata College, University of Delhi, New Delhi, Delhi, India

Abstract

In the late 19th century India was an agricultural society. Jute, raw cotton and tea and coffee were exported to Britain. In return textiles and other manufactured goods were imported from there. The Indian textile industry could not compete with cheap, mass produced British goods. However in the early 20th century Indian industries began to develop. It was still an overwhelmingly agricultural country but it was just beginning to change.

The second half of the 19th century saw the emergence of a few modern industries in India.

Of these, mostly were owned and controlled by British companies. Machine industries began in the second half of the 19th century. Of these, the most important ones were the cotton and jute industry. Textile industry made a fast progress ranking fourth in the world's leading textile producers by the First World War. Tea in the early years of the 20th century ranked one in the world tea market. Under the Swadeshi movement and the First World War modern industries developed in the early 20th century.

Keywords: development, large scale, century, trade, agricultural

Introduction

In the late 19th century India was an agricultural society. Jute, raw cotton and tea and coffee were exported to Britain. In return textiles and other manufactured goods were imported from there. The Indian textile industry could not compete with cheap, mass produced British goods. However in the early 20th century Indian industries began to develop. It was still an overwhelmingly agricultural country but it was just beginning to change.

Development of Indian Large Scale Industry can be divided into 4 phases for the convenience of the term paper:

1. Industrial development in the 19th century: India was famous for its cottage and small scale industries in the world till the middle of 19th century. But arrival of Britishers led to decline of these small industries. In 1850 plantation industry i.e. indigo tea and coffee was set up by British capital followed by cotton textile, jute manufacturing, iron, leather and glass.
2. Industrial development from 1900-1914: This was the period before the First World War when industries like cotton textile, jute tea and coal developed rapidly. Iron and steel were already on rapid growth path. All this growth was as a result of Swadeshi movement.
3. During First World War: This period led to a greater demand of consumer goods in domestic market due to stoppage of imports. Also there was an increased government for war goods.
4. Period between First World War up to the great depression of 1930: Many new industries came up during this period and the industrial and trade policy went under significant change.

The second half of the 19th century saw the emergence of a few modern industries in India. Of these, mostly were owned and controlled by British companies.

Machine industries began in the second half of the 19th century. Of these, the most important ones were the cotton and jute industry. Textile industry made a fast progress ranking fourth in the world's leading textile producers by the First World War. Tea in the early years of the 20th century ranked one in the world tea market.

Under the Swadeshi movement and the First World War modern industries developed in the early 20th century.

Swadeshi Movement

The Swadeshi movement, part of the Indian independence movement, was a successful economic strategy to remove the British Empire from power and improve economic conditions in India through following principles of swadeshi (self-sufficiency). Strategies of the swadeshi movement involved boycotting British products and the revival of domestic-made products and production techniques.

In the end of 19th century there was a devaluation of Indian rupee which benefitted the Indian cotton mills. This devaluation deterred imports and exports grew substantially. India's success in export could be seen from the fact that its yarn exports to China amounted to million kilograms as against England's export of 6.06 million kilograms in 1883-84. But British government could not see these Indian firms progressing and also losing their own market for finished goods. Hence some currency measures were taken to put an end to the benefits the Indian cotton mills received from the rupee's devaluation. Indian mints were closed and by this means Indian rupee's value was increased by over a fifth by 1989-99 which hurt India's export of yarn and cloth to China and other countries. With the threat of deficit in government finances, in 1894 a tariff of 5 percent ad valorem was imposed on imported cotton fabrics and yarn balanced by a countervailing excise of 5 percent on Indian mill yarn as competed with British mill yarn and British government could not withstand it's so called 'Free Trade' regime. Following the demands of Lancashire it completely removed the duty on imported yarn and reduced the duty on imported fabrics by 3.5 percent in 1896. All these punitive measures resulted in a stagnation of Indian cotton mill production from 1900-1904.

The dominance of Japanese cotton over Asian market during 1895-1914 was also a factor effecting the slow growth of Indian cotton Industry.

It was only from 1905 after the swadeshi movement that production began to expand.

'By 1914, there were 271 mills with nearly 6.8 million spindles and 104,000 looms: the number of spindles thus grown nearly 3.2 times since 1885, and of the looms nearly 6.3 times. Clearly though both yarn and fabric production had increased considerably during these thirty years, there was an increasing shift from merely spinning yarn to the manufacture of woven cloth. But the Indian mill production of cotton piece-goods, at 1,171.1 million yards in 1913-14 was still dwarfed by the size of the net imported fabrics viz. 3,042 million yards during that year. The handloom cloth production in that year was estimated at 1,018.8 million yards, a large part of it doubtless woven out of the mill-made yarn, both domestic and imported. But the domestic production of mill-made yarn (British India) had remained stagnant for some years: 286,000 metric tons were produced in 1906 and 293,000 in 1913. The textile imports on the other hand grew in rupee value between 1901-04 and 1911-14, by 93 per cent in the case of yarn and 80 per cent in that of piece-good. It was clear that Lancashire still maintained a firm grip on the Indian market. It is, therefore, probable that a substantial part of the expansion of Indian cotton mill production was at the expense of the surviving domestic handloom industry, which itself had greatly suffered from the influx of British yard and fabrics.'^[1]

Capital invested in the cotton mills from the beginning was largely Indian and accounted for the maximum capital invested among all other factory industry in India before 1914. According to D. H. Buchanan, total capital invested in the cotton industry by companies amounted to Rs. 15.24 crores in 1905-06 and Rs. 20.86 crores in 1914-15, when it amounted to 14.8 percent of the total share-capital of companies in India.

Owing to the Swadeshi Movement the number of the sacking and looms increased steadily from 6,584 to 13,421 and 3,117 to 18,334 respectively from 1895 to 1910.

Unlike the Bombay cotton mills, the jute mills had no Indian owners. All the 94 mills had European owners. The average annual investment during the five years from 1909-10 to 1913-14 was Rs.1.38 crore. The level of employment in the jute industry was quite high. In 1913-14, there were 216,288 persons employed.

The construction of railways naturally raised expectation that there would be a great demand for coal. Coal mining did not have to face strong foreign competition because the labour costs were lower in India than most advanced countries. Indian coal was not of high quality and this was the reason that India imported most of its coal from Britain and South Africa. The domestic production of coal increased from 7,627,000 tons in 1901-05 to 15,440,000 tons in 1911-15. During the same period the import of coal, however, also increased from 205,000 to 427,000 tons. Total capital engaged in coal mining was Rs.6.72 crore in 1914. Most of the capital came from European merchants and firms of Calcutta. Many Indians were owners of private mines but these were usually small mines. The total coal output was 16.7 million tons in 1914, up from 2.2 million tons in 1890. The workforce grew from 99,138 in 1906 to 142,977 in 1911 and to 151,367 in 1914.

In the development of large scale industry the iron and steel industry came as a biggest breakthrough. The high cost of charcoal and the continuous increase in productivity in the competing British industry and government's attitude posed problems in the emergence of the iron and steel industry. It was very difficult for an Indian to manufacture iron on a

large scale. Finance was a big problem but aided by the swadeshi movement of the 1905, a huge capital could be raised in a short period of just three weeks. TISCO's machines were obtained from the US, England, Germany and Belgium.

Hence iron began to be produced in 1911 and the steel next year.

British government also cooperated now by serving the plant through extensions of railway tracks and promising to purchase 20,000 tons of steel at the same price as that of imported steel. This change of the government's attitude was because the Indian iron and steel were now likely to competing with Belgium iron and steel, rather than with the costlier British products.

In 1913, the total pig iron production amounted to 207,000 metric tons and steel to 63,000 tons.

Hence, with the rise of the swadeshi movement, various other industries such as paper industry, leather shoe industry, pottery, cement industry and oil industry grew up substantially.

During First World War

'The outbreak of the war had some initially disruptive effects on manufacturing industry but its general impact was favourable if limited. India became the supply centre for all Allied operations east of Suez and Indian troops served in Europe. These activities sharply increased aggregate demand in India. At the same time foreign competition declined sharply....A large proportion of the Britain's resources went into war activities which reduce the supply of those consumer products and capital goods which previously flowed to India so lavishly. Military demands for the shipping further limited British exports to India. In the years before the war, Britain provided about two-thirds of India's total imports, but after 1914 she was unable to maintain either her share or the absolute value (despite increased prices). Although both the US and Japan took some advantage of Britain's predicament- imports of American goods into India rose 147 per cent and Japanese goods 601 per cent between 1913-14 and 1918-19- the money value of all imports into India remained roughly constant and the real value, of course, fell significantly.'^[2]

Indian cotton industry found good demand in the home market and high prices and little competition from outside. In neighbouring countries like Persia, Mesopotamia, East Africa, Indian manufactures found ample opportunities to expand their markets. The number of mills and spindles declined and looms increased by 13 percent. The higher prices favoured cloth against yarn. The cotton prices during war time were three times higher than in 1914. Hence the level of profits was extraordinary.

Jute industry achieved its expansion of production just like the cotton textile industry, by means of a better utilization of the installed capacity. The number of spindles increased only slightly from 800,000 to 840,000 and looms from 38,000 to 40,000 during 1914 to 1918, whereas the number of workers increased from 238,000 to 275,000. Large demands of the Allies for gunny bags and cloth for military purposes led to an increase in exports.

Both cotton and jute industries did very well during the course of the war.

Coal mining also benefitted from the war. Import of coal declined significantly during this period. Whereas 500,000 tons of coal had been exported in 1914, this export increased to 1 million tons in 1916. Annual average production of coal increased from 11 million tons in 1906-

1910 to 20 million tons by the end of the war.

Indian steel industry would never have survived had there been no war. Tatas produced rails and construction sheets during the war. But more sophisticated products such as steel sheets had still to be imported. Nevertheless steel production increased from 31,000 tons in 1913 to 181,000 tons in 1918. Steel imports decreased drastically from 1 million tons to 165,000 tons during the same period which led open a great domestic market to be served. At the same time there was an increasing demand for military needs. 'The war period proved that it was technically possible for an Indian firm to produce high quality iron and steel at more or less competitive prices. Steelmaking skills could be transmitted by foreign technicians to naïve workers. TISCO's steel output rose from 31,000 tons in 1912-1913 to 181,000 in 1917-18, well above original designed capacity.'^[3]

Indian tea industry flourished during the first three years of the war. Tea gardens of Assam, Bengal and South India steadily increased their production owing to the large profits earned

Because prices rise well above the pre-war levels during 1914-17 and wages of labours were stationary. The years 1914-19 were very much favourable for plantation industry and production and exports records were rapidly broken.

The war put a severe strain on the Indian Economy. In words of the Lord William Meyer, the Finance Member, "India ended upon a period of crises which subjected her financial and economic system to a supreme test"^[4]

War uncovered the industrial condition of the country and made the Government realize the necessity of the all-round development of the Indian industries. In 1916 an Industrial Commission was appointed to give report on the way of giving encouragement of the industries. 'The report submitted in 1918 observed, "The Industrial system is unevenly and in most cases inadequately developed; and the capitalists of the country, with a few notable exceptions, have till now left to other nations the work and the profit of manufacturing her valuable raw materials, or have allowed them to remain unutilized." Therefore, it suggested; "A powerful and well directed stimulus is needed to start the economic development of India along the path of progress. Such a stimulus can only be supplied by an organized system of technical, financial and administrative assistance."

It called on the government to initiate a policy of energetic intervention in industrial affair and recommend the establishment of imperial and provincial departments of industries, the organization of scientific and technical services, the affording of greater facilities for industrial and technical education, an alteration in the policy of purchase of stores by government and even more direct help through financial assistance and by starting 'pioneer' and 'Demonstration' factories.'^[5]

Post First World War

After the war a complete change had come over the policy of the government in relation to the industry. During the Non-cooperation Movement (1920-22), due to boycott of English goods the cotton mills benefitted.

Under Industrialist's pressure the countervailing excise duty was abolished. Government also provided protective tariff between 1927 and 1939. To discourage Japanese imports 75 percent import duty was imposed in 1933. In addition to all the supportive measures, the traders of Bombay gave more emphasis on cotton fabric instead of cotton thread. Due to

all these factors the number of cotton mills increased to 389 in 1939 from 258 in 1924.

After the First World War, links with the foreign market was re-established, but again in the Depression years (1929-1933), the domestic market became relatively free to be exploited by indigenous industry, as foreign trade declined. The colonial government also provided some protection to the sugar and cotton industries, in the face of falling prices in the agricultural sector.

Sugar industry thus ousts the Japanese sugar from the Indian market. Paper and cement industries developed.

During 1920s the number of Jute factories increased from 76 to 100 and looms from 40,000 to more than 60,000, but suffered from the decline in world demand during the great depression period of 1930.

At this time more factories came up that were owned by Indian capitalists.

In coal sector also Indian firms consolidated their positions and coal production underwent a spectacular rise producing 28 million tons in 1938.

Tatas constructed three power stations in Ghats near Bombay which set free the cotton industry from its dependence on coal.

The depression of 1930 did not hinder the industrial growth much. This was because of the tariff protection measures which led to the decline of the sales of the British fabrics in part due to Civil Disobedience Movement.

Overall, the production of the manufacturing industry increased by half during the decade of the 1920s and doubled between 1930 and 1947. Also the labour force employed increased from 1 to 3 million during 1920-47.

Concluding Remarks

The First World War especially favoured the growth of Indian industries catering to the domestic market that could take advantage of the fall in imports. First and major beneficiary was the cotton industry, which could increase its share of the Indian as well as world market. Even after the development of the Indian cotton and jute industries in the early 20th century the share of their produce in exports remained rather small.

Although the Indian industries were blessed with an increase in demand and a decline in foreign competition during the war, they were unable to expand existing capacity much or extend the industrial activities until after the end of the war.

Apart from growth of the large scale industries and increased international trade war also exposed industrial poverty of India. In other words it put existing policy framework of Indian economy on test. The pre-war *laissez-faire* regime and Tariff Policy which resulted from the influence of the British manufacturers, found a setback during the war. The Industrial Commission thus appointed in 1916 suggested to adopt a protectionist policy and the establishment of a Tariff Board. Further leap in the industrial sector was taken when the Fiscal Commission was appointed in 1921 to examine the Tariff policy of the government.

The development of the large scale industries thus had its own pros and cons. When we look at the broader picture the growth of Indian Industries it comes at some expense. We saw that a powerful cotton industry came into being during the 20th century, starting back in 19th century. But this development was attained partly at the expense of artisans. Also in terms of employment generation net result was not positive. As the number of jobs created in factories was less

than the number of artisans unemployed.

Similarly creation of steel industry was a major breakthrough in Indian scenario of colonization but it started when the main part of Indian railways was already created, which deprived it of a market. From 1865 to 1941 India produced 700 engines while 12,000 were imported from Great Britain.

Likewise, the development of the textile industry was not supported by the textile machinery industry.

There were therefore certain missed opportunities during the course of industrial development.

Thorner, in his critique of deindustrialization, says that the ruin of the older hand industries was a necessary consequence of the coming of the factory system in all countries.

This point made by him may apply well to the other countries but India never had policies that could favour a decent industrialization before the commencement of 20th century.

Irfaan Habib replies to Thorner's viewpoint, 'He (Thorner) should surely have added that the peculiarity with India was the factories appeared and multiplied only in the alien ruling country, so that any gain from employment through modern industry largely lay elsewhere, while all the ill effects of de-industrialization were confined to India.'^[6]

The interests of British industrialists were always given preference at least till the end of 19th century. Swadeshi movement in the 1905 somehow turned the tables and Indian Industries started growing. Followed by First World War and the protectionist policies thereafter helped the Indian industries to grow. But still it's not wrong to say that the development of the large scale industries and the Trading of these industrial products was not only limited in size but was also forced by colonial conditions into an arrested and distorted pattern of development.

References

1. Irfan Habib. Indian Economy, 1858-1914; 4:102.
2. Dharma Kumar. Cambridge Economic History of India. 2(7), 600-601.
3. Dharma Kumar: Cambridge Economic History of India. 2(7), 605.
4. Budheswar Patil. India And The First World War, chapter 3, p. 87; Legislative Council Proceedings, India. 1914-15; 53:313.
5. Budheswar Patil. India And The First World War. 3, 86.
6. Irfan Habib. Indian Economy. 1858-1914; 4:98-99
7. Modern Indian History – Mohammad Tarique
8. Indian and The First World War – Budeswar Pati
9. An Economic History of India: from Pre-Colonial Times to– Diet Rothermud, 1991.
10. A History of Modern India — Edited by Claude Markovits, 1480-1950.
11. Longman Panorama History 8 – Singh, Singh Vipul
12. The Economic History of India, Vol-2 – R.C. Dutt
13. The Cambridge Economic History of India, Vol-2, Dharma Kumar