

A history of capitalism in India

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*LSE's **Tirthankar Roy** draws out long-term patterns in Indian capitalism and uses history to contextualise India's present-day economy.*

For hundreds, perhaps thousands of years, the Indian subcontinent was pivotal to world trade. A 5,000-mile-long coastline, easy access from West Asia, Africa and East Asia, the presence of highly skilled artisans, a rich maritime tradition, and kings who protected and collaborated with merchants secured the strategic position of trade in Indian life and of Indians in trade. Classics of Indian literature describe the heroic undertakings of the seafaring merchant while Sanskrit and Persian works on statecraft set out kingly duties towards the merchant.

Notwithstanding evidence of the antiquity and scale of trade, most accounts of India's business history begin in the 1500s with the entry of Europeans in the Indian Ocean, as if this turning point is the one that mattered. To address the oversight, I wanted to write a book that would break the pattern and tell a story of enterprise that is millennial in scope. By taking a sweeping view, I sought to answer three vital questions: Is there a long-term pattern in Indian capitalism? When did major breaks occur in that pattern? And does history shed light on economic changes in the present? "[India in the World Economy](#)" answers these questions.



The book charts how two very different capitalist traditions evolved in India from ancient times until early in the Second Millennium CE. 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. The ruling classes understood the value of the seaboard, but could not easily take control of that zone. Roads connecting inland empires to the coast were few, and road-building was costly because of the uplands, forests, and numerous rivers.

A major turning point in this history was the rise of the Indo-Islamic empires, 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. Their established reputation as business hubs attracted not only Indian merchants, but also European merchant companies, including the Dutch and English East India companies. The English East India Company later acquired three port sites on the coasts, in Bombay (now Mumbai), Calcutta, and Madras, but these towns initially had little significance beyond the Company's own transaction and could not rival 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, hordes of Indian businesses migrated to the Company cities, starving the interior of money and talent whereas Indo-European partnerships flourished in the ports. An even more extraordinary development was the rise of a seaboard state ruled by the East India Company, a body of merchants with tacit support from Indian merchants. Never before in Indian history had the coast acquired so much political and economic power.

There now began a slow conquest of the agricultural interior by coastal capitalists. In the nineteenth century, Indo-European firms based in Bombay, Calcutta, and Madras exported cotton, wheat, indigo, rice, and opium that came

from the interior plains and the uplands. In the late 1800s, the traders reinvested their trading profits in textile mills. The generations that followed were not content with earning money. When the economic foundations of the British Empire weakened in the 1920s, ambitious Indian capitalists funded the nationalist movement. Their vision found fulfillment after independence in 1947 in the Nehruvian strategy of 'self-reliance', which reduced the role of foreign trade in the economy, and much enlarged the role of Indian business groups that had matured in the colonial era and had made independence possible.

In the long-range account presented in "India in the World Economy", Nehruvian India emerges as a blip. Thirty-odd years later India opened up again to foreign trade, thus returning to its capitalistic roots. The success of the new economic regime built on two ingredients, one old and one new. It built on a cosmopolitanism that had owed essentially to India's long-standing commercial heritage. But it also drew strengths from post-1947 developments such as the green revolutions and the pursuit of democratic and representational politics.

We cannot say, however, that the Indian economy today bears no resemblance to the economy of several centuries ago. The cleavage between the agricultural interior and the cosmopolitan and outward-looking commercial towns continues to be deep, as in the past, and their politics remain divergent. Indeed, that misaligned politics is a source of uncertainty for economic policy and for the future of liberalism in India.

About the Author

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