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Reassessing FERA: Examining British firms' strategic responses to 'Indianization'.

Michael Aldous and Tirthankar Roy

Abstract

The Foreign Exchange Regulation Act (FERA), introduced in India in 1973, was the culmination of efforts to 'Socialize' economic policies and 'Indianize' corporate ownership. It resulted in a flight of foreign capital as Multinational Enterprises exited India to avoid these risks, finally driving out long-established British interests. This paper uses new sources to reassess how British businesses perceived the threats of Indianization and analyse how they strategically responded to them. It shows that British owned firms used a diverse range of strategies, some drawing on their extensive experience, knowledge and networks, built through long tenures in India, to successfully adapt.

Introduction

British commercial interests in India have a long and storied history. The arrival of the East India Company (EIC), and its dramatic expansion in the 18th century, saw British mercantile and political interests well-established throughout India. The passing of the EIC's monopoly in 1813 did little to halt the growth of British business, with entrepreneurs pouring into India throughout the 19th century to pursue opportunities in emerging industries including tea and jute, to provide services such as banking, insurance and shipping, and to undertake the building and management of railways, ports and telegraphs.¹

Favoured by the colonial British government, British and European mercantile firms came to dominate many industrial and service sectors. This process was supported by the evolution of a model of business ownership and organisation known as the Managing Agency system. This allowed partnership firms, often former British trading firms, to manage and control a portfolio of joint-stock firms in diverse industries.² Through this system the Managing Agent firms came to control around 75 per cent of industrial capital in India by the early 20th century.³

The Managing Agent system was not solely the preserve of British interests, and control of industry in areas such as Mumbai and Ahmedabad was dominated by Indian owners.⁴ However, in Bengal and Eastern India, where the largest concentration of economic power resided, corporate control was entrenched in the hands of British partners of Managing Agent firms and the directors of Multinational Enterprises (MNEs).

¹ Chapman, *Merchant Enterprise in Britain*, Chapter 4.

² Jones, *Merchants to Multinationals*, Chapters 2 and 3. Jones and Wale, "Merchants as Business Groups."

³ Misra, *Business, Race, and Politics in British India*, p.4.

⁴ Lokanathan, *Industrial Organization in India*.

The story of what happened to the British commercial interests in India over the 20th century is less well-known and researched. Indian Business and Economic History has tended to focus on rather reductionist arguments about the relatively pro or anti-business nature of the post-independence Nehru government.⁵ It is, though, broadly accepted that from a position of dominance, British control over the Indian economy was weakened through the 1930s, and fundamentally reversed by Indian independence in 1947. Policies of ‘Indianization,’ regulated for Indians to take positions of ownership and managerial control in foreign owned firms.⁶

The role and response of British firms to these developments has been understood as one of passive decline, with little effort made to adapt to the post-independence environment.⁷ Lingering outposts of British commerce were finally polished off by the Foreign Exchange Regulation Act (FERA) in 1973. This replaced an earlier Act passed in 1947, and ostensibly set-out to regulate foreign currency flows, restricting firms’ capacity for investment and the repatriation of revenues. However, it became known for clauses which forced foreign owned firms to reduce non-Indian ownership stakes to 40 per cent. Faced with these restrictive policies many British firms, and a number of high profile multinationals such as Coca-Cola and IBM quit the Indian market.⁸ The outcome of the act has generally been negatively perceived, both for British firms forced to exit or significantly reduce their position in the Indian market, and the Indian economy which saw capital flight and a loss of managerial and technological expertise hinder growth and the modernization of certain industries.⁹

⁵ The position of foreign capital in post-independence India is analysed mainly in terms of attitudes (of the Indian government, and the Indian capitalists) in Chaudhury, “Indian bourgeoisie,” Chenoy, “Industrial policy,” and Mukherjee, *Imperialism, Nationalism*. The scholarship cited does not study the response of foreign capital in depth.

⁶ Tomlinson, “Colonial firms and the decline of colonialism in Eastern India.”

⁷ A major reference work attributed the decline of British firms after independence to little more than “the logic of history,” Tripathi and Jumani, *Oxford History of Contemporary Indian Business*.

⁸ Encarnation, *Dislodging Multinationals*.

⁹ For a generally negative assessment, see Panagariya, *India: The Emerging Giant*, 60-62. A different and more differentiated assessment closer to the picture offered in the paper can be found in Desai, *My Economic Affairs*.

There is, however, a growing interest in reassessing the trajectory of British commerce in India across the 20th century, challenging the narrative of British decline. This has come from a number of directions. One strand has sought to demonstrate the role and importance of Indian entrepreneurship. As Goswami notes, the “emphasis on the managing agency system in general and Anglo-Saxon colonial firms in particular has obscured our understanding of the evolution of other important corporate entities.”¹⁰ A better understanding of Indian business interests in the early 20th century, particularly considering how they acted in partnership with British business, may reveal different long-run trajectories for the ownership and management of business in India.

A different strand has focused on analysing the evolution of British firms, both MNEs, and the Managing Agencies, to understand how they responded to these political shocks. A more complicated narrative of adaption, and transference of economic power has emerged.¹¹ This narrative emphasizes the particular circumstances of the firms, suggesting that a range of options were open to them, and paints a more diverse and differentiated pattern of response to political risk. In this paper, we advance this project with new sources.

In their analysis of the response of British and American MNEs to the FERA act, Choudhury and Khanna showed that British firms were far less likely to exit India than their US counterparts, using a range of strategies to adapt to the evolving political situation. To understand the different trajectories of the MNEs and apparent correlation between nationality and strategic response they ask whether this was, “endogenous to other firm/managerial-level variables or whether there is a deeper causal story related to the home country of the MNE and/or historical ties between the home country and host country.”¹²

¹⁰ Goswami, “Sahibs, Babus, and Banias,” p.302.

¹¹ Jones, *Merchants to Multinationals*.

¹² Choudhury and Khanna, “Charting dynamic trajectories,” p.162.

They approach this question through International Business theory centred on the analysis of the response of MNEs to Country and Political Risks, such as arbitrary government intervention in the economy or discrimination against foreign firms.¹³ Theory posits that these responses are driven by firms' capabilities and experience in managing in risky markets or the personal perceptions and understanding of individual managers to market risk.¹⁴ Alternatively MNE's emanating from home markets with weak institutional constraints will be more likely to accept high political risks and may seek host markets with these characteristics, believing they have an advantage vis-à-vis firms from more institutionally developed markets.¹⁵

Choudhury and Khanna identified the extensive experience of British firms in India, providing them with knowledge and connections to host country political actors, as factors allowing them to effectively negotiate and mitigate the effects of the FERA regulations. British firms had, therefore, greater capabilities and appetite to address political risks. The authors do, however, note that the research should be extended, "to 'unpack' the antecedents of what drives different MNEs to follow these different dynamic trajectories."¹⁶

This paper specifically aims to 'unpack' these antecedents by re-examining the response of a range of British firms to the political economy of post-independence India. It asks, how did the institutional environment evolve in India in the period between independence and FERA? What strategies did British businesses pursue in response to these changes? How were these strategies shaped by their experiences and operations in India? To answer these questions the paper analyses the strategic responses of British firms to the institutional changes in India in the years around independence and the period leading to the 1973 FERA act. This includes

¹³ Choudhury and Khanna, "Charting dynamic trajectories," pp.145-148, drawing on Bartlett and Ghoshal, *Managing Across Borders*.

¹⁴ Delios, and Henisz, "Political hazards, experience, and sequential entry strategies." Buckley, Chen, Clegg and Voss, "Experience and FDI Risk-taking: A Microfoundational Reconceptualization."

¹⁵ Holburn and Zelner, "Political capabilities, policy risk, and international investment strategy."

¹⁶ Choudhury and Khanna, "Charting dynamic trajectories," pp.162-163.

examination of how British entrepreneurs understood the Indian market, their role in it, and the opportunities and risks they saw emerging in the post-independence period. Extending the periodisation of the paper to include the post-independence period allows the analysis to capture temporal effects such as path dependence on the strategic choices made in response to the FERA act, and more fully examine whether the endogenous firm level and historical variables, alluded to by Choudhury and Khanna, developed by British firms during their lengthy tenures in India, varied responses to the FERA act.

The paper extends Choudhury and Khanna's analysis which focused on a sample of British MNEs with operations in India, selected from the FTSE 50.¹⁷ Whilst this sample provides a comparable set of firms, both amongst themselves and with US MNEs, it does not capture the range of British commercial interests in India. Smaller firms that were more limited in their range of activities and markets, but with long standing operations in India are ignored. It also does not capture the response of an important segment of British business in post-independence India, the Managing Agencies or Indo-British firms. In this paper, we broaden coverage and use new sources from the trade body, India Pakistan Burma Association (IPB), to analyse the perceptions of British business interests towards the evolving regulatory environment.

The paper specifically seeks to advance Indian business history towards a more nuanced understanding of the impact of economic policy on foreign capital in the 20th century. It also seeks to deepen understanding of the history of British business in India, more fully assessing the post-independence period. Recognising that this was not simply a story of decline and failure, the paper details the range of responses to Indianization, some of which were successful.

¹⁷ Choudhury and Khanna, "Charting dynamic trajectories," pp.143-145.

The rest of the paper has six sections. The next section develops a typology of British firms in India and describes the role of the IPB and the value of these sources. The subsequent sections develop the discourse of British firms on regulation to 1947, the regulatory environment after 1947, response of British business to this environment, the turning point of the FERA, and the response of British firms to FERA. The conclusion reflects on the broad patterns of adaptation to regulation of foreign capital.

Typology of British firms in India

It is useful to start with a typology of British firms in India in 1947. When British colonial rule ended in South Asia, there were two types of British companies working in India. The first type can be called Indo-British companies, that is, British-owned companies which operated in India alone. Some of them were registered in London, and known as sterling companies, and others were registered in India. The firms, usually partnership firms, which managed these companies headed highly diversified conglomerates, with the managed companies having interests in manufacturing, services, plantations, and commerce. These interests included tea, jute, paper, mining, engineering, inland transport, international shipping, financial services, real estate, agriculture, and trade. The prominent examples of managing agencies were Bird (mainly jute and coal), Andrew Yule (jute, tea, engineering), McLeod (jute and tea), and Duncan Brothers (tea). The second type consisted of subsidiaries of British MNEs. The subsidiaries were all registered in India, but the majority share-holder was a British firm. Prominent examples include Imperial Chemical Industries, Guest Keen and Williams (GKW), Mather and Platt, British American Tobacco, the Anglo-Dutch conglomerate Unilever, Dunlop Rubber, and Metal Box.¹⁸

¹⁸ We have drawn on a number of internet resources, including Grace's Guide to British Industrial History, http://www.gracesguide.co.uk/Main_Page (accessed 16 January 2016).

Almost without exception, the Indo-British companies had either originated in nineteenth century commodity trade in the Indian Ocean rim (tea, textiles, opium, and indigo), or depended on exports for their main market (jute, tea). Therefore, the India-based companies necessarily formed agency relationship with London firms. Managerial personnel, knowhow, and capital circulated between the two principal nodes of their business, London and Kolkata. In the case of the jute industry of Kolkata, a third node was Dundee. This circulation of 'factors' was indeed one of the major sources of their adaptive capacity. Post-independence Indian regulation struck precisely at this capacity by making circulation of people and money more difficult than before. The British MNEs in India typically started as a trading arm of a British engineering or chemical company, which moved into manufacturing in the interwar period when government protection was available. The MNEs, like the Indo-British firms, relied on links between London and Kolkata, but in this case the link mattered because of the transfer of specialist technology. The government of India took technology seriously, especially in fields such as chemicals, metallurgy and machinery, where MNEs were encouraged.

In business history scholarship on India, the segregation of British and Indian capital has been seen in two ways. One view is that the British firms monopolized privileges and access to resources thanks to support from the British Empire. In this view, a 'crisis of the British Empire' late in the interwar period allowed Indians to make some gains.¹⁹ A second view is that British and Indian businesses specialized in different fields according to their comparative advantage.²⁰ Indians, such as the cotton mill owners of Mumbai, made use of their knowledge of cotton trade, indigenous banking, and markets in India and China; the Europeans made use of their access to the British money market, world shipping, and networks of managerial personnel across continents. Some would say that the two fields were

¹⁹ For a recent statement of this view, see Das Gupta, *State and Capital*, pp. 82-83.

²⁰ Morris, "Growth of Large-scale Industry."

more interdependent than these two alternatives suggest. Struck by the Great Depression, Kolkata's British firms relied increasingly on Marwari bankers for financial accommodation, for example.²¹ Still, British corporate enterprise in India did rely on distinct resources and strategies from Indians, for example, a successful combination of deep knowledge of Indian production conditions and international markets. This inherited knowledge capital would have made many of them reluctant to leave India when the government changed in 1947.

The paper uses sources from the India Pakistan Burma Association (IPB) to examine the responses of British firms to Indian Independence and the FERA acts. Established in 1942 the association was an interest group that sought to promote British industrial and commercial interests involved in these markets. In 1971 it was amalgamated into the Confederation of British Industry. The Association represented the interest of British business across the spectrum of firm types.

One of the association's main functions was to collate and distribute market information to its members. To do this it produced a bi-monthly bulletin and commissioned reports which provided news on political, social and economic developments, considering how the changes affected the markets and their potential impact on their member firms. These bulletins and reports are used to identify what the association's members perceived as important issues, allowing analysis of the attitudes and perceptions of British business owners to the challenges of independence, and the policies of Indianization, and their responses in terms of ownership and management structures.²²

²¹ Goswami, "Then Came the Marwaris."

²² We should note the potential biases of these sources in explaining the perception of British Business interests in India. The membership had clear vested interests in preserving their position and assets, possibly leading to overly positive descriptions of the market, and downplaying threats to maintain confidence. At the same time there is an incentive for the compilers to provide as good an understanding of the market as possible, to support their members decision making. On balance, these sources represent a good insight into the understanding of British business owners towards the Indian market.

The paper proceeds with a section analysing the IPBs bulletins in the years prior to and post-independence. This reveals that many British business owners remained guardedly optimistic of their position and the opportunities in India, in part, due to an ongoing change in business ownership through growing involvement of Indian owners, both as shareholders and through direct participation in joint-ventures.

The discourse on regulation of foreign capital to 1947

Founded in 1942, the IPB had two dominant concerns in its early years. The first was the outcome of the Second World War, and India's position in any subsequent settlement. The second was to understand the direction of political and economic policy in India in the post-war period. Initially, the association sought to ensure that British business interests were recognised for their wartime contributions, and well-positioned to take advantage of the post-war settlement. However, as the movement for Independence gathered pace the major concern rested on the nature of the political settlement determining India's status and the position of British political and economic interests.

The political system had already undergone several significant shifts in the early part of the 20th century. The Government of India Acts in 1919 and 1935 had granted significant autonomy and decision making powers to Indian administrators, but India remained a British dominion. However, Gandhi and elements of the Congress Party called for full Indian sovereignty; an outcome an increasing number of Indians desired, as witnessed by the growth in self-rule and Quit India movements. The nature of some of these movements were explicitly anti-British in sentiment. The obvious concern was that a post-war settlement

would lead to a fully sovereign India in which British business was driven out and assets expropriated.²³

These threats were embodied in a series of clauses inserted in the Government of India Acts (1919 and 1935) which prohibited discrimination against British firms or individuals.²⁴ In 1945, elements of the Indian government called for these clauses to be removed and replaced instead by a compact of mutual goodwill.²⁵ The IPB's response was to demand that the clauses were retained, not because they provided an advantage to British firms, but rather their removal was indicative that discrimination would occur in the future.

Yet, the needs of the Indian economy were such that links to Britain remained an imperative element of economic development. Sir Ardeshir Dalal, a key contributor to the post-war economic plan noted that, "In the immediate post-war years India has to look to the United Kingdom to a large extent for the supply of capital goods and the expert advice and assistance in the development of its industries which India so sorely needs. Co-operation should be welcome if it does not involve control or domination."²⁶

More generally, the Reconstruction Committee set-up by the government of India indicated that the economy would be organised along broadly capitalist lines, "Where industries are left in private hands, government control should interfere as little as possible with the actual management, so as to provide free scope to efficiency."²⁷ However, there was to be far greater control over the direction and nature of future foreign investment. Assistance was

²³ Sequestration of British assets was feared by European respondents and demanded by Indian respondents to the interviews conducted in 1942 by the New York Times journalist Herbert Matthews in India, "India Challenges." More broadly, the expropriation and nationalization of oil resources that occurred in Mexico in 1938, and Iran in 1951, were tangible warnings of the threats facing foreign capital in periods of political uncertainty.

²⁴ The Government of India Act, 1935, set-out that all British firms and individuals be treated on the same basis as Indian firms and individuals, protecting free access to markets.

²⁵ British Library (BL ST856), IPB Bulletin Vol.3, 11 October 1945, "Trade with India."

²⁶ BL IPB Vol.3, 29 March 1945, "Future of British trade in India."

²⁷ BL IPB Vol.3, 1 February 1945, "Planning for Indian industry."

particularly sought to develop high-tech industries, through the provision of machinery and expertise.

Where capital investment was required, “care should be taken to see that the capital is issued in India, that the majority of the capital, as well as the directorate is in India and final control over policy rests in Indian hands. In cases where it is necessary to entrust the management of such industries to outside firms, provision should be made for the training of Indians in all technical processes and the ultimate transfer of control to Indian management.”²⁸ This approach was manifested in the range of policies, broadly termed ‘Indianization’, through which the control and management of industry and commerce was to be increasingly vested in Indian hands.

The regulatory environment after 1947

The interplay between the threat of discrimination and the risk of expropriation, and the need for British assistance in industrial reconstruction, remained the key focus of the IPB’s bulletins. In the years after Independence the balance between risk and opportunity shifted in response to various political developments.

Independence required significant changes to the political infrastructure of India. A new Constitution was gradually drafted and negotiated, coming into effect in 1950. Similarly, a new Companies Act was enacted in 1956, with other bills such as the Industries Control Bill and Labour Relations Bill strongly impacting on commerce and industry. This created a volatile environment in which competing interests sought to influence the legislation. The IPB noted pressures against their interests coming from left-wing political actors, who disliked free trade and the movement of capital, and local industrialists, seeking to reduce the impact of more productive and competitive foreign firms dominating their markets. There

²⁸ BL IPB Vol.3, 1 February 1945, “Planning for Indian industry.”

were calls for the confiscation of foreign capital and assets and the protection of infant industries.²⁹

Yet, the tenor of industrial and commercial policy remained guardedly friendly towards foreign investment in general, and British business more specifically.³⁰ In contrasting the situation in India with similar emerging markets such as Argentina and Egypt, the IPB was generally favourable towards the Indian government.³¹ It was recognised, and accepted that investment would need to be focused; no longer allowed in older and simpler manufacturing industries, or in purely trading concerns, which were to be given over to Indian business.³² There was also greater regulation of service industries, and targeted efforts by the government to increase Indian ownership in the key areas of banking, insurance and shipping, often by forcing foreign firms to use Indian services.³³

By 1953 the IPB identified five main criteria for sanctioning foreign investment: That it went to a genuine programme of manufacture, in a field where indigenous investment is inadequate or technical know-how lacking, to increase productivity, and improve the balance of trade, and that provision is made for the training of Indian personnel to senior technical and administrative posts.³⁴ These, and the wider policies on Indianization, were, though, viewed as moderately elastic and open to interpretation and lobbying.

However, from the mid-1950s, there was a shift towards an overarching social and political agenda described as ‘Socialization’. These policies sought to address the massive levels of poverty in India, by increasing levels of employment, improving labour conditions and wages, and investing in social services. The extent to which the government would involve

²⁹ BL (8229 aa 44), IPB Pamphlet 1953, “A note on foreign investment in India.”

³⁰ BL IPB Vol.9, 9 February 1950, “India and Pakistan today, Impressions of a Business Man.”

³¹ BL IPB Pamphlet 1953, “A note on foreign investment in India.”

³² BL IPB Pamphlet 1953, “A note on foreign investment in India.”

³³ BL IPB Pamphlet 1953, “A note on foreign investment in India.” For example, “It may be noted that it is obligatory that 17% of tea grown in India and shipped to overseas markets shall be carried in Indian ships,” p.4.

³⁴ BL IPB Pamphlet 1953, “A note on foreign investment in India.”

itself in the economy to achieve these aims became a source of great debate which were still raging in the 1960s.³⁵ Policies from price controls, the unionisation of labour, to nationalisation of certain industries and sectors, were all proposed in support of these aims. The Indian government was still, however, “particularly anxious to reassure British visitors that in spite of the ‘socialisation’ programme there is still a large and worthwhile field for British enterprise.”³⁶

The 1960s, saw efforts to balance the aims of socialisation with the desire to attract foreign investment. The IPB lobbied for improved conditions for investment, carefully analysing budgets to see where they might provide relief and benefits, in particular through changes to taxation.³⁷ This period also saw growing external pressure, particularly from the USA, to open the economy up.³⁸ It was notable, though, that the IPB rather than back the demands for greater market freedom actually emphasised the importance of the role of the state in growing the economy, whilst emphasising the need for fewer controls and more efficient government operations.³⁹

Response of British business to the environment

How, then, did British business interests respond to the rapidly evolving political and economic landscape in India? The bulletins provide some insight into changes in the ownership and organisation of British business in India and the rationale that drove them. The policies of Indianization, which gathered pace in the years around Independence, were an obvious threat to British control and management, requiring owners to dilute their ownership and allow Indians into management positions. The perception of further political risk, in the

³⁵ BL IPB Vol.23, 31 January 1964, “A turning point for India.”

³⁶ BL (T 50231 (a)), IPB, Pamphlet 1955, “A report on Indian conditions.”

³⁷ BL IPB Vol.25, 28 February 1965, “A balanced budget.”

³⁸ BL IPB Vol.25, May 1966, “The unplanned economy.”

³⁹ BL IPB Vol.25, May 1966, “The unplanned economy.”

form of discrimination and the expropriation of assets, was also high in the immediate period around Independence. One obvious response would be rapid divestment of holdings in India.

In 1948 the total market value of foreign investments in India was Rs. 5,960 million, of which Rs. 5,190 million, or 87 per cent, were long term business investments. Direct investments totalled Rs. 4,310 million, of which direct British investments were Rs. 3,220 million, followed by the US with Rs. 300 million.⁴⁰ Between 1947 and 1953 it was calculated that total foreign capital withdrawn from India was Rs. 580 million. The total British divestment was Rs. 420 million, of which Rs. 410 million was made up of the sales of shares and securities, and the liquidation or sale of business interests. A conservative estimate was that around 12 per cent of British owned business in India was divested. This was, however, offset by Rs. 82 million of new foreign investment in this period, of which Rs. 68 million came from British sources.⁴¹

There was clearly a degree of capital flight, but it was not a rout. The divestments were also targeted in “older forms of trade and long-established staple industries”, such as jute and cotton, and import/export style trading ventures, industries most likely to be targeted by Indianization policies.⁴² It was also suggested that the majority of firms that divested ownership to Indian interests were comparatively small. Many of the larger firms rejected attractive offers to sell-out, believing India continued to offer good prospects.⁴³ The new investments were indicative that British business still saw opportunities in India, particularly in high-technology sectors where the Government welcomed new investment. The IPB surmised that the data, “does not support the frequently heard allegation that British enterprise has deserted the field in favour of its American and Continental competitors.”⁴⁴

⁴⁰ BL IPB Vol.9, 5 October 1950, “India’s Foreign Investments – Reserve Bank report.”

⁴¹ BL IPB Pamphlet 1953, “A note on foreign investment in India.”

⁴² BL IPB Pamphlet 1953, “A note on foreign investment in India.”

⁴³ BL IPB Vol.4, July 10 1947, “Business transfers Big British firms unaffected.”

⁴⁴ BL IPB Pamphlet 1953, “A note on foreign investment in India.”

If British business did not leave India, how did it react to the risks of Indianization and Socialization? The Managing Agent system, particularly in Bengal and Eastern India, was dominated by British owners and managers. Through this mechanism, British ownership and control of large swathes of industrial capital was entrenched, and thus faced significant threats from Indianization. Indeed, post-independence there were periodic investigations and proposed legislative changes aimed at dismantling the system.⁴⁵

In face of these threats the IPB bulletins sought to justify and lobby for the importance of the Managing Agent system, both in the role it played in providing capital and expertise that supported Indian industrialisation, and the benefits it provided to British exporters and manufacturers.⁴⁶ This points to a degree of intransigence in the British response to the threats, clinging to the old-established models, yet the bulletins reveal quite a range of responses, both before and after Independence.

Writing in 1947 the position of the IPB was that, “The British business which remains in India after August 15 will not be the British business of the past. Outwardly there may be little change, but under the surface will be found a complete reorientation of policy. This change will not cause any upheaval for the simple reason it has been going on for some considerable time.”⁴⁷ The bulletins identify a series of fundamental changes in the ownership and organisation of British owned firms that had occurred well before 1947.

Ownership of joint-stock firms, particularly in established low-technology industries such as jute and tea, had been steadily transferred, handing control to Indian shareholders as early as the late 19th century.⁴⁸ This process had seen many London listed sterling companies converted to rupee companies in Kolkata and Mumbai. In the years after Independence, some

⁴⁵ BL IPB, Pamphlet 1955, “A report on Indian conditions.” “The amendments have as their avowed purpose ‘the progressive elimination of managing agency.’”

⁴⁶ BL IPB Vol.4, December 19 1946, “Managing Agencies.”

⁴⁷ BL IPB Vol.4, 24 July 1947, “Future for British Business in India, services in the new regime.”

⁴⁸ BL IPB Vol.2, 25 May 1943, “Britain’s economic stake in India.”

of this transfer occurred due to pressure from the Indian government in certain sectors, and there were also elements of stock market manipulation.⁴⁹ There was, though, a significant transfer of ownership and control as Indian shareholders took controlling stakes that gave them seats on the board of directors of many corporations.⁵⁰

Various factors encouraged these patterns of ownership transfer. There was recognition that integration of upstream raw material suppliers, often Indian owned, with downstream production and marketing ventures, predominantly British owned, could offer cost and supply advantages. Whilst partition disrupted the supply of raw materials from the newly created East Pakistan, and independence led to growing labour disputes in West-Bengal, significantly reducing the profitability in these industries, encouraging British owners to exit.

The Managing Agents also evolved, rather than waiting for government intervention to force the issue. Prior to 1947 many of the British dominated agents opened up and added Indian partners.⁵¹ Some that were private limited companies incorporated, with Indian shareholders acquiring control through seats on the board. Far before official policy mandated Indianization, British businesses had sought to diversify ownership.⁵² It was estimated that by 1948 85 per cent of equity in British owned managing agencies now resided in Indian hands.⁵³ Since the managing agency contract secured control by the firm over the companies managed, the company shares were allowed to be widely held.

The result of these processes was that capital and management became increasingly diverse.⁵⁴

Partnerships and joint ventures became a widespread approach to business ownership.

⁴⁹ BL IPB Vol.9, 24 February 1955, "Indian interest in British firms."

⁵⁰ BL IPB Vol.2, 25 May 1943, "Britain's economic stake in India."

⁵¹ BL IPB Vol.3, 2 August 1945, "A trade link with Great Britain, Working of the managing agency system."

⁵² BL IPB Vol.4, 24 July 1947, "Future for British Business in India, services in the new regime."

⁵³ Choudhury and Khanna, "Charting dynamic trajectories," p.136.

⁵⁴ BL IPB 4 Vol.9, 15 June 1950, "Indo-British trade outlook." BL IPB Pamphlet 1953, "A note on foreign investment in India," noted, "there is a substantial middle area of joint British and Indian ownership of the equity of trading and manufacturing concerns. Thus the pattern of investment is somewhat blurred, and it is hardly ever possible to draw a sharp dividing line between one class of ownership and another."

Writing in 1953 it was expected that, “the joint venture, which brings together in a common objective both Indian and foreign capital resources, would seem to come nearest to meeting the requirements of the situation, for it carries the assurances which both sides – as well as government itself – wish to secure.”⁵⁵

In the face of the political risks that emerged around independence the dominant response of British business owners was one of adaption, seeking to find solutions that would allow them to remain in the market. Although Independence was a shock that forced out some unable to adapt, “For the many more who are adaptable to changing circumstances – and adaptability has always been a British quality – the future holds definite prospects for a new Indo-British business even stronger than ever.”⁵⁶

In part, the rationale for adaption seems to have been driven by the generally positive attitude towards British business that emerged in the years after Independence. Mr Elkin, President of the Indian Associated Chamber of Commerce, noted the, “surprising measure of good will towards us there, a reaction which many perhaps who left India in the difficult days ... may find hard to believe.”⁵⁷ The historical links and scale of British commercial interests made collaboration and partnership a preferable solution to expulsion, for both British and Indian businesses. British business maintained close relationships with both the government and Indian commercial interests post-independence.⁵⁸

A further significant factor was the nature of British business investments in India. It was noted that, “the great bulk of British investment in India was built up over the last seventy or eighty years from the re-investment of profits earned in the country.”⁵⁹ The IPB’s chairman,

⁵⁵ BL IPB Pamphlet 1953, “A note on foreign investment in India,” “The joint venture in which foreign investment and expertise is associated with established Indian interests is increasingly favoured as a means of introducing new industrial technique.”

⁵⁶ BL IPB Vol.4, 24 July 1947, “Future for British Business in India, services in the new regime.”

⁵⁷ BL IPB Vol.9, 1 June 1950, “Economic Prospects of India.”

⁵⁸ BL IPB, Pamphlet 1955, “A report on Indian conditions.”

⁵⁹ BL IPB Vol.9, 15 June 1950, “Indo-British trade outlook.”

Sir Percival Griffiths, noted that although large well-established ventures were having success in issuing equities, new share issues were problematic for smaller and less well known firms, so raising new capital proved difficult.⁶⁰ Many British owners had, therefore, significant capital tied up in firms through initial investments and reinvested profits. A prevailing attitude was that, “Owners of capital are usually tenacious of their saving ... foreign enterprise, will always do its best to adjust itself to each fresh turn of the screw (short of actual expropriation) in the hope that that the original investment, or at least some of it, may be preserved.”⁶¹ Various managerial challenges were created by the policies of Indianization. Increasing the proportion of Indian management, and demanding that new investments be accompanied by technical expertise, caused a change in the British commercial community.⁶² A growing numbers of technicians and engineers, often employed on short-term contracts, resulted in a decline in the number of managers who were experienced and committed to India. This was exacerbated by changes to tax policies and rising prices which reduced the standard of living for expatriate managers, making careers in India less attractive for both young Europeans and more established managers.⁶³ The “screw” was, however, relentlessly tightening, and the late-1960s became a decisive turning point. FERA was a culmination of this tendency.

The late-1960s turning point and the FERA

There was a demonstrable negative change in attitude and policy from the Indian government, with a corresponding deterioration of British attitudes, from the late-1960s. The challenge to adapt was becoming harder, and pessimism about Indian politics was gathering force among British MNEs. A confidential and unpublished survey of large British firms’

⁶⁰ BL IPB, Pamphlet 1955, “A report on Indian conditions.”

⁶¹ BL IPB Vol.9, 24 March 1955, “Ends and means.”

⁶² BL IPB, Pamphlet 1955, “A report on Indian conditions.”

⁶³ BL IPB Vol.9, 9 February 1950, “India and Pakistan today, Impressions of a Business Man.” BL IPB Vol.9, 24 March 1955, “Ends and means.” Both highlighted a deterioration in the conditions and incentives for expatriate managers in India.

attitudes towards India conducted by a faculty member of the University of Glasgow is revealing.⁶⁴ The tone of the responses was one of uncertainty, with concern growing over the potential use of tax, foreign exchange, and work permit rules as regulatory instruments to deter foreign firms. The response from Dunlop noted, “Although Government’s policy, as repeatedly stated, is to encourage foreign investment, in practice numerous conditions and controls become major irritants to the would-be investor.” The comments of J. and P. Coats note irritants such as indirect restraints placed on the business through income taxation, remittance of dividends, and employment of foreign nationals through the restriction of visas. The point of emphasis was increasingly “distrust” of the Indian government, as highlighted in the comments from English Card Clothing, “Indian government’s distrust of the foreigner breeds a mutual distrust of the Indian government by the foreigner.” The response also mentioned that the prospect of “communism on Burmese and Ceylonese models” was a deterrent to further investment in India. The responses clearly stressed “the aversion of the Indian Government to foreign investors holding a majority interest in any undertaking.”⁶⁵

The political economy of the early-1970s drove the Indian legislature towards tighter regulation of foreign capital, and the complete Indianization of these companies. The first oil shock and persistent foreign exchange shortages placed the balance of payments in serious crisis. Protectionist industrialization, with an accent on chemicals, metals, and machinery at the expense of traditional manufactures such as textiles and tea, had reduced the export capability of the country, while increasing the import-intensity of production. Politically, communism had grown in strength and influence in the 1960s, especially after a major food

⁶⁴ British Library (Mss Eur D982), “Papers compiled by John R Castree ... concerning the attitudes of British Companies with investments in India, their opinions on Indian economic and industrial policy, and an analysis of aid/trade relationships,” 1967-68. The firms approached were Tube Investments, Associated Electrical Industries Ltd., Imperial Chemical Industries, The Metal Box Company Overseas Ltd., Reckitt and Coleman Overseas, British India Steam Navigation, The English Card Clothing Co. Ltd., Glaxo International Ltd., The Dunlop Company Ltd., Chloride Overseas Ltd. Leyland Motors Ltd., and Turner and Newall Ltd.

⁶⁵ British Library (Mss Eur D982), “Papers compiled by John R Castree.”

crisis in 1967. In the 1970s, Maoist intellectual critiques of Indian policy identified imperialism and industrialization as the causes of underdevelopment, and foreign capital as the agent of imperialism.⁶⁶ The country was dependent on foreign aid, and foreign capital represented a degree of dependence on foreign know-how and money that was never totally acceptable to Indian politicians. The general stance of the Indian Parliament towards foreign investment became increasingly hostile, and hardened further in the 1970s.

FERA was approved by the Parliament in 1973 and in force from 1 January 1974. It replaced an Act of the same name passed in 1947. The new Act shared with the latter two general aims, to regulate the entry and operation of foreign firms, to regulate the employment of ‘nationals of foreign states’ in India (Section 30 of the Act), and to monitor and reduce outward remittance of foreign exchange. Unlike the more benign 1947 predecessor, the 1973 FERA made it mandatory on all firms to register in India. But it became famous for another provision that represented an extreme version of Indianization. The provision was that companies incorporated abroad but operating in India, or predominantly foreign-owned Indian companies, were required to reduce the proportion of shares held by non-Indians to no more than 40 per cent, ensuring control of the firms remained in Indian hands.

Although conservation of exchange was an obvious rationale behind the law, other motivations got mixed up with it. The rhetoric of exploitation by foreign capital had political impact. Contemporary reports suggest that lobbying by a section of Indian business was a further factor. Soon after Indian independence, Marwari traders, bankers, and stockbrokers took control of several British companies in Kolkata. Subsequently, there were credible allegations of asset stripping, and induced bankruptcy.⁶⁷ The adverse publicity that this episode created had the effect of slowing down the takeover spree. FERA came as an

⁶⁶ Chandra, “Western Imperialism.”; Frank, “Development.”

⁶⁷ Such actions were reported in several court cases between owners or agents and tax authorities or minority shareholders. These are discussed in Roy, “Transfer of Economic Power.”

opportunity for a second round of takeovers. In 1973, “Indian houses based in Kolkata” were again “imagining themselves as the natural choice” as successors in an episode of forced divestment by foreign companies.⁶⁸ There were reports of “hectic behind the scenes activity” to induce foreign firms to induct Indians as majority shareholders. Whether or not these groups also lobbied for FERA before it came into being we cannot say, but FERA was compatible with their interest.

Of the 881 companies that reported themselves as potentially subject to the Act, about 50 were large industrial concerns with shareholding of foreign owners well above the mandated 40 per cent. Some of the largest British firms were Hindustan Lever (subsidiary of Unilever), ITC (British American Tobacco), Godfrey Philips (Philip Morris), Cadbury, Indian Duplicators (Gestetner), Britannia Biscuits (subsidiary of Associated Biscuit Manufacturers), Metal Box (Metal Box Co), Lipton Tea, Gramophone Co (EMI), and Remington Rand. US firms such as Pond’s (Cheesborough Manufacturing), and Colgate-Palmolive dominated sectors such as pharmaceuticals and cosmetics. Other significant European firms included the Swedish engineering firm Asea, and Swedish-controlled Western India Match Co or WIMCO.

In its role of monitoring remittances the Reserve Bank of India became the gatekeeper for the implementation of FERA. On the act’s passage foreign companies were required to immediately seek permission from the Bank to continue in business. Companies that needed to divest shares to achieve the 40 per cent foreign owned shareholding limit were given some time to divest. The time, it turned out, was somewhat negotiable.

Companies could escape the provision altogether if they could make a case that they operated in (a) ‘core’ areas (such as utilities, essential chemicals and industries deemed to be of national importance), (b) mainly exportable products, or (c) worked with ‘sophisticated

⁶⁸ Anon., “FERA.”

technology.’ It was difficult, almost impossible, for companies to claim that they fulfilled the first condition. Many tea companies could make a credible claim that they fulfilled the second condition. Several firms, possibly the majority, submitted applications stating that they employed sophisticated technology. The application of the FERA provisions to these firms became caught up in an unsophisticated discussion about technology, irrespective of the product line. Ultimately, such arguments only bought the firms’ further time to avoid divestment, and in the case of large conglomerates like Hindustan Lever, some authority to influence the negotiation process.

The room to negotiate reduced in 1977, as compliance with FERA was ensured by more “rigorous enforcement” than in the first four years of its existence. A new government came to power in 1977.⁶⁹ Arguing that “the Congress government had in the last few years ... progressively relaxed ... restrictions on foreign companies,” the ruling Janata Party raised the heat on foreign firms.⁷⁰ The Law Minister in the new government declared that “big foreign companies” could not be “allowed to exploit the country” any longer.⁷¹ In the first few months of the new government, there was reportedly a disagreement between a pro-business and an anti-business view within the party. Eventually the latter won, and George Fernandes, a trade unionist with a reputation for bullying capitalists, was appointed the Minister of Industries. The Janata Party remained in power for about two years. During this period, Coca Cola and IBM left India rather than having to conform to FERA. It was said that Fernandes personally ordered them to leave. Fernandes also called up Hindustan Lever and WIMCO and ordered them to stop producing soaps and matches, deemed to be low priority, within three years, but he was to be out of the job in two. There were several other less publicized cases of discriminatory treatment at the behest of politicians. The General Secretary of the Janata

⁶⁹ The Janata Party formed of a coalition between socialists, farming lobbies, and pro-business groups, united in their opposition to the Congress led by Indira Gandhi. As a political party it did not project a single ideology, but being a coalition, individual leaders wielded considerable power in policy-making.

⁷⁰ Anon., “Expansion through FERA.”

⁷¹ Chaudhuri, “FERA: Appearance and Reality.”

Party and socialist activist Madhu Limaye was said to have personally intervened to deny Indian Explosives' bid to set up a naphtha cracking unit on the ground that government companies were already making the product.

Response of British firms to FERA

There were two patterns of response to FERA. Firms selling in the Indian market expanded shareholding, diluted foreign shareholding, and used the proceeds to make new investment commitments. These new commitments forced them to move somewhat further away from their core areas of operation. Export-oriented firms, such as tea companies, restructured ownership without a plan to expand shareholding.

Companies registered in London owned 40 per cent of the tea plantation area and controlled 44 per cent of the production in the late-1970s. These companies were asked to comply with the provisions of FERA by incorporating in India, but the foreign owners were allowed to retain 76 per cent holding. Between 1973 and 1977, a few large companies did register in India. Macneill Magor merged with Williamson to form Williamson Magor, a B.M. Khaitan company, Kannan-Devan Hill Plantations, a James Finlay company, sold its stake to Tata and Harrisons and Crosfield estates were sold to the R.P. Goenka group of Kolkata.

In 1977 pressure built up on the Reserve Bank of India to force the remaining companies to Indianize. The Bank issued a stern warning and threatened stoppage of all repatriation at the very least, and criminal prosecution at worst. Tea producers usually sold tea in collaboration with a London agent, often an affiliated firm. The Reserve Bank of India required that such arrangements be subject to license.⁷² The Bank oversaw valuing the estates in the case of a sale. Several British owners were said to be interested in a sale of the estates to Indians, the fear was that the Bank would undervalue the shares under political pressure.⁷³

⁷² B.M., "Not-So-Strange Case for Jokai India."

⁷³ Anon., "Tea: The Pruning Process."

At least two large transfers were initiated by FERA, but these were completed in an unplanned manner over several years. In 1976, Jokai (Assam) Tea Co. Ltd., a wholly owned subsidiary of Jokai Tea Holdings, Ltd. U.K., sold its stake to a UK company called Fren dial. A few years later, Fren dial sold the shares to Sethia. At the time of the sale there was rumor that Fren dial was acting on behalf of Indians interested in the firm, but this was not proven. The company, later renamed Rossell India, was owned by an Indian group. The other case was Warren Tea Holdings, a company that owned James Warren, which managed and owned some of the best tea companies in Assam and Dooars. FERA induced Warren Tea to Indianize, and the two companies merged into one. After a brief takeover by a tea group, Guthrie, Warren Tea was bought by an Indian resident in the UK, A.K. Ruia. In the 2000s, battle for control broke out between Ruia and an offshoot of the Goenka family over control of these companies, and as a compromise, the company split into two, named Warren Tea and James Warren.⁷⁴

Foreign interest continued in tea, one major example being Goodricke, which reformed itself as an Indian company with foreign control. Goodricke originated in two mid-nineteenth century Kolkata firms, Duncan Brothers, and C.A. Goodricke. Duncan Brothers' London agent was the firm Walter Duncan. C.A. Goodricke was a London tea merchant who had spent a part of his youth in Assam, and held the agency of several Eastern Assam tea estates. In 1949, Walter Duncan merged with C.A. Goodricke to form Walter Duncan and Goodricke Ltd. (WDG). This company sold its estates in Assam to the Goenka group in Kolkata within a few years after independence, while expanding in tea in East Africa. In the 1960s, British owned Camellia Investments acquired a significant stake in WDG.⁷⁵

As mentioned before, in several cases firms desiring to stay on in India made an investment plan, raised fresh equity, and by a variety of means tried to ensure that the equity went to

⁷⁴ Mukherji, "Warren Tea."

⁷⁵ <http://www.camellia.plc.uk/history> (accessed 27 March 2017).

trusted hands. Private placement with retired employees, existing employees, and financial institutions were the common methods adopted. The companies were generally well-managed, so that the divestment raised a great deal of interest. Several of these sales were hugely oversubscribed. The fact that some of them were gradually Indianizing their shareholding from some time past (such as Hindustan Lever) ensured that they could take this step without running into takeover threats. Careful planning and help from public sector financial institutions eased the process. Between 1973 and 1977, intense negotiations took place as companies sought permission, formally or informally, to set their own schedule for Indianization or even to avoid it altogether.

One of the most cited cases was Hindustan Lever. Lever Brothers (India) was established in 1933 to produce soaps and detergents, and Hindustan Vanaspati Manufacturing Company some years earlier in the production of hydrogenated vegetable oil, both being subsidiaries of Unilever. A separate trading company marketed toilet preparations. In 1956, these companies were merged to form Hindustan Lever Limited (HLL). Between 1956 and 1973, HLL expanded in dairy products and animal feed, and continued to produce Vanaspati, but its core businesses remained soaps and detergents. HLL owned three top brands in these fields, namely, Lifebuoy soap, Surf detergent, and Dalda Vanaspati.

In the wake of the FERA, HLL chose not to dilute its stake to 40 per cent and Indianize, but remain a 51 per cent owned subsidiary of Unilever. HLL negotiated with the government that they would subsequently export 10 per cent of their production and diversify in high technology fields. Between 1973 and 1982, the share of soaps and detergents – the two core businesses – in HLL sales fell from 70 to 63 per cent. The export obligations were met by trading unrelated goods such as shoes, clothing, and seafood, and the promise to diversify into high technology fields was met by vertical integration into sodium tripolyphosphate, and linear alkyl benzenes, components of detergents. HLL remained a potential target of punitive

action because its core products were consumer goods, and it was not obvious that the successes of its main brands owed to innovation. In 1982, HLL divested from its food products, transferring these to Lipton, a subsidiary company which, due to the level of foreign ownership being under 40 per cent, was not affected by FERA.

Analysts of HLL saw its strategy as ‘direct contravention of FERA with the government turning a blind eye to its activities,’ which allowed the firm to carry out ‘foreign exchange drain’ year after year.⁷⁶ The company, however, had to pay a price for losing sight of its core business, soaps and detergents. Its pricing and branding strategies suffered. In the 1980s, a small firm called Nirma emerged as a significant threat in its main market, prompting HLL to change its marketing and advertising system. Later accounts of restructuring in HLL suggest that investments had slowed during the 1980s, to pick up pace after the economic liberalization in the 1990s.⁷⁷

The Imperial Chemical Industries’ business strategy after FERA displayed a similar pattern to HLL. One of the four constituent companies of the speciality chemicals manufacturer Imperial Chemical Industries or ICI, Brunner Mond, opened a trading office in India in 1911, and converted into a manufacturing firm in the 1950s, with its main plant located near Kolkata. Unlike HLL there never was a question that ICI’s expertise was both ‘sophisticated’ and of great value to the industrial strategy pursued in India. The company expanded steadily in the 1950s and the 1960s, in new fields such as explosives, and diluted its shareholding to conform to the 1956 Indian Companies Act. After FERA, it expanded Indian shareholding (in 1978 and 1979), and used the proceeds to make new investments. All along, ICI UK provided the Indian subsidiary technical support. The company still ran into labour and production difficulties because of labour disputes and strikes in Kolkata, where one of its main plants was based. In the early 2000s, there was a conscious attempt to strengthen links between the

⁷⁶ Rath, “Local and Global Operations.”

⁷⁷ I.M. Pandey, “Hindustan Lever Limited.”

parent company and the subsidiary. In 2011, with ICI UK changing ownership the Indian subsidiary became a subsidiary of Akzo Nobel.⁷⁸

If HLL and ICI were shaken by and eventually survived FERA, in two other cases, we see decline and bankruptcy, as the British owners of the Indian subsidiary simply gave up on India.

In the 1920s, a series of amalgamations of British tinplate manufacturers and traders, box-making firms, and printers, led to the emergence of the Metal Box Company, registered in that name in 1930. The Indian subsidiary of Metal Box was started in 1933 in the company's traditional business, containers of various types, and was based in Kolkata. The company was profitable through the 1950s and the 1960s. Following the reinforcement of FERA in 1979, the two large foreign shareholders - Metal Box Overseas, and Continental Can Co. Inc – divested from the Indian firm. Metal Box Overseas continued to remain a large shareholder, but the company was effectively an Indian company, now named Metal Box India Ltd. No major Indian business group seemed to be seriously interested in the company, whereas direction from London ceased to be of much importance. The company appeared to lack vision as well as direction thereafter. From 1980 onward, an almost unending sequence of financial crisis and labour disputes led to the eventual closure of the company.⁷⁹ In 1989, the company was referred to the Board of Industrial Finance and Reconstruction, the government body in charge of rehabilitating bankrupt companies. Conflicting views of the prospects of the company were voiced. Metal Box Plc, still a significant shareholder, came onto the scene expressing hopes of a recovery but was apparently unwilling to stake any fresh equity. After 2000, few media reports appeared on Metal Box, except for occasional news about attempts to sell real estate. Its manufacturing units were closed.

⁷⁸https://www.akzonobel.com/in/news/pressreleases/2010/worlds_largest_paint_company_akzonobel_concludes_ici_india_transition.aspx (accessed 27th March 2017).

⁷⁹ Mathai, "Cutting Links.". See also Gupta, "Metal Box.".

The Indian branch of the Midlands metallurgy firm Guest Keen Nettlefolds (GKN) was known as Guest, Keen and William (GKW) after one Henry William partnered with GKN to start GKW in Kolkata in the 1920s. The Kolkata firm produced nuts, bolts, fasteners and railway material. The relationship between GKN and GKW was always arm's length, though they did work in similar lines of manufacturing. After FERA, GKW was allowed to carry on with the existing foreign holding of 59 per cent, on condition that the firm diversified into 'sophisticated technological fields.' Between 1973 and 1978, GKW expanded its share capital, the majority being held by resident Indians. But the promise to diversify did not materialize. In fact, there was growing divergence in the lines of business between the two companies, and FERA may have hastened that process. As GKN moved towards higher technology automotive engineering, military vehicles, aerospace and industrial services, GKW remained committed to fasteners, nuts and bolts, in which lines, it faced tough competition from small firms. In the 1980s GKW succumbed to labour disputes and heavy debt burden and in 1994 GKN divested its 47 per cent stake to a trading company.

Notwithstanding these two examples of decline, in the 1980s, FERA pressures eased off. A robust inward flow of foreign remittance from labour migration to the Persian Gulf had made the foreign exchange management less of a worry for the government of India and the Reserve Bank. In the late-1980s, Reserve Banks data on company accounts revealed that FERA had failed to change levels and percentages of remittance in the previous decade, while import-intensity of investment had increased after the spate of expansions and diversification. 'The overall BOP [Balance of Payments] effect is negative,' and therefore, 'FERA had failed.'⁸⁰ Despite such stark results, FERA continued to be applied with less and less force. Licensing requirements in import and investment were relaxed, and there was more openness to foreign investment. Actual inflow of foreign investment did not respond to

⁸⁰ Anon., "Foreign Companies."

these changes dramatically, but in several cases of new entry, the concerned Ministry relaxed the FERA norms.

Goodyear was one such example. Its expansion plan in industrial rubber in 1980-81 ran into two obstacles, the now government-owned company Andrew Yule had also planned a similar enterprise, and Goodyear stake would increase to 60 per cent after the expansion. Andrew Yule did not have the marketing experiences of Goodyear. The Ministry negotiated a deal – ‘said to be the first arrangement of this kind’ – where the public sector firm and Goodyear would jointly produce and the former would market. Goodyear was allowed to raise its stake.⁸¹

Conclusion

This paper investigates the response of British firms to regulatory policy of post-independence India, especially response to ‘Indianization’ and its major instrument, FERA. The first part of the paper shows that the political situation in the years post-independence presented various risks for British firms. The proposed policies of Indianization, both of the ownership and management of firms, and the decision to block access to certain industries, potentially threatened existing assets and limited opportunities for future investment. British firms responded through a series of adaptations, divesting holdings and assets from certain industries and investing in more technologically advanced sectors, whilst using long-established relationships to build joint-ventures with Indian owners. They also exploited relationships with the government to lobby for the benefits of foreign capital investment and knowledge transfer in technologically advanced industries.

Although initial worries about Indianization were widely expressed, the balance of opportunity and risk remained somewhat favourable for British business. For many firms it was also the case that their Indian operations formed such a significant portion of their

⁸¹ B.M., ‘FERA in Reverse,’ *Economic and Political Weekly*, 17(37), 1982, 1484-5.

business that exiting represented a major threat to ongoing operations and loss of capital. The second part of the paper dealt with the FERA, analysing the rationale for its passage and effects on foreign businesses. The study reveals that strategic responses varied from outright divestment, sharing ownership, to expansion, investment, diversification, and making a case that the firms operated with sophisticated technologies, even when no clear definition of the term existed.

The limitations of the case study methodology used in this paper make the identification of systematic patterns of strategic responses to FERA difficult. Broadly, however, explaining the diverse responses ranging from to exit or stay and adapt requires a deeper understanding of the wider typology of forms of ownership employed by British owners. The extent to which the policies to Indianize capital, labour and corporate ownership could be managed, varied both between and amongst the different forms. Indo-British firms had extensive experience of shared ownership and management, having adapted to significant political economy changes throughout the 19th and 20th centuries. Indianization pushed through FERA, ostensibly, was no more a challenge than those they had faced previously.

Although the antecedents influenced the firms' responses the decisions in the 1970s to remain or exit were driven by the future prospects of the industry and the firms' relative exposure to the Indian market. The tea companies, where prospects remained reasonable, and exposure was often high, saw continued adaption. Whilst Metal Box and GKN, were forced to divest away from their core industries, and with British and foreign investors less exposed to the Indian market, exited, large MNEs such as HLL saw opportunities and had the capacity to innovate and negotiate, allowing them to diversify and remain in the market. Again, long-standing experience and continued proximity to the government were assets that enabled adaption. Further research encompassing more cases should help to clarify the relative importance of the key factors identified in this paper: Experience and proximity to the Indian

government and investors, alongside industry structure and the firms' capacity for innovation and deployment of advanced technologies, in shaping the exit/adapt strategies followed by the British firms. If the firm responses to Indianization was mixed, so were the macro implications of forced Indianization and not entirely negative. The rather simplistic pro and anti-business readings of FERA, and its negative effects on foreign capital can be reassessed. From the few cases (Hindustan Lever, Cadbury, McLeod Russell, Britannia Biscuits) where large-scale divestment did occur, the episode stimulated the share market and public shareholding. The link between issuing fresh equity and diversification into fields that the firms could project either as high-technology or as export-oriented strategies induced investment and innovative marketing. The Indian economy had run into an industrial stagnation from the mid-1960s. The investment boom led by the government sector was proving unsustainable.⁸² Growth, however, was depressed during 1965 and 1975, and then mysteriously recovered. The recovery has not yet been satisfactorily explained. The consequences of FERA in stimulating diversification and issue of fresh equity may have contributed to the recovery.⁸³

This paper, more generally, seeks to encourage efforts in Indian Business History to reassess and move towards a more nuanced understanding of foreign capital, particularly manifested in British business, and its intersection with both Indian political and commercial interests in the 20th century. It also offers some interesting opportunities to further explore ideas in International Business theory related to MNE strategy in managing country risk. Indo-British firms challenge the concept of having a clearly delineated home market, in effect being multinational in ownership and management, with attendant capabilities and knowledge. The extent to which such firms perceive and respond to country risk may vary from more

⁸² On this episode, see essays in Nayyar, ed., *Industrial Growth and Stagnation*.

⁸³ The popular press acknowledges this unintended effect, see, for example, Vikraman, "How 'draconian' FERA clause triggered flush of retail investors."

traditional MNEs. This opens interesting opportunities to reassess the trajectories of Indian MNEs later in the 20th century, considering their antecedents, particularly the development of capabilities and knowledge of global markets built through joint-ownership and management with British business.

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