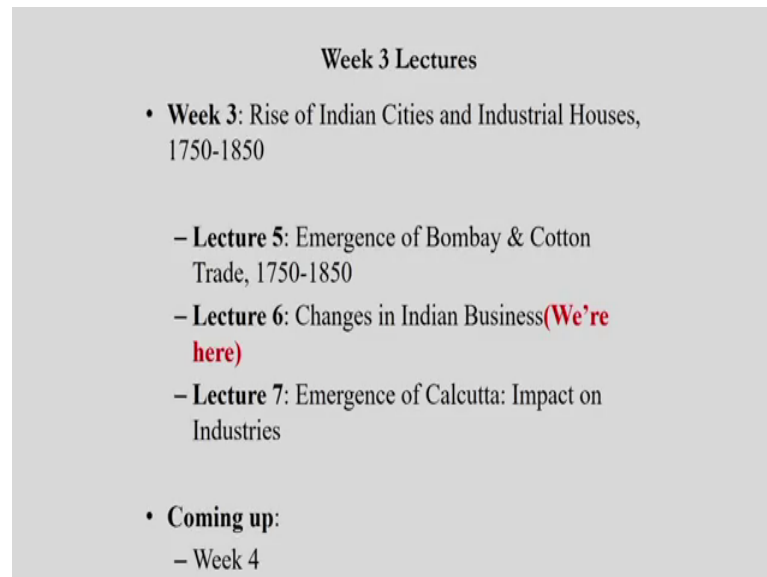


Indian Business History
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Lecture – 06
Indian Business: Changes and Styles, 1750-1850

Hello, and welcome back to Indian Business History, I am Doctor Vipul Dutta and this is lecture number 6. The title of this lecture is Indian Business: Changes and Styles from 1750 to 1850. As I told you in the previous lecture, lecture 5, 6 and 7 will be part of the third week of this online course.

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Week 3 Lectures

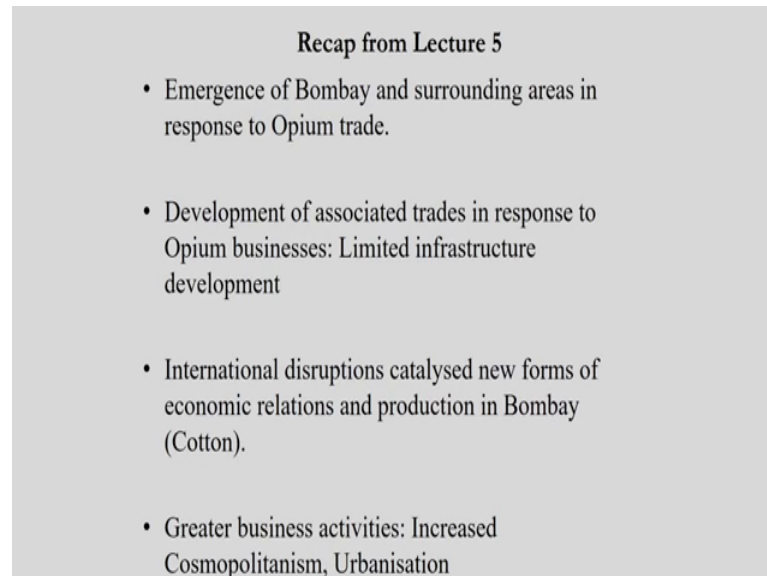
- **Week 3:** Rise of Indian Cities and Industrial Houses, 1750-1850
 - **Lecture 5:** Emergence of Bombay & Cotton Trade, 1750-1850
 - **Lecture 6:** Changes in Indian Business (**We're here**)
 - **Lecture 7:** Emergence of Calcutta: Impact on Industries
- **Coming up:**
 - Week 4

So, the week third or week number 3 of Indian business history is about the rise of Indian cities and industrial houses in this hundred year period between 1750 and 1850. The three lectures that make up the third week of Indian business history are lecture number 5 which we have discussed already, which is was about the emergence of Bombay and cotton trade from 1750 to 1850.

Then the next lecture, lecture number 6, which is this present lecture today, will be about changes in Indian business. And the next lecture after this which follows lecture number 6, is going to be lecture 7 which will be a discussion of the emergence of the city of Calcutta and the industries that are shaped the urban infrastructure in Calcutta in this hundred year period. Once this week is completed, we will move on to week number 4 in

Indian business history and we will deal with it in a greater detail, once we reach that point.

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A slide with a light gray background and black text. The title is "Recap from Lecture 5". Below the title is a bulleted list of four points.

Recap from Lecture 5

- Emergence of Bombay and surrounding areas in response to Opium trade.
- Development of associated trades in response to Opium businesses: Limited infrastructure development
- International disruptions catalysed new forms of economic relations and production in Bombay (Cotton).
- Greater business activities: Increased Cosmopolitanism, Urbanisation

Just to offer you a brief recap of what was discussed in the previous lecture which was lecture number 5; we analyzed the emergence of Bombay and surrounding areas in response to the opium trade. The opium trade, as you all know by now, was an international triangular trade between India, Britain and China. It was largely illicit and illegal in nature. But its massive economic, political, ecological and infrastructural consequences were felt acutely not just in Bengal but also in the Bombay presidency.

Then in response to the opium trade, we also discussed the development of associated trades, that came up in the wake of the opium businesses between India and China. And we also discussed the emergence of limited infrastructural development that was witnessed in the areas of the Bombay presidency at this point.

Most of these infrastructural developments happened in concert with the growing lucrative nature of the opium trade. So, any developments in the communications network or any revolution witnessed in the transport sector was witnessed as a response to make the opium business more feasible and more practical between India, Britain and China. So, infrastructure developments have to be studied in this growing context of economic relations that bound Britain, India, China together as far as the opium trade is concerned.

Then the second phase of infrastructural and economic developments in Bombay were discussed in relation to the development of the cotton trade between Bombay Presidency and the supply of raw cotton to British mills and this came up in the form of an international disruption. This international disruption was the American civil war which was a 4 year conflict that was fought between the American North and the American South on issues of slave ownership and slavery.

As a result of the disruption of those international supply lines between America and Britain, the attention then shifted towards Bombay presidency. And it is potential to supply raw cotton to British mills and British textile owners revived Bombay's economic fortunes after the loss of significant opium trade businesses once China had begun to resist opium businesses more fiercely.

So, the second flush of infrastructural developments, the second revival in the business fortunes of the Bombay presidency was seen in the context of the development of Bombay city and Bombay presidency as a provider of raw cotton to the British textile sector. And finally, we had a more analytical discussion of what this greater business landscape meant for the larger development of Bombay as an urban space.

So, the greater concentration of economic activities in Bombay in this period meant that, a wide variety of people came together and called Bombay as their city of residence. Their different customs and traditions made Bombay a very cosmopolitan urban space, a legacy that the city enjoys even today. And the coming together of diverse kinds of people also meant the diversification of the institution landscape of Bombay during this period.

So, an account of the business history of this period is not just a record of the economic activities during the century or a record of the economic transactions that take place in this era. It is also an accounting of the kinds of individuals who undertook those economic activities and left their economic, cultural and institutional imprint on to the Bombay presidency in this period.

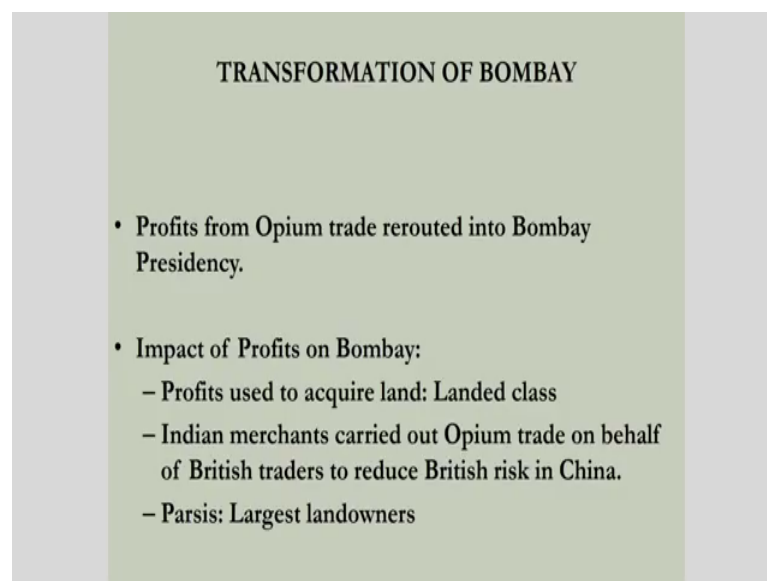
I want to use some time in order to develop this theme of urbanization in greater detail for this lecture. So, this lecture will be a combination of an analysis of the business profile of Bombay in this period. But we will have a more general discussion of the ways

in which greater economic activities have a more urban, social and cultural impact in the territories in which those businesses are undertaken.

So, as you are already aware that in our previous lecture, we discussed that profits from the opium trade were rerouted into the Bombay presidency. This reinvestment of the massive profits that were earned in the opium business were reinvested into various sectors. So, people like Jamsetjee Jejeebhoy, who was one of the early pioneers of the consignment trading, was responsible in establishing a civic infrastructure for Bombay city in this period.

So, the massive amounts of income and revenue earned from the sale and export of opium to foreign markets like China was responsible for at least a part reinvestment of that fortune into the development of various kinds of institutions for Bombay during this period.

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TRANSFORMATION OF BOMBAY

- Profits from Opium trade rerouted into Bombay Presidency.
- Impact of Profits on Bombay:
 - Profits used to acquire land: Landed class
 - Indian merchants carried out Opium trade on behalf of British traders to reduce British risk in China.
 - Parsis: Largest landowners

So, the rerouting of opium trade profits into Bombay was responsible in cultivating a more civic and urban based infrastructure in the city during this period. But understanding cultural institutional consequences of greater economic activities has to rest on a certain platform. So, in this lecture I want to discuss a few economic features of this period that made greater urbanization possible in the first place. So, the emergence and consolidation of Bombay and even cities like Calcutta, as major urban centers of finance and manufacturing, could only have happened if certain tectonic, demographic

and political changes had taken place. What for these forces, who were the people responsible for it, and what are the distinctive economic features of this period that made the arrival and consolidation of cities possible in the Indian subcontinent is what we will discuss today.

There were three major impacts of the profits that were rerouted or reinvested into Bombay in this period. And these impacts can also be generalized into a more broader discussion of the emergence of urban spaces in the Indian subcontinent at this point. So, the first impact of profits that was noticeable as far as Bombay is concerned was that most of these profits were used to acquire land.

So, the acquisition of a great amount of landed territory or the sequestering of plots in the names of different owners or the reservation of certain prime property for certain individuals or group of individuals was an increasingly noticeable feature in the landed history of Bombay presidency during this period.

As the scramble for greater stretches of land intensified in the decades between 1750 and 1850; one sees the emergence of a landed class in this period in the Bombay Presidency. So, as land became a commodity, and as its sale and transfer became an enormously common feature in the economic life of Bombay presidency, you see the emergence of a class that used land as a commodity to revive their economic fortunes and base their future economic growth on the sale and transfer value of land itself.

So, this great scramble for landed property or this desire to acquire or hoard as much land as possible was an other consequence of the great amount of money that was earned from the opium business. So, the need, urge to dispense of that additional income earned from the opium business made land prices in Bombay speculative.

So, the higher growth potential or the upward climb of land prices as was noticed in the years between 1750 and 1850 was a direct consequence of the enormous amounts of money that was earned from the opium business. And that money was rerouted back into making land itself in Bombay city as a commodity, worthy of sale or transfer between different individuals or group of individuals.

As the opium trade became more and more profitable as its lucrative value was recognized globally and as opium also became a contentious object between Britain,

India and China, the composition of people involved in the opium trade also changed slightly.

As the returns of investment on the opium trade shot through the roof and as income potential and the income registers from the opium trade became increasingly fat; there was a gradual exit of the British class from the day to day operations in conducting the opium business at this point. So, as a result of that British exit from the opium business, a greater number of Indian merchants now carried out opium trade on behalf of British traders to reduce the British risk in China.

As I have repeated before, much of the opium trade was illicit and illegal in nature; the addictive nature of opium or opiates as derivatives of opium was seen as destructive to the Chinese economy and to the Chinese people. So, the two interstate wars called the opium wars that were fought between Britain and China was on the subject of the destructive nature of opium businesses and what it was doing to their people.

So, the immediate physical intimidation that was becoming a reality for the Britishers who were engaging in this illicit trade made the British involvement in opium trade very risky. So, in order to avoid that risk and in order to avoid the financial risk associated with the opium business; a greater number of Indian traders and merchants started to take a more active role in the prosecution of the opium business during this time.

So, apart from the profits used to acquire land and make land a highly lucrative commodity in Bombay; you also see a gradual demographic change in the composition of the opium trade during this period, where because of violence and the threat to one's life and the general Chinese sentiment which was against the opium business, and rightly so, you see the gradual entry of greater Indian merchants into this business. This was an obvious reaction to the need to preserve one's capital in the business and also to protect or distribute the amount, or element, of risk associated with this business.

In this mad drive to scramble for land and to accumulate as many stretches of land as possible, the one community that came out successful and immensely wealthy and affluent during this period was the Parsi community. So, amongst the many cosmopolitan elites who ran their economic affairs and business operations in Bombay at this point; the most wealthiest and the most affluent and also educated community to

have come out on top of the social ladder in Bombay presidency during this period was the Parsi community.

So, they emerged as a class not just equipped with the benefits of western education, they also were economically speaking one of the richest classes to emerge in Bombay during this period; and who also took an active interest in one of the many business activities that dotted the landscape of Bombay presidency during this hundred year period.

So, once the opium trade takes off, and eventually declines, and once the cotton mills start dotting the landscape of Bombay, and with their eventual decline also, you see the makings of Bombay city as we know it today. So, the greater urbanization of Bombay, it is the arrival of different economic, political and cultural institutions in Bombay, cannot be unconnected with the largest study of the economic landscape that also prevailed in Bombay presidency during this time.

So, the transformation of Bombay, therefore, is not just a story of the transformation of its urban infrastructure, nor is it just a study of the transformation of its public culture, neither is it a study of just a transformation of its economic activities and business operations. It becomes an interdisciplinary study in which one sector had an impact, a decisive impact on other sectors and this collective assessment of inter sectoral transformation is what describes the making of Bombay city during this period.

So, the catalyst in this transformational aspect of Bombay city was of course, the great amount of economic and business activities that came to be concentrated in this area. Yet we cannot delineate separate reasons that can independently account for the development of Bombay city's infrastructural image or its image as a metropolis in the Indian subcontinent during this time.

Various forces have acted in concert with each other, over wide expanse of decades and centuries. So, a wholesome and comprehensive account of the makings of a city such as Bombay or even Calcutta, as we will discuss in the next lecture, was the composite effect of a variety of reasons, chief of them being the greater concentration of business and economic activity within the confines of these cities. Nevertheless there are three or four certain key features that can help us understand the transformation of the urban landscape of Bombay Presidency and also Bombay city more specifically.

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TRANSFORMATION OF BOMBAY

- 1850s & later: Gradual loss of China Market
 - Encourages growth in Bombay
- Changes in Navigation & Shipping affects Bombay's own shipping industry.
- Return to tradition business operations in Bombay

The first element that we have to discuss is that in the 1850s and the decades after that, when there is a gradual loss of this China market as far as opium is concerned; international or Southeast Asian attention is now focused on the economic potential of Bombay to revive the economic fortunes of the Indian subcontinent and also become a prime source of revenue for the East India company under whose control Bombay now existed.

So, the with the gradual loss of the China market either through warfare or the diminishing returns on the opium market; the economic potential of Bombay rises in sharp contrast to the decline that was felt in the company fortunes as far as the China market was concerned.

As a result of the gradual loss of the China market and the diminishing returns on the trades of opium that were historically sailing from India to China. There is renewed attention focused on the various possibilities that could now be utilized, exploited or used to make Bombay a new hub of industrial capital and finance.

So, the encouragement of growth in Bombay was not just due to its own strategic and geographical location. Significant international developments were responsible for the resurgence as far as Bombay's economic profile was concerned. Now, transformation of Bombay is not just a story of the revival of its institutions or the resurgence of its

fortunes or the establishment of Bombay as a prominent port city. It is also a story of the decline of the various businesses that have dotted its landscape.

So, while opium trade lasted and its lucrative potential was recognized by the world, it was only a matter of time before the opium trade lost out. And just as the cotton trade was responsible for the brilliant revival of fortunes as far as Bombay's business area is concerned. It is gradual decimation with the resumption of cotton trade between America and Britain was also responsible for the next phase of economic recession that set in Bombay as a response to international situations.

In the wake of international fluctuations as far as global politics is concerned there were also certain technological and scientific changes or disruptions that affected the economic profile of Bombay in this period. This is largely true of urbanization wherever it has existed; whether it is the Indian subcontinent or whether it is parts of Southeast Asia. International disruptions do not happen in a vacuum, but have long standing cultural, scientific and urban consequences that take years and years to be absorbed within those regions.

So, one such example of a technological disruption was the immense amount of changes that were noticed in navigation and shipping. So, the arrival of new at navigation technologies, the arrival of new steam powered ships or the arrival of new crafts that required a new set of skills was something that disrupted Bombay's shipping industry a great deal. As you already know Bombay's shipping industry itself had grown in response to the opium trade that was being carried out at the time.

So, in order to make the sale and transfer of opium faster, rapid and more feasible; a parallel revolution in the communications and transport revolution was already taking place. So, the emergence of dockyards, ports and the emergence of a class equipped to handle these new modes of communication also arrived in Bombay and major the city of different kinds of professionals in this period.

Yet with the changing modes of communication and navigation in the existing shipping industry, this was seen as yet another disruption that could affect the fortunes of the peoples associated with those trades and sectors in this period. So, the changes in navigation and shipping affected Bombay's own shipping industry. And when it affected Bombay's shipping industry; it did not just affect the technological context surrounding

shipping, it also affected the livelihoods and incomes of those associated with the manufacturing, with the sale and with the driving of ships around Bombay's harbor to different locations within Asia and abroad.

So, the communities, the groups of individuals, and families associated with Bombay's shipping industry; but then not associated with the opium trade also felt the pinch of international, political and technological disruptions during this time. So, the rise and fall of Bombay's communities and people; and the rise and fall of Bombay's economic activities and businesses became a function of the rise and fall in the fortunes of global politics and scientific breakthroughs.

Indian economy was getting increasingly aligned with the contours and forces of the global economy. And whatever happened in the sub sectors of that global economy, whether it was science and technology or whether it was patterns of international trade, it had a definite impact on the way in which it was received in local economies such as Bombay, which were becoming integral parts of the global economy at this point.

As a result of this growing fluctuation in international political economies of this period, there was now a new trend that was being witnessed in Bombay's business landscape and this was return to traditional business operations in Bombay. As we began our previous lecture, I told you that before the opium cultivation extended to the Bombay Presidency and Bombay city, the western part of the Indian subcontinent was known for traditional modes of economic intercourse.

So, money lending, traditional handicraft manufacturing or limited trade and export to surrounding areas whether it is Southeast Asia or West Asia was what governed the economic landscape of this period. With the repeated and successive collapse of international business ventures and the repeated collapse of associated industries, associated with those international business ventures; there was now an anti business feeling that was taking root in the areas surrounding Bombay and in the areas which were now Bombay presidency.

So, the initial phase where Indian capital and Indian business capitalists and Indian entrepreneurs were getting more keen to invest their capital into European ventures; but with the increasingly volatile state of the international market at this point, there was a

gradual exit of Indian capital as far as collaborating with European businesses is concerned.

More and more Indian traders, more and more Indians who had significant reserves of capital with them were now retreating to the traditional business operations that had marked Bombay's economic profile in the years before the opium trade became such a lucrative area of activity.

So, with the repeated collapse of Western led institutions, and with the repeated decline in the fortunes associated with otherwise lucrative business operations, Indian capital was now retreating to its traditional mode of operations and was signaling its distaste for the western led enterprise as far as business operations are concerned.


So, the brief collaboration between Indian capital and Western capital; and Indian business leaders and the Western business entrepreneurs; was a brief episode in which traditional sources of wealth joined forces with the western sources of wealth. But this process of collaboration was undone by the international disruptions that I have just pointed out. And the net result of this international disruption was the exit of Indian capital away from Western led business enterprises; and the focus of Indian capital back to its traditional mode of operations.

I want to take some time now to outline some of the important features of this new industrial age in Bombay that dawned between the years 1870 to the 1900. Some of these features can also be generalized for the larger economic argument for this period. So, what was true of Bombay in this period was also true of business developments in Calcutta, roughly in the same decade. But, because we are discussing Bombay, I will outline certain Bombay specific features. But the general import of these principles holds valid for business developments in some other urban centers in the Indian subcontinent also at this point.

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Features of a new Industrial age in Bombay, 1870-1900s

- Many Textile Mills **owned by Indians** of various backgrounds in Bombay, Ahmedabad
- **Ownership structure:** “Jointstock” but management under the control of a single/ set of families
- **No Technological innovation:** All imports of machinery from Britain, focus on sales, commerce; not necessarily innovation.
- **Development of an Economic Critique of Colonial Business Practices**



When the cotton trade took off in Bombay presidency, as I said before, there was that brief phase in which Indian capital shook hands with Western capital and a development was noticeable in which there was a greater collaboration between Indian entrepreneurial interests and the British entrepreneurial classes.

So, this brief collaboration between Indian and business capital witnessed the emergence and consolidation of a wide number of cotton textile mills in Bombay and Bombay Presidency. So, as a result of that collaboration, many textile mills came to be owned by Indians during this period of various backgrounds in Bombay and also in Ahmedabad.

So, their modern identities as centers of industrial manufacturing and finance and economic capital goes back to the years of the mid nineteenth century, when a wide number of industrial manufacturing unit started dotting the landscape of the Bombay presidency. This was unprecedented, this was a development that had not been witnessed before in these areas. So the arrival of manufacturing and industrialization units was seen as a novel feature of this collaboration between Indian capital and British capital.

One more distinguishing feature of this development was the fact that several of these cloth mills were owned by Indians. So, Indian capital had transitioned from being invested mainly in traditional operations to now being responsible for setting up large scale industries and factories invested in the production and processing of textile and cloth.

The ownership structure for these textile mills was of the joint stock principle. But the management of these factories or industries was under a single or a set of families. The joint stock principle as I have already outlined before, was again a novel feature of the economic history of this period. The joint stock system basically entailed the raising of capital for the administration of financing of new business ventures from the shareholders of that company.

So, the invocation of capital or the raising of new capital from the public was seen as a novel feature of economic activities in this period. And this principle of raising money from the larger public remained a steady feature when Indian capital also started becoming responsible for setting up newer factories and newer industries in this period.

But there was a difference in the ways in which the joint stock principle was implemented. So, even though money for newer factories or newer mills was raised through shareholding or through issuing shares to the larger public; the subscriptions of which were responsible for the expansion and greater industrialization of Bombay city. But the ownership of capital and the management of factories and industries in this period remained firmly under the control of one family or a single set of families across extended kinship networks.

So, while European factory systems and industry systems in Britain specifically could bring together different individuals not necessarily related to each other; as far as India was concerned and most specifically within India Bombay and Calcutta witnessed a new industrial age, whereby industrialization and manufacturing became the regular feature of economic activity.

But those responsible for coordinating or regulating those processes of industrialization and manufacturing belong either to each other through kinship networks of a members of the same family in fact. So, the family based system, which controls manufacturing or which controls the vast majority of the capital of a given industry was a uniquely Indian feature at this point, which also continues to an extent even in contemporary times.

Apart from the greater number of Indians owning these textile mills and also the great number of those Indians belonging to one single family or a set of families; there were also no significant technological innovations that were witnessed in this first industrial age that was noticed in the Indian subcontinent. All imports of machinery for factories in

India were imported from Britain. There was a steady focus on sales and commerce; but there was no parallel focus on innovation. So, the concept of research and using that research to augment production cycles or the concept of using that research to expand manufacturing or industrial activity was something that was not necessarily noticeable to a significant degree as far as the Indian subcontinent is concerned.

The focus was mainly on commercial dealings; the focus was mainly on sales; the focus was mainly on augmented capacity; but there was no underlying belief led either by the scientific establishment or the industrial establishment in Britain to try and replicate the same ecosystem of research that existed in Britain to operate in India also.

So, apart from the family led control of industrialization and factory output in India, there was also no significant noticeable technological breakthrough that was witnessed in India at this point. The reasons for this was colonial; the monopolies that existed on scientific and research establishments in Europe or in Britain necessitated a system in which the safeguarding of knowledge or technological breakthroughs was a closely kept secret and its sale and transfer was not a common feature of this period.

More importantly, apart from the features that I have just outlined, there was also the development of an economic critique of colonial business practices in this period. In the previous lecture I referred to the point that there was a growing political consciousness amongst Indians of a wide variety of backgrounds about the fundamental incompatibility between Indian models and business models as far as business operations was concerned. This also paved the way for the articulation of an intellectual critique against economic practices that were championed by the colonial state during this period.

So, the nature of business operations, the institutions that made those trades possible and their successive collapse which led to the ruin of the livelihoods associated with those operations was responsible in the articulation of an economic intellectual discourse which had started to find out the reasons that were behind these successive economic recessions. And the development of an economic critique of colonial practices, therefore, is one of the most important features of this new industrial age that dawned in Bombay from 1870 to 1900.

This economic critique was by no means specific just to Bombay, it was specific to a pan Indian phenomena that was becoming noticeable to different academics and political

leaders at this point. And the most important name that you have to remember as far as the development of an economic critique is concerned, is that of Dadabhai Naoroji.


So, the name of Dadabhai Naoroji is now closely associated with the development of the Indian national movement and also with the rise and emergence of the Indian National Congress as the prime vehicle of Indian opposition to colonial rule; but his chief contributions today lie in the nature and in the domain of economic theory. Known as the Grand Old Man of India, Dadabhai Naoroji was also the first Asian to be elected as the member of Britain's parliament.

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- “Grand Old Man of India”
- First Asian to be elected MP in Britain.

- Drain Theory (1867) outlined reasons for poverty in India:
 - Colonial administration
 - No inward immigration to India
 - Administrative expenses borne by India
 - Burden of administration within and without
 - Free trade
 - Investors were foreigners, revenue not reinvested

Naoroji's Drain Theory



So, he was one of those early Indians who were not only trained in the west, but also had an intimate engagement with western political institutions during this period. The chief contribution of Dadabhai Naoroji was as I said in the area of economic theory and economic philosophy. And in 1867 as a result of his intimate engagement with British politics and Western political institutions and his own origin as an Indian man who grew up and was raised in the context of colonial exploitation led him to devise or come up with what is now known as the drain theory.

The drain theory which was published in 1867 is a unique contribution of Dadabhai Naoroji to the development of an economic critique as far as Indian business practices and European business practices are concerned. And his theory published in 1867 was

responsible in outlining a general narrative in which the fundamental incompatibility of Indian business ideas and British ideas received greater academic attention.

So, the Drain theory, which was outlined in 1867, outlined a few reasons for the poverty that was noticed in Indian subcontinent at this period. And the six reasons that Dadabhai Naoroji outlined pertained to the general tenor of colonial rule that was witnessed in the Indian subcontinent during this period.

The first reason outlined in the Drain Theory which was held responsible for the wide prevalence of poverty and what he called un-British rule in India, was precisely due to the unique features of colonial administration. The nature of colonial administration according to Naoroji was exploitative in character.

And the general pattern and the forces through which the Indian market and the Indian economic landscape was made subservient to the needs of capital in Britain and Europe was responsible for endemic and widely prevalent poverty in the Indian subcontinent, which was being noticed by all the people within Indian subcontinent and also abroad. So, the first reason that was outlined for poverty in the Indian subcontinent was precisely because of the nature of colonial rule that administered Indian during this period.

The second reason that was held responsible for poverty in the Indian subcontinent according to the drain theory was that, there was no inward immigration to the Indian subcontinent during this period. Greater immigration, according to Naoroji, brought more patterns of capital investment into Indian markets; it brought new skill sets into the Indian markets and the greater integration of those skill sets and foreign capital could have revived the fortunes of the Indian economy in this period. The fact that this did not happen was largely held responsible for the greater prevalence of poverty in Indian towns and cities and villages during this period.

The third reason that was held critically responsible for the drain of wealth away from the Indian subcontinent and to Britain was, because of the administrative expenses that were borne by India during this period. The colonial administration was a top heavy bureaucratic machinery; it comprised not just the architecture of civilian governance, it also included within it is folds the massive military machinery that took care of the Indian subcontinent at this period.

So, whether it was policing, whether it is the armed forces; the money that was required for the administrative upkeep of these services and the costs that was required to either pay the salaries or generally keep these services financially less volatile was primarily done through Indian revenue that was earned by the colonial machinery. So, the Indian taxpayer money or money received from the Indian taxpayers was largely responsible in the upkeep or maintenance of the colonial machinery during this period.

The fourth reason which was held responsible for the drain of wealth away from the Indian subcontinent and it is gradual but steady pauperization, was the burden of administration within and without. Just as the colonial machinery in the early part of the 18th century was busy consolidating its hold of the Indian subcontinent and was busy extending its frontiers across different provinces and states within the Indian subcontinent. There was also such parallel exercises happening in other parts of the world.

So, greater colonization was not just in Indian story, it was also in African story, it was also a Southeast Asian reality; the multiple wars that were fought between Britain and china relating to the opium wars were also to an extent colonial wars. And the opening of Chinese port cities for greater colonial economic and business traffic was a story of colonialism in which newer markets were constantly being searched for and being consolidated.

So, the burden of administration or the extension of that administration across different markets, territories or landscapes was also seen as responsible for the drain of substantial wealth from the Indian subcontinent and its movement away from India towards Europe and Britain.


So, the phase of colonial expansion which was taking place not just in India, but also across Africa and wide swathes of Southeast Asia was seen as responsible for sucking away wealth from Indian markets, from Indian production centers and it is created concentration in the hands of those who were conducting these colonial expansion programs.

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Naoroji's Drain Theory

- "Grand Old Man of India"
- First Asian to be elected MP in Britain.

- Drain Theory (1867) outlined reasons for poverty in India:
 - Colonial administration
 - No inward immigration to India
 - Administrative expenses borne by India
 - Burden of administration within and without
 - Free trade
 - Investors were foreigners, revenue not reinvested



Then the fifth element and which is also very important to understand this drain theory was the fact of free trade. Dadabhai Naoroji critique of economic imperialism unleashed by forces like the East India Company was centered on the fact of free trade.

Naoroji's central critique was that the systems, institutions, sensitivities and sensibilities associated with this new trading regimen that the East India company introduced to Asia, Africa and China was a fundamentally destructive character, that ruined not just the livelihoods of people associated with the East India company, but also ruined the preexisting economic architecture that existed in places like the Indian subcontinent and also in places like Africa and China.

So, the concept and the unleashing of the forces of free trade and the dumping of cheaply made machine goods in markets such as India and China and the dislocation of Indian indigenously produced handicrafts was seen as the destructive impact of free trade on Indian markets and Indian urban spaces.

Lastly the other important reason that was outlined in this drain theory by Dadabhai Naoroji was the fact, that both the investors and the managers of that investment that came into the Indian subcontinent during this period were foreign in origin. Most of the people associated with the East India Company were Britishers; the people who managed this capital, who minimized the risk of investment into Indian markets were also British

who worked in collaboration with Indian business capital holders. But the larger nature of investment in this period was European in character.

So, the concentration investment and the money earned from that investment was conducted purely in European channels. The supply lines were mostly European and the networks and pathways through which capital was invested in India during this period was European or British in character. There was very little Indian involvement in the economic operations of this period. So, there was no rationale for the rerouting of investments in economic activities back into Indian sectors. There was that odd spectacle where revenue earned through opium trade or cotton trade was reinvested back into the Indian cities or Indian provinces.

But that was only a minuscule proportion of the otherwise rich divisions that most Europeans earned from business operations in India. And most of the income and revenue earned through those business operations were funneled or scooped back to British banks or British households or pumped back to the British economy with very little or negligible part of that income coming back to either Indian markets or being used for the development of India's economic infrastructure in this period.

So, the urban revival or urban development or the establishment of a rudimentary communication or transport network in cities like Bombay and Calcutta which we have discussed so far, was only a very small or minuscule representation of what was being rerouted back into the Indian landscape. The larger majority of revenue or income earned from international business ventures led either by the East India Company or other British merchants was earned and taken back to Britain with very little of it being reinvested back into the Indian subcontinent.

So, the resulting poverty or the resulting phases of under development that were begun to be that were beginning to be noticed increasingly so in this period, was a result of these six factors according to the drain theory that was published by Dadabhai Naoroji in 1867.

So, in addition to his political experience, in addition to his extensive contacts between the Indian business establishment and the British political establishment, Dadabhai Naoroji's chief contribution lies in the articulation of an intellectual economic critique of the business practices and economic principles that were outlined and implemented by institutions such as the East India Company.

So, the successive waves of politicization that now occurred in the Indian subcontinent were solely due to the efforts of people like Dadabhai Naoroji, who used their intellectual skills to try and arrive at a more economic critique of the institutions represented by Western European trading nations such as Britain.

Some of the features of this new industrial age in India from 1870s to 1900s, which we discussed previously in the case of Bombay; and when I said that those features could also be in a generalized sense, we discussed in relation to the pan Indian phenomena of a new industrial age will now be discussed in this phase of the lecture.

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Features of a new Industrial age in India, 1870-1900s

- Growing competition between India & Britain to capture cotton market
- **1881 Factory Act:** Protections for Indian labour:
Rudimentary: Prohibition of employment of children below 7 years of age.
– Appointment of Factory Commission, 1885
- **1880s:** Britain working to reduce Indian competitive advantage in cotton business: Free trade, Selective duties

So, the first element when we discuss this new industrial age dawning on the Indian subcontinent; the first element that is immediately noticeable is this growing competition between India and Britain to capture the cotton market. With the decline in the opium trade and with the growing Chinese resistance against the illicit and destructive nature of the opium trade on its own people; there was a growing anti-business sentiment associated with opium itself.

So, the gradual decline of the opium business and a gradual loss of the China market because of the opium wars and the distaste for opium as it commodity for trading made available a new commodity that transformed Bombay's fortunes.

The 4 year international conflict in America that is applied to raw cotton to British textile mills and its destruction of supply lines which made Bombay this renewed supply of raw cotton to British textile mills, was responsible for the second wave of infrastructural developments that were noticed in Bombay during this period.

So, in many ways cotton became the new opium for economic activities in Bombay. And the limited infrastructural development that took place in Bombay was a result of the fortunes and lucre associated with cotton during this period.

So, the next phase of Anglo Indian engagement as far as economic strategies is concerned, as far as political agreements on business practices is concerned was over cotton. And the growing competition between India and Britain to capture the cotton market represented the next phase of the development of political relations between India and Britain during this period.

It was also during this period that Dadabhai Naoroji outlined his drain theory. So, the growing political and intellectual realization of the destructive impact of the colonial economy on India's existing economic infrastructure was symptomatic of the shift in discourse that was now taking place. So while on the one hand, there was growing competition between Indian textile makers and British textile makers to garner more revenue and profits for themselves.

On the other hand a more fundamental and intellectual discussion had started to take place on the feasibility of this trading arrangement. A growing intellectual discourse had begun to take shape which questioned the business institutional and political strategies that Britain used to try and dismantle India's textile architecture at this point.

In the growing discussions between India and England on what was the precise policy that was feasible or fruitful for Indian business holders or British textile makers as far as certain sector concerned. In the wake of all those discussions, there were also significant pieces of legislation that transformed the legal framework, the cultural framework and the social framework around the people who were involved in these production activities.

A prime example of those legislative pieces was the 1881 Factory Act; amongst it is many features the Factory Act of 1881 came to be known for the protections it afforded for the Indian labor. It was largely rudimentary in character, but one of its chief

provisions was the prohibition of employment of children below 7 years of age in the factories and industrial units that were dotting the landscape of the Indian subcontinent during this period.

Another significant consequence of the Factory Act of 1881 was the appointment of a Factory Commission in 1885. 1885 is also the year when the Indian National Congress was founded, this later graduated towards becoming a pan Indian organization that became the vehicle of political opposition to the rule of the colonial machinery in India.

But one of the main consequences of the 1881 Factory Act was its role in preventing the employment of children below a certain age; and also its role in trying to set the path for greater legislative control as far as labor issues were concerned.

In this context of legislative invocation of rules for labor and people associated in economic activities; there was also a general trend whereby Britain or British institutions or stakeholders in the British economic enterprise whether it is textile mill owners or whether it is British textile makers or factory unions involving greater manufacturing of British textiles. There was a trend whereby Britain started working to reduce Indian competitive advantage in the cotton business.

So, there were strategies, legislative pieces or tariff barriers that were now beginning to be erected in order to protect the domestic British industrial factory landscape as far as textile production is concerned. So, there was now greater official attention paid on what could be done to preserve the strength and the lobbying power of British industries, British textile owners and what could be done to extend the markets for the goods produced from those British textile factories and industrial units.

Since economic equations and economic questions in this period was a zero sum game. So, the victories or concessions earned by British textile manufacturing units meant that a parallel loss had to be incurred on the other parties in this equation. And in the Anglo Indian relationship, while in the one hand you had British textile owners and British textile mills on the one hand; the other party of this equation were Indian textile owners and Indian owners of textile mills in cities like Bombay and Calcutta.

So, in the 1880s while on the one hand, there was legislation that was trying to set up an architecture for the preservation of labor rights and working rights in cities like Bombay

and Calcutta. On the other hand internationally speaking, British lobbies, the industrial interests vested in Britain for trying hard to devise new strategies or new tariff barriers to preserve their own strength and to increase their competitiveness in global markets vis a vis the Indian players in that very same sector.

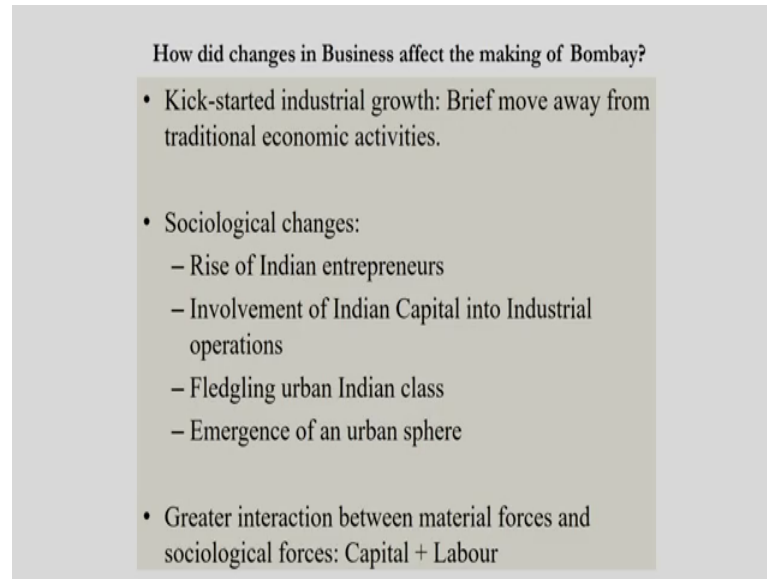
So, tariff barriers, the concept of free trade that Dadabhai Naoroji also referred to, and the invocation of legislative pieces that debarred the greater sale and export of Indian cotton textiles to British markets and European markets; were some of the strategies that were used by the colonial establishment to preserve the autonomy and the financial prestige and influence of British textile sector.

And in response to that the next phase of recession or the industrialization that took place at this point in the Indian subcontinent was the relative economic decline of Indian textile makers, Indian textile mills and the owners of those very Indian textile mills; because the goods produced from these Indian units were found to be less competitive because of a range of strategies used by the British state in this period.

So, while on the one hand a shifting economic discourse made Indians more aware of the destructive policies and strategies used by the British state to further its own economic interests. On the other hand you also see the development of certain features that gave cities like Bombay and Calcutta, their modern identity as big Indian cities.

So, how did changes in business affect the making of Bombay or the making of any particular city in the Indian subcontinent; the story is not just limited to economic revival in fortunes, but a comprehensive assessment to study the whole phase of organization is an invocation of both business victories and business decline. So, both decline and resurgence in economic capital or in the money earned through international operations contribute to a distinct pattern which shapes the contours of cities in a given region.

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How did changes in Business affect the making of Bombay?

- Kick-started industrial growth: Brief move away from traditional economic activities.
- Sociological changes:
 - Rise of Indian entrepreneurs
 - Involvement of Indian Capital into Industrial operations
 - Fledgling urban Indian class
 - Emergence of an urban sphere
- Greater interaction between material forces and sociological forces: Capital + Labour

Some of the changes in business styles that affected urbanization in Bombay and Calcutta are as follows: First, the changes in business styles or the changes in business operations kick started industrial growth in India; however, limited and however, exploitative that it was. The brief move away from traditional economic activities in cities like Bombay and Calcutta paved the way for a new context of economic activities to emerge in these cities.

So, the gradual expansion and consolidation of industrial manufacturing and the factory system in Bombay and Calcutta was seen as an unprecedented economic venture that had not been witnessed in the subcontinent before. So, the move away from traditional economic activities meant that, there was now greater official, intellectual and economic and political attention paid to the establishment of a new kind of pattern of industrial growth in this part of the Indian subcontinent.

Not all of it was beneficial to all the stakeholders at this point; if you were a labourer, working in a working in an Indian factory; you had a very different experience of industrialization from that of a person who owned that industrial unit. So, based on your economic profile, on your background and your vocational and occupational status, you had different experiences of the industrial age in Bombay and in Calcutta.

Nevertheless the general population of this part of the subcontinent with sites such as industries and factories was seen as the consequence of this new mode of economic

infrastructure that was introduced to the Indian subcontinent by the colonial machinery. There were also sociological changes that we have to take into account when you talk about urbanization and the conception of an urban space. The rise of Indian entrepreneurs of a wide variety of backgrounds and trading interests also made the city a more cosmopolitan space.

The different customs and traditions associated with those Indian entrepreneurs also gave a distinct flavor to city life in places like Bombay and Calcutta. So, the revival of different festivals and the communitarian character of those festivals was a direct outcome of the coming together of different kinds of people in a given urban space.

The other sociological change that we have to study in order to understand how the city is affected by changing practices in business is the involvement of Indian capital into industrial operations. When the cotton business took off in Bombay as a result of Bombay becoming this new supplier of raw cotton to British mills, you see the involvement of Indian capital not just in the financing of this cotton trade, but you also noticed that great reserves of Indian capital were now responsible in setting up newer factories and newer mills invested with the cotton business.

So, from its traditional area of operations which was money lending or other traditional venues in which Indian capital had been invested, you see a transition in the ways or in the profiles in which Indian reserves of capital were now being used. There were cases of several Indian entrepreneurs or businessmen who were now becoming owners of these textile mills. So, there was now a gradual establishment and emergence of an Indian entrepreneurial class that was not necessarily collaborating with British businessmen or British merchants, but were becoming entrepreneurs in their own right.

As a result of the emergence of an Indian entrepreneurial class, you also see the development of different other professions in the Indian subcontinent during this period. So, the spread of western education, and the gradual emergence of different kinds of professions in the Indian subcontinent during this period was responsible for the emergence of a fledgling urban middle class in this period.

I use the word middle class in its historical context and it is different from the ways and contexts in which the Indian middle class is used and talked about today. But in the years between 1750 and 1850, you see the emergence of a stiff city dwelling population in

Bombay and Calcutta; that were either invested in business over involved in professions that came up in response to the greater concentration of those businesses in these cities.

As a result of the rise of Indian entrepreneurs, as a rise as a result of the involvement of Indian capital in the running of these Indian business operations; you see the coming up of a distinctive urban sphere in Bombay during this period. A city is not devoid of its people, it is the people which make the city.

So, the traditions customs and institutions associated with city life is what gives a distinctive flavor to any city in the world today. This is also true for the emerging capital hubs of Bombay and Calcutta, where the concentration of different kinds of people invested in different professions came together, called these cities home, and invested the capital in distinctive business operations of this city and made the city in urban space with its own distinctive characteristics.

Certain other changes in business that affect the making of Bombay or any other city in this period is the fact that there is greater interaction between material forces and social or sociological forces in this period. So, the distinctive feature of greater urbanization as a result of greater business or economic activities is the coming together of capital and labor.

Just as the opium trade was responsible for the emergence of different kinds of associated industries in Bombay; such as dockyards and the shipping industry. In the case of cotton too, the arrival of mills signaled not just the advent of industrial manufacturing in Bombay; it also signaled a shift in the ways in which Indian capital had begun to organize Indian labor itself.

So, the coming together of a significant share of humanity and its organization, reorganization and regulation through the demands of capital was seen as a distinctive feature in the economic history of this period. So, sociological changes, demographic changes, shape business changes and business changes in their turn leave their own distinctive legacy as far as social and cultural changes are concerned.

So, both of these forces feed into each other and the city is made by people and the people themselves change the city as we know it. So, the full effects of business activities and economic activities is not just restricted to log books or trade ledgers or

trade documents or trade deals it also has significant, cultural, spatial, geographical and political consequences.

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Sum up

- Emergence of Bombay and surrounding areas in response to Opium trade.

- Development of associated trades in response to Opium businesses: Limited infrastructure development

- International disruptions catalysed new forms of economic relations and production in Bombay (Cotton).

- Greater business activities: Increased Cosmopolitanism, Urbanisation

So, to offer a sum up of what has been discussed in this lecture so far: we have discussed the emergence of Bombay and surrounding areas in response to opium trade, this is a continuous theme from our previous lecture. So, we will also discussed how cotton becomes the next opium in Bombay's economic fortunes, and how the taking of the cotton business brief though as it was responsible in the invocation of a new economic landscape for the city.

The taking off of the cotton business brings together diverse groups of individuals; it makes land in Bombay a commodity in itself. And the scramble for land makes available a new generation of Indian entrepreneurs that base their economic privilege or commercial privileges on the basis of land that they have been able to accumulate for themselves.

Then there is the development of associated trades in response to opium businesses. So, the limited infrastructure development that takes place in Bombay this period and in several other cities was a response to the important business ventures of this period. So, any secondary or tertiary industries that developed in this in the decades between 1750 and 1850 developed in response to facilitate the smooth operations in one or two critical sectors; such as opium or as the case might be cotton.

International disruptions as I have said before also play a very important role in generating new forms of economic relations and production, this is true of Bombay. But this also holds true for the pan Indian phenomena as was witnessed or experienced in this century.

International disruptions could be of many forms. This could be an international political conflict such as the American civil war that disrupted cotton supplies from America to Britain and made Bombay the chief supplier of cotton to British mills. The taking off of the cotton trade gave Bombay a distinctive character and made city life in Bombay a distinctive experience, because of the kind of people that came to Bombay to prosecute the cotton business.

But international disruptions can also be of a different kind. So, international scientific breakthroughs achieved in shipping and navigation; but its limits on transfer to different areas of the world meant that shipping industry in Bombay declined as a result of advances, experienced incorporated in British shipping.

So, the strengths of the British maritime tradition and the greater competition between British textile makers and Indian textile makers contributed towards the second phase of the industrialization or the steady extension of poverty into the Indian subcontinent that people like Dadabhai Naoroji highlighted.

Then as has also already been discussed before, greater business activities are intimately linked with greater cosmopolitanism and urbanization. But greater cosmopolitanism and urbanization cannot always be studied in relation to successes in business operations. The rise and fall of international economies, the rise and fall in international business activities is intimately related to the rise and fall in the contours of forces that shape the process of urbanization in this period.

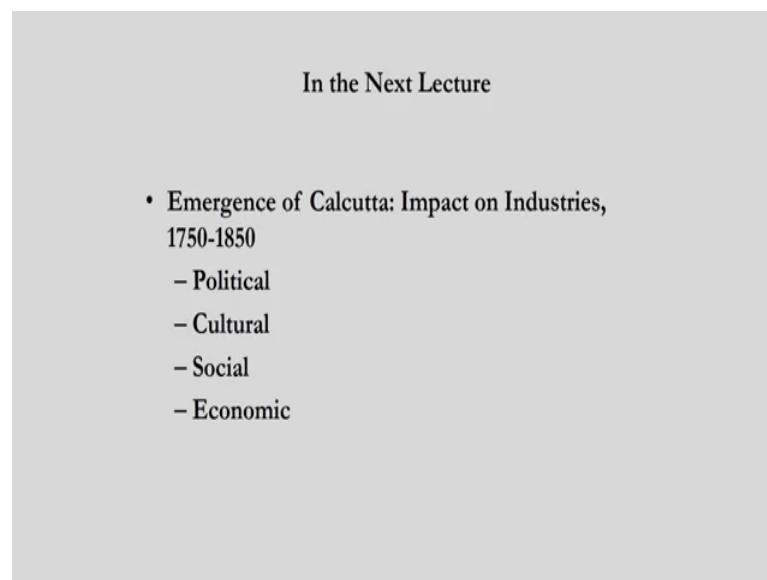
So, the arrival of new infrastructures, their decline and their subsequent replacement with new sets of infrastructures in relation to new business ventures is essentially the story or the history of how cities appear on global landscapes and how they ultimately fade away.

In addition to business stories, in addition to the impact of business and economic affairs; you also have factors relating to ecological events and ecological factors that also play a part in the rise and fall of different phases of urbanization. But because we are dealing

mainly with the economic activities and a business history of the Indian subcontinent in this period, we have mainly tried to see how Bombay and Calcutta developed as cities in relation to the changing nature of the international rules and terms that dictated economic affairs during this period.

In the next lecture we will continue a similar story, but with a new case study in our mind. And this time which is going to be lecture 7 we will discuss the emergence of Calcutta.

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And we will discuss and analyze the emergence of Calcutta; the role of different industries from 1750 to 1850 in its political, cultural, social and economic context. So, we will continue to discuss urbanization, but this time we will use a new case study, which is the case study of Calcutta.

Thank you.